

TIME WARNER INC.
Form 10-Q
April 29, 2009

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

Form 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
for the quarterly period ended **March 31, 2009** or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
for the transition period from _____ to _____
Commission file number 001-15062

TIME WARNER INC.

(Exact name of Registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or organization)

13-4099534
(I.R.S. Employer Identification No.)

**One Time Warner Center
New York, NY 10019-8016**

(Address of Principal Executive Offices) (Zip Code)

(212) 484-8000

(Registrant's Telephone Number, Including Area Code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

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

| Description of Class | Shares Outstanding as of April 21, 2009 |
|--------------------------------|--|
| Common Stock \$\$.01 par value | 1,196,452,535 |

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

INTRODUCTION

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

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

Results of operations. This section provides an analysis of the Company's results of operations for the three months ended March 31, 2009. This analysis is presented on both a consolidated and a business segment basis. In addition, a brief description is provided of significant transactions and events that impact the comparability of the results being analyzed.

Financial condition and liquidity. This section provides an analysis of the Company's financial condition as of March 31, 2009 and cash flows for the three months ended March 31, 2009.

Caution concerning forward-looking statements. This section provides a description of the use of forward-looking information appearing in this report, including in MD&A and the consolidated financial statements. Such information is based on management's current expectations about future events, which are inherently susceptible to uncertainty and changes in circumstances. Refer to the Company's Annual Report on Form 10-K for the year ended December 31, 2008 (the 2008 Form 10-K) for a discussion of the risk factors applicable to the Company.

On March 12, 2009, the Company completed the legal and structural separation of Time Warner Cable Inc. (TWC) from the Company. With the completion of the separation, the Company disposed of the Cable segment in its entirety and ceased to consolidate the financial condition and results of operations of TWC in its consolidated financial statements. Accordingly, the Company has presented the financial condition and results of operations of the Cable segment as discontinued operations in the accompanying consolidated financial statements for all periods presented.

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OVERVIEW

Time Warner is a leading media and entertainment company, whose major businesses encompass an array of the most respected and successful media brands. Among the Company's brands are HBO, TNT, CNN, AOL, *People*, *Sports Illustrated* and *Time*. The Company produces and distributes films through Warner Bros. and New Line Cinema, including *The Dark Knight*, *Gran Torino*, *The Curious Case of Benjamin Button* and the *Harry Potter* films, as well as television series, including *Two and a Half Men*, *The Mentalist*, *The Big Bang Theory*, *Gossip Girl* and *The Closer*. During the three months ended March 31, 2009, the Company generated revenues of \$6.945 billion (down 7% from \$7.470 billion in 2008), Operating Income of \$1.198 billion (down 9% from \$1.311 billion in 2008), Net Income of \$661 million (down 14% from \$771 million in 2008) and Cash Provided by Operations from Continuing Operations of \$1.425 billion (down 12% from \$1.616 billion in 2008).

Impact of the Current Economic Environment

The current global economic recession has reduced the Company's visibility into long-term business trends and has adversely affected its businesses in the first quarter of 2009 and is currently expected to continue to adversely affect them during the remainder of 2009. For example, during the first quarter of 2009, the Company's Advertising revenues declined 16% compared to the similar period in the prior year. The Company currently expects Advertising revenues to continue to decline during the remainder of 2009 as compared to the similar period in 2008. Additionally, the current economic environment is adversely affecting the Company's Content revenues due to, among other things, reduced consumer spending on DVDs.

The significant losses in the market value of the Company's pension plan assets in 2008 has resulted in an increase in pension expense of approximately \$30 million in the first quarter of 2009 and is expected to result in an approximately \$130 million increase in pension expense for the full year of 2009. Additionally, the strengthening of the U.S. Dollar relative to significant foreign currencies to which the Company is exposed has negatively affected the Company's revenues and Operating Income by approximately \$240 million and \$70 million, respectively, for the three months ended March 31, 2009. If exchange rates remain at levels similar to those in the first quarter of 2009, the Company expects a continued negative impact on revenues and Operating Income during the remainder of 2009.

The Company continues to have strong liquidity to meet its needs for the foreseeable future. At March 31, 2009, the Company had \$13.955 billion of unused committed capacity, including cash and equivalents and a credit facility containing commitments from a geographically diverse group of major financial institutions. See **Financial Condition and Liquidity** for further details regarding the Company's total committed capacity.

Time Warner Businesses

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

Time Warner evaluates the performance and operational strength of its business segments based on several factors, of which the primary financial measure is operating income before depreciation of tangible assets and amortization of intangible assets (**Operating Income before Depreciation and Amortization**). Operating Income before Depreciation and Amortization eliminates the uneven effects across all business segments of noncash depreciation of tangible assets and amortization of certain intangible assets, primarily intangible assets recognized in business combinations. Operating Income before Depreciation and Amortization should be considered in addition to Operating Income, as well as other measures of financial performance. Accordingly, the discussion of the results of operations for each of Time Warner's business segments includes both Operating Income before Depreciation and Amortization and Operating Income. For additional information regarding Time Warner's business segments, refer to Note 11, **Segment Information**.

Networks. Time Warner's Networks segment is comprised of Turner Broadcasting System, Inc. (**Turner**) and Home Box Office, Inc. (**HBO**). For the three months ended March 31, 2009, the Networks segment generated revenues of \$2.808 billion (40% of the Company's overall revenues), \$1.064 billion in Operating Income before Depreciation and Amortization and \$960 million in Operating Income.

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

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

The Company's Networks segment recently has focused on international expansion, including Turner's fourth quarter 2007 acquisition of seven pay networks operating principally in Latin America and HBO's acquisitions of additional equity interests in HBO Asia and HBO South Asia during the fourth quarter of 2007 and first quarter of 2008, as well as the acquisition of an additional equity interest in the HBO Latin America Group, consisting of HBO Brasil, HBO Olé and HBO Latin America Production Services (collectively, HBO LAG), during the fourth quarter of 2008. These acquired businesses contributed revenues and Operating Income before Depreciation and Amortization of \$119 million and \$35 million, respectively, for the three months ended March 31, 2009 compared to \$36 million and \$3 million, respectively, for the three months ended March 31, 2008. In addition, during the first quarter of 2009, Turner launched two new networks in India. The Company anticipates that international expansion will continue to be an area of focus at the Networks segment for the foreseeable future.

Filmed Entertainment. Time Warner's Filmed Entertainment segment is comprised of Warner Bros. Entertainment Group (Warner Bros.), one of the world's leading studios, and New Line Cinema Corporation (New Line). For the three months ended March 31, 2009, the Filmed Entertainment segment generated revenues of \$2.633 billion (36% of the Company's overall revenues), \$308 million in Operating Income before Depreciation and Amortization and \$214 million in Operating Income.

The Filmed Entertainment segment has diversified sources of revenues within its film and television businesses, including an extensive film library and a global distribution infrastructure, which have helped it to deliver consistent long-term operating performance. To increase operational efficiencies and maximize performance within the Filmed Entertainment segment, in 2008 the Company reorganized the New Line business to be operated as a unit of Warner Bros. while maintaining separate development, production and other operations, and the Company incurred restructuring charges primarily related to involuntary employee terminations in connection with the reorganization. Beginning in the first quarter of 2009, Warner Bros. commenced a significant restructuring, primarily consisting of headcount reductions and the outsourcing of certain functions to an external service provider. As a result, the Company incurred restructuring charges of \$37 million during the three months ended March 31, 2009 and expects to incur additional restructuring charges ranging from \$40 million to \$60 million during the remainder of 2009.

Warner Bros. continues to be an industry leader in the television business. For the 2008-2009 broadcast season, Warner Bros. produced more than 20 primetime series, with at least one series airing on each of the five broadcast networks (including *Two and a Half Men*, *The Mentalist*, *The Big Bang Theory*, *Gossip Girl*, *ER* and *Smallville*), as well as original series for several cable networks (including *The Closer* and *Nip/Tuck*).

The Screen Actors Guild (SAG), which covers performers in feature films and filmed television programs, and the producers of such content, including the Company's Filmed Entertainment and Networks segments, have been working under contracts that expired on June 30, 2008. The producers and SAG have reached a tentative agreement, which, as of April 28, 2009, has not been ratified by SAG's membership. In the event the agreement is not ratified or SAG goes

on strike, it could cause delays in the production of feature films and television programs, as well as higher costs resulting either from the strike or less favorable terms contained in a future agreement.

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The sale of DVDs has been one of the largest drivers of the segment's profit over the last several years. The industry and the Company experienced a decline in DVD sales in 2008 and the first quarter of 2009 as growing consumer interest in high definition Blu-ray DVDs only partially offset softening consumer demand for standard definition DVDs. Also contributing to the overall decline in DVD sales are several factors, including the general economic downturn in the U.S. and many regions around the world, increasing competition for consumer discretionary time and spending, piracy and the maturation of the standard definition DVD format.

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

The Company enters into co-financing arrangements with other companies as a way of securing funding for its films and mitigating risk. During 2008, one of the Company's largest co-financing partners informed the Company that difficulties in the credit markets had led to a delay in securing the financing necessary to fund the partner's 50% share (approximately \$120 million) of the production costs on four films released during the second half of 2008. As a result, the Company has accounted for these four films in the accompanying consolidated financial statements as if they were wholly owned. The Company is unsure whether this co-financing partner will ultimately secure the funding for amounts due on these four 2008 productions or the funding it had committed for films slated for release in 2009, and the difficulties in the credit market may also reduce the Company's ability to attract other financial partners to co-finance its films. These or similar difficulties relating to co-financing arrangements may continue for the remainder of 2009 and in future periods. As a result, the Company may have to provide more funding for film production costs than it has in the past and may have to take on additional risk that it would have otherwise sought to mitigate with a co-financing arrangement.

Publishing. Time Warner's Publishing segment consists principally of magazine publishing and related websites as well as a number of direct-marketing and direct-selling businesses. For the three months ended March 31, 2009, the Publishing segment generated revenues of \$806 million (12% of the Company's overall revenues) and had \$12 million in Operating Income before Depreciation and Amortization and an Operating Loss of \$32 million.

As of March 31, 2009, Time Inc. published 23 magazines in the U.S., including *People*, *Sports Illustrated*, *Time*, *InStyle*, *Real Simple*, *Southern Living* and *Fortune*, and over 90 magazines outside the U.S., primarily through IPC Media (IPC) in the U.K. and Grupo Editorial Expansión (GEE) in Mexico. The Publishing segment generates revenues primarily from advertising (including advertising on digital properties), magazine subscriptions and newsstand sales. Time Inc. also owns the magazine subscription marketer, Synapse Group, Inc. (Synapse), and the school and youth group fundraising company QSP, Inc. and its Canadian affiliate, Quality Service Programs Inc. (collectively, QSP). Advertising sales at the Publishing segment, particularly print advertising sales, continue to be significantly adversely affected by the current economic environment as evidenced by their continuing decline during the first quarter of 2009. Online advertising sales at the Publishing segment have also been adversely affected by the current economic environment, although, on a percentage basis, to a lesser degree than print advertising sales. Time Inc. continues to develop digital content, including the relaunch of *RealSimple.com* and the expansion of *Time.com*, as well as the expansion of digital properties owned by IPC and GEE. For the three months ended March 31, 2009, online Advertising revenues were 12% of Time Inc.'s total Advertising revenues, compared to 10% for the three months ended March 31, 2008. Time Inc.'s direct-selling division, Southern Living At Home, which is held for sale, sells home decor products through independent consultants at parties hosted in people's homes throughout the U.S.

AOL. AOL LLC (together with its subsidiaries, AOL) operates a Global Web Services business, which is comprised of its Platform-A, MediaGlow and People Networks business units. Platform-A sells advertising services worldwide on both the AOL Network and third-party Internet sites, referred to as the Third Party Network.

MediaGlow and People Networks develop and operate the AOL Network, which includes a leading network of web brands, free client software and services and a social media network for Internet consumers. In addition, through its Access Services business, AOL operates one of the largest Internet access subscription services in the United States. As of March 31, 2009, AOL had 6.3 million AOL brand subscribers in the U.S., which does not include registrations for free AOL services. For the three months ended March 31, 2009, AOL generated revenues of \$867 million (12% of the Company's overall revenues) and had \$255 million in Operating Income before Depreciation and Amortization and \$150 million in Operating Income.

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AOL's business is focused on attracting and engaging Internet consumers and providing advertising services on both the AOL Network and the Third Party Network. In addition to growing its Global Web Services business, AOL is focused on managing costs in this business, as well as managing its declining subscriber base and related cost structure in its Access Services business. In the first quarter of 2009, in an effort to better position its Global Web Services business, AOL undertook a significant restructuring. As a result, for the three months ended March 31, 2009, the Company incurred restructuring charges of \$58 million primarily related to involuntary employee terminations and facility closures, and currently expects to incur up to an additional \$90 million in restructuring charges during the remainder of 2009.

During 2008, the Company announced that it had begun separating the AOL Access Services and Global Web Services businesses, as a means of enhancing the operational focus and strategic options available for each of these businesses. The Company continues to review its strategic alternatives with respect to AOL. Although the Company's Board of Directors has not made any decision, the Company currently anticipates that it would initiate a process to spin off one or more parts of the businesses of AOL to Time Warner's stockholders, in one or a series of transactions. Based on the results of the Company's review, future market conditions or the availability of more favorable strategic opportunities that may arise before a transaction is completed, the Company may decide to pursue an alternative other than a spin-off with respect to either or both of AOL's businesses.

The Platform-A business unit sells advertising services worldwide on both the AOL Network and the Third Party Network and licenses ad-serving technology to third-party websites. Platform-A offers to advertisers a range of capabilities and solutions, including optimization and targeting technologies, to deliver more effective advertising and reach specific audiences across the AOL Network and the Third Party Network.

The MediaGlow and People Networks business units develop and operate websites, applications and services that are part of the AOL Network. In addition, AOL's Products and Technologies group develops and operates components of the AOL Network, such as e-mail, toolbar and search. The AOL Network consists of a variety of websites, related applications and services that can be accessed generally via the Internet or via AOL's Access Services business. Specifically, the AOL Network includes owned and operated websites, applications and services such as *AOL.com*, e-mail, MapQuest, Moviefone, Engadget, Asylum, international versions of the AOL portal and social media properties such as AIM, ICQ and Bebo. The AOL Network also includes *TMZ.com*, a joint venture with Telepictures Productions, Inc. (a subsidiary of Warner Bros. Entertainment Inc.), as well as other co-branded websites owned by third parties for which certain criteria have been met, including that the Internet traffic has been assigned to AOL.

During the first quarter of 2009, AOL's Advertising revenues were negatively affected by weakening global economic conditions, which contributed to lower demand from a number of advertiser categories, a deterioration in the financial position of certain significant customers and downward pricing pressure on advertising inventory, as well as an overall increase in marketplace competition, an increased volume of inventory monetized through lower-priced sales channels and other sales execution issues. During the remainder of 2009, the Company anticipates that these factors and trends may continue to negatively affect AOL's Advertising revenues. Additionally, in the first quarter of 2009, AOL made a number of organizational and personnel changes, including hiring a new chief executive officer and changing the leadership within its Platform-A business unit.

The AOL Network and Third Party Network components of the Global Web Services business have differing cost structures. Third Party Network advertising has historically had higher traffic acquisition costs (TAC) and, therefore, lower incremental margins than display advertising. As a result, a period-over-period increase or decrease in aggregate Advertising revenues will not necessarily translate into a similar increase or decrease in Operating Income before Depreciation and Amortization attributable to AOL's advertising activities.

Paid-search advertising activities on the AOL Network are conducted primarily through AOL's strategic relationship with Google Inc. (Google). In connection with the expansion of this strategic relationship in April 2006, Google acquired a 5% interest in AOL, and, as a result, 95% of the equity interests in AOL are indirectly held by the Company and 5% are indirectly held by Google. As part of the April 2006 transaction, Google received certain

registration rights relating to its equity interest in AOL. In late January 2009, Google exercised its right to request that AOL register Google's 5% equity interest for sale in an initial public offering. Time Warner has the right, but not the obligation, to purchase Google's equity interest for cash or shares of Time Warner common stock based on the appraised fair market value of the equity interest in

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lieu of conducting an initial public offering. The Company is in discussions with Google and has notified Google of its intention to purchase the 5% equity interest.

AOL's Access Services business offers an online subscription service to consumers that includes dial-up Internet access. AOL continued to experience declines during the first quarter of 2009 in the number of its U.S. subscribers and related revenues, due primarily to AOL's decisions to focus on its advertising business and offer most of its services (other than Internet access) for free to support the advertising business, AOL's significant reduction of subscriber acquisition and retention efforts, and the industry-wide decline of the dial-up ISP business and growth in the broadband Internet access business. U.S. subscribers declined 0.6 million in each of the three-month periods ended March 31, 2009 and 2008. The decline in subscribers has had an adverse impact on AOL's Subscription revenues, and the Company expects the total number of subscribers to continue to decline. AOL's Advertising revenues associated with the AOL Network, in large part, are generated from the activity of current and former AOL subscribers. Therefore, the decline in subscribers also could have an adverse impact on AOL's Advertising revenues generated on the AOL Network to the extent that subscribers canceling their subscriptions do not maintain their relationship with and usage of the AOL Network.

Recent Developments***TWC Separation from Time Warner and Reverse Stock Split of Time Warner Common Stock***

On March 12, 2009 (the Distribution Record Date), the Company disposed of all of its shares of TWC common stock. The disposition was made pursuant to a separation agreement entered into on May 20, 2008, among Time Warner, TWC and certain of their subsidiaries (the Separation Agreement) for the purpose of achieving the legal and structural separation of TWC from Time Warner (the TWC Separation). The TWC Separation was effected as a pro rata dividend of all shares of TWC common stock held by Time Warner in a spin-off (the Distribution) to Time Warner stockholders.

Prior to the Distribution Record Date, on March 12, 2009, TWC, in accordance with the terms of the Separation Agreement, paid a special cash dividend of \$10.27 per share to all holders of TWC Class A Common Stock and TWC Class B Common Stock as of the close of business on March 11, 2009 (aggregating \$10.856 billion) (the Special Dividend) that resulted in the receipt by Time Warner of \$9.253 billion.

With the completion of the TWC Separation, the Company disposed of the Cable segment in its entirety. Accordingly, the Company has presented the financial condition and results of operations of the Cable segment as discontinued operations in the accompanying consolidated financial statements for all periods presented.

In connection with the TWC Separation, the Company implemented a 1-for-3 reverse stock split on March 27, 2009.

In addition, in connection with the TWC Separation, and as provided for in the Company's equity plans, the number of stock options, restricted stock units (RSUs) and target performance stock units (PSUs) outstanding at the Distribution Record Date and the exercise prices of such stock options were adjusted to maintain the fair value of those awards. The changes in the number of equity awards and the exercise prices were determined by comparing the fair value of such awards immediately prior to the TWC Separation to the fair value of such awards immediately after the TWC Separation. Accordingly, each equity award outstanding as of the Distribution Record Date was increased by multiplying the size of such award by 1.35, while the per share exercise price of each stock option was decreased by dividing by 1.35. This adjustment resulted in an increase of approximately 50 million equity awards (comprised of 46 million stock options and 4 million RSUs). The modifications to the outstanding equity awards were made pursuant to existing antidilution provisions in the Company's equity plans, and did not result in any additional compensation expense. In addition, all such awards were further adjusted for the effect of the Company's reverse stock split.

Under the terms of Time Warner's equity plans and related award agreements, as a result of the TWC Separation, TWC employees who held Time Warner equity awards were treated at the time of the TWC Separation as if their employment with Time Warner was terminated without cause at the time of the separation. For most TWC employees, this treatment resulted in the forfeiture of unvested stock options and shortened exercise periods for vested stock

options and pro rata vesting of the next installment of (and forfeiture of the remainder of) the RSU awards.

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**TIME WARNER INC.
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Repayment and Termination of \$2.0 Billion Term Facility

On March 17, 2009, the Company used a portion of the proceeds it received from the Special Dividend to repay in full the \$2.0 billion outstanding (plus accrued interest) under its unsecured term loan facility with a maturity date of January 8, 2011 (the Term Facility) and terminated the Term Facility. Time Warner did not incur any early termination or prepayment penalties in connection with the termination of the Term Facility.

Termination of Supplemental Credit Agreement

On March 12, 2009, TWC borrowed the full committed amount of \$1.932 billion under its unsecured term loan credit facility entered into on June 30, 2008 (the TWC Bridge Facility), all of which was used to pay a portion of the Special Dividend. On March 26, 2009, TWC completed an offering of \$3.0 billion in aggregate principal amount of debt securities and used a portion of the net proceeds from the offering to prepay in full the outstanding loans and all other amounts due under the TWC Bridge Facility, and the TWC Bridge Facility was terminated in accordance with its terms. Concurrently with the termination of the TWC Bridge Facility and pursuant to the terms of the \$1.535 billion credit agreement (the Supplemental Credit Agreement) between the Company (as lender) and TWC (as borrower) for a two-year senior unsecured supplemental term loan facility (the Supplemental Credit Facility), on March 26, 2009, TWC terminated the commitments of Time Warner under the Supplemental Credit Facility, and the Supplemental Credit Agreement was terminated in accordance with its terms.

CME Investment

On March 23, 2009, the Company announced that it had entered into an agreement to acquire an approximately 31% interest in Central European Media Enterprises Ltd. (CME), a broadcasting company operating leading networks in seven Central and Eastern European countries, for an investment of \$242 million in cash. In connection with this investment, Time Warner has agreed to allow CME founder and Non-Executive Chairman Ronald S. Lauder to vote Time Warner's shares of CME for at least four years, subject to certain exceptions. Also, Mr. Lauder has agreed to support Time Warner's appointment of two designees to CME's board of directors. In addition to being subject to customary closing conditions, the closing of the investment is subject to a vote of CME's shareholders and certain regulatory approvals, and Mr. Lauder has committed to vote the shares he controls in favor of the transaction. The transaction is expected to close in the second quarter of 2009. See Note 2 to the accompanying consolidated financial statements.

RESULTS OF OPERATIONS

Changes in Basis of Presentation

As discussed more fully in Note 1 to the accompanying consolidated financial statements, the 2008 financial information has been recast so that the basis of presentation is consistent with that of the 2009 financial information. This recast reflects (i) the financial condition and results of operations of TWC as discontinued operations for all periods presented, (ii) the adoption of Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (Statement) No. 160, *Noncontrolling Interests in Consolidated Financial Statements - an amendment of ARB No. 51* (FAS 160), (iii) the adoption of FASB Staff Position (FSP) Emerging Issues Task Force (EITF) Issue No. 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities* (FSP No. EITF 03-6-1), and (iv) the 1-for-3 reverse stock split of the Company's common stock that became effective on March 27, 2009.

Recent Accounting Standards

See Note 1 to the accompanying consolidated financial statements for a discussion of accounting standards adopted during the three months ended March 31, 2009 and recent accounting standards not yet adopted.

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Significant Transactions and Other Items Affecting Comparability

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

| | Three Months Ended March | |
|--|---------------------------------|-----------------|
| | 2009 | 2008 |
| | | (recast) |
| Amounts related to securities litigation and government investigations | \$ (7) | \$ (4) |
| Impact on Operating Income | (7) | (4) |
| Investment losses, net | (13) | (36) |
| Costs related to the separation of TWC | (5) | (1) |
| Pretax impact | (25) | (41) |
| Income tax impact of above items | 6 | 7 |
| Tax items related to TWC | 24 | |
| After-tax impact | 5 | (34) |
| Noncontrolling interest impacts | 5 | |
| Impact of items on income from continuing operations attributable to Time Warner Inc. shareholders | \$ 10 | \$ (34) |

In addition to the items affecting comparability above, the Company incurred restructuring costs of \$94 million and \$142 million during the three months ended March 31, 2009 and 2008, respectively. For further discussions of restructuring costs, refer to the Consolidated Results and Business Segment Results discussions.

Amounts Related to Securities Litigation

The Company recognized legal and other professional fees related to the defense of various shareholder lawsuits totaling \$7 million and \$4 million for the three months ended March 31, 2009 and 2008, respectively.

Investment Losses, Net

For the three months ended March 31, 2009, the Company recognized \$13 million of miscellaneous investment losses.

For the three months ended March 31, 2008, the Company recognized a \$26 million impairment on the Company's investment in Eidos plc (formerly SCi Entertainment Group plc) and \$10 million of losses resulting from market fluctuations in equity derivative instruments.

Costs Related to the Separation of TWC

For the three months ended March 31, 2009 and 2008, the Company incurred pretax direct transaction costs (e.g., legal and professional fees) related to the separation of TWC of \$5 million and \$1 million, respectively, which have been reflected in other income (loss), net in the accompanying consolidated statement of operations.

Income Tax Impact and Tax Items Related to TWC

The income tax impact reflects the estimated tax or tax benefit associated with each item affecting comparability. Such estimated taxes or tax benefits vary based on certain factors, including the taxability or deductibility of the items and foreign tax on certain gains. For the three months ended March 31, 2009, the Company also recognized

approximately \$24 million of tax benefits attributable to the impact of certain state tax law changes on TWC net deferred tax liabilities.

Noncontrolling Interest Impact

For the three months ended March 31, 2009, the \$5 million noncontrolling interest item affecting comparability reflects the minority owner's share of the tax provision related to changes in certain state tax laws.

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Three Months Ended March 31, 2009 compared to the Three Months Ended March 31, 2008

Consolidated Results

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

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

| | Three Months Ended March 31, | | |
|-----------------------|-------------------------------------|-----------------|-----------------|
| | 2009 | 2008 | % Change |
| | | (recast) | |
| Subscription | \$ 2,559 | \$ 2,608 | (2%) |
| Advertising | 1,540 | 1,828 | (16%) |
| Content | 2,636 | 2,809 | (6%) |
| Other | 210 | 225 | (7%) |
| Total revenues | \$ 6,945 | \$ 7,470 | (7%) |

The decrease in Subscription revenues for the three months ended March 31, 2009 was primarily related to declines at the AOL and Publishing segments, offset partially by an increase at the Networks segment. The decline at the AOL segment resulted primarily from a decrease in the number of domestic AOL brand subscribers. The decline at the Publishing segment was due to decreases at IPC resulting principally from the effect of foreign exchange rates as well as lower revenues from domestic subscription renewals due to the effect of the current economic environment and lower revenues as a result of softening domestic newsstand sales due to the effect of the current economic environment and wholesaler disruptions. The increase in Subscription revenues at the Networks segment was due primarily to higher subscription rates at both Turner and HBO and the effect of the consolidation of HBO LAG.

The decrease in Advertising revenues for the three months ended March 31, 2009 was primarily due to declines at the Publishing and AOL segments and to a lesser degree declines at the Networks segment. The decrease at the Publishing segment was due to declines in domestic print Advertising revenues, international print Advertising revenues, including the effect of foreign exchange rates at IPC, custom publishing revenues and online revenues, primarily reflecting the current weak economic conditions and increased competition for advertising dollars. The decrease at the AOL segment was due to declines in Advertising revenues on the Third Party Network and display advertising on the AOL Network, primarily as a result of weakening global economic conditions, which contributed to lower demand from a number of advertiser categories and downward pricing pressure on advertising inventory, as well as declines in paid search advertising primarily due to decreases in search query volume on certain AOL Network properties.

The decrease in Content revenues for the three months ended March 31, 2009 was principally related to a decline at the Filmed Entertainment segment, mainly due to a decrease in theatrical product revenues, partially offset by an increase in television product revenues.

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

Costs of Revenues. For the three months ended March 31, 2009 and 2008, costs of revenues totaled \$3.880 billion and \$4.167 billion, respectively, and, as a percentage of revenues, were 56% for each period. The segment variations are discussed in detail in **Business Segment Results**.

Selling, General and Administrative Expenses. For the three months ended March 31, 2009 and 2008, selling, general and administrative expenses decreased 5% to \$1.652 billion in 2009 from \$1.732 billion in 2008, primarily related to decreases at the Filmed Entertainment and AOL segments, partially offset by increases at the Networks segment. The segment variations are discussed in detail in **Business Segment Results**.

Included in costs of revenues and selling, general and administrative expenses is depreciation expense, which decreased to \$236 million for the three months ended March 31, 2009 from \$247 million for the three months ended March 31, 2008, primarily reflecting a decline at the AOL segment due to a reduction in network assets due to subscriber declines.

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Amortization Expense. Amortization expense increased 3% to \$121 million for the three months ended March 31, 2009 from \$118 million for the three months ended March 31, 2008.

Restructuring Costs. For the three months ended March 31, 2009, the Company incurred restructuring costs of \$94 million, primarily related to various employee terminations and other exit activities, including \$58 million at the AOL segment, \$37 million at the Filmed Entertainment segment and a \$1 million reversal at the Publishing segment.

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

Operating Income. Operating Income decreased to \$1.198 billion for the three months ended March 31, 2009 from \$1.311 billion for the three months ended March 31, 2008. Excluding the items previously noted under Significant Transactions and Other Items Affecting Comparability totaling \$7 million and \$4 million of expense for the three months ended March 31, 2009 and 2008, respectively, Operating Income decreased \$110 million, primarily reflecting declines at the AOL and Publishing segments, partially offset by increases at the Networks and Filmed Entertainment segments. The segment variations are discussed under Business Segment Results.

Interest Expense, Net. Interest expense, net, decreased to \$312 million for the three months ended March 31, 2009 from \$347 million for the three months ended March 31, 2008. The decrease in interest expense, net for the three months ended March 31, 2009 is due to lower average interest rates and lower average net debt.

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

| | Three Months Ended March | |
|-----------------------------------|---------------------------------|-----------------|
| | 31, | |
| | 2009 | 2008 |
| | | (recast) |
| Investment losses, net | \$ (13) | \$ (36) |
| Loss from equity-method investees | (23) | (13) |
| Other | (3) | (10) |
| Other loss, net | \$ (39) | \$ (59) |

The changes in investment losses, net are discussed under Significant Transactions and Other Items Affecting Comparability. Excluding the impact of investment losses, net, the change in other loss, net was primarily due to an increase in losses from equity-method investees, partly offset by lower securitization expenses.

Income Tax Provision. Income tax expense from continuing operations was \$288 million for the three months ended March 31, 2009 compared to \$345 million for the three months ended March 31, 2008. The Company's effective tax rate for continuing operations was 34% for the three months ended March 31, 2009 compared to 38% for the three months ended March 31, 2008. The change was primarily due to changes in certain state tax laws in the first quarter of 2009 principally related to TWC.

Income from Continuing Operations. Income from continuing operations was \$559 million for the three months ended March 31, 2009 compared to \$560 million for the three months ended March 31, 2008. Basic and diluted income per common share from continuing operations were both \$0.46 in 2009 and 2008. Excluding the items previously noted under Significant Transactions and Other Items Affecting Comparability totaling \$10 million of income and \$34 million of expense, net in 2009 and 2008, respectively, income from continuing operations decreased by \$45 million, primarily reflecting lower Operating Income, partially offset by lower interest expense and lower tax expense, all as noted above.

Discontinued Operations, Net of Tax. The financial results for the three months ended March 31, 2009 and 2008 included the impact of treating the results of operations and financial condition of TWC as discontinued operations. Discontinued operations, net of tax decreased to \$131 million for the three months ended March 31, 2009 from \$262 million for the three months ended March 31, 2008. The current year included results for the period from January 1, 2009 through March 12, 2009, the Distribution Record Date, as compared to a full three-month period in 2008. In addition, discontinued operations, net of tax for the three months ended March 31, 2009 and 2008 included direct transaction costs (e.g., legal and professional fees) related to the separation of TWC of \$75 million and \$2 million, respectively. For additional information, see Note 2 to the accompanying consolidated financial statements.

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Net Income Attributable to Noncontrolling Interests. Net income attributable to noncontrolling interests was \$29 million and \$51 million, respectively, for the three months ended March 31, 2009 and 2008.

Net Income Attributable to Time Warner Inc. shareholders and Net Income Per Common Share Attributable to Time Warner Inc. common shareholders. Net income attributable to Time Warner Inc. shareholders was \$661 million for the three months ended March 31, 2009 compared to \$771 million for the three months ended March 31, 2008. Basic and diluted net income per common share attributable to Time Warner Inc. common shareholders were both \$0.55 in 2009 compared to \$0.65 and \$0.64, respectively, in 2008.

Business Segment Results

Networks. Revenues, Operating Income before Depreciation and Amortization and Operating Income of the Networks segment for the three months ended March 31, 2009 and 2008 are as follows (millions):

| | Three Months Ended March 31, | | |
|---|-------------------------------------|-------------|-----------------|
| | 2009 | 2008 | % Change |
| Revenues: | | | |
| Subscription | \$ 1,850 | \$ 1,695 | 9% |
| Advertising | 723 | 739 | (2%) |
| Content | 205 | 213 | (4%) |
| Other | 30 | 12 | 150% |
| | | | |
| Total revenues | 2,808 | 2,659 | 6% |
| Costs of revenues ^(a) | (1,263) | (1,257) | |
| Selling, general and administrative ^(a) | (481) | (444) | 8% |
| | | | |
| Operating Income before Depreciation and Amortization | 1,064 | 958 | 11% |
| Depreciation | (86) | (78) | 10% |
| Amortization | (18) | (6) | 200% |
| | | | |
| Operating Income | \$ 960 | \$ 874 | 10% |

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

The increase in Subscription revenues was due primarily to higher subscription rates at both Turner and HBO and the impact of the consolidation of HBO LAG.

The decrease in Advertising revenues was driven mainly by Turner's international networks, including the negative effect of foreign exchange rates, and, to a lesser extent, a decline in Turner's domestic entertainment networks, reflecting weakened demand. The Company anticipates that achieving Advertising revenue growth for the remainder of 2009 at the Networks segment will continue to be challenging due to the difficult economic environment.

Costs of revenues were essentially flat as an increase in programming costs was offset by lower newsgathering costs, primarily reflecting the absence in the first quarter of 2009 of the prior year quarter's election-related costs.

Programming costs increased 2% to \$925 million for the three months ended March 31, 2009 from \$907 million for the three months ended March 31, 2008 due primarily to higher original programming costs at Turner and the impact of the consolidation of HBO LAG, partly offset by lower sports programming costs at Turner, particularly related to NBA programming. In addition, programming costs for the three months ended March 31, 2009 and 2008 included \$5 million and \$21 million, respectively, of charges related to decisions to not proceed with certain original programming. Costs of revenues as a percentage of revenues were 45% and 47% for the three months ended March 31, 2009 and 2008, respectively.

The increase in selling, general and administrative expenses was due primarily to increased costs related to the consolidation of HBO LAG and higher marketing expenses.

Operating Income before Depreciation and Amortization increased primarily due to an increase in revenues, partially offset by an increase in selling, general and administrative expenses. Operating Income increased primarily due to the increase in Operating Income before Depreciation and Amortization, partly offset by higher amortization primarily related to the consolidation of HBO LAG.

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Filmed Entertainment. Revenues, Operating Income before Depreciation and Amortization and Operating Income of the Filmed Entertainment segment for the three months ended March 31, 2009 and 2008 are as follows (millions):

| | Three Months Ended March 31, | | |
|---|-------------------------------------|-------------|-----------------|
| | 2009 | 2008 | % Change |
| Revenues: | | | |
| Subscription | \$ 9 | \$ 10 | (10%) |
| Advertising | 14 | 15 | (7%) |
| Content | 2,553 | 2,753 | (7%) |
| Other | 57 | 62 | (8%) |
| | | | |
| Total revenues | 2,633 | 2,840 | (7%) |
| Costs of revenues ^(a) | (1,879) | (1,975) | (5%) |
| Selling, general and administrative ^(a) | (409) | (469) | (13%) |
| Restructuring costs | (37) | (116) | (68%) |
| | | | |
| Operating Income before Depreciation and Amortization | 308 | 280 | 10% |
| Depreciation | (40) | (41) | (2%) |
| Amortization | (54) | (56) | (4%) |
| | | | |
| Operating Income | \$ 214 | \$ 183 | 17% |

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

Content revenues primarily include theatrical product (which is content made available for initial exhibition in theaters) and television product (which is content made available for initial airing on television). The components of Content revenues for the three months ended March 31, 2009 and 2008 are as follows (millions):

| | Three Months Ended March 31, | | |
|------------------------------------|-------------------------------------|-------------|-----------------|
| | 2009 | 2008 | % Change |
| Theatrical product: | | | |
| Theatrical film | \$ 486 | \$ 509 | (5%) |
| Home video and electronic delivery | 477 | 810 | (41%) |
| Television licensing | 382 | 400 | (5%) |
| Consumer products and other | 31 | 35 | (11%) |
| | | | |
| Total theatrical product | 1,376 | 1,754 | (22%) |
| | | | |
| Television product: | | | |

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| | | | |
|------------------------------------|----------|----------|------|
| Television licensing | 823 | 671 | 23% |
| Home video and electronic delivery | 157 | 160 | (2%) |
| Consumer products and other | 61 | 59 | 3% |
| Total television product | 1,041 | 890 | 17% |
| Other | 136 | 109 | 25% |
| Total Content revenues | \$ 2,553 | \$ 2,753 | (7%) |

The decrease in theatrical film revenues for the three months ended March 31, 2009 was due to difficult comparisons to the three months ended March 31, 2008. Revenues in the first quarter of 2009 included the releases of *Watchmen* and *He's Just Not That Into You* as well as carryover revenues from *Gran Torino*, *The Curious Case of Benjamin Button* and *Yes Man*. Revenues in the first quarter of 2008 included the releases of *10,000 B.C.* and *Fool's Gold*, as well as carryover revenues from *I Am Legend* and *The Bucket List*. Theatrical product revenues from home video and electronic delivery decreased for the three months ended March 31, 2009 primarily due to fewer significant titles in the first quarter of 2009, including *Body of Lies* and *Nights in Rodanthe*, compared to the first quarter of 2008, which included *I Am Legend*, *Michael Clayton* and *The Brave One*. Theatrical product revenues from television licensing decreased for the three months ended March 31, 2009 due primarily to the timing and quantity of availabilities.

Television product licensing fees increased primarily due to fewer network deliveries in the first quarter of 2008 as a result of the Writers Guild of America (East and West) strike, which was settled in February 2008, partially offset by a difficult comparison to the first quarter 2008 off-network license fees from *Seinfeld*.

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The increase in other Content revenues was due primarily to revenues from the interactive video game release of *F.E.A.R. 2: Project Origin* as well as the expansion of the distribution of interactive video games.

The decrease in costs of revenues resulted primarily from lower theatrical advertising and print costs due primarily to the timing, quantity and mix of films released and lower merchandise and related costs associated with a decline in home video and electronic delivery revenues, partially offset by higher film costs (\$1.267 billion in 2009 compared to \$1.152 billion in 2008). Included in film costs are net pre-release theatrical film valuation adjustments, which increased to \$31 million for the three months ended March 31, 2009 from \$9 million for the three months ended March 31, 2008. In addition, in the first quarter of 2008, the Company recognized approximately \$50 million in participation expense related to current claims on films released in prior periods. Costs of revenues as a percentage of revenues were 71% and 70% in the first quarter of 2009 and 2008, respectively, reflecting the quantity and mix of products released.

The decrease in selling, general and administrative expenses was primarily the result of lower employee costs resulting from the operational reorganization of the New Line business as well as lower distribution expenses primarily associated with the decline in home video and electronic delivery revenues.

Beginning in the first quarter of 2009, Warner Bros. commenced a significant restructuring, primarily consisting of headcount reductions and the outsourcing of certain functions to an external service provider. As a result, the Company incurred restructuring charges of \$37 million during the three months ended March 31, 2009 and expects to incur additional restructuring charges ranging from \$40 million to \$60 million during the remainder of 2009. The three months ended March 31, 2008 included restructuring charges of \$116 million primarily related to involuntary employee terminations in connection with the operational reorganization of the New Line business.

Operating Income before Depreciation and Amortization and Operating Income increased primarily due to lower costs of revenues, restructuring costs and selling, general and administrative expenses, partly offset by a decrease in revenues and the negative effect of foreign exchange rates.

Publishing. Revenues, Operating Income before Depreciation and Amortization and Operating Income (Loss) of the Publishing segment for the three months ended March 31, 2009 and 2008 are as follows (millions):

| | Three Months Ended March 31, | | |
|---|-------------------------------------|-------------|-----------------|
| | 2009 | 2008 | % Change |
| Revenues: | | | |
| Subscription | \$ 307 | \$ 365 | (16%) |
| Advertising | 383 | 550 | (30%) |
| Content | 19 | 12 | 58% |
| Other | 97 | 118 | (18%) |
| Total revenues | 806 | 1,045 | (23%) |
| Costs of revenues ^(a) | (329) | (424) | (22%) |
| Selling, general and administrative ^(a) | (466) | (466) | |
| Restructuring costs | 1 | (10) | (110%) |
| Operating Income before Depreciation and Amortization | 12 | 145 | (92%) |
| Depreciation | (31) | (34) | (9%) |
| Amortization | (13) | (18) | (28%) |
| Operating Income (Loss) | \$ (32) | \$ 93 | (134%) |

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

Subscription revenues declined primarily due to decreases at IPC resulting principally from the effect of foreign exchange rates as well as lower revenues from domestic subscription renewals due to the effect of the current economic environment and lower revenues as a result of softening domestic newsstand sales due to the effect of the current economic environment and wholesaler disruptions. The Company anticipates that foreign exchange rates and the economic environment will continue to adversely affect Subscription revenues during the remainder of 2009.

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Advertising revenues decreased due to declines in domestic print Advertising revenues, international print Advertising revenues, including the effect of foreign exchange rates at IPC, custom publishing revenues and online revenues primarily reflecting the current weak economic conditions and increased competition for advertising dollars. The Company currently anticipates that Advertising revenues at the Publishing segment for the remainder of 2009 will decline compared to the similar period in 2008, reflecting primarily the effect of the current economic environment.

Other revenues decreased due primarily to decreases at the non-magazine businesses, including Synapse and Southern Living At Home, partially offset by the effect of the acquisition of QSP.

Costs of revenues decreased 22% and, as a percentage of revenues, were 41% for both the three months ended March 31, 2009 and 2008. Costs of revenues for the magazine and online businesses include manufacturing costs (paper, printing and distribution) and editorial-related costs, which together decreased 22% to \$305 million for the three months ended March 31, 2009 from \$389 million for the three months ended March 31, 2008, primarily due to cost savings initiatives, lower printing and paper costs related to a decline in volume and lower costs at IPC due primarily to the effect of foreign exchange rates. In addition, costs of revenues at the non-magazine businesses declined as a result of lower revenues.

Selling, general and administrative expenses were flat as cost savings initiatives, lower marketing expenses and a decrease at IPC due primarily to the effect of foreign exchange rates were offset by costs associated with the acquisition of QSP, an \$18 million increase in bad debt reserves related to a newsstand wholesaler and higher pension expense.

The results for the three months ended March 31, 2009 and 2008 included a \$1 million reversal and \$10 million of restructuring costs, respectively, primarily related to severance costs associated with continuing efforts to streamline operations.

Operating Income before Depreciation and Amortization and Operating Income (Loss) decreased due primarily to lower revenues, partially offset by a decrease in costs of revenues.

The Company anticipates that, excluding the 2008 asset impairments, Operating Income before Depreciation and Amortization and Operating Income (Loss) at the Publishing segment for 2009 will be less than that achieved during 2008, primarily resulting from the expected declines in Advertising revenues.

AOL. Revenues, Operating Income before Depreciation and Amortization and Operating Income of the AOL segment for the three months ended March 31, 2009 and 2008 are as follows (millions):

| | Three Months Ended March 31, | | |
|---|-------------------------------------|-------------|-----------------|
| | 2009 | 2008 | % Change |
| Revenues: | | | |
| Subscription | \$ 393 | \$ 539 | (27%) |
| Advertising | 443 | 552 | (20%) |
| Other | 31 | 37 | (16%) |
| Total revenues | 867 | 1,128 | (23%) |
| Costs of revenues ^(a) | (426) | (544) | (22%) |
| Selling, general and administrative ^(a) | (128) | (170) | (25%) |
| Restructuring costs | (58) | (9) | NM |
| Operating Income before Depreciation and Amortization | 255 | 405 | (37%) |
| Depreciation | (69) | (83) | (17%) |
| Amortization | (36) | (38) | (5%) |

| | | | |
|------------------|--------|--------|-------|
| Operating Income | \$ 150 | \$ 284 | (47%) |
|------------------|--------|--------|-------|

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

The decline in Subscription revenues was primarily due to a decrease in the number of domestic AOL brand subscribers.

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The number of domestic AOL brand subscribers was 6.3 million, 6.9 million and 8.7 million as of March 31, 2009, December 31, 2008 and March 31, 2008, respectively. The average revenue per domestic AOL brand subscriber (ARPU) was \$18.48 and \$18.29 for the three months ended March 31, 2009 and 2008, respectively. AOL includes in its subscriber numbers individuals, households and entities that have provided billing information and completed the registration process sufficiently to allow for an initial log-on to the AOL service. Individuals who have registered for the free AOL service, including subscribers who have migrated from paid subscription plans, are not included in the AOL brand subscriber numbers presented above.

The continued decline in domestic subscribers is the result of a number of factors, including the effects of AOL's strategy, which has resulted in the migration of subscribers to the free AOL services, declining registrations for the paid service in response to AOL's significantly reduced marketing efforts and increased competition from broadband access providers. The increase in ARPU for the three months ended March 31, 2009 compared to the three months ended March 31, 2008 was due primarily to price increases for lower-priced plans, partially offset by a shift in the subscriber mix to lower-priced plans.

Advertising services include display advertising (which includes certain types of impression-based and performance-driven advertising) and paid-search advertising, both domestically and internationally, which are provided on both the AOL Network and the Third Party Network. The components of Advertising revenues for the three months ended March 31, 2009 and 2008 are as follows (millions):

| | Three Months Ended March 31, | | |
|----------------------------|-------------------------------------|-------------|-----------------|
| | 2009 | 2008 | % Change |
| AOL Network: | | | |
| Display | \$ 158 | \$ 191 | (17%) |
| Paid-search | 152 | 173 | (12%) |
| Total AOL Network | 310 | 364 | (15%) |
| Third Party Network | 133 | 188 | (29%) |
| Total Advertising revenues | \$ 443 | \$ 552 | (20%) |

The decrease in display Advertising revenues generated on the AOL Network was primarily due to weakening global economic conditions, which contributed to lower demand from a number of advertiser categories and downward pricing pressure on advertising inventory. The decrease in paid-search Advertising revenues on the AOL Network, which are generated primarily through AOL's strategic relationship with Google, was attributable primarily to decreases in search query volume on certain AOL Network properties.

The decrease in Advertising revenues on the Third Party Network was primarily due to weakening global economic conditions, which contributed to lower demand from a number of advertiser categories and downward pricing pressure on advertising inventory. In addition, the decline in Advertising revenues on the Third Party Network included a decrease of \$16 million due to a change in the relationship with a major customer of Platform-A Inc. Revenues associated with this relationship were \$1 million for the three months ended March 31, 2009 compared to \$17 million for the three months ended March 31, 2008. Total revenues from this customer for the year ended December 31, 2008 were \$26 million.

Total Advertising revenues for the three months ended March 31, 2009 decreased \$64 million from the three months ended December 31, 2008, reflecting decreases in display and paid-search Advertising revenues on the AOL

Network as well as a decrease in Advertising revenues on the Third Party Network. The decline in both display Advertising revenues on the AOL Network and Advertising revenues on the Third Party Network reflected weak economic conditions resulting in lower demand from a number of advertiser categories, seasonality and a loss of Advertising revenues from certain customers, while the decline in paid-search Advertising revenues was primarily due to lower revenues per search query on certain AOL Network properties.

The Company expects Advertising revenues at the AOL segment for the remainder of 2009 to be less than those generated during the similar period of 2008, primarily reflecting weak economic conditions.

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Costs of revenues decreased 22%, and, as a percentage of revenues, were 49% and 48% for the three months ended March 31, 2009 and 2008, respectively. Costs of revenues decreased primarily due to declines in TAC, and to a lesser extent declines in personnel-related costs primarily associated with reduced headcount. TAC consists of the costs of acquiring third-party online advertising inventory and costs incurred in connection with distributing AOL's free products or services or otherwise directing traffic to the AOL Network. For the three months ended March 31, 2009, TAC decreased 30% to \$133 million in 2009 from \$191 million in 2008, due primarily to the decrease in Advertising revenues on the Third Party Network and to a lesser extent declines in new product distribution costs.

Selling, general and administrative expenses decreased 25% to \$128 million for the three months ended March 31, 2009, reflecting a reduction in direct marketing costs primarily due to reduced subscriber acquisition marketing and lower consulting costs.

In the first quarter of 2009, in an effort to better position its Global Web Services business, AOL undertook a significant restructuring. As a result, for the three months ended March 31, 2009, the Company incurred restructuring charges of \$58 million primarily related to involuntary employee terminations and facility closures, and currently expects to incur up to an additional \$90 million in restructuring charges during the remainder of 2009. The results for the three months ended March 31, 2008 also included net restructuring charges of \$9 million primarily related to involuntary employee terminations and facility closures.

Operating Income before Depreciation and Amortization decreased due primarily to a decline in revenues, partially offset by lower costs of revenues and selling, general and administrative expenses. Operating Income decreased due primarily to the decrease in Operating Income before Depreciation and Amortization, as discussed above, partially offset by a decrease in depreciation expense as a result of a reduction in network assets due to subscriber declines.

Excluding the fourth quarter 2008 asset impairments, the Company anticipates that Operating Income before Depreciation and Amortization and Operating Income at the AOL segment during the remainder of 2009 will be less than that generated during the similar period of 2008, primarily resulting from continuing declines in Subscription and Advertising revenues as well as the effect of the current year restructuring activities.

Corporate. Operating Loss before Depreciation and Amortization and Operating Loss of the Corporate segment for the three months ended March 31, 2009 and 2008 are as follows (millions):

| | Three Months Ended March 31, | | |
|---|-------------------------------------|-------------|-----------------|
| | 2009 | 2008 | % Change |
| Selling, general and administrative ^(a) | \$ (84) | \$ (96) | (13%) |
| Restructuring costs | | (7) | 100% |
| Operating Loss before Depreciation and Amortization | (84) | (103) | (18%) |
| Depreciation | (10) | (11) | (9%) |
| Operating Loss | \$ (94) | \$ (114) | (18%) |

^(a) Selling, general and administrative expenses exclude depreciation.

The results for the three months ended March 31, 2008 included \$7 million of restructuring costs, due primarily to involuntary employee terminations as a result of the Company's cost savings initiatives at the Corporate segment.

Excluding the restructuring costs noted above, Operating Loss before Depreciation and Amortization and Operating Loss decreased due primarily to lower corporate costs, related primarily to the cost savings initiatives, partially offset by an increase in legal and other professional fees related to the defense of various shareholder lawsuits.

FINANCIAL CONDITION AND LIQUIDITY

Management believes that cash generated by or available to the Company should be sufficient to fund its capital and liquidity needs for the foreseeable future, including quarterly dividend payments and the remainder of its \$5 billion common stock repurchase program. Time Warner's sources of cash include cash provided by operations, cash and equivalents on hand, available borrowing capacity under its committed credit facility and commercial paper program and

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access to capital markets. Time Warner's unused committed capacity at March 31, 2009 was \$13.955 billion, including \$7.115 billion of cash and equivalents.

As discussed in Recent Developments, as part of the TWC Separation, the Company received \$9.253 billion as its portion of the Special Dividend paid by TWC.

In late January 2009, Google exercised its right to request that AOL register Google's 5% equity interest for sale in an initial public offering. Time Warner has the right, but not the obligation, to purchase Google's equity interest for cash or shares of Time Warner common stock based on the appraised fair market value of the equity interest in lieu of conducting an initial public offering. The Company is in discussions with Google and has notified Google of its intention to purchase the 5% equity interest.

Current Financial Condition

At March 31, 2009, Time Warner had \$17.482 billion of debt, \$7.115 billion of cash and equivalents (net debt of \$10.367 billion, defined as total debt less cash and equivalents) and \$35.786 billion of shareholders' equity, compared to \$21.955 billion of debt, \$1.233 billion of cash and equivalents (net debt of \$20.722 billion, defined as total debt less cash and equivalents) and \$42.288 billion of shareholders' equity at December 31, 2008.

The following table shows the significant items contributing to the decrease in consolidated net debt from December 31, 2008 to March 31, 2009 (millions):

| | |
|--|---------------|
| Balance at December 31, 2008 | \$ 20,722 |
| Cash provided by operations from continuing operations | (1,425) |
| Capital expenditures and product development costs | 134 |
| Dividends paid to common stockholders | 226 |
| Investments and acquisitions, net ^(a) | 52 |
| Proceeds from the sale of investments ^(a) | (117) |
| Proceeds from the Special Dividend ^(b) | (9,253) |
| All other, net | 28 |
| Balance at March 31, 2009 ^(c) | \$ 10,367 |

(a) Refer to
Investing
Activities below
for further
detail.

(b) Refer to
Financing
Activities below
for further
detail.

(c) Included in the
net debt balance
is \$30 million
that represents
the net
unamortized fair
value

adjustment
recognized as a
result of the
merger of AOL
and Historic TW
Inc.

Time Warner had a shelf registration statement (the Registration Statement) on file with the Securities and Exchange Commission (the SEC) since November 8, 2006 that allowed it to offer and sell from time to time debt securities, preferred stock, common stock and/or warrants to purchase debt and equity securities. As a result of the Company s \$13.955 billion of unused committed capacity at March 31, 2009 and the anticipated expiration in early November 2009 of the Registration Statement, the Company determined it no longer needed the Registration Statement. Accordingly, on April 24, 2009, the Company and the subsidiary guarantors under the Registration Statement submitted filings to the SEC that suspended the reporting obligations with respect to the debt securities (and related guarantees) that were offered and sold pursuant to the Registration Statement and deregistered the securities covered under the Registration Statement that were available for offer and sale.

The Company has historically invested a portion of its cash on hand in money market funds, including The Reserve Fund s Primary Fund (The Reserve Fund). On the morning of September 15, 2008, the Company requested a full redemption of its approximately \$330 million investment in The Reserve Fund, but the redemption request was not honored. On September 22, 2008, The Reserve Fund announced that redemptions of shares were suspended pursuant to an SEC order requested by The Reserve Fund so that an orderly liquidation could be effected. Through April 28, 2009, the Company has received \$297 million from The Reserve Fund representing its pro rata share of partial distributions made by The Reserve Fund. The Company has not been informed as to when the remaining amount will be returned. In February 2009, The Reserve Fund announced that it would set aside an initial amount of \$3.5 billion to defend against certain legal actions. The Company has filed a claim against The Reserve Fund demanding repayment of the remaining amount of its

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

full investment. As a result of the status of The Reserve Fund, the Company has classified its receivable from The Reserve Fund at March 31, 2009 as other current assets on the Company's consolidated balance sheet.

On July 26, 2007, Time Warner's Board of Directors authorized a common stock repurchase program that allows the Company to purchase up to an aggregate of \$5 billion of common stock. Purchases under this stock repurchase program may be made from time to time on the open market and in privately negotiated transactions. The size and timing of these purchases are based on a number of factors, including price and business and market conditions. From the program's inception through April 28, 2009, the Company has repurchased approximately 51 million shares of common stock for approximately \$2.8 billion, pursuant to trading programs under Rule 10b5-1 of the Exchange Act (Note 6).

On November 13, 2009, Time Warner's floating rate notes due November 13, 2009 (aggregate principal amount of \$2.000 billion) will mature.

Cash Flows

Cash and equivalents increased by \$5.882 billion, including \$2 million of cash used by discontinued operations, and \$92 million, including \$3 million of cash used by discontinued operations, for the three months ended March 31, 2009 and 2008, respectively. Components of these changes are discussed below in more detail.

Operating Activities from Continuing Operations

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

| | Three Months Ended March | |
|---|---------------------------------|-----------------|
| | 31, | |
| | 2009 | 2008 |
| | | (recast) |
| Operating Income | \$ 1,198 | \$ 1,311 |
| Depreciation and amortization | 357 | 365 |
| Net interest payments ^(a) | (128) | (200) |
| Net income taxes paid ^(b) | (52) | (63) |
| Noncash equity-based compensation | 71 | 75 |
| Domestic pension plan contributions | (8) | (103) |
| Merger-related and restructuring payments, net of accruals ^(c) | (8) | 78 |
| All other, net, including working capital changes | (5) | 153 |
| Cash provided by operations from continuing operations | \$ 1,425 | \$ 1,616 |

^(a) Includes interest income received of \$11 million and \$22 million in 2009 and 2008, respectively.

^(b) Includes income tax refunds received of \$44 million and

\$7 million in
2009 and 2008,
respectively.

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

Cash provided by operations from continuing operations decreased to \$1.425 billion in 2009 from \$1.616 billion in 2008. The decrease in cash provided by operations from continuing operations was related primarily to a decrease in operating income and a decline in cash provided by working capital, partially offset by a decline in net interest payments and domestic pension plan contributions. The components of working capital are subject to wide fluctuations based on the timing of cash transactions related to production schedules, the acquisition of programming, collection of accounts receivable and similar items. The change in working capital between periods primarily reflects lower cash collections on receivables and the timing of payments for production spending, accounts payable and accrued liabilities.

As of March 31, 2009, certain of the Company's domestic defined benefit pension plans were funded by assets in a pension trust totaling \$1.556 billion compared to \$1.702 billion as of December 31, 2008. Between January 1, 2009 and March 31, 2009, the Company's plan assets have experienced market losses of approximately 7%. The Company did not make any discretionary cash contributions to its defined benefit plans during the three months ended March 31, 2009. Subject to market conditions and other considerations, the Company may make discretionary cash contributions during the remainder of the year.

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

Investing Activities from Continuing Operations

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

| | Three Months Ended March | |
|---|---------------------------------|-----------------|
| | 31, | |
| | 2009 | 2008 |
| | | (recast) |
| Investments in available-for-sale securities | \$ (2) | \$ |
| Investments and acquisitions, net of cash acquired: | | |
| buy.at | | (124) |
| All other | (50) | (129) |
| Capital expenditures and product development costs | (134) | (146) |
| Special Dividend received from TWC | 9,253 | |
| All other investment and asset sale proceeds | 117 | 30 |
| Cash provided (used) by investing activities from continuing operations | \$ 9,184 | \$ (369) |

Cash provided by investing activities from continuing operations was \$9.184 billion for the three months ended March 31, 2009 compared to cash used by investing activities from continuing operations of \$369 million for the three months ended March 31, 2008. The change in cash provided (used) by investing activities from continuing operations was primarily due to the receipt of the Special Dividend and a decline in investments and acquisitions.

Financing Activities from Continuing Operations

Details of cash used by financing activities from continuing operations are as follows (millions):

| | Three Months Ended March | |
|--|---------------------------------|-----------------|
| | 31, | |
| | 2009 | 2008 |
| | | (recast) |
| Borrowings ^(a) | \$ 3,507 | \$ 2,112 |
| Debt repayments ^(a) | (7,986) | (2,716) |
| Proceeds from exercise of stock options | | 34 |
| Excess tax benefit on stock options | | 2 |
| Principal payments on capital leases | (11) | (10) |
| Repurchases of common stock | | (332) |
| Dividends paid | (226) | (224) |
| Other financing activities | (9) | (18) |
| Cash used by financing activities from continuing operations | \$ (4,725) | \$ (1,152) |

^(a) The Company reflects borrowings under its bank credit

agreements on a
gross basis in
the consolidated
statement of
cash flows and
reflects
short-term
commercial
paper on a net
basis, as
provided for
under FASB
Statement
No. 95,
*Statement of
Cash Flows.*

Cash used by financing activities from continuing operations increased to \$4.725 billion for the three months ended March 31, 2009 from \$1.152 billion for the three months ended March 31, 2008. The change in cash used by financing activities from continuing operations was primarily due to an increase in debt repayments. The Company used a portion of the \$9.253 billion Special Dividend to repay in full the \$2.0 billion three-year unsecured term loan facility (plus accrued interest) and repay all amounts outstanding under the TW Revolving Facility (defined below).

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

Cash Flows from Discontinued Operations

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

| | Three Months Ended March | |
|---|---------------------------------|------------------------------|
| | 2009 | 31, 2008 (recast) |
| Cash provided by operations from discontinued operations | \$ 582 | \$ 1,180 |
| Cash used by investing activities from discontinued operations | (622) | (841) |
| Cash used by financing activities from discontinued operations | (5,224) | (348) |
| Effect of change in cash and equivalents of discontinued operations | 5,262 | 6 |
| Cash used by discontinued operations | \$ (2) | \$ (3) |

Cash used by discontinued operations reflects cash activity of discontinued operations for the period from January 1, 2009 through March 12, 2009, the Distribution Record Date, and for the full three-month period ended March 31, 2008. Cash provided by operations from discontinued operations decreased to \$582 million for the three months ended March 31, 2009 from \$1.180 billion for the three months ended March 31, 2008, primarily reflecting a change in working capital resulting from the timing of programming payments and cash collections and a decrease in income from discontinued operations, net of tax. Cash used by investing activities from discontinued operations decreased to \$622 million for the three months ended March 31, 2009 from \$841 million for the three months ended March 31, 2008 due primarily to a decrease in capital expenditures. Cash used by financing activities from discontinued operations increased to \$5.224 billion for the three months ended March 31, 2009 from \$348 million for the three months ended March 31, 2008 primarily due to the payment of the Special Dividend, partially offset by an increase in borrowings.

Outstanding Debt and Other Financing Arrangements**Outstanding Debt and Committed Financial Capacity**

At March 31, 2009, Time Warner had total committed capacity, defined as maximum available borrowings under various existing debt arrangements and cash and short-term investments, of \$31.497 billion. Of this committed capacity, \$13.955 billion was unused and \$17.482 billion was outstanding as debt. At March 31, 2009, total committed capacity, outstanding letters of credit, unamortized discount on commercial paper, outstanding debt and total unused committed capacity were as follows (millions):

| | Committed Capacity (a) | Letters of Credit^(b) | Unamortized Discount on Commercial Paper | Outstanding Debt^(c) | Unused Committed Capacity^(d) |
|--|---------------------------------------|--|---|---|--|
| Cash and equivalents | \$ 7,115 | \$ | \$ | \$ | \$ 7,115 |
| Bank credit agreement and commercial paper program | 6,900 | 60 | | | 6,840 |
| Floating-rate public debt ^(d) | 2,000 | | | 2,000 | |
| Fixed-rate public debt | 15,227 | | | 15,227 | |
| Other fixed-rate obligations ^(e) | 255 | | | 255 | |

| | | | | | | | | |
|-------|----|--------|----|----|----|--------|----|--------|
| Total | \$ | 31,497 | \$ | 60 | \$ | 17,482 | \$ | 13,955 |
|-------|----|--------|----|----|----|--------|----|--------|

- (a) The bank credit agreement, commercial paper program and public debt of the Company rank pari passu with the senior debt of the respective obligors thereon. The Company's maturity profile of its outstanding debt and other financing arrangements is relatively long-term, with a weighted maturity of approximately 11.5 years as of March 31, 2009.
- (b) Represents the portion of committed capacity reserved for outstanding and undrawn letters of credit.
- (c) Represents principal amounts adjusted for premiums and discounts.
- (d) The Company has classified \$2.000 billion in debt of Time Warner due within the next twelve months as short-term in

the
accompanying
consolidated
balance sheet.

- (e) Includes debt due within one year of \$80 million that relates to capital lease and other obligations.

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

Repayment and Termination of \$2.0 Billion Term Facility

As discussed in Recent Developments, on March 17, 2009, the Company used a portion of the proceeds it received from the Special Dividend to repay in full the \$2.0 billion outstanding (plus accrued interest) under the Term Facility and terminated the Term Facility. Time Warner did not incur any early termination or prepayment penalties in connection with the termination of the Term Facility.

Termination of Supplemental Credit Agreement

As discussed in Recent Developments, on March 12, 2009, TWC borrowed the full committed amount of \$1.932 billion under the TWC Bridge Facility, all of which was used to pay a portion of the Special Dividend. On March 26, 2009, TWC completed an offering of \$3.0 billion in aggregate principal amount of debt securities and used a portion of the net proceeds from the offering to prepay in full the outstanding loans and all other amounts due under the TWC Bridge Facility, and the TWC Bridge Facility was terminated in accordance with its terms. Concurrently with the termination of the TWC Bridge Facility and pursuant to the terms of the Supplemental Credit Agreement, on March 26, 2009, TWC terminated the commitments of Time Warner under the Supplemental Credit Facility, and the Supplemental Credit Agreement was terminated in accordance with its terms.

Amendments to Revolving Facility

On March 11, 2009, the Company entered into the first and second amendments to the amended and restated credit agreement (the Revolving Credit Agreement) for its senior unsecured five-year revolving credit facility (the Revolving Facility). The first amendment terminated the \$100 million commitment of Lehman Commercial Paper Inc. (LCPI), a subsidiary of Lehman Brothers Holdings Inc., which filed a petition for bankruptcy under Chapter 11 of the U.S. Bankruptcy Code in September 2008, reducing the committed amount of the Revolving Facility from \$7.0 billion to \$6.9 billion. The second amendment, among other things, amended the Revolving Credit Agreement to (i) expand the circumstances under which any other lender under the Revolving Facility would become a Defaulting Lender (as defined in the Revolving Credit Agreement, as amended) and (ii) permit Time Warner to terminate the commitment of any such lender on terms substantially similar to those applicable to LCPI under the first amendment to the Revolving Credit Agreement.

Consent Solicitation

On April 15, 2009, the Company completed a solicitation of consents (the Consent Solicitation) from the holders of the debt securities (the Securities) issued by Time Warner Inc. and its subsidiaries under all of the indentures governing the publicly traded debt securities of the Company and its subsidiaries other than the indenture entered into in November 2006 (collectively, the Indentures), resulting in the adoption on April 16, 2009 of certain amendments to each Indenture that provide that certain restrictive covenants will not apply (subject to the concurrent or prior issuance of the guarantee by HBO discussed below) to a conveyance or transfer by AOL LLC of its properties and assets substantially as an entirety, unless such conveyance or transfer constitutes a conveyance or transfer of the properties and assets of the issuer and the guarantors under the relevant Indenture and their respective subsidiaries, taken as a whole, substantially as an entirety. As a result of the Consent Solicitation, prior to or concurrently with a conveyance or transfer of AOL LLC's properties and assets substantially as an entirety, HBO will issue a guarantee of the obligations of Historic TW Inc. (Historic TW) (including in its capacity as successor to Time Warner Companies, Inc.), whether as issuer or guarantor, under the Indentures and the Securities. Such guarantee will be issued by HBO only in connection with such a transaction.

Programming Licensing Backlog

Programming licensing backlog represents the amount of future revenues not yet recorded from cash contracts for the licensing of theatrical and television product for pay cable, basic cable, network and syndicated television exhibition. Backlog was approximately \$4.1 billion at both March 31, 2009 and December 31, 2008. Included in these amounts is licensing of film product from the Filmed Entertainment segment to the Networks segment in the amount of \$875 million and \$967 million at March 31, 2009 and December 31, 2008, respectively.

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

Customer Credit Risk

Credit risk in the Company's businesses originates from sales of various products and services and is dispersed among many different counterparties. At March 31, 2009, no single customer of the Company had a receivable balance that was greater than 5% of the Company's total net receivables. As a result of the current economic environment, a number of customers that purchase products and services from the Company are experiencing financial challenges (including bankruptcy in some cases). It is possible that some of these customers may not pay amounts owed or expected. It is also possible that these customers or others may not have the financial means to purchase the Company's products or services in the future. If these events occur, they could have an adverse impact on the Company's operating results and cash flows.

CAUTION CONCERNING FORWARD-LOOKING STATEMENTS

This document contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, particularly statements anticipating future trends in revenues, Operating Income before Depreciation and Amortization, Operating Income and cash from operations. Words such as anticipates, estimates, expects, projects, intends, plans, believes and words and terms of similar substance used in connection with any discussion of future operating or financial performance identify forward-looking statements. These forward-looking statements are based on management's current expectations and beliefs about future events. As with any projection or forecast, they are inherently susceptible to uncertainty and changes in circumstances, and the Company is under no obligation to, and expressly disclaims any obligation to, update or alter its forward-looking statements whether as a result of such changes, new information, subsequent events or otherwise.

Various factors could adversely affect the operations, business or financial results of Time Warner or its business segments in the future and cause Time Warner's actual results to differ materially from those contained in the forward-looking statements, including those factors discussed in detail in Item 1A, Risk Factors, in the 2008 Form 10-K and in Time Warner's other filings made from time to time with the SEC after the date of this report. In addition, Time Warner operates in highly competitive, consumer and technology-driven and rapidly changing media, entertainment and interactive services. These businesses are affected by government regulation, economic, strategic, political and social conditions, consumer response to new and existing products and services, technological developments and, particularly in view of new technologies, the continued ability to protect intellectual property rights. Time Warner's actual results could differ materially from management's expectations because of changes in such factors.

Further, for Time Warner generally, lower than expected valuations associated with the cash flows and revenues at Time Warner's segments may result in Time Warner's inability to realize the value of recorded intangibles and goodwill at those segments. In addition, achieving the Company's financial objectives, including growth in operations, maintaining financial ratios and a strong balance sheet, could be adversely affected by the factors discussed in detail in Item 1A, Risk Factors, in the 2008 Form 10-K, as well as:

- a longer than anticipated continuation of the current economic slowdown or further deterioration in the economy;
- decreased liquidity in the capital markets, including any reduction in the ability to access the capital markets for debt securities or bank financings;
- the impact of terrorist acts and hostilities;
- changes in the Company's plans, strategies and intentions;
- the impacts of significant acquisitions, dispositions and other similar transactions; and
- the failure to meet earnings expectations.

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TIME WARNER INC.

Item 4. CONTROLS AND PROCEDURES

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

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

Changes in Internal Control Over Financial Reporting

There have not been any changes in the Company's internal control over financial reporting during the quarter ended March 31, 2009 that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

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

| | March 31, 2009 | December 31, 2008 (recast) |
|--|---------------------------|---|
| ASSETS | | |
| Current assets | | |
| Cash and equivalents | \$ 7,115 | \$ 1,233 |
| Receivables, less allowances of \$1,878 and \$2,269 | 4,674 | 5,664 |
| Inventories | 2,050 | 1,989 |
| Deferred income taxes | 723 | 624 |
| Prepaid expenses and other current assets | 725 | 772 |
| Current assets of discontinued operations | | 6,480 |
| Total current assets | 15,287 | 16,762 |
| Noncurrent inventories and film costs | 5,054 | 5,192 |
| Investments, including available-for-sale securities | 944 | 1,036 |
| Property, plant and equipment, net | 4,769 | 4,896 |
| Intangible assets subject to amortization, net | 3,492 | 3,564 |
| Intangible assets not subject to amortization | 7,723 | 7,728 |
| Goodwill | 32,357 | 32,428 |
| Other assets | 1,203 | 1,220 |
| Noncurrent assets of discontinued operations | | 41,231 |
| Total assets | \$ 70,829 | \$ 114,057 |
| LIABILITIES AND EQUITY | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities | \$ 7,789 | \$ 8,194 |
| Deferred revenue | 966 | 1,012 |
| Debt due within one year | 2,080 | 2,066 |
| Current liabilities of discontinued operations | 52 | 2,865 |
| Total current liabilities | 10,887 | 14,137 |
| Long-term debt | 15,402 | 19,889 |
| Deferred income taxes | 1,127 | 974 |
| Deferred revenue | 273 | 266 |
| Other noncurrent liabilities | 6,712 | 6,801 |
| Noncurrent liabilities of discontinued operations | | 26,320 |
| Commitments and contingencies(Note 12) | | |
| Equity | | |
| Time Warner common stock, \$0.01 par value, 1.631 and 1.630 billion shares issued and 1.196 and 1.196 billion shares outstanding | 16 | 16 |

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| | | |
|--|-----------|------------|
| Paid-in-capital | 162,116 | 169,564 |
| Treasury stock, at cost (434 million and 434 million shares) | (25,836) | (25,836) |
| Accumulated other comprehensive loss, net | (1,392) | (1,676) |
| Accumulated deficit | (99,118) | (99,780) |
| Total Time Warner Inc. shareholders' equity | 35,786 | 42,288 |
| Noncontrolling interests (including \$0 and \$2,751 attributable to discontinued operations) | 642 | 3,382 |
| Total equity | 36,428 | 45,670 |
| Total liabilities and equity | \$ 70,829 | \$ 114,057 |

See accompanying notes.

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TIME WARNER INC.
CONSOLIDATED STATEMENT OF OPERATIONS
Three Months Ended March 31,
(Unaudited; millions, except per share amounts)

| | 2009 | 2008 (recast) |
|--|-------------|--------------------------------|
| Revenues: | | |
| Subscription | \$ 2,559 | \$ 2,608 |
| Advertising | 1,540 | 1,828 |
| Content | 2,636 | 2,809 |
| Other | 210 | 225 |
| Total revenues | 6,945 | 7,470 |
| Costs of revenues | (3,880) | (4,167) |
| Selling, general and administrative | (1,652) | (1,732) |
| Amortization of intangible assets | (121) | (118) |
| Restructuring costs | (94) | (142) |
| Operating income | 1,198 | 1,311 |
| Interest expense, net | (312) | (347) |
| Other loss, net | (39) | (59) |
| Income from continuing operations before income taxes | 847 | 905 |
| Income tax provision | (288) | (345) |
| Income from continuing operations | 559 | 560 |
| Discontinued operations, net of tax | 131 | 262 |
| Net income | 690 | 822 |
| Less Net income attributable to noncontrolling interests | (29) | (51) |
| Net income attributable to Time Warner Inc. shareholders | \$ 661 | \$ 771 |
| Amounts attributable to Time Warner Inc. shareholders: | | |
| Income from continuing operations | \$ 555 | \$ 548 |
| Discontinued operations, net of tax | 106 | 223 |
| Net income | \$ 661 | \$ 771 |
| Per share information attributable to Time Warner Inc. common shareholders: | | |
| Basic income per common share from continuing operations | \$ 0.46 | \$ 0.46 |
| Discontinued operations | 0.09 | 0.19 |
| Basic net income per common share | \$ 0.55 | \$ 0.65 |

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| | | |
|--|-----------|-----------|
| Average basic common shares outstanding | 1,196.1 | 1,193.0 |
| Diluted income per common share from continuing operations | \$ 0.46 | \$ 0.46 |
| Discontinued operations | 0.09 | 0.18 |
| Diluted net income per common share | \$ 0.55 | \$ 0.64 |
| Average diluted common shares outstanding | 1,200.3 | 1,200.2 |
| Cash dividends declared per share of common stock | \$ 0.1875 | \$ 0.1875 |

See accompanying notes.

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TIME WARNER INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
Three Months Ended March 31,
(Unaudited; millions)

| | 2009 | 2008 (recast) |
|---|-------------|--------------------------------|
| OPERATIONS | | |
| Net income | \$ 690 | \$ 822 |
| Less Discontinued operations, net of tax | 131 | 262 |
| Net income from continuing operations | 559 | 560 |
| Adjustments for noncash and nonoperating items: | | |
| Depreciation and amortization | 357 | 365 |
| Amortization of film and television costs | 1,624 | 1,377 |
| Loss on investments and other assets, net | 2 | 26 |
| Equity in losses of investee companies, net of cash distributions | 22 | 19 |
| Equity-based compensation | 71 | 75 |
| Deferred income taxes | (40) | 37 |
| Changes in operating assets and liabilities, net of acquisitions | (1,170) | (843) |
| Cash provided by operations from continuing operations | 1,425 | 1,616 |
| INVESTING ACTIVITIES | | |
| Investments in available-for-sale securities | (2) | |
| Investments and acquisitions, net of cash acquired | (50) | (253) |
| Capital expenditures and product development costs | (134) | (146) |
| Investment proceeds from available-for-sale securities | 5 | |
| Special Dividend received from Time Warner Cable Inc. | 9,253 | |
| Other investment proceeds | 112 | 30 |
| Cash provided (used) by investing activities from continuing operations | 9,184 | (369) |
| FINANCING ACTIVITIES | | |
| Borrowings | 3,507 | 2,112 |
| Debt repayments | (7,986) | (2,716) |
| Proceeds from exercise of stock options | | 34 |
| Excess tax benefit on stock options | | 2 |
| Principal payments on capital leases | (11) | (10) |
| Repurchases of common stock | | (332) |
| Dividends paid | (226) | (224) |
| Other financing activities | (9) | (18) |
| Cash used by financing activities from continuing operations | (4,725) | (1,152) |
| Cash provided by continuing operations | 5,884 | 95 |
| Cash provided by operations from discontinued operations | 582 | 1,180 |

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| | | |
|---|----------|----------|
| Cash used by investing activities from discontinued operations | (622) | (841) |
| Cash used by financing activities from discontinued operations | (5,224) | (348) |
| Effect of change in cash and equivalents of discontinued operations | 5,262 | 6 |
| Cash used by discontinued operations | (2) | (3) |
| INCREASE IN CASH AND EQUIVALENTS | 5,882 | 92 |
| CASH AND EQUIVALENTS AT BEGINNING OF PERIOD | 1,233 | 1,285 |
| CASH AND EQUIVALENTS AT END OF PERIOD | \$ 7,115 | \$ 1,377 |

See accompanying notes.

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TIME WARNER INC.
CONSOLIDATED STATEMENT OF EQUITY
Three Months Ended March 31,
(Unaudited; millions, except per share amounts)

| | 2009 | | | 2008 | | |
|---|--------------------------|--------------------------|--------------|--------------------------|-----------------------------------|--------------|
| | Time Warner Shareholders | Noncontrolling Interests | Total Equity | Time Warner Shareholders | Noncontrolling Interests (recast) | Total Equity |
| BALANCE AT BEGINNING OF PERIOD | \$ 42,288 | \$ 3,382 | \$ 45,670 | \$ 58,536 | \$ 4,322 | \$ 62,858 |
| Net income | 661 | 29 | 690 | 771 | 51 | 822 |
| Other comprehensive income | (107) | | (107) | (61) | 1 | (60) |
| Comprehensive income | 554 | 29 | 583 | 710 | 52 | 762 |
| Cash dividends (\$0.1875 per common share) | (226) | | (226) | (224) | | (224) |
| Common stock repurchases | | | | (299) | | (299) |
| Impact of adopting new accounting pronouncements ^(a) | | | | (13) | | (13) |
| Time Warner Cable Inc. Special Dividend | | (1,603) | (1,603) | | | |
| Time Warner Cable Inc. Spin-off | (6,822) | (1,167) | (7,989) | | | |
| Other | (8) | 1 | (7) | 2 | 8 | 10 |
| BALANCE AT END OF PERIOD | \$ 35,786 | \$ 642 | \$ 36,428 | \$ 58,712 | \$ 4,382 | \$ 63,094 |

^(a) For the three months ended March 31, 2008, amount reflects the impact of adopting the provisions of Emerging Issues Task Force (EITF) Issue No. 06-10, Accounting for Collateral Assignment Split-Dollar Life Insurance Arrangements

(EITF 06-10),
and EITF Issue
No. 06-04,
Accounting for
Deferred
Compensation
and
Postretirement
Benefits Aspects
of Endorsement
Split-Dollar Life
Insurance
Arrangements
(EITF 06-04).
See accompanying notes.

Table of Contents**TIME WARNER INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****1. DESCRIPTION OF BUSINESS, BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES****Description of Business**

Time Warner Inc. (Time Warner or the Company) is a leading media and entertainment company, whose businesses include television networks, filmed entertainment, publishing and interactive services. Time Warner classifies its operations into four reportable segments: *Networks*: consisting principally of cable television networks that provide programming; *Filmed Entertainment*: consisting principally of feature film, television and home video production and distribution; *Publishing*: consisting principally of magazine publishing; and *AOL*: consisting principally of interactive consumer and advertising services. Financial information for Time Warner's various reportable segments is presented in Note 11.

Changes in Basis of Presentation

The 2008 financial information has been recast so that the basis of presentation is consistent with that of the 2009 financial information. This recast reflects (i) the financial condition and results of operations of Time Warner Cable Inc. (TWC) as discontinued operations for all periods presented, (ii) the adoption of Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (Statement) No. 160, *Noncontrolling Interests in Consolidated Financial Statements – an amendment of ARB No. 51* (FAS 160), (iii) the adoption of FASB Staff Position (FSP) Emerging Issues Task Force (EITF) Issue No. 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities* (FSP No. EITF 03-6-1), and (iv) the 1-for-3 reverse stock split of the Company's common stock that became effective on March 27, 2009.

TWC Separation from Time Warner

On March 12, 2009 (the Distribution Record Date), the Company disposed of all of its shares of TWC common stock. The disposition was made pursuant to a separation agreement entered into on May 20, 2008, among Time Warner, TWC and certain of their subsidiaries (the Separation Agreement) for the purpose of achieving the legal and structural separation of TWC from Time Warner (the TWC Separation). The TWC Separation was effected as a pro rata dividend of all shares of TWC common stock held by Time Warner in a spin-off (the Distribution) to Time Warner stockholders.

Prior to the Distribution Record Date, on March 12, 2009, TWC, in accordance with the terms of the Separation Agreement, paid a special cash dividend of \$10.27 per share to all holders of TWC Class A Common Stock and TWC Class B Common Stock as of the close of business on March 11, 2009 (aggregating \$10.856 billion) (the Special Dividend) that resulted in the receipt by Time Warner of \$9.253 billion.

With the completion of the TWC Separation, the Company disposed of the Cable segment in its entirety. Accordingly, the Company has presented the financial condition and results of operations of the Cable segment as discontinued operations in the consolidated financial statements for all periods presented. For a summary of discontinued operations see Note 2.

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TIME WARNER INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Noncontrolling Interests

On January 1, 2009, the Company adopted the provisions of FAS 160. The provisions of FAS 160 establish accounting and reporting standards for the noncontrolling interest in a consolidated subsidiary, including the accounting treatment upon the deconsolidation of a subsidiary. FAS 160 is being applied prospectively, except for the provisions related to the presentation of noncontrolling interests. As of March 31, 2009 and December 31, 2008, noncontrolling interests of \$642 million and \$3.382 billion, respectively, have been classified as a component of equity in the consolidated balance sheet. For the three months ended March 31, 2009 and 2008, net income attributable to noncontrolling interests of \$29 million and \$51 million, respectively, is included in net income. Earnings per share has not been affected as a result of the adoption of the provisions of FAS 160.

Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities

On January 1, 2009, the Company adopted the provisions of FSP No. EITF 03-6-1. The provisions of FSP No. EITF 03-6-1 require that all outstanding unvested share-based payment awards that contain rights to nonforfeitable dividends or dividend equivalents (such as restricted stock units granted by the Company) be considered participating securities. Because the awards are participating securities, the Company is required to apply the two-class method of computing basic and diluted earnings per share (the Two-Class Method). The retrospective application of the provisions of FSP No. EITF 03-6-1 did not change any prior-period earnings per share amounts.

Basis of Presentation***Basis of Consolidation***

The consolidated financial statements include 100% of the assets, liabilities, revenues, expenses and cash flows of Time Warner and all voting interest entities in which Time Warner has a controlling voting interest (subsidiaries). In addition, FASB Interpretation No. 46R, *Consolidation of Variable Interest Entities* (FIN 46R), applies to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties (a VIE). The primary beneficiary of a VIE is the party that absorbs the majority of the entity's expected losses, receives the majority of its expected residual returns, or both, as a result of holding variable interests. In accordance with FIN 46R, the Company consolidates those VIEs of which it is the primary beneficiary. Intercompany accounts and transactions between consolidated companies have been eliminated in consolidation.

The Company's investments in entities determined to be VIEs principally consisted of certain investments in its Networks segment, primarily HBO Asia and HBO South Asia (collectively HBO Asia) and HBO Latin America Group (HBO LAG). For the three months ended March 31, 2009, HBO Asia and HBO LAG collectively had revenues and operating income of \$109 million and \$24 million, respectively. As of March 31, 2009, total assets, liabilities and noncontrolling interest attributable to HBO Asia and HBO LAG were \$875 million (including goodwill and intangible assets of \$683 million), \$128 million and \$394 million, respectively. Such amounts are included in the consolidated statement of operations and consolidated balance sheet.

The financial position and operating results of substantially all foreign operations are consolidated using the local currency as the functional currency. Local currency assets and liabilities are translated at the rates of exchange on the balance sheet date, and local currency revenues and expenses are translated at average rates of exchange during the period. Translation gains or losses of assets and liabilities are included in the consolidated statement of shareholders equity as a component of Accumulated other comprehensive income, net.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (GAAP) requires management to make estimates, judgments and assumptions that affect the amounts reported in the consolidated financial statements and footnotes thereto. Actual results could differ from those estimates.

Table of Contents**TIME WARNER INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Significant estimates inherent in the preparation of the consolidated financial statements include reserves established for accounting for asset impairments, allowances for doubtful accounts, depreciation and amortization, film ultimate revenues, home video and magazine returns, business combinations, pension and other postretirement benefits, equity-based compensation, income taxes, contingencies, litigation matters and certain programming arrangements.

Interim Financial Statements

The consolidated financial statements are unaudited; however, in the opinion of management, they contain all the adjustments (consisting of those of a normal recurring nature) considered necessary to present fairly the financial position, the results of operations and cash flows for the periods presented in conformity with GAAP applicable to interim periods. The consolidated financial statements should be read in conjunction with the audited consolidated financial statements of Time Warner included in the Company's Annual Report on Form 10-K for the year ended December 31, 2008 (the 2008 Form 10-K).

Recent Accounting Standards Adopted in 2009

In addition to the adoption of FAS 160 and FSP No. EITF 03-6-1 as discussed in Changes in Basis of Presentation, the Company has also adopted the following accounting standards in 2009:

Fair Value Measurements

On January 1, 2009, the Company adopted the provisions of FASB Statement No. 157, *Fair Value Measurements* (FAS 157) related to nonfinancial assets and liabilities on a prospective basis. FAS 157 establishes the authoritative definition of fair value, sets out a framework for measuring fair value and expands the required disclosures about fair value measurement. On January 1, 2008, the Company adopted the provisions of FAS 157 related to financial assets and liabilities as well as other assets and liabilities carried at fair value on a recurring basis. The adoption of the provisions of FAS 157 did not affect the Company's historical consolidated financial statements. For more information, see Note 4.

Business Combinations

On January 1, 2009, the Company adopted the provisions of FASB Statement No. 141 (revised 2007), *Business Combinations* (FAS 141R) and is applying such provisions prospectively to business combinations that have an acquisition date on or after January 1, 2009. FAS 141R establishes principles and requirements for how an acquirer in a business combination (i) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree, (ii) recognizes and measures goodwill acquired in a business combination or a gain from a bargain purchase, and (iii) determines what information to disclose to enable users of financial statements to evaluate the nature and financial effects of the business combination. In addition, FAS 141R requires that changes in the amount of acquired tax attributes be included in the Company's results of operations. While FAS 141R applies only to business combinations with an acquisition date after its effective date, the amendments to FASB Statement No. 109, *Accounting for Income Taxes* (FAS 109), with respect to deferred tax valuation allowances and liabilities for income tax uncertainties have been applied to all deferred tax valuation allowances and liabilities for income tax uncertainties recognized in prior business combinations. The adoption of the provisions of FAS 141R did not affect the Company's historical consolidated financial statements.

Disclosures about Derivative Instruments and Hedging Activities

On January 1, 2009, the Company adopted the provisions of FASB Statement No. 161, *Disclosures about Derivative Instruments and Hedging Activities, an Amendment of FASB Statement No. 133* (FAS 161). The provisions of FAS 161 amend and expand the disclosure requirements for derivative instruments and hedging activities by requiring enhanced disclosures about (i) how and why an entity uses derivative instruments, (ii) how derivative instruments and related hedged items are accounted for under FAS 133 and its related interpretations, and (iii) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. The adoption of the provisions of FAS 161 requires prospective disclosures and accordingly did not affect the Company's historical consolidated financial statements. For more information, see Note 10.

Table of Contents**TIME WARNER INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)*****Accounting for Collaborative Arrangements***

On January 1, 2009, the Company adopted the provisions of EITF Issue No. 07-1, *Accounting for Collaborative Arrangements* (EITF 07-1). EITF 07-1 defines collaborative arrangements and establishes accounting and reporting requirements for transactions between participants in the arrangement and third parties. The Company's collaborative arrangements primarily relate to arrangements entered into with third parties to jointly finance and distribute theatrical productions. These arrangements, which are referred to as co-financing arrangements, take various forms. In most cases, the form of the arrangement is the sale of an economic interest in a film to an investor. The Filmed Entertainment segment generally records the amounts received for the sale of an economic interest as a reduction of the cost of the film, as the investor assumes full risk for that portion of the film asset acquired in these transactions. The substance of these arrangements is that the third-party investors own an interest in the film and, therefore, in each period the Company reflects in the statement of operations either a charge or benefit to costs of revenues to reflect the estimate of the third-party investor's interest in the profits or losses incurred on the film. Consistent with the requirements of Statement of Position 00-2, *Accounting by Producers or Distributors of Films* (SOP 00-2), the estimate of the third-party investor's interest in profits or losses incurred on the film is determined by reference to the ratio of actual revenue earned to date in relation to total estimated ultimate revenues. For the three months ended March 31, 2009 and 2008, participation costs of \$68 million and \$124 million, respectively, were recorded in costs of revenues and net amounts received from collaborators for which capitalized film costs were reduced was \$38 million and \$58 million, respectively. As of March 31, 2009 and December 31, 2008, the net amount due to collaborators for their share of participations was \$280 million and \$276 million, respectively, and were recorded in participations payable in the consolidated balance sheet. The provisions of EITF 07-1 did not affect the Company's historical consolidated financial statements.

Recent Accounting Standards Not Yet Adopted***Interim Disclosures about Fair Value of Financial Instruments***

In April 2009, the FASB staff issued FSP No. FAS 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments* (FSP No. FAS 107-1 and APB 28-1). This FSP amends FASB Statement No. 107, *Disclosures about Fair Value of Financial Instruments*, to require disclosures about fair value of financial instruments in interim financial statements as well as in annual financial statements. This FSP also amends Accounting Principles Board Opinion No. 28, *Interim Financial Reporting*, to require these disclosures in all interim financial statements. The provisions of FSP No. FAS 107-1 and APB 28-1 became effective for Time Warner on April 1, 2009, will be applied prospectively beginning in the second quarter of 2009 and are not expected to have a material impact on the Company's consolidated financial statements.

Recognition and Presentation of Other-Than-Temporary-Impairments

In April 2009, the FASB staff issued FSP No. FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary-Impairments* (FSP No. FAS 115-2 and FAS 124-2). This FSP incorporates impairment guidance for debt securities from various sources of authoritative literature and clarifies the interaction of the factors that should be considered when determining whether a debt security is other than temporarily impaired. The provisions of FSP No. FAS 115-2 and FAS 124-2 became effective for Time Warner on April 1, 2009, will be applied prospectively beginning in the second quarter of 2009 and are not expected to have a material impact on the Company's consolidated financial statements.

Table of Contents**TIME WARNER INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)*****Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly***

In April 2009, the FASB staff issued FSP No. FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly* (FSP No. FAS 157-4). This FSP provides additional guidance for estimating fair value in accordance with FAS 157 when the volume and level of activity for the asset or liability have significantly decreased. This FSP also includes guidance on identifying circumstances that indicate a transaction is not orderly (i.e., a forced liquidation or distressed sale). The provisions of FSP No. FAS 157-4 became effective for Time Warner on April 1, 2009, are being applied prospectively beginning in the second quarter of 2009 and are not expected to have a material impact on the Company's consolidated financial statements.

Income Per Common Share

Basic income per common share is determined using the Two-Class Method and is computed by dividing net income attributable to Time Warner Inc. common shareholders by the weighted-average common shares outstanding during the period. The Two-Class Method is an earnings allocation formula that determines income per share for each class of common stock and participating security according to dividends declared and participation rights in undistributed earnings. Diluted income per common share reflects the more dilutive earnings per share amount calculated using the treasury stock method or the Two-Class Method. For the three months ended March 31, 2009 and 2008, both the Two-Class Method and the treasury stock method calculation for diluted income per common share attributable to Time Warner Inc. common shareholders yielded the same result.

Set forth below is a reconciliation of basic and diluted income per common share from continuing operations (millions, except per share amounts):

| | Three Months Ended March | |
|--|---------------------------------|-----------------|
| | 2009 | 2008 |
| | 31, | (recast) |
| Income from continuing operations attributable to Time Warner Inc. shareholders | \$ 555 | \$ 548 |
| Income allocated to participating securities (restricted stock and restricted stock units) | (2) | (1) |
| Income from continuing operations attributable to Time Warner Inc. common shareholders - basic | \$ 553 | \$ 547 |
| Average number of common shares outstanding - basic | 1,196.1 | 1,193.0 |
| Dilutive effect of equity awards | 4.2 | 7.2 |
| Average number of common shares outstanding - diluted | 1,200.3 | 1,200.2 |
| Income per common share from continuing operations attributable to Time Warner Inc. common shareholders: | | |
| Basic | \$ 0.46 | \$ 0.46 |
| Diluted | \$ 0.46 | \$ 0.46 |

Diluted income per common share for the three months ended March 31, 2009 and 2008, excludes approximately 184 million and 133 million, respectively, common shares that may be issued under the Company's stock

compensation plans because they do not have a dilutive effect.

Interim Impairment Testing of Goodwill at AOL

As discussed in more detail in Note 1 to the Company's consolidated financial statements in the 2008 Form 10-K, goodwill and indefinite-lived intangible assets are tested annually for impairment during the fourth quarter or earlier upon the occurrence of certain events or substantive changes in circumstances. Although the Board of Directors has not made any decisions related to AOL, management anticipates that it would initiate a process to spin off one or more parts of the business of AOL to Time Warner stockholders, in one or a series of transactions. As a result, the Company was required

Table of Contents**TIME WARNER INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

under FASB Statement No. 142, *Goodwill and Other Intangible Assets* (FAS 142) to test goodwill at AOL as of March 31, 2009 (the interim testing date).

In determining the fair value of AOL for the interim impairment analysis, the Company used a market based approach. The market based approach to determine fair value involves the exercise of judgment in identifying the relevant comparable company market multiples. The market multiples identified by the Company were multiplied by AOL's 2009 earnings forecast in determining the estimated fair value of AOL. Such fair value exceeded AOL's net book value and therefore did not result in an impairment charge.

If the fair value of the AOL reporting unit had been hypothetically lower by 20% at March 31, 2009, the fair value of the AOL reporting unit would have exceeded its book value. In addition, if the fair value of the AOL reporting unit had been hypothetically lower by 30% at March 31, 2009, the book value of the AOL reporting unit would have exceeded its fair value by approximately \$100 million. If the book value of the AOL reporting unit had been greater than its fair value, the second step of the goodwill impairment test would have been required to be performed to determine the ultimate amount of impairment loss to recognize.

2. BUSINESS ACQUISITIONS, DISPOSITIONS AND RELATED TRANSACTIONS**CME Investment**

On March 23, 2009, the Company announced that it had entered into an agreement to acquire an approximately 31% interest in Central European Media Enterprises Ltd. (CME), a broadcasting company operating leading networks in seven Central and Eastern European countries, for an investment of \$242 million in cash. In connection with this investment, Time Warner has agreed to allow CME founder and Non-Executive Chairman Ronald S. Lauder to vote Time Warner's shares of CME for at least four years, subject to certain exceptions. Also, Mr. Lauder has agreed to support Time Warner's appointment of two designees to CME's board of directors. In addition to being subject to customary closing conditions, the closing of the investment is subject to a vote of CME's shareholders and certain regulatory approvals, and Mr. Lauder has committed to vote the shares he controls in favor of the transaction. The transaction is expected to close in the second quarter of 2009.

Summary of Discontinued Operations

Discontinued operations for the three months ended March 31, 2009 and 2008 reflect the financial condition and results of operations of TWC. Financial data for discontinued operations for the three months ended March 31, 2009 and 2008 is as follows (millions, except per share amounts):

| | Three Months Ended March | |
|--|---------------------------------|-----------------|
| | 31, | |
| | 2009 | 2008 |
| | | (recast) |
| Total revenues | \$ 3,443 | \$ 4,160 |
| Pretax income | \$ 262 | \$ 448 |
| Income tax benefit (provision) | (131) | (186) |
| Net income | \$ 131 | \$ 262 |
| Net income attributable to Time Warner Inc. shareholders | \$ 106 | \$ 223 |
| Per share information attributable to Time Warner Inc. common shareholders: | | |
| Basic net income per common share | \$ 0.09 | \$ 0.19 |

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| | | |
|---|---------|---------|
| Average common shares outstanding - basic | 1,196.1 | 1,193.0 |
| Diluted net income per common share | \$ 0.09 | \$ 0.18 |
| Average common shares outstanding - diluted | 1,200.3 | 1,200.2 |

Discontinued operations for the three months ended March 31, 2009 and 2008 included direct transaction costs (e.g., legal and professional fees) related to the separation of TWC of \$75 million and \$2 million, respectively. The Networks segment of Time Warner recognized approximately \$170 million of Subscription revenues from TWC in 2009 through the Distribution Record Date and \$210 million for the full three-month period ended March 31, 2008.

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TIME WARNER INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. INVENTORIES AND FILM COSTS

Inventories and film costs consist of (millions):

| | March 31, 2009 | December 31, 2008 |
|---|---------------------------|----------------------------------|
| Inventories: | | |
| Programming costs, less amortization | \$ 3,573 | \$ 3,439 |
| DVDs, books, paper and other merchandise | 333 | 408 |
| Total inventories ^(a) | 3,906 | 3,847 |
| Less: current portion of inventory | (2,050) | (1,989) |
| Total noncurrent inventories | 1,856 | 1,858 |
| Film costs Theatrical: | | |
| Released, less amortization | 715 | 767 |
| Completed and not released | 553 | 364 |
| In production | 474 | 713 |
| Development and pre-production | 84 | 76 |
| Film costs Television: | | |
| Released, less amortization | 789 | 726 |
| Completed and not released | 183 | 221 |
| In production | 398 | 465 |
| Development and pre-production | 2 | 2 |
| Total film costs | 3,198 | 3,334 |
| Total noncurrent inventories and film costs | \$ 5,054 | \$ 5,192 |

^(a) Does not include \$2.113 billion and \$2.160 billion of net film library costs as of March 31, 2009 and December 31, 2008, respectively, which are included in

intangible assets
subject to
amortization in
the consolidated
balance sheet.

4. FAIR VALUE MEASUREMENTS

In accordance with FAS 157, a fair value measurement is determined based on the assumptions that a market participant would use in pricing an asset or liability. FAS 157 also established a three-tiered hierarchy that draws a distinction between market participant assumptions based on (i) observable inputs such as quoted prices in active markets (Level 1), (ii) inputs other than quoted prices in active markets that are observable either directly or indirectly (Level 2) and (iii) unobservable inputs that require the Company to use present value and other valuation techniques in the determination of fair value (Level 3). The following table presents information about assets and liabilities required to be carried at fair value on a recurring basis as of March 31, 2009 (millions):

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TIME WARNER INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

| Description | Fair Value Measurements as of March 31, 2009 Using | | | |
|-------------------------------|--|---|---|---|
| | Fair Value as of March 31, 2009 | Quoted Market Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Assets: | | | | |
| Trading securities | \$ 220 | \$ 216 | \$ 4 | \$ |
| Available-for-sale securities | 75 | 39 | 36 | |
| Derivatives | 54 | 5 | 30 | 19 |
| Liabilities: | | | | |
| Derivatives | (103) | | (103) | |
| Total | \$ 246 | \$ 260 | \$ (33) | \$ 19 |

The Company primarily applies the market approach for recurring fair value measurements.

The following table reconciles the beginning and ending balances of assets classified as Level 3 measurements and identifies the net income (losses) the Company recognized during the three months ended March 31, 2009 on such assets and liabilities that were included in the balance as of March 31, 2009 (millions):

| | Derivatives |
|---|-------------|
| Balance as of January 1, 2009 | \$ 1 |
| Total gains (losses): | |
| Included in net income | 2 |
| Included in other comprehensive income | |
| Purchases, issuances and settlements | 16 |
| Transfers in and/or out of Level 3 | |
| Balance as of March 31, 2009 | \$ 19 |
| Total gain for the three months ended March 31, 2009 included in net income related to assets still held as of March 31, 2009 | \$ 2 |

Gains and losses recognized for assets and liabilities valued using significant unobservable inputs are reported in investment gains (losses), net, in other loss, net (Note 13).

Non-Financial Instruments

The majority of the Company's non-financial instruments, which include goodwill, intangible assets, inventories and property, plant and equipment, are not required to be carried at fair value on a recurring basis. However, if certain

triggering events occur (or at least annually for goodwill and indefinite-lived intangible assets) such that a non-financial instrument is required to be evaluated for impairment, a resulting asset impairment would require that the non-financial instrument be recorded at the lower of historical cost or its fair value.

The Company accounts for film production costs in accordance with the guidance in SOP 00-2, which requires that upon the occurrence of an event or change in circumstance that may indicate that the fair value of a film is less than its unamortized costs, an entity should determine the fair value of the film and write off to the consolidated statement of operations the amount by which the unamortized capitalized costs exceed the film's fair value. Some of these events or changes in circumstance include: (i) an adverse change in the expected performance of a film prior to its release, (ii) actual costs substantially in excess of budgeted costs, (iii) substantial delays in completion or release schedules, (iv) changes in release plans, (v) insufficient funding or resources to complete the film and to market it effectively and (vi) the failure of actual performance subsequent to release to meet that which had been expected prior to release. When required to determine the fair value of its films, the Company employs a discounted cash flow methodology with assumptions for cash

Table of Contents**TIME WARNER INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

flows for periods not exceeding 10 years. The discount rate utilized in the discounted cash flow analysis is based on the weighted average cost of capital of the respective business (e.g., Warner Bros.) plus a risk premium representing the risk associated with producing a particular film. The fair value of any film costs associated with a film that management plans to abandon is zero. As the primary determination of fair value is determined using a discounted cash flow model, the resulting fair value is considered a Level 3 input. During the quarter ended March 31, 2009, certain film production costs, which are recorded as inventory in the consolidated balance sheet, were written down from their carrying value of \$79 million to their fair value of \$43 million.

5. LONG TERM DEBT AND OTHER FINANCING ARRANGEMENTS

Committed financing capacity and long-term debt consists of (millions):

| | Weighted Average Interest Rate at March 31, 2009 | Maturities | 2009 Committed Capacity | Unamortized 2009 Discount on Unused Letters of Commercial Credit (a) | | Outstanding Debt ^(b) | |
|---|--|------------|-------------------------------|--|-----------------------|---------------------------------|-------------------------------------|
| | | | | Paper Capacity | Committed Capacity | March 31, 2009 | December 31, 2008 (recast) |
| Cash and equivalents | | | \$ 7,115 | \$ | \$ 7,115 | | |
| Bank credit agreement and commercial paper program | | 2011 | 6,900 | 60 | 6,840 | \$ | \$ 4,490 |
| Floating-rate public debt ^(c) | 1.46% | 2009 | 2,000 | | | 2,000 | 2,000 |
| Fixed-rate public debt ^(c) | 7.14% | 2011-2036 | 15,227 | | | 15,227 | 15,227 |
| Other fixed-rate obligations ^(d) | 7.26% | | 255 | | | 255 | 238 |
| Subtotal | | | 31,497 | 60 | 13,955 | 17,482 | 21,955 |
| Debt due within one year | | | (2,080) | | | (2,080) | (2,066) |
| Total | | | \$ 29,417 | \$ 60 | \$ 13,955 | \$ 15,402 | \$ 19,889 |

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

(b) Represents principal amounts adjusted for premiums and discounts. The weighted-average

interest rate on Time Warner's total debt was 6.50% at March 31, 2009 and 5.51% at December 31, 2008. The Company's public debt matures as follows: \$2.000 billion in 2009, \$0 in 2010, \$2.000 billion in 2011, \$2.000 billion in 2012, \$1.300 billion in 2013 and \$10.031 billion thereafter.

- (c) The bank credit agreement, commercial paper program and public debt of the Company rank pari passu with the senior debt of the respective obligors thereon. The Company's maturity profile of its outstanding debt and other financing arrangements is relatively long-term, with a weighted average maturity of approximately 11.5 years as of March 31, 2009.
- (d) Amount includes capital lease and other obligations.

Repayment and Termination of \$2.0 Billion Term Facility

On March 17, 2009, the Company used a portion of the proceeds it received from the Special Dividend to repay in full the \$2.0 billion outstanding (plus accrued interest) under its unsecured term loan facility with a maturity date of January 8, 2011 (the Term Facility) and terminated the Term Facility. Time Warner did not incur any early

termination or prepayment penalties in connection with the termination of the Term Facility.

Termination of Supplemental Credit Agreement

On March 12, 2009, TWC borrowed the full committed amount of \$1.932 billion under its unsecured term loan credit facility entered into on June 30, 2008 (the TWC Bridge Facility), all of which was used to pay a portion of the Special Dividend. On March 26, 2009, TWC completed an offering of \$3.0 billion in aggregate principal amount of debt securities and used a portion of the net proceeds from the offering to prepay in full the outstanding loans and all other amounts due under the TWC Bridge Facility, and the TWC Bridge Facility was terminated in accordance with its terms. Concurrently with the termination of the TWC Bridge Facility and pursuant to the terms of the \$1.535 billion credit agreement (the Supplemental Credit Agreement) between the Company (as lender) and TWC (as borrower) for a two-year senior unsecured supplemental term loan facility (the Supplemental Credit Facility), on March 26, 2009, TWC terminated the

Table of Contents**TIME WARNER INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

commitments of Time Warner under the Supplemental Credit Facility, and the Supplemental Credit Agreement was terminated in accordance with its terms.

Amendment of the TW Revolving Facility

On March 11, 2009, the Company entered into the first and second amendments to the amended and restated credit agreement (the *Revolving Credit Agreement*) for its senior unsecured five-year revolving credit facility (the *Revolving Facility*). The first amendment terminated the \$100 million commitment of Lehman Commercial Paper Inc. (LCPI), a subsidiary of Lehman Brothers Holdings Inc., which filed a petition for bankruptcy under Chapter 11 of the U.S. Bankruptcy Code in September 2008, reducing the committed amount of the *Revolving Facility* from \$7.0 billion to \$6.9 billion. The second amendment, among other things, amended the *Revolving Credit Agreement* to (i) expand the circumstances under which any other lender under the *Revolving Facility* would become a Defaulting Lender (as defined in the *Revolving Credit Agreement*, as amended) and (ii) permit Time Warner to terminate the commitment of any such lender on terms substantially similar to those applicable to LCPI under the first amendment to the *Revolving Credit Agreement*.

Consent Solicitation

On April 15, 2009, the Company completed a solicitation of consents (the *Consent Solicitation*) from the holders of the debt securities (the *Securities*) issued by Time Warner Inc. and its subsidiaries under all of the indentures governing the publicly traded debt securities of the Company and its subsidiaries other than the indenture entered into in November 2006 (collectively, the *Indentures*), resulting in the adoption on April 16, 2009 of certain amendments to each Indenture that provide that certain restrictive covenants will not apply (subject to the concurrent or prior issuance of the guarantee by HBO discussed below) to a conveyance or transfer by AOL LLC of its properties and assets substantially as an entirety, unless such conveyance or transfer constitutes a conveyance or transfer of the properties and assets of the issuer and the guarantors under the relevant Indenture and their respective subsidiaries, taken as a whole, substantially as an entirety. As a result of the *Consent Solicitation*, prior to or concurrent with a conveyance or transfer of AOL LLC's properties and assets substantially as an entirety, HBO will issue a guarantee of the obligations of Historic TW Inc. (Historic TW) (including in its capacity as successor to Time Warner Companies, Inc.), whether as issuer or guarantor, under the Indentures and the Securities. Such guarantee will be issued by HBO only in connection with such a transaction.

Shelf Registration Statement

Time Warner had a shelf registration statement (the *Registration Statement*) on file with the Securities and Exchange Commission (the SEC) since November 8, 2006 that allowed it to offer and sell from time to time debt securities, preferred stock, common stock and/or warrants to purchase debt and equity securities. As a result of the Company's \$13.955 billion of unused committed capacity at March 31, 2009 and the anticipated expiration in early November 2009 of the *Registration Statement*, the Company determined it no longer needed the *Registration Statement*. Accordingly, on April 24, 2009, the Company and the subsidiary guarantors under the *Registration Statement* submitted filings to the SEC that suspended the reporting obligations with respect to the debt securities (and related guarantees) that were offered and sold pursuant to the *Registration Statement* and deregistered the securities covered under the *Registration Statement* that were available for offer and sale.

6. SHAREHOLDERS' EQUITY***Spin-Off of TWC***

In connection with the Distribution, the Company recognized a reduction of \$7.989 billion to shareholders' equity, including \$1.167 billion attributable to noncontrolling interests.

Common Stock Repurchase Program

On July 26, 2007, Time Warner's Board of Directors authorized a common stock repurchase program that allows the Company to purchase up to an aggregate of \$5 billion of common stock. Purchases under this stock repurchase program may be made from time to time on the open market and in privately negotiated transactions. The size and timing of these purchases are based on a number of factors, including price and business and market conditions. From the program's

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inception through March 31, 2009, the Company repurchased approximately 51 million shares of common stock for approximately \$2.8 billion, pursuant to trading programs under Rule 10b5-1 of the Exchange Act.

7. EQUITY-BASED COMPENSATION**Time Warner Equity Plans**

The Company has two active equity plans under which it is authorized to grant equity awards to employees covering an aggregate of 83 million shares of Time Warner common stock. Options have been granted to employees and non-employee directors of Time Warner with exercise prices equal to, or in excess of, the fair market value at the date of grant. Generally, the stock options vest ratably over a four-year vesting period and expire ten years from the date of grant. Certain stock option awards provide for accelerated vesting upon an election to retire pursuant to the Company's defined benefit retirement plans or after reaching a specified age and years of service, as well as certain additional circumstances for non-employee directors. For the three months ended March 31, 2009, the Company granted approximately 9 million options at a weighted-average grant date fair value per option of \$4.99 (\$3.09 net of tax). For the three months ended March 31, 2008, the Company granted approximately 10 million stock options at a weighted-average grant date fair value per option of \$12.39 (\$7.68 net of tax). The table below presents the weighted-average values of the assumptions used to value stock options at their grant date.

| | Three Months Ended March 31, | |
|---|---|-------------|
| | 2009 | 2008 |
| Expected volatility | 35.0% | 28.7% |
| Expected term to exercise from grant date | 6.24 years | 5.96 years |
| Risk-free rate | 2.6% | 3.2% |
| Expected dividend yield | 4.5% | 1.7% |

Pursuant to these equity plans and an additional plan limited to non-employee directors, Time Warner may also grant shares of common stock or restricted stock units (RSUs), which generally vest between three to five years from the date of grant, to its employees and non-employee directors. Certain RSU awards provide for accelerated vesting upon an election to retire pursuant to the Company's defined benefit retirement plans or after reaching a specified age and years of service, as well as certain additional circumstances for non-employee directors. Holders of restricted stock and RSU awards are generally entitled to receive cash dividends or dividend equivalents, respectively, paid by the Company during the period of time that the restricted stock or RSU awards are unvested. For the three months ended March 31, 2009, the Company granted approximately 4 million RSUs at a weighted-average grant date fair value per RSU of \$22.07 (\$13.68 net of tax). For the three months ended March 31, 2008, the Company granted approximately 3 million RSUs at a weighted-average grant date fair value per RSU of \$44.79 (\$27.77 net of tax).

Time Warner also has a performance stock unit program for senior level executives. Under this program, recipients of performance stock units (PSUs) are awarded a target number of PSUs that represent the contingent (unfunded and unsecured) right to receive shares of Company stock at the end of a performance period (generally three years) based on the actual performance level achieved by the Company. For PSUs granted prior to 2009, the recipient of a PSU may receive, depending on the Company's total shareholder return (TSR) relative to the other companies in the S&P 500 Index, of 0% to 200% of the target PSUs granted based on a sliding scale where a relative ranking of less than the 25th percentile will pay 0% and a ranking at the 100th percentile will pay 200% of the target number of shares.

PSUs granted in 2009 will be paid out in a number of shares of Common Stock based on (i) the Company's TSR relative to the other companies in the S&P 500 Index and (ii) the Company's growth in adjusted earnings per share (EPS) relative to the growth in adjusted EPS of the other companies in the S&P 500 Index, in each case over a three-year performance period. Depending on the Company's TSR ranking and adjusted EPS growth ranking relative to the other companies in the S&P 500 Index, a recipient of a PSU will receive between 0% and 200% of his or her target award following the three-year performance period. If (i) the Company's TSR ranking and adjusted EPS growth ranking are both below the 50th percentile or (ii) the Company's TSR ranking is at or above the 50th percentile, then the

percentage of a participant's target PSUs that will vest will be based on the Company's TSR ranking for the performance period. If the Company's TSR ranking is below the 50th percentile and its adjusted EPS growth ranking is at or above the 50th

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percentile, the percentage of a participant's target PSUs that will vest will be the average of (i) the percentage of target PSUs that would vest based on the Company's TSR ranking during the performance period and (ii) 100%.

For accounting purposes, PSUs granted prior to 2009 are considered to have a market condition and PSUs granted in 2009 are considered to have a market condition and a performance condition. The effect of a market condition is reflected in the grant date fair value of the award, which is estimated using a Monte Carlo analysis to estimate the total return ranking of Time Warner among the S&P 500 Index companies over the performance period. In the case of PSUs granted in 2009, the performance condition is assumed to have been met. As a result, compensation expense is recognized on these types of awards provided that the requisite service is rendered (regardless of whether the market condition is achieved).

PSU holders do not receive payments or accruals of dividends or dividend equivalents for regular cash dividends paid by the Company while the PSU is outstanding. Participants who are terminated by the Company other than for cause or who terminate their own employment for good reason or due to retirement or disability are generally entitled to a pro rata portion of the PSUs that would otherwise vest at the end of the performance period. For the three months ended March 31, 2009, the Company granted approximately 0.2 million target PSUs at a weighted-average grant date fair value per PSU of \$23.67 (\$14.68 net of tax). For the three months ended March 31, 2008, the Company granted approximately 0.4 million target PSUs at a weighted-average grant date fair value per PSU of \$52.60 (\$32.61 net of tax).

In connection with the TWC Separation, and as provided for in the Company's equity plans, the number of stock options, RSUs and target PSUs outstanding at the Distribution Record Date and the exercise prices of such stock options were adjusted to maintain the fair value of those awards. The changes in the number of equity awards and the exercise prices (which are reflected herein) were determined by comparing the fair value of such awards immediately prior to the TWC Separation to the fair value of such awards immediately after the TWC Separation. In performing this analysis, the only assumptions that changed related to the Time Warner stock price and the employee's exercise price. Accordingly, each equity award outstanding as of the Distribution Record Date was increased by multiplying the size of such award by 1.35, while the per share exercise price of each stock option was decreased by dividing by 1.35. This adjustment resulted in an increase of approximately 50 million equity awards (comprised of 46 million stock options and 4 million RSUs). The modifications to the outstanding equity awards were made pursuant to existing antidilution provisions in the Company's equity plans and did not result in any additional compensation expense.

In addition, in connection with the 1-for-3 reverse stock split, the number of outstanding equity awards was proportionately adjusted to reflect the reverse stock split. As a result, and after giving effect to the adjustment for the TWC Separation, the number of outstanding equity awards was determined by dividing the number of outstanding equity awards by three. The per share exercise price of stock options, after giving effect to the adjustment for the TWC Separation, was determined by multiplying the exercise price by three.

Compensation expense recognized for equity-based compensation plans for the three months ended March 31, 2009 and 2008 is as follows (millions):

| | Three Months Ended March | |
|--|---------------------------------|-----------------|
| | 31, | |
| | 2009 | 2008 |
| | | (recast) |
| Stock options | \$ 29 | \$ 38 |
| Restricted stock, restricted stock units and performance stock units | 42 | 37 |
| Total impact on Operating Income | 71 | 75 |
| Tax benefit recognized | \$ 27 | \$ 29 |

Under the terms of Time Warner's equity plans and related award agreements, as a result of the TWC Separation, TWC employees who held Time Warner equity awards were treated at the time of the TWC Separation as if their employment with Time Warner was terminated without cause at the time of the separation. This treatment resulted in the forfeiture of unvested stock options and shortened exercise periods for vested stock options and pro rata vesting of the next installment of (and forfeiture of the remainder of) the RSU awards for those TWC employees who do not satisfy retirement-treatment eligibility provisions in the Time Warner equity plans and related award agreements.

Upon the exercise of Time Warner stock options and the vesting of Time Warner RSUs held by TWC employees, TWC is obligated to reimburse Time Warner for the intrinsic value of the applicable award. As a result of the TWC Separation, TWC is no longer considered a related party. Accordingly, on the Distribution Record Date, the Company established an asset of \$16 million for the estimated fair value (determined using the Black-Scholes option pricing model) of outstanding equity awards held by TWC employees, with an offsetting adjustment to Time Warner Inc. shareholders' equity in the consolidated balance sheet. The estimated receivable from TWC fluctuates with the fair value and number of outstanding equity awards and the resulting change is recorded in other loss, net, in the consolidated statement of operations. As of March 31, 2009, the estimated receivable was \$18 million, and for the three months ended March 31, 2009, the Company recognized \$2 million of other income related to the increase in the estimated fair value of Time Warner equity awards held by TWC employees.

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TIME WARNER INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8. BENEFIT PLANS

Time Warner and certain of its subsidiaries have both funded and unfunded defined benefit pension plans, the substantial majority of which are noncontributory, covering a majority of domestic employees and, to a lesser extent, have various defined benefit plans covering international employees. Pension benefits are determined based on formulas that reflect the employees' years of service and compensation during their employment period and participation in the plans. Time Warner uses a December 31 measurement date for its plans. A summary of the components of the net periodic benefit costs from continuing operations recognized for substantially all of Time Warner's domestic and international defined benefit pension plans for the three months ended March 31, 2009 and 2008 is as follows (millions):

Components of Net Periodic Benefit Costs

| | Domestic | | International | |
|--------------------------------|-------------------------------------|-----------------|----------------------|-------------|
| | Three Months Ended March 31, | | | |
| | 2009 | 2008 | 2009 | 2008 |
| | | (recast) | | |
| Service cost | \$ 18 | \$ 22 | \$ 4 | \$ 5 |
| Interest cost | 36 | 36 | 10 | 14 |
| Expected return on plan assets | (33) | (42) | (12) | (19) |
| Amounts amortized | 29 | 6 | 2 | |
| Net periodic benefit costs | \$ 50 | \$ 22 | \$ 4 | \$ |
| Contributions | \$ 8 | \$ 103 | \$ 5 | \$ 6 |

Expected cash flows

After considering the funded status of the Company's defined benefit pension plans, movements in the discount rate, investment performance and related tax consequences, the Company may choose to make contributions to its pension plans in any given year. At March 31, 2009, there were no minimum required contributions for domestic funded plans. As of December 31, 2008, the Company's funded domestic defined benefit pension plans were funded by assets in a pension trust totaling \$1.702 billion. Between January 1, 2009 and March 31, 2009, the Company's plan assets have experienced market losses of approximately 7%. The Company did not make any discretionary cash contributions to its funded defined benefit pension plans during the three months ended March 31, 2009. Subject to market conditions and other considerations, the Company may make discretionary cash contributions during the remainder of the year. For domestic unfunded plans, contributions will continue to be made to the extent benefits are paid. Expected benefit payments for domestic unfunded plans for 2009 are approximately \$27 million. In addition, the Company anticipates making an additional \$20 million discretionary contribution to its international plans in the fourth quarter of 2009.

Table of Contents**TIME WARNER INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****9. RESTRUCTURING COSTS****Merger Costs Capitalized as a Cost of Acquisition**

As of March 31, 2009, merger costs capitalized as a cost of acquisition was \$26 million, with \$1 million having been paid during the first quarter of 2009. As of March 31, 2009, \$5 million of the remaining liability was classified as a current liability in the consolidated balance sheet, with the remaining \$21 million classified as a long-term liability. Amounts classified as long-term, primarily related to lease exit costs, are expected to be paid through 2014.

Restructuring Costs Expensed

Restructuring costs expensed as incurred by segment for the three months ended March 31, 2009 and 2008 are as follows (millions):

| | Three Months Ended March 31, | |
|--------------------------------|---|--------------------------|
| | 2009 | 2008 (recast) |
| Filmed Entertainment | \$ 37 | \$ 116 |
| Publishing | (1) | 10 |
| AOL | 58 | 9 |
| Corporate | | 7 |
| Restructuring costs by segment | \$ 94 | \$ 142 |

The Company's restructuring costs primarily related to employee termination costs that primarily occurred at the AOL and Filmed Entertainment segments and ranged from senior executives to line personnel. The Company currently expects to incur incremental restructuring charges relating to operational reorganizations at these two segments of up to \$150 million during the remainder of 2009.

Restructuring costs that were expensed for the three months ended March 31, 2009 and 2008 are as follows (millions):

| | Three Months Ended March 31, | |
|---------------------------------------|---|--------------------------|
| | 2009 | 2008 (recast) |
| 2009 restructuring activity | \$ 95 | \$ 142 |
| 2008 and prior restructuring activity | (1) | 142 |
| Restructuring costs | \$ 94 | \$ 142 |

Selected Information

Selected information relating to restructuring costs is as follows (millions):

| | Employee Terminations | Other Exit Costs | Total |
|--|----------------------------------|-----------------------------|--------------|
| Remaining liability as of December 31, 2008 (recast) | \$ 204 | \$ 84 | \$ 288 |
| Net accruals | 65 | 29 | 94 |
| Noncash reductions ^(a) | (10) | | (10) |
| Cash paid | (81) | (20) | (101) |

Remaining liability as of March 31, 2009 \$ 178 \$ 93 \$ 271

(a) Noncash reductions relate to the settlement of certain employee-related liabilities with equity instruments.

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As of March 31, 2009, of the remaining liability of \$271 million, \$174 million was classified as a current liability in the consolidated balance sheet, with the remaining \$97 million classified as a long-term liability. Amounts classified as long-term are expected to be paid through 2017.

10. DERIVATIVE INSTRUMENTS

Time Warner uses derivative instruments, principally forward contracts, to manage the risk associated with the volatility of future cash flows denominated in foreign currencies and changes in fair value resulting from changes in foreign currency exchange rates. The Company uses derivative instruments that generally have maturities of three to eighteen months to hedge various foreign exchange exposures, including the following: (i) variability in foreign currency-denominated cash flows, such as the hedges of unremitted or forecasted royalty and license fees to be received from the sale or anticipated sale of U.S. copyrighted products abroad or cash flows for certain film costs denominated in a foreign currency (i.e., cash flow hedges) and (ii) currency risk associated with foreign currency-denominated operating assets and liabilities (i.e., fair value hedges). The Company also enters into derivative contracts that economically hedge certain of its foreign currency risks, even though hedge accounting does not apply or the Company elects not to apply hedge accounting under FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities* (FAS 133). These economic hedges are used primarily to offset the change in certain foreign currency denominated long-term receivables and certain foreign currency denominated debt due to changes in the underlying foreign exchange rates. The Company monitors its positions with, and the credit quality of, the financial institutions that are party to any of its financial transactions.

The following is a summary of amounts pertaining to Time Warner's use of foreign currency derivatives at March 31, 2009 (millions):

| | FAS 133 Hedges | | Economic Hedges | | Cash Flow Hedges Other comprehensive income |
|----------------|-----------------------|--------------------|------------------------|--------------------|--|
| | Assets | Liabilities | Assets | Liabilities | |
| March 31, 2009 | \$ 80 | \$ (203) | \$ 89 | \$ (39) | \$ (145) |

Netting provisions are provided for in existing International Swap and Derivative Association Inc. agreements in situations where the Company executes multiple contracts with the same counterparty. As a result, net assets or liabilities resulting from foreign exchange derivatives subject to these netting agreements are classified within prepaid expenses and other current assets or accounts payable and accrued expenses in the Company's consolidated balance sheet. Deferred gains and losses recorded in accumulated other comprehensive income are expected to be recognized in earnings at the same time hedged items affect earnings. Included in accumulated other comprehensive income are deferred net losses of \$129 million related to hedges of cash flows associated with films that are not expected to be released within the next twelve months.

The following is a summary of amounts pertaining to Time Warner's use of foreign currency derivatives for the three months ended March 31, 2009 (millions):

| Fair Value Hedges | Economic Hedges | Cash Flow Hedges |
|--|------------------------|--|
| Gain(loss) recognized in net income and excluded from effectiveness | | Gain(loss) recognized in net income and excluded from effectiveness |

| Gain(loss) Selling, general and administrative Costs of expense revenues | | testing - Ineffective Portion Other income | Selling, general and administrative Costs of expense revenues | Gain(loss) Other income | Gain(loss) Selling, general and administrative Costs of expense revenues | testing - Ineffective Portion Other income | Gain(loss) reclassified from accumulated other comprehensive income to net income - Effective Portion Selling, general and administrative Costs of expense revenues | testing - Ineffective Portion Other income |
|---|-----|--|---|-------------------------------|---|--|---|--|
| \$ | (1) | \$ 2 | \$ | \$ 15 | \$ (7) | \$ (1) | \$ (7) | \$ 2 |
| | | | | 42 | | | | |

Table of Contents**TIME WARNER INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****11. SEGMENT INFORMATION**

Time Warner classifies its operations into four reportable segments: *Networks*, consisting principally of cable television networks that provide programming; *Filmed Entertainment*, consisting principally of feature film, television and home video production and distribution; *Publishing*, consisting principally of magazine publishing; and *AOL*, consisting principally of interactive consumer and advertising services.

Information as to the operations of Time Warner in each of its reportable segments is set forth below based on the nature of the products and services offered. Time Warner evaluates performance based on several factors, of which the primary financial measure is operating income before depreciation of tangible assets and amortization of intangible assets (Operating Income before Depreciation and Amortization). Additionally, the Company has provided a summary of Operating Income by segment.

| | Three Months Ended March 31, 2009 | | | | Total |
|---------------------------|-----------------------------------|-------------|-----------------------|--------|----------|
| | Subscription | Advertising | Content (millions) | Other | |
| Revenues | | | | | |
| Networks | \$ 1,850 | \$ 723 | \$ 205 | \$ 30 | \$ 2,808 |
| Filmed Entertainment | 9 | 14 | 2,553 | 57 | 2,633 |
| Publishing | 307 | 383 | 19 | 97 | 806 |
| AOL | 393 | 443 | | 31 | 867 |
| Intersegment eliminations | | (23) | (141) | (5) | (169) |
| Total revenues | \$ 2,559 | \$ 1,540 | \$ 2,636 | \$ 210 | \$ 6,945 |

| | Three Months Ended March 31, 2008 | | | | Total |
|---------------------------|-----------------------------------|-------------|-------------------------------|--------|----------|
| | Subscription | Advertising | Content (recast, millions) | Other | |
| Revenues | | | | | |
| Networks | \$ 1,695 | \$ 739 | \$ 213 | \$ 12 | \$ 2,659 |
| Filmed Entertainment | 10 | 15 | 2,753 | 62 | 2,840 |
| Publishing | 365 | 550 | 12 | 118 | 1,045 |
| AOL | 539 | 552 | | 37 | 1,128 |
| Intersegment eliminations | (1) | (28) | (169) | (4) | (202) |
| Total revenues | \$ 2,608 | \$ 1,828 | \$ 2,809 | \$ 225 | \$ 7,470 |

Intersegment Revenues

In the normal course of business, the Time Warner segments enter into transactions with one another. The most common types of intersegment transactions include:

- the Filmed Entertainment segment generating Content revenues by licensing television and theatrical programming to the Networks segment; and
- the Networks, Publishing and AOL segments generating Advertising revenues by promoting the products and services of other Time Warner segments.

These intersegment transactions are recorded by each segment at estimated fair value as if the transactions were with third parties and, therefore, impact segment performance. While intersegment transactions are treated like third-party transactions to determine segment performance, the revenues (and corresponding expenses or assets recognized by the segment that is counterparty to the transaction) are eliminated in consolidation and, therefore, do

not impact consolidated results. Additionally, transactions between divisions within the same reporting segment (e.g., a transaction between HBO and Turner within the Networks segment) are eliminated in arriving at segment performance and, therefore, do not affect segment results. Revenues recognized by Time Warner's segments on intersegment transactions are as follows:

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TIME WARNER INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

| | Three Months Ended March | |
|------------------------------|---------------------------------|-------------|
| | 2009 | 2008 |
| | 31, | |
| | (millions) | |
| | (recast) | |
| Intersegment Revenues | | |
| Networks | \$ 24 | \$ 25 |
| Filmed Entertainment | 138 | 167 |
| Publishing | 6 | 6 |
| AOL | 1 | 4 |
| Total intersegment revenues | \$ 169 | \$ 202 |

| | Three Months Ended March | |
|--|---------------------------------|-------------|
| | 2009 | 2008 |
| | 31, | |
| | (millions) | |
| | (recast) | |
| Operating Income before Depreciation and Amortization | | |
| Networks | \$ 1,064 | \$ 958 |
| Filmed Entertainment | 308 | 280 |
| Publishing | 12 | 145 |
| AOL | 255 | 405 |
| Corporate ^(a) | (84) | (103) |
| Intersegment eliminations | | (9) |
| Total operating income before depreciation and amortization | \$ 1,555 | \$ 1,676 |

^(a) For the three months ended March 31, 2009 and 2008, includes \$7 million and \$4 million, respectively, in net expenses related to securities litigation and government investigations.

| | Three Months Ended March 31, | |
|--|---|-----------------|
| | 2009 | 2008 |
| | (millions) | |
| | | (recast) |
| Depreciation of Property, Plant and Equipment | | |
| Networks | \$ (86) | \$ (78) |
| Filmed Entertainment | (40) | (41) |
| Publishing | (31) | (34) |
| AOL | (69) | (83) |
| Corporate | (10) | (11) |
| Total depreciation of property, plant and equipment | \$ (236) | \$ (247) |

| | Three Months Ended March 31, | |
|--|---|-----------------|
| | 2009 | 2008 |
| | (millions) | |
| | | (recast) |
| Amortization of Intangible Assets | | |
| Networks | \$ (18) | \$ (6) |
| Filmed Entertainment | (54) | (56) |
| Publishing | (13) | (18) |
| AOL | (36) | (38) |
| Total amortization of intangible assets | \$ (121) | \$ (118) |

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TIME WARNER INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

| | Three Months Ended March | |
|----------------------------|---------------------------------|-----------------|
| | 2009 | 2008 |
| | 31, | |
| | (millions) | |
| | | (recast) |
| Operating Income | | |
| Networks | \$ 960 | \$ 874 |
| Filmed Entertainment | 214 | 183 |
| Publishing | (32) | 93 |
| AOL | 150 | 284 |
| Corporate ^(a) | (94) | (114) |
| Intersegment eliminations | | (9) |
| Total operating income | \$ 1,198 | \$ 1,311 |

(a) For the three months ended March 31, 2009 and 2008, includes \$7 million and \$4 million, respectively, in net expenses related to securities litigation and government investigations.

A summary of total assets by operating segment is set forth below:

| | December 31, | |
|-----------------------------------|---------------------|-----------------|
| | March | 2008 |
| | 31, 2009 | |
| | (millions) | |
| | | (recast) |
| Assets | | |
| Networks | \$ 36,369 | \$ 36,097 |
| Filmed Entertainment | 16,029 | 17,080 |
| Publishing | 6,374 | 6,778 |
| AOL | 3,970 | 4,075 |
| Corporate | 8,087 | 2,316 |
| Assets of discontinued operations | | 47,711 |
| Total assets | \$ 70,829 | \$ 114,057 |

12. COMMITMENTS AND CONTINGENCIES

Commitments

Six Flags

In connection with the Company's former investment in the Six Flags theme parks located in Georgia and Texas (Six Flags Georgia and Six Flags Texas, respectively, and, collectively, the Parks), in 1997, certain subsidiaries of the Company (including Historic TW) agreed to guarantee (the Six Flags Guarantee) certain obligations of the partnerships that hold the Parks (the Partnerships) for the benefit of the limited partners in such Partnerships, including the following (the Guaranteed Obligations): (a) making a minimum annual distribution to the limited partners of the Partnerships (the minimum was approximately \$61 million in 2008 and is subject to annual cost of living adjustments); (b) making a minimum amount of capital expenditures each year (an amount approximating 6% of the Parks' annual revenues); (c) offering each year to purchase 5% of the limited partnership units of the Partnerships (plus any such units not purchased pursuant to such offer in any prior year) based on an aggregate price for all limited partnership units at the higher of (i) \$250 million in the case of Six Flags Georgia and \$374.8 million in the case of Six Flags Texas (the Base Valuations) and (ii) a weighted average multiple of EBITDA for the respective Park over the previous four-year period (the Cumulative LP Unit Purchase Obligation); (d) making annual ground lease payments; and (e) either (i) purchasing all of the outstanding limited partnership units through the exercise of a call option upon the earlier of the occurrence of certain specified events and the end of the term of each of the Partnerships in 2027 (Six Flags Georgia) and 2028 (Six Flags Texas) (the End of Term Purchase) or (ii) causing each of the Partnerships to have no indebtedness and to meet certain other financial tests as of the end of the term of the Partnership. The aggregate amount payable in connection with an End of Term Purchase option on either Park will be the Base Valuation applicable to such Park, adjusted for changes in the

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consumer price index from December 1996, in the case of Six Flags Georgia, and December 1997, in the case of Six Flags Texas, through December of the year immediately preceding the year in which the End of Term Purchase occurs, in each case, reduced ratably to reflect limited partnership units previously purchased.

In connection with the Company's 1998 sale of Six Flags Entertainment Corporation (which held the controlling interests in the Parks) to Six Flags, Inc. (formerly Premier Parks Inc.) (Six Flags), Six Flags and Historic TW entered into a Subordinated Indemnity Agreement pursuant to which Six Flags agreed to guarantee the performance of the Guaranteed Obligations when due and to indemnify Historic TW, among others, in the event that the Guaranteed Obligations are not performed and the Six Flags Guarantee is called upon. In the event of a default of Six Flags obligations under the Subordinated Indemnity Agreement, the Subordinated Indemnity Agreement and related agreements provide, among other things, that Historic TW has the right to acquire control of the managing partner of the Parks. Six Flags' obligations to Historic TW are further secured by its interest in all limited partnership units that are held by Six Flags.

In connection with the TWC Separation, guarantees previously made by Time Warner Entertainment Company, L.P. (TWE), a subsidiary of TWC, were terminated and, pursuant to and as required under the original terms of the Six Flags Guarantees, Warner Bros. Entertainment Inc. (WBEI) became a guarantor. In addition, TWE's rights and obligations under the Subordinated Indemnity Agreement have been assigned to WBEI. The Company continues to indemnify TWE in connection with any residual exposure of TWE under the Guaranteed Obligations.

In March 2009, Fitch Ratings downgraded its credit rating for Six Flags from CC to C and Moody's Investors Services downgraded its credit rating for Six Flags from Caa3 to C. In April 2009, Standard & Poor's lowered Six Flags' credit rating from CCC to D. To date, no payments have been made by the Company pursuant to the Six Flags Guarantee. In its annual report on Form 10-K for the period ended December 31, 2008, Six Flags reported an estimated maximum Cumulative LP Unit Purchase Obligation for 2009 of approximately \$335 million. The aggregate undiscounted estimated future cash flow requirements covered by the Six Flags Guarantee over the remaining term (through 2028) of the agreements are approximately \$1.4 billion (for a net present value of approximately \$450 million). Six Flags has deposited approximately \$6 million in an escrow account as a source of funds in the event Historic TW is required to fund any portion of the Guaranteed Obligations in the future.

On April 17, 2009, Six Flags commenced an Exchange Offer and Consent Solicitation relating to debt securities issued by Six Flags (the Restructuring Plan). The Restructuring Plan is designed to reduce Six Flags' debt and interest expense and improve its liquidity and financial and operational flexibility. The Restructuring Plan contemplates the conversion of certain debt to equity, a 1-for-100 reverse stock split and other amendments to Six Flags' certificate of incorporation. The Six Flags Exchange Offer and Consent Solicitation will expire at 11:59 p.m., New York City time, on June 25, 2009, unless extended or earlier terminated.

Because the Six Flags Guarantee existed prior to the Company's adoption of FASB Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others* (FIN 45), and no modifications to the arrangements have been made since the date the guarantee came into existence, the recognition requirements of FIN 45 are not applicable to the arrangements and the Company has continued to account for the Guaranteed Obligations in accordance with FASB Statement No. 5, *Accounting for Contingencies* (FAS 5). Based on its evaluation of the current facts and circumstances surrounding the Guaranteed Obligations and the Subordinated Indemnity Agreement (including the recent financial performance reported for the Parks and by Six Flags), the Company is unable to predict the loss, if any, that may be incurred under these Guaranteed Obligations and no liability for the arrangements has been recognized at March 31, 2009. Because of the specific circumstances surrounding the arrangements and the fact that no active or observable market exists for this type of financial guarantee, the Company is unable to determine a current fair value for the Guaranteed Obligations and related Subordinated Indemnity Agreement.

Google Investment in AOL

In connection with the expansion of their strategic relationship in April 2006, Google Inc. (Google) acquired a 5% interest in AOL, and, as a result, 95% of the equity interests in AOL are indirectly held by the Company and 5% are

indirectly held by Google. As part of the April 2006 transaction, Google received certain registration rights relating to its equity interest in AOL. In late January 2009, Google exercised its right to request that AOL register Google's 5% equity interest for sale in an initial public offering. Time Warner has the right, but not the obligation, to purchase Google's equity

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interest for cash or shares of Time Warner common stock based on the appraised fair market value of the equity interest in lieu of conducting an initial public offering. The Company is in discussions with Google and has notified Google of its intention to purchase the 5% equity interest.

Contingencies***Shareholder Derivative Lawsuits***

During the Summer and Fall of 2002, numerous shareholder derivative lawsuits were filed in state and federal courts naming as defendants certain current and former directors and officers of the Company, as well as the Company as a nominal defendant. The complaints alleged that defendants breached their fiduciary duties by, among other things, causing the Company to issue corporate statements that did not accurately represent that AOL had declining advertising revenues. Certain of these lawsuits were later dismissed, and others were eventually consolidated in their respective jurisdictions. In 2006, the parties entered into a settlement agreement to resolve all of the remaining derivative matters, and the Court granted final approval of the settlement on September 6, 2006. The court has yet to rule on plaintiffs' petition for attorneys' fees and expenses. At March 31, 2009, the Company's remaining reserve related to these matters is \$9 million, which approximates an expected award for plaintiffs' attorneys' fees.

Other Matters

Warner Bros. (South) Inc. (WBS), a wholly owned subsidiary of the Company, is litigating numerous tax cases in Brazil. WBS currently is the theatrical distribution licensee for Warner Bros. Entertainment Netherlands (Warner Bros. Netherlands) in Brazil and acts as a service provider to the Warner Bros. Netherlands home video licensee. All of the ongoing tax litigation involves WBS' distribution activities prior to January 2004, when WBS conducted both theatrical and home video distribution. Much of the tax litigation stems from WBS' position that in distributing videos to rental retailers, it was conducting a distribution service, subject to a municipal service tax, and not the industrialization or sale of videos, subject to Brazilian federal and state VAT-like taxes. Both the federal tax authorities and the State of São Paulo, where WBS is based, have challenged this position. Certain of these matters were settled in September 2007 pursuant to a government-sponsored amnesty program. In some additional tax cases, WBS, often together with other film distributors, is challenging the imposition of taxes on royalties remitted outside of Brazil and the constitutionality of certain taxes. The Company intends to defend against the various remaining tax cases vigorously.

On October 8, 2004, certain heirs of Jerome Siegel, one of the creators of the Superman character, filed suit against the Company, DC Comics and Warner Bros. Entertainment Inc. in the U.S. District Court for the Central District of California. Plaintiffs' complaint seeks an accounting and demands up to one-half of the profits made on Superman since the alleged April 16, 1999 termination by plaintiffs of Siegel's grants of one-half of the rights to the Superman character to DC Comics' predecessor-in-interest. Plaintiffs have also asserted various Lanham Act and unfair competition claims, alleging wasting of the Superman property by DC Comics and failure to accord credit to Siegel. The Company answered the complaint and filed counterclaims. On April 30, 2007, the Company filed motions for partial summary judgment on various issues, including the unavailability of accounting for pre-termination and foreign works. On March 26, 2008, the court entered an order of summary judgment finding, among other things, that plaintiffs' notices of termination were valid and that plaintiffs had thereby recaptured, as of April 16, 1999, their rights to a one-half interest in the Superman story material, as first published, but that the accounting for profits would not include profits attributable to foreign exploitation, republication of pre-termination works and trademark exploitation. On October 6, 2008, the court dismissed plaintiffs' Lanham Act and wasting claims with prejudice. In orders issued on October 14, 2008, the court determined that the remaining claims in the case will be subject to phased non-jury trials. The first phase trial commenced on April 28, 2009, and the second phase trial is scheduled to commence on October 20, 2009. The Company intends to defend against this lawsuit vigorously.

On October 22, 2004, the same Siegel heirs filed a second lawsuit against the Company, DC Comics, Warner Bros. Entertainment Inc., Warner Communications Inc. and Warner Bros. Television Production Inc. in the U.S. District Court for the Central District of California. Plaintiffs claim that Jerome Siegel was the sole creator of the character Superboy and, as such, DC Comics has had no right to create new Superboy works since the alleged October 17, 2004

termination by plaintiffs of Siegel's grants of rights to the Superboy character to DC Comics predecessor-in-interest. This lawsuit seeks a

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declaration regarding the validity of the alleged termination and an injunction against future use of the Superboy character. Plaintiffs have also asserted Lanham Act and unfair competition claims alleging false statements by DC Comics regarding the creation of the Superboy character. The Company answered the complaint and filed counterclaims. The case was consolidated for discovery purposes with the Superman action described immediately above. The parties filed cross-motions for summary judgment or partial summary judgment on February 15, 2006. In its ruling dated March 23, 2006, the court denied the Company's motion for summary judgment, granted plaintiffs motion for partial summary judgment on termination and held that further proceedings are necessary to determine whether the Company's *Smallville* television series may infringe on plaintiffs' rights to the Superboy character. On January 12, 2007, the Company filed a motion for reconsideration of the court's decision granting plaintiffs' motion for partial summary judgment on termination. On April 30, 2007, the Company filed a motion for summary judgment on non-infringement of *Smallville*. On July 27, 2007, the court granted the Company's motion for reconsideration, reversing the bulk of the March 23, 2006 ruling, and requested additional briefing on certain issues. On March 31, 2008, the court, among other things, denied the Company's summary judgment motion as moot in view of the court's July 27, 2007 reconsideration ruling. To the extent any issues remain, the Company intends to defend against this lawsuit vigorously.

On May 24, 1999, two former AOL Community Leader volunteers filed *Hallissey et al. v. America Online, Inc.* in the U.S. District Court for the Southern District of New York. This lawsuit was brought as a collective action under the Fair Labor Standards Act (FLSA) and as a class action under New York state law against AOL and AOL Community, Inc. The plaintiffs allege that, in serving as Community Leader volunteers, they were acting as employees rather than volunteers for purposes of the FLSA and New York state law and are entitled to minimum wages. On February 21, 2008, the court granted plaintiffs' motion to issue notice to the former community leaders nationwide. Notice to the putative class was issued in May 2008 and in December 2008 and the putative class had until February 27, 2009 to opt-in to the collective action. A related case was filed by several of the *Hallissey* plaintiffs in the U.S. District Court for the Southern District of New York alleging violations of the retaliation provisions of the FLSA. This case was stayed pending the outcome of the *Hallissey* motion to dismiss and has not yet been activated. Two related class actions were filed in state courts in New Jersey and Ohio, alleging violations of the FLSA and/or the respective state laws. These cases were removed to federal court and subsequently transferred to the U.S. District Court for the Southern District of New York for consolidated pretrial proceedings with *Hallissey*. A third related action was filed in state court in California, which the parties have settled. The Company intends to defend against the remaining lawsuits vigorously.

On January 17, 2002, Community Leader volunteers filed a class action lawsuit in the U.S. District Court for the Southern District of New York against the Company, AOL and AOL Community, Inc. under ERISA. Plaintiffs allege that they are entitled to pension and/or welfare benefits and/or other employee benefits subject to ERISA. In March 2003, plaintiffs filed and served a second amended complaint, adding as defendants the Company's Administrative Committee and the AOL Administrative Committee. On May 19, 2003, the Company, AOL and AOL Community, Inc. filed a motion to dismiss and the Administrative Committees filed a motion for judgment on the pleadings. Both of these motions are pending. The Company intends to defend against these lawsuits vigorously.

On August 1, 2005, Thomas Dreiling filed a derivative suit in the U.S. District Court for the Western District of Washington against AOL and Infospace Inc. as nominal defendant. The complaint, brought in the name of Infospace by one of its shareholders, asserts violations of Section 16(b) of the Exchange Act. Plaintiff alleges that certain AOL executives and the founder of Infospace, Naveen Jain, entered into an agreement to manipulate Infospace's stock price through the exercise of warrants that AOL had received in connection with a commercial agreement with Infospace. Because of this alleged agreement, plaintiff asserts that AOL and Mr. Jain constituted a group that held more than 10% of Infospace's stock and, as a result, AOL violated the short-swing trading prohibition of Section 16(b) in connection with sales of shares received from the exercise of those warrants. The complaint seeks disgorgement of profits, interest and attorneys' fees. On October 11, 2007, the parties filed cross-motions for summary judgment. On January 3, 2008, the court granted AOL's motion and dismissed the complaint with prejudice. Plaintiff has filed a

notice of appeal with the U.S. Court of Appeals for the Ninth Circuit, and the oral argument is scheduled for May 7, 2009. The Company intends to defend against this lawsuit vigorously.

On September 1, 2006, Ronald A. Katz Technology Licensing, L.P. (Katz) filed a complaint in the U.S. District Court for the District of Delaware alleging that AOL, among other defendants, infringes a number of patents purportedly relating to customer call center operations and/or voicemail services. The plaintiff is seeking unspecified monetary damages as well as injunctive relief. On March 20, 2007, this case, together with other lawsuits filed by Katz, was made subject to a

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Multidistrict Litigation Order transferring the case for pretrial proceedings to the U.S. District Court for the Central District of California. In April 2008, AOL and other defendants filed common motions for summary judgment, which argued, among other things, that a number of claims in the patents at issue are invalid under Sections 112 and 103 of the Patent Act. On June 19 and August 4, 2008, the court issued orders granting, in part, and denying, in part, those motions. Defendants filed additional individual motions for summary judgment in August 2008, which argued, among other things, that defendants' respective products do not infringe the surviving claims in plaintiff's patents. Those motions have been fully briefed. The Company intends to defend against this lawsuit vigorously.

On February 11, 2008, trustees of the Tolkien Trust and the J.R.R. Tolkien 1967 Discretionary Settlement Trust, as well as HarperCollins Publishers, Ltd. and two related publishing entities, sued New Line Cinema Corporation (NLC Corp.), a wholly owned subsidiary of the Company, and Katja Motion Picture Corp., a wholly owned subsidiary of NLC Corp., and other unnamed defendants in Los Angeles Superior Court. The complaint alleges that defendants breached contracts relating to three motion pictures: *The Lord of the Rings: The Fellowship of the Ring*; *The Lord of the Rings: The Two Towers*; and *The Lord of the Rings: The Return of the King* (collectively, the Trilogy) by, among other things, failing to make full payment to plaintiffs for their participation in the Trilogy's gross receipts. The suit also seeks declarations as to the meaning of several provisions of the relevant agreements, including a declaration that would terminate defendants' future rights to other motion pictures based on J.R.R. Tolkien's works, including *The Hobbit*. In addition, the complaint sets forth related claims of breach of fiduciary duty, fraud and for reformation, an accounting and imposition of a constructive trust. Plaintiffs seek compensatory damages in excess of \$150 million, unspecified punitive damages, and other relief. On May 14, 2008, NLC Corp. moved to dismiss under California law certain claims in the complaint and on June 24, 2008, the court granted that motion, finding that plaintiffs had failed to state sufficient facts to support their fraud and breach of fiduciary duty claims, and granted plaintiffs leave to amend the complaint. On July 14, 2008, plaintiffs filed an amended complaint, adding a cause of action for reformation of the underlying contracts. NLC Corp. again moved to dismiss certain claims and, on September 22, 2008, the court granted that motion, dismissing the plaintiffs' claims for reformation and punitive damages without leave to amend. On October 3, 2008, plaintiffs moved for reconsideration of that decision, and on November 20, 2008 the court denied the plaintiffs' motion. The Company intends to defend against this lawsuit vigorously.

AOL Europe Services SARL (AOL Luxembourg), a wholly owned subsidiary of AOL organized under the laws of Luxembourg, has received four assessments from the French tax authorities for French value added tax (VAT) related to AOL Luxembourg's subscription revenues from French subscribers earned during the period from July 1, 2003 through October 31, 2006. The first assessment was received on December 27, 2006, and the fourth was received on April 20, 2009. The French tax authorities allege that the French subscriber revenues are subject to French VAT, instead of Luxembourg VAT, as originally reported and paid by AOL Luxembourg. The assessments, including interest accrued through the respective assessment dates, total 191.8 million (approximately \$253 million based on the exchange rate as of March 31, 2009). The Company is currently appealing the assessments at the French VAT audit level and intends to continue to defend against the assessments vigorously.

On April 16, 2009, Time Inc. prevailed in a final disposition by the Supreme Court of the Republic of Indonesia of the lawsuit *H.M. Suharto v. Time Inc. Asia et al.* The underlying libel lawsuit was filed in July 1999 by the former dictator of Indonesia following the publication of TIME magazine's May 24, 1999 cover story "Suharto Inc." Following a trial in the Spring of 2000, a three-judge panel of an Indonesian court found in favor of Time Inc. and the journalists, and that decision was affirmed by an intermediate appellate court in March 2001. On August 30, 2007, eight years after the case was initially filed, the Supreme Court overturned the rulings of two lower courts and issued a judgment against Time Inc. Asia and six journalists. Among other things, the court's August 30, 2007 decision ordered defendants to apologize for certain aspects of the May 1999 article and pay Mr. Suharto damages in the amount of one trillion rupiah (approximately \$87 million based on the exchange rate as of March 31, 2009). The Company challenged the judgment by filing a petition for review before a different panel of Supreme Court justices on February 21, 2008. On April 16, 2009, that panel of the Supreme Court ruled in Time Inc.'s favor and reversed the August 30, 2007 judgment. The court's April 16, 2009 ruling is a final disposition of this lawsuit.

On September 20, 2007, *Brantley, et al. v. NBC Universal, Inc., et al.* was filed in the U.S. District Court for the Central District of California against the Company. The complaint, which also named as defendants several other programming content providers (collectively, the programmer defendants) as well as cable and satellite providers (collectively, the distributor defendants), alleged violations of Sections 1 and 2 of the Sherman Antitrust Act. Among other things, the complaint alleged coordination between and among the programmer defendants to sell and/or license programming on a

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bundled basis to the distributor defendants, who in turn purportedly offer that programming to subscribers in packaged tiers, rather than on a per channel (or à la carte) basis. Plaintiffs, who seek to represent a purported nationwide class of cable and satellite subscribers, demand, among other things, unspecified treble monetary damages and an injunction to compel the offering of channels to subscribers on an à la carte basis. On December 3, 2007, plaintiffs filed an amended complaint in this action (the First Amended Complaint) that, among other things, dropped the Section 2 claims and all allegations of horizontal coordination. The defendants, including the Company, filed motions to dismiss the First Amended Complaint and these motions were granted, with leave to amend. On March 20, 2008, plaintiffs filed a second amended complaint (the Second Amended Complaint) that modified certain aspects of the First Amended Complaint. On April 22, 2008, the defendants, including the Company, filed motions to dismiss the Second Amended Complaint, which motions were denied. On July 14, 2008, the defendants filed motions requesting the court to certify its order for interlocutory appeal to the U.S. Court of Appeals for the Ninth Circuit, which motions were denied. On November 14, 2008, the Company was dismissed as a programmer defendant, and Turner Broadcasting System, Inc. was substituted in its place. The Company intends to defend against this lawsuit vigorously.

On April 4, 2007, the National Labor Relations Board (NLRB) issued a complaint against CNN America Inc. (CNN America) and Team Video Services, LLC (Team Video). This administrative proceeding relates to CNN America's December 2003 and January 2004 terminations of its contractual relationships with Team Video, under which Team Video had provided electronic newsgathering services in Washington, DC and New York, NY. The National Association of Broadcast Employees and Technicians, under which Team Video's employees were unionized, initially filed charges of unfair labor practices with the NLRB in February 2004, alleging that CNN America and Team Video were joint employers, that CNN America was a successor employer to Team Video, and/or that CNN America discriminated in its hiring practices to avoid becoming a successor employer or due to specific individuals union affiliation or activities. The NLRB investigated the charges and issued the above-noted complaint. The complaint seeks, among other things, the reinstatement of certain union members and monetary damages. A hearing in the matter before an NLRB Administrative Law Judge began on December 3, 2007 and ended on July 21, 2008. On November 19, 2008, the Administrative Law Judge issued a non-binding recommended decision finding CNN America liable. On February 17, 2009, CNN America filed exceptions to this decision with the NLRB. The Company intends to defend against this matter vigorously.

On June 6, 2005, David McDavid and certain related entities (collectively, McDavid) filed a complaint against Turner Broadcasting System, Inc. (Turner) and the Company in Georgia state court. The complaint asserted, among other things, claims for breach of contract, breach of fiduciary duty, promissory estoppel and fraud relating to an alleged oral agreement between plaintiffs and Turner for the sale of the Atlanta Hawks and Thrashers sports franchises and certain operating rights to the Philips Arena. On August 20, 2008, the court issued an order dismissing all claims against the Company. The court also dismissed certain claims against Turner for breach of an alleged oral exclusivity agreement, for promissory estoppel based on the alleged exclusivity agreement and for breach of fiduciary duty. A trial as to the remaining claims against Turner commenced on October 8, 2008 and concluded on December 2, 2008. On December 9, 2008, the jury announced its verdict in favor of McDavid on the breach of contract and promissory estoppel claims, awarding damages on those claims of \$281 million and \$35 million, respectively. Pursuant to the court's direction that McDavid choose one of the two claim awards, McDavid elected the \$281 million award. The jury found in favor of Turner on the two remaining claims of fraud and breach of confidential information. On January 12, 2009, Turner filed a motion to overturn the jury verdict or, in the alternative, for a new trial, and, on April 22, 2009, the court denied the motion. On April 23, 2009, Turner filed a notice of appeal to the Georgia Court of Appeals. On April 24, 2009, McDavid filed a motion for supersedeas bond requesting the court to order Turner to post a bond in the amount of \$25 million. The Company has a reserve established for this matter at March 31, 2009 of approximately \$287 million (including interest accrued through such date), although it intends to defend against this lawsuit vigorously.

On March 10, 2009, Anderson News L.L.C. and Anderson Services L.L.C. (collectively, Anderson News) filed an antitrust lawsuit in the U.S. District Court for the Southern District of New York against several magazine publishers,

distributors and wholesalers, including Time Inc. and one of its subsidiaries, Time/Warner Retail Sales & Marketing, Inc. Plaintiffs allege that defendants violated Section 1 of the Sherman Antitrust Act by engaging in an antitrust conspiracy against Anderson News, as well as other related state law claims. Plaintiffs are seeking unspecified monetary damages. The Company intends to defend against this lawsuit vigorously.

From time to time, the Company receives notices from third parties claiming that it infringes their intellectual property rights. Claims of intellectual property infringement could require Time Warner to enter into royalty or licensing agreements on unfavorable terms, incur substantial monetary liability or be enjoined preliminarily or permanently from further use of

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the intellectual property in question. In addition, certain agreements entered into by the Company may require the Company to indemnify the other party for certain third-party intellectual property infringement claims, which could increase the Company's damages and its costs of defending against such claims. Even if the claims are without merit, defending against the claims can be time-consuming and costly.

The costs and other effects of pending or future litigation, governmental investigations, legal and administrative cases and proceedings (whether civil or criminal), settlements, judgments and investigations, claims and changes in those matters (including those matters described above), and developments or assertions by or against the Company relating to intellectual property rights and intellectual property licenses, could have a material adverse effect on the Company's business, financial condition and operating results.

Income Tax Uncertainties

During the three months ended March 31, 2009, the Company recorded additional income tax reserves of approximately \$13 million. Of the \$13 million additional income tax reserves, approximately \$6 million would affect the Company's effective tax rate if reversed. During the three months ended March 31, 2009, the Company recorded interest reserves related to the income tax reserves of approximately \$36 million.

13. ADDITIONAL FINANCIAL INFORMATION**Cash Flows**

Additional financial information with respect to cash (payments) and receipts is as follows (millions):

| | Three Months Ended March 31, | |
|-------------------------------------|---|--------------------------|
| | 2009 | 2008 (recast) |
| Cash payments made for interest | \$ (139) | \$ (222) |
| Interest income received | 11 | 22 |
| Cash interest payments, net | \$ (128) | \$ (200) |
| Cash payments made for income taxes | \$ (96) | \$ (70) |
| Income tax refunds received | 44 | 7 |
| Cash tax payments, net | \$ (52) | \$ (63) |

The consolidated statement of cash flows for the three months ended March 31, 2009 does not reflect the noncash dividend of all shares of TWC common stock held by the Company in a spin-off to Time Warner stockholders, which reduced shareholders' equity by \$6.822 billion.

Interest Expense, Net

Interest expense, net, consists of (millions):

| | Three Months Ended March 31, | |
|-----------------------------|---|--------------------------|
| | 2009 | 2008 (recast) |
| Interest income | \$ 34 | \$ 47 |
| Interest expense | (346) | (394) |
| Total interest expense, net | \$ (312) | \$ (347) |

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TIME WARNER INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Other Loss, Net

Other loss, net, consists of (millions):

| | Three Months Ended March | |
|---------------------------------|---------------------------------|-----------------|
| | 31, | |
| | 2009 | 2008 |
| | | (recast) |
| Investment losses, net | \$ (13) | \$ (36) |
| Loss on equity method investees | (23) | (13) |
| Losses on accounts receivable | (2) | (13) |
| Other | (1) | 3 |
| Total other loss, net | \$ (39) | \$ (59) |

Related Parties

Income (expense) resulting from transactions with related parties consists of (millions):

| | Three Months Ended March | |
|-------------------------------------|---------------------------------|-----------------|
| | 31, | |
| | 2009 | 2008 |
| | | (recast) |
| Revenues | \$ 105 | \$ 93 |
| Costs of revenues | (1) | (3) |
| Selling, general and administrative | (4) | (1) |

Prepaid Expenses and Other Current Assets

The Company has historically invested a portion of its cash on hand in money market funds, including The Reserve Fund's Primary Fund (The Reserve Fund). On the morning of September 15, 2008, the Company requested a full redemption of its approximately \$330 million investment in The Reserve Fund, but the redemption request was not honored. On September 22, 2008, The Reserve Fund announced that redemptions of shares were suspended pursuant to a Securities and Exchange Commission order requested by The Reserve Fund so that an orderly liquidation could be effected. Through April 28, 2009, the Company has received \$297 million from The Reserve Fund representing its pro rata share of partial distributions made by The Reserve Fund. The Company has not been informed as to when the remaining amount will be returned. In February 2009, The Reserve Fund announced that it would set aside an initial amount of \$3.5 billion to defend against certain legal actions. The Company has filed a claim against The Reserve Fund demanding repayment of the remaining amount of its full investment. As a result of the status of The Reserve Fund, the Company has classified its receivable from The Reserve Fund at March 31, 2009 as other current assets on the Company's consolidated balance sheet.

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TIME WARNER INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consist of (millions):

| | March 31, 2009 | December 31, 2008 (recast) |
|--|-----------------------|---|
| Accounts payable | \$ 595 | \$ 800 |
| Accrued expenses | 2,632 | 2,789 |
| Participations payable | 2,474 | 2,522 |
| Royalties and programming costs payable | 751 | 687 |
| Accrued compensation | 660 | 974 |
| Accrued interest | 421 | 265 |
| Accrued income taxes | 256 | 157 |
| Total accounts payable and accrued expenses | \$ 7,789 | \$ 8,194 |

Other Noncurrent Liabilities

Other noncurrent liabilities consist of (millions):

| | March 31, 2009 | December 31, 2008 (recast) |
|--|-----------------------|---|
| Noncurrent tax and interest reserves | \$ 2,127 | \$ 2,106 |
| Participations payable | 1,207 | 1,384 |
| Royalties and programming costs payable | 1,219 | 1,145 |
| Noncurrent pension and post retirement liabilities | 848 | 829 |
| Deferred compensation | 500 | 552 |
| Other noncurrent liabilities | 811 | 785 |
| Total other noncurrent liabilities | \$ 6,712 | \$ 6,801 |

Accounts Receivable and Receivables Securitized

Accounts receivable and receivables securitized consist of (millions):

| | March 31, 2009 | December 31, 2008 (recast) |
|--|-----------------------|---|
| Securitized trade receivables | \$ 1,501 | \$ 1,984 |
| Receivables sold to third parties | (717) | (805) |
| Retained interests in securitizations | 784 | 1,179 |
| Receivables not subject to securitizations | 5,768 | 6,754 |
| Receivables, including retained interest in securitizations | 6,552 | 7,933 |
| Allowances | (1,878) | (2,269) |
| Current receivables, including retained interests in securitizations, net | 4,674 | 5,664 |

| | | | | |
|---|----|-------|----|-------|
| Noncurrent receivables (included in other assets) | | 956 | | 983 |
| Total receivables | \$ | 5,630 | \$ | 6,647 |

Revenues (and related receivables) from the distribution of television product are recognized when the film or series is made available to customers for exploitation. In certain circumstances, the availability dates granted to the customers may precede the date the Company, pursuant to the terms of the applicable contractual arrangements, may bill the customers for these sales. Unbilled accounts receivable, which primarily relate to the aforementioned distribution of television product, totaled \$2.388 billion and \$2.428 billion at March 31, 2009 and December 31, 2008, respectively. Included in the unbilled accounts receivable at March 31, 2009 was \$1.527 billion to be billed in the next twelve months.

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**TIME WARNER INC.
SUPPLEMENTARY INFORMATION
CONDENSED CONSOLIDATING FINANCIAL STATEMENTS**

Overview

Set forth below are condensed consolidating financial statements presenting the financial position, results of operations and cash flows of (i) Time Warner Inc. (the Parent Company), (ii) Historic TW Inc. (in its own capacity and as successor to Time Warner Companies, Inc.), Home Box Office, Inc. (HBO), and Turner Broadcasting System, Inc., each a wholly owned subsidiary of the Parent Company, on a combined basis (collectively, the Guarantor Subsidiaries), (iii) the direct and indirect non-guarantor subsidiaries of the Parent Company (the Non-Guarantor Subsidiaries) on a combined basis and (iv) the eliminations necessary to arrive at the information for Time Warner Inc. on a consolidated basis. These condensed consolidating financial statements are included in connection with the registration statement on Form S-3 filed with the Securities and Exchange Commission by the Parent Company and HBO on April 6, 2009.

There are no legal or regulatory restrictions on the Parent Company s ability to obtain funds from any of its wholly owned subsidiaries through dividends, loans or advances.

These condensed consolidating financial statements should be read in conjunction with the consolidated financial statements of Time Warner Inc. and reflect Time Warner Cable Inc., which was separated from the Parent Company on March 12, 2009, as a discontinued operation.

On April 15, 2009, the Parent Company completed a solicitation of consents (the Consent Solicitation) from the holders of debt securities issued under certain Indentures (the Securities), resulting in the adoption on April 16, 2009 of certain amendments to each Indenture that provide that certain restrictive covenants will not apply (subject to the concurrent or prior issuance of the guarantee by HBO discussed below) to a conveyance or transfer by AOL LLC, a subsidiary of the Parent Company, of its properties and assets substantially as an entirety unless such conveyance or transfer constitutes a conveyance or transfer of the properties and assets of the issuer and the guarantors under the relevant Indenture and their respective subsidiaries, taken as a whole, substantially as an entirety. As a result of the Consent Solicitation, in connection with the conveyance or transfer of AOL LLC s properties and assets substantially as an entirety, HBO will issue a guarantee of the obligations of Historic TW Inc., whether as issuer or guarantor, under the Indentures and the Securities. Such guarantee will be issued by HBO only in connection with such a transaction. Accordingly, for purposes of this presentation, the consolidating financial information herein reflects HBO as a Guarantor Subsidiary and does not reflect the historical financial information of AOL LLC in the Guarantor data and information. Instead, the historical financial information of AOL LLC is reflected in the data and information regarding the Non-Guarantor Subsidiaries. If the HBO guarantee is issued, HBO, together with the other Guarantor Subsidiaries, will fully and unconditionally, jointly and severally, guarantee the Securities on an unsecured basis.

Basis of Presentation

In presenting the condensed consolidating financial statements, the equity method of accounting has been applied to (i) the Parent Company s interests in the Guarantor Subsidiaries and (ii) the Guarantor Subsidiaries interests in the Non-Guarantor Subsidiaries, where applicable, even though all such subsidiaries meet the requirements to be consolidated under U.S. generally accepted accounting principles. All intercompany balances and transactions between the Parent Company, the Guarantor Subsidiaries and the Non-Guarantor Subsidiaries have been eliminated, as shown in the column Eliminations.

The Parent Company s accounting bases in all subsidiaries, including goodwill and identified intangible assets, have been pushed down to the applicable subsidiaries. Interest income (expense) is determined based on third-party debt and the relevant intercompany amounts within the respective legal entity.

All direct and indirect domestic subsidiaries are included in Time Warner Inc. s consolidated U.S. tax return. In the condensed consolidating financial statements, tax expense has been allocated based on each such subsidiary s relative pretax income to the consolidated pretax income. With respect to the use of certain consolidated tax attributes (principally operating and capital loss carryforwards), such benefits have been allocated to the respective subsidiary that generated the taxable income permitting such use (i.e., pro-rata based on where the income was generated). For example, to the extent a Non-Guarantor Subsidiary generated a gain on the sale of a business for which the Parent

Company utilized tax attributes to offset such gain, the tax attribute benefit would be allocated to that Non-Guarantor Subsidiary. Deferred taxes of the Parent Company, the Guarantor Subsidiaries and the Non-Guarantor Subsidiaries have been allocated based upon the temporary differences between the carrying amounts of the respective assets and liabilities of the applicable entities.

Corporate overhead expenses have been reflected as expenses of the Parent Company and have not been allocated to the Guarantor Subsidiaries or the Non-Guarantor Subsidiaries. Certain transfers of cash between subsidiaries and their parent companies are reflected as cash flows from investing and financing activities in the accompanying condensed consolidating statements of cash flows. All other intercompany activity is reflected in cash flows from operations.

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TIME WARNER INC.
SUPPLEMENTARY INFORMATION
CONDENSED CONSOLIDATING FINANCIAL STATEMENTS (Continued)
Consolidating Balance Sheet
March 31, 2009
(Unaudited)

| | Time Warner | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Time Warner Consolidated |
|--|------------------------|-----------------------------------|---------------------------------------|---------------------|---|
| (millions) | | | | | |
| ASSETS | | | | | |
| Current assets | | | | | |
| Cash and equivalents | \$ 6,247 | \$ 99 | \$ 769 | \$ | \$ 7,115 |
| Receivables, net | 33 | 656 | 3,985 | | 4,674 |
| Inventories | | 519 | 1,531 | | 2,050 |
| Deferred income taxes | 723 | 563 | 563 | (1,126) | 723 |
| Prepaid expenses and other current assets | 113 | 126 | 486 | | 725 |
| Total current assets | 7,116 | 1,963 | 7,334 | (1,126) | 15,287 |
| Noncurrent inventories and film costs | | 1,712 | 3,458 | (116) | 5,054 |
| Investments in amounts due to and from consolidated subsidiaries | 43,516 | 21,121 | 11,187 | (75,824) | |
| Investments, including available-for-sale securities | 67 | 345 | 1,011 | (479) | 944 |
| Property, plant and equipment | 393 | 485 | 3,891 | | 4,769 |
| Intangible assets subject to amortization, net | | 2 | 3,490 | | 3,492 |
| Intangible assets not subject to amortization | | 2,009 | 5,714 | | 7,723 |
| Goodwill | | 9,880 | 22,477 | | 32,357 |
| Other assets | 142 | 91 | 970 | | 1,203 |
| Total assets | \$ 51,234 | \$ 37,608 | \$ 59,532 | \$ (77,545) | \$ 70,829 |
| LIABILITIES AND EQUITY | | | | | |
| Current liabilities | | | | | |
| Accounts payable and accrued liabilities | \$ 925 | \$ 1,066 | \$ 5,880 | \$ (82) | \$ 7,789 |
| Deferred revenue | | 15 | 965 | (14) | 966 |
| Debt due within one year | 2,000 | 12 | 68 | | 2,080 |
| Current liabilities of discontinued operations | 49 | | 3 | | 52 |
| Total current liabilities | 2,974 | 1,093 | 6,916 | (96) | 10,887 |

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| | | | | | |
|--|-----------|-----------|-----------|-------------|-----------|
| Long-term debt | 9,976 | 5,345 | 81 | | 15,402 |
| Due (to) from affiliates | (787) | | 787 | | |
| Deferred income taxes | 1,127 | 2,812 | 2,622 | (5,434) | 1,127 |
| Deferred revenue | | | 384 | (111) | 273 |
| Other noncurrent liabilities | 2,158 | 2,324 | 4,451 | (2,221) | 6,712 |
| Equity | | | | | |
| Due (to) from Time Warner and subsidiaries | | (16,337) | (2,961) | 19,298 | |
| Other shareholders equity | 35,786 | 42,371 | 46,469 | (88,840) | 35,786 |
| Total Time Warner Inc. shareholders equity | 35,786 | 26,034 | 43,508 | (69,542) | 35,786 |
| Noncontrolling interests | | | 783 | (141) | 642 |
| Total equity | 35,786 | 26,034 | 44,291 | (69,683) | 36,428 |
| Total liabilities and equity | \$ 51,234 | \$ 37,608 | \$ 59,532 | \$ (77,545) | \$ 70,829 |

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TIME WARNER INC.
SUPPLEMENTARY INFORMATION
CONDENSED CONSOLIDATING FINANCIAL STATEMENTS (Continued)
Consolidating Balance Sheet
December 31, 2008
(Unaudited)

| | Time Warner | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Time Warner Consolidated |
|--|--------------------|-------------------------------|-----------------------------------|---------------------|---------------------------------|
| | (recast, millions) | | | | |
| ASSETS | | | | | |
| Current assets | | | | | |
| Cash and equivalents | \$ 469 | \$ 103 | \$ 661 | \$ | \$ 1,233 |
| Receivables, net | 67 | 675 | 4,922 | | 5,664 |
| Inventories | | 553 | 1,436 | | 1,989 |
| Deferred income taxes | 625 | 464 | 465 | (930) | 624 |
| Prepaid expenses and other current assets | 217 | 107 | 448 | | 772 |
| Current assets of discontinued operations | | | 6,480 | | 6,480 |
| Total current assets | 1,378 | 1,902 | 14,412 | (930) | 16,762 |
| Noncurrent inventories and film costs | | 1,732 | 3,584 | (124) | 5,192 |
| Investments in amounts due to and from consolidated subsidiaries | 59,525 | 38,198 | 11,178 | (108,901) | |
| Investments, including available-for-sale securities | 68 | 382 | 1,047 | (461) | 1,036 |
| Property, plant and equipment | 406 | 499 | 3,991 | | 4,896 |
| Intangible assets subject to amortization, net | | 2 | 3,562 | | 3,564 |
| Intangible assets not subject to amortization | | 2,009 | 5,719 | | 7,728 |
| Goodwill | | 9,879 | 22,549 | | 32,428 |
| Other assets | 104 | 101 | 1,015 | | 1,220 |
| Noncurrent assets of discontinued operations | | | 41,231 | | 41,231 |
| Total assets | \$ 61,481 | \$ 54,704 | \$ 108,288 | \$ (110,416) | \$ 114,057 |
| LIABILITIES AND EQUITY | | | | | |
| Current liabilities | | | | | |
| Accounts payable and accrued liabilities | \$ 463 | \$ 1,030 | \$ 6,789 | \$ (88) | \$ 8,194 |
| Deferred revenue | | 8 | 1,020 | (16) | 1,012 |
| Debt due within one year | 2,000 | 12 | 54 | | 2,066 |

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| | | | | | |
|---|-----------|-----------|------------|--------------|------------|
| Current liabilities of discontinued operations | | | 2,865 | | 2,865 |
| Total current liabilities | 2,463 | 1,050 | 10,728 | (104) | 14,137 |
| Long-term debt | 14,466 | 5,350 | 73 | | 19,889 |
| Due (to) from affiliates | (847) | | 847 | | |
| Deferred income taxes | 974 | 2,795 | 2,616 | (5,411) | 974 |
| Deferred revenue | | | 379 | (113) | 266 |
| Other noncurrent liabilities | 2,137 | 2,330 | 4,504 | (2,170) | 6,801 |
| Noncurrent liabilities of discontinued operations | | | 26,320 | | 26,320 |
| Equity | | | | | |
| Due (to) from Time Warner and subsidiaries | | (15,308) | (30,627) | 45,935 | |
| Other shareholders equity | 42,288 | 58,487 | 89,927 | (148,414) | 42,288 |
| Total Time Warner Inc. shareholders equity | 42,288 | 43,179 | 59,300 | (102,479) | 42,288 |
| Noncontrolling interests | | | 3,521 | (139) | 3,382 |
| Total equity | 42,288 | 43,179 | 62,821 | (102,618) | 45,670 |
| Total liabilities and equity | \$ 61,481 | \$ 54,704 | \$ 108,288 | \$ (110,416) | \$ 114,057 |

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TIME WARNER INC.
SUPPLEMENTARY INFORMATION
CONDENSED CONSOLIDATING FINANCIAL STATEMENTS (Continued)
Consolidating Statement of Operations
For The Three Months Ended March 31, 2009
(Unaudited)

| | Time Warner | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Time Warner Consolidated |
|--|------------------------|-----------------------------------|---------------------------------------|---------------------|---|
| | (millions) | | | | |
| Revenues | \$ | \$ 1,273 | \$ 5,747 | \$ (75) | \$ 6,945 |
| Costs of revenues | | (608) | (3,347) | 75 | (3,880) |
| Selling, general and administrative | (91) | (199) | (1,362) | | (1,652) |
| Amortization of intangible assets | | | (121) | | (121) |
| Restructuring costs | | | (94) | | (94) |
| Operating income (loss) | (91) | 466 | 823 | | 1,198 |
| Equity in pretax income of consolidated subsidiaries | 1,158 | 638 | 310 | (2,106) | |
| Interest expense, net | (203) | (107) | (2) | | (312) |
| Other income (expense), net | (17) | 2 | 5 | (29) | (39) |
| Income from continuing operations before income taxes | 847 | 999 | 1,136 | (2,135) | 847 |
| Income tax provision | (288) | (347) | (395) | 742 | (288) |
| Income from continuing operations | 559 | 652 | 741 | (1,393) | 559 |
| Discontinued operations, net of tax | 131 | 180 | 180 | (360) | 131 |
| Net income (loss) | 690 | 832 | 921 | (1,753) | 690 |
| Less Net income attributable to noncontrolling interests | (29) | (20) | (37) | 57 | (29) |
| Net income attributable to Time Warner Inc. shareholders | \$ 661 | \$ 812 | \$ 884 | \$ (1,696) | \$ 661 |

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TIME WARNER INC.
SUPPLEMENTARY INFORMATION
CONDENSED CONSOLIDATING FINANCIAL STATEMENTS (Continued)
Consolidating Statement of Operations
For The Three Months Ended March 31, 2008
(Unaudited)

| | Time Warner | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Time Warner Consolidated |
|--|---------------------------|-----------------------------------|---------------------------------------|---------------------|---|
| | (recast, millions) | | | | |
| Revenues | \$ | \$ 1,237 | \$ 6,319 | \$ (86) | \$ 7,470 |
| Costs of revenues | | (639) | (3,614) | 86 | (4,167) |
| Selling, general and administrative | (100) | (198) | (1,434) | | (1,732) |
| Amortization of intangible assets | | | (118) | | (118) |
| Restructuring costs | (6) | | (136) | | (142) |
| Operating income (loss) | (106) | 400 | 1,017 | | 1,311 |
| Equity in pretax income of consolidated subsidiaries | 1,269 | 830 | 332 | (2,431) | |
| Interest expense, net | (262) | (265) | 180 | | (347) |
| Other income (expense), net | 4 | (4) | (35) | (24) | (59) |
| Income from continuing operations before income taxes | 905 | 961 | 1,494 | (2,455) | 905 |
| Income tax provision | (345) | (354) | (579) | 933 | (345) |
| Income from continuing operations | 560 | 607 | 915 | (1,522) | 560 |
| Discontinued operations, net of tax | 262 | 263 | 259 | (522) | 262 |
| Net income (loss) | 822 | 870 | 1,174 | (2,044) | 822 |
| Less Net income attributable to noncontrolling interests | (51) | (40) | (71) | 111 | (51) |
| Net income attributable to Time Warner Inc. shareholders | \$ 771 | \$ 830 | \$ 1,103 | \$ (1,933) | \$ 771 |

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TIME WARNER INC.
SUPPLEMENTARY INFORMATION
CONDENSED CONSOLIDATING FINANCIAL STATEMENTS (Continued)
Consolidating Statement of Cash Flows
For The Three Months Ended March 31, 2009
(Unaudited)

| | Time Warner | Guarantor Subsidiaries | Non-Guarantor Subsidiaries (millions) | Eliminations | Time Warner Consolidated |
|--|------------------------|-----------------------------------|--|---------------------|---|
| OPERATIONS | | | | | |
| Net income | \$ 690 | \$ 832 | \$ 921 | \$ (1,753) | \$ 690 |
| Less Discontinued operations, net of tax | 131 | 180 | 180 | (360) | 131 |
| Net income from continuing operations | 559 | 652 | 741 | (1,393) | 559 |
| Adjustments for noncash and nonoperating items: | | | | | |
| Depreciation and amortization | 10 | 31 | 316 | | 357 |
| Amortization of film and television costs | | 472 | 1,152 | | 1,624 |
| Loss on investments and other assets, net | | 2 | | | 2 |
| Excess (deficiency) of distributions over equity in pretax income of consolidated subsidiaries | (1,158) | (638) | (310) | 2,106 | |
| Equity in losses of investee companies, net of cash distributions | | (3) | 25 | | 22 |
| Equity-based compensation | 13 | 15 | 43 | | 71 |
| Deferred income taxes | (40) | (47) | (47) | 94 | (40) |
| Changes in operating assets and liabilities, net of acquisitions | 534 | (130) | (759) | (815) | (1,170) |
| Intercompany | | 150 | (150) | | |
| Cash provided (used) by operations from continuing operations | (82) | 504 | 1,011 | (8) | 1,425 |
| INVESTING ACTIVITIES | | | | | |
| Investments in available-for-sale securities | (2) | | | | (2) |
| Investments and acquisitions, net of cash acquired | (13) | (12) | (38) | | (50) |
| | | (17) | (104) | | (134) |

| | | | | | |
|---|----------|---------|---------|---------|----------|
| Capital expenditures and product development costs | | | | | |
| Investment proceeds from available-for-sale securities | | | 5 | | 5 |
| Special Dividend received from Time Warner Cable Inc. | 9,253 | | | | 9,253 |
| Advances to parent and consolidated subsidiaries | 1,308 | 552 | | (1,860) | |
| Other investment proceeds | 38 | 2 | 72 | | 112 |
| Cash used by investing activities from continuing operations | 10,584 | 525 | (65) | (1,860) | 9,184 |
| FINANCING ACTIVITIES | | | | | |
| Borrowings | 3,493 | | 14 | | 3,507 |
| Debt repayments | (7,983) | | (3) | | (7,986) |
| Principal payments on capital leases | | (4) | (7) | | (11) |
| Dividends paid | (226) | | | | (226) |
| Other financing activities | (8) | | (1) | | (9) |
| Change in due to/from parent and investment in segment | | (1,029) | (839) | 1,868 | |
| Cash provided (used) by financing activities from continuing operations | (4,724) | (1,033) | (836) | 1,868 | (4,725) |
| Cash provided by continuing operations | 5,778 | (4) | 110 | | 5,884 |
| Cash provided by operations from discontinued operations | | | 582 | | 582 |
| Cash used by investing activities from discontinued operations | | | (622) | | (622) |
| Cash used by financing activities from discontinued operations | | | (5,224) | | (5,224) |
| Effect of change in cash and equivalents of discontinued operations | | | 5,262 | | 5,262 |
| Cash used by discontinued operations | | | (2) | | (2) |
| INCREASE IN CASH AND EQUIVALENTS | 5,778 | (4) | 108 | | 5,882 |
| CASH AND EQUIVALENTS AT BEGINNING OF PERIOD | 469 | 103 | 661 | | 1,233 |
| | \$ 6,247 | \$ 99 | \$ 769 | \$ | \$ 7,115 |

**CASH AND EQUIVALENTS
AT END OF PERIOD**

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TIME WARNER INC.
SUPPLEMENTARY INFORMATION
CONDENSED CONSOLIDATING FINANCIAL STATEMENTS (Continued)
Consolidating Statement of Cash Flows
For The Three Months Ended March 31, 2008
(Unaudited)

| | Time Warner | Guarantor Subsidiaries | Non- Guarantor Subsidiaries | Eliminations | Time Warner Consolidated |
|--|------------------------|-----------------------------------|--|---------------------|---|
| | (recast, millions) | | | | |
| OPERATIONS | | | | | |
| Net income | \$ 822 | \$ 870 | \$ 1,174 | \$ (2,044) | \$ 822 |
| Less Discontinued operations, net of tax | 262 | 263 | 259 | (522) | 262 |
| Net income from continuing operations | 560 | 607 | 915 | (1,522) | 560 |
| Adjustments for noncash and nonoperating items: | | | | | |
| Depreciation and amortization | 10 | 27 | 328 | | 365 |
| Amortization of film and television costs | | 494 | 883 | | 1,377 |
| Loss on investments and other assets, net | | 1 | 25 | | 26 |
| Excess (deficiency) of distributions over equity in pretax income of consolidated subsidiaries | (1,269) | (830) | (332) | 2,431 | |
| Equity in losses of investee companies, net of cash distributions | | (3) | 22 | | 19 |
| Equity-based compensation | 19 | 16 | 40 | | 75 |
| Deferred income taxes | 37 | (111) | (94) | 205 | 37 |
| Changes in operating assets and liabilities, net of acquisitions | 468 | (88) | (112) | (1,111) | (843) |
| Intercompany | | 193 | (193) | | |
| Cash provided (used) by operations from continuing operations | (175) | 306 | 1,482 | 3 | 1,616 |
| INVESTING ACTIVITIES | | | | | |
| Investments and acquisitions, net of cash acquired | | (13) | (240) | | (253) |
| Capital expenditures and product development costs | (2) | (24) | (120) | | (146) |
| Advances to parent and consolidated subsidiaries | 989 | 1,190 | 381 | (2,560) | |
| Other investment proceeds | 2 | 14 | 14 | | 30 |
| Cash used by investing activities from continuing operations | 989 | 1,167 | 35 | (2,560) | (369) |

FINANCING ACTIVITIES

| | | | | | |
|---|---------|---------|---------|-------|----------|
| Borrowings | 2,102 | | 10 | | 2,112 |
| Debt repayments | (2,531) | (166) | (19) | | (2,716) |
| Proceeds from exercise of stock options | 34 | | | | 34 |
| Excess tax benefit on stock options | 2 | | | | 2 |
| Principal payments on capital leases | | (1) | (9) | | (10) |
| Repurchases of common stock | (332) | | | | (332) |
| Dividends paid | (224) | | | | (224) |
| Other financing activities | (18) | | | | (18) |
| Change in due to/from parent and investment in segment | | (1,255) | (1,302) | 2,557 | |
| Cash provided (used) by financing activities from continuing operations | (967) | (1,422) | (1,320) | 2,557 | (1,152) |
| Cash provided (used) by continuing operations | (153) | 51 | 197 | | 95 |
| Cash provided by operations from discontinued operations | | | 1,180 | | 1,180 |
| Cash used by investing activities from discontinued operations | | | (841) | | (841) |
| Cash used by financing activities from discontinued operations | | | (348) | | (348) |
| Effect of change in cash and equivalents of discontinued operations | | | 6 | | 6 |
| Cash used by discontinued operations | | | (3) | | (3) |
| INCREASE (DECREASE) IN CASH AND EQUIVALENTS | (153) | 51 | 194 | | 92 |
| CASH AND EQUIVALENTS AT BEGINNING OF PERIOD | 586 | 53 | 646 | | 1,285 |
| CASH AND EQUIVALENTS AT END OF PERIOD | \$ 433 | \$ 104 | \$ 840 | \$ | \$ 1,377 |

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Part II. Other Information

Item 1. Legal Proceedings.

Other Matters

Reference is made to the lawsuit filed by certain heirs of Jerome Siegel described on page 55 of the Company's Annual Report on Form 10-K for the year ended December 31, 2008 (the 2008 Form 10-K). The first phase trial commenced on April 28, 2009, and the second phase trial is scheduled to commence on October 20, 2009.

Reference is made to the derivative suit filed by Thomas Dreiling described on page 56 of the 2008 Form 10-K. The oral argument is scheduled for May 7, 2009.

Reference is made to the lawsuit filed by the former dictator of the Republic of Indonesia described on page 57 of the 2008 Form 10-K. On April 16, 2009, the Supreme Court of Indonesia ruled in Time Inc.'s favor and reversed the court's August 30, 2007 judgment. The court's April 16, 2009 ruling is a final disposition of this lawsuit.

Reference is made to the lawsuit filed by David McDavid and certain related entities described on page 58 of the 2008 Form 10-K. On April 22, 2009, the court denied Turner's motion to overturn the jury verdict or, in the alternative, for a new trial, and, on April 23, 2009, Turner filed a notice of appeal to the Georgia Court of Appeals. On April 24, 2009, McDavid filed a motion for supersedeas bond requesting the court to order Turner to post a bond in the amount of \$25 million. The Company has a reserve established for this matter at March 31, 2009 of approximately \$287 million (including interest accrued through such date), although it intends to defend against this lawsuit vigorously.

On March 10, 2009, Anderson News L.L.C. and Anderson Services L.L.C. (collectively, Anderson News) filed an antitrust lawsuit in the U.S. District Court for the Southern District of New York against several magazine publishers, distributors and wholesalers, including Time Inc. and one of its subsidiaries, Time/Warner Retail Sales & Marketing, Inc. Plaintiffs allege that defendants violated Section 1 of the Sherman Antitrust Act by engaging in an antitrust conspiracy against Anderson News, as well as other related state law claims. Plaintiffs are seeking unspecified monetary damages. The Company intends to defend against this lawsuit vigorously.

Item 1A. Risk Factors.

There have been no material changes in the Company's risk factors from those disclosed in Part I, Item 1A of the 2008 Form 10-K.

Table of Contents**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.****Company Purchases of Equity Securities**

The following table provides information about purchases by the Company during the quarter ended March 31, 2009 of equity securities registered by the Company pursuant to Section 12 of the Exchange Act.

Issuer Purchases of Equity Securities

| Period | Total Number of Shares Purchased⁽¹⁾ | Average Price Paid Per Share⁽²⁾ | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs⁽³⁾ | Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs⁽⁴⁾ |
|--------------------------------------|---|---|---|---|
| January 1, 2009 – January 31, 2009 | 0 | N/A | 0 | \$ 2,202,463,464 |
| February 1, 2009 – February 28, 2009 | 0 | N/A | 0 | \$ 2,202,463,464 |
| March 1, 2009 – March 31, 2009 | 0 | N/A | 0 | \$ 2,202,463,464 |
| Total | 0 | N/A | 0 | |

(1) The total number of shares purchased includes (a) shares of Common Stock purchased by the Company under the Stock Repurchase Program described in footnote 3 below, and (b) shares of Common Stock that are tendered by employees to the Company to satisfy the employees' tax withholding obligations in connection with the vesting of

awards of restricted stock, which are repurchased by the Company based on their fair market value on the vesting date. No awards of restricted stock vested in the months of January, February and March.

Consequently, the Company did not purchase any shares of Common Stock in connection with the vesting of such awards during these months.

(2) The calculation of the average price paid per share does not give effect to any fees, commissions or other costs associated with the repurchase of such shares.

(3) On August 1, 2007, the Company announced that its Board of Directors had authorized a stock repurchase program that allows Time Warner to repurchase, from time to time, up to \$5

billion of
Common Stock
(the Stock
Repurchase
Program).
Purchases under
the Stock
Repurchase
Program may be
made, from time
to time, on the
open market and
in privately
negotiated
transactions.
The size and
timing of these
purchases will
be based on a
number of
factors,
including price
and business
and market
conditions. In
the past, the
Company has
repurchased
shares of
Common Stock
pursuant to
trading
programs under
Rule 10b5-1
promulgated
under the
Exchange Act,
and it may
repurchase
shares of
Common Stock
under such
trading
programs in the
future.

- (4) This amount
does not reflect
the fees,
commissions
and other costs
associated with

the Stock
Repurchase
Program.

Item 4. Submission of Matters to a Vote of Security Holders.

A Special Meeting of Stockholders of the Company was held on January 16, 2009 (the January 2009 Special Meeting). For a description of the matter voted on at the January 2009 Special Meeting, see Part I, Item 4 of the 2008 Form 10-K.

Item 6. Exhibits.

The exhibits listed on the accompanying Exhibit Index are filed or incorporated by reference as a part of this report and such Exhibit Index is incorporated herein by reference.

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**TIME WARNER INC.
SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

TIME WARNER INC.
(Registrant)

Date: April 29, 2009

/s/ John K. Martin, Jr.
John K. Martin, Jr.
Executive Vice President and Chief Financial Officer

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EXHIBIT INDEX

Pursuant to Item 601 of Regulation S-K

Exhibit No. Description of Exhibit

- 3.1 Certificate of Amendment, dated March 27, 2009, to the Restated Certificate of Incorporation of Time Warner Inc. (the Company) as filed with the Secretary of State of the State of Delaware on March 27, 2009 (incorporated herein by reference to Exhibit 3.1 to the Company s Current Report on Form 8-K dated March 27, 2009).
- 4.1 Fifth Supplemental Indenture, dated as of February 23, 2009, to the Indenture dated as of October 15, 1992 (the 1992 Historic TW Indenture), among Time Warner Companies, Inc. (TWCI) as issuer, the Company, AOL LLC (AOL), Historic TW Inc. (Historic TW) and Turner Broadcasting System, Inc. (TBS) as guarantors, and The Bank of New York Mellon (BNY Mellon), as Trustee (incorporated herein by reference to Exhibit 99.1 to the Company s Current Report on Form 8-K dated February 23, 2009 (the February 2009 Form 8-K)).
- 4.2 Sixth Supplemental Indenture, dated as of April 16, 2009, to the 1992 Historic TW Indenture, among Historic TW (in its capacity as successor to TWCI) as issuer, the Company, AOL, Historic TW (in its own capacity and not as successor to TWCI) and TBS as guarantors, and BNY Mellon, as Trustee (incorporated herein by reference to Exhibit 99.4 to the Company s Current Report on Form 8-K dated April 16, 2009 (the April 2009 Form 8-K)).
- 4.3 Eighth Supplemental Indenture, dated as of February 23, 2009, to the Indenture dated as of January 15, 1993 (the 1993 Historic TW Indenture), among TWCI as issuer, the Company, AOL, Historic TW and TBS as guarantors, and BNY Mellon, as Trustee (incorporated herein by reference to Exhibit 99.2 to the February 2009 Form 8-K).
- 4.4 Ninth Supplemental Indenture, dated as of April 16, 2009, to the 1993 Historic TW Indenture, among Historic TW (in its capacity as successor to TWCI) as issuer, the Company, AOL, Historic TW (in its own capacity and not as successor to TWCI) and TBS as guarantors, and BNY Mellon, as Trustee (incorporated herein by reference to Exhibit 99.3 to the April 2009 Form 8-K).
- 4.5 Fifth Supplemental Indenture, dated as of February 23, 2009, to the Indenture dated as of May 15, 1993 (the 1993 TBS Indenture), among TBS as issuer, TWCI, the Company, AOL and Historic TW as guarantors, and BNY Mellon, as Trustee (incorporated herein by reference to Exhibit 99.3 to the February 2009 Form 8-K).
- 4.6 Sixth Supplemental Indenture, dated as of April 16, 2009, to the 1993 TBS Indenture, among TBS as issuer, the Company, AOL and Historic TW (including in its capacity as successor to TWCI) as guarantors, and BNY Mellon, as Trustee (incorporated herein by reference to Exhibit 99.5 to the April 2009 Form 8-K).
- 4.7 Second Supplemental Indenture, dated as of April 16, 2009, to the Indenture dated as of June 1, 1998, among Historic TW as issuer, the Company, AOL, Historic TW (in its capacity as successor to TWCI) and TBS as guarantors, and BNY Mellon, as Trustee (incorporated herein by reference to Exhibit 99.2 to the April 2009 Form 8-K).
- 4.8

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First Supplemental Indenture, dated as of April 16, 2009, to the Indenture dated as of April 19, 2001, among the Company as issuer, AOL, Historic TW (including in its capacity as successor to TWCI) and TBS as guarantors, and BNY Mellon, as Trustee (incorporated herein by reference to Exhibit 99.1 to the April 2009 Form 8-K).

- 10.1 Time Warner Inc. 1999 Stock Plan, as amended through March 27, 2009.
- 10.2 Time Warner Inc. 2006 Stock Incentive Plan, as amended through March 27, 2009.
- 10.3 Form of Performance Stock Units Agreement (PSU Agreement, Version Bewkes 3).
- 10.4 First Amendment Agreement, dated as of March 11, 2009, to the Amended and Restated Revolving Credit Agreement dated as of July 8, 2002 and amended and restated as of February 17, 2006 (the Revolving Credit Agreement), by and among Lehman Commercial Paper Inc., as Exiting Lender, the Lenders party thereto, Citibank, N.A., as Administrative Agent, and Time Warner and Time Warner International Finance Limited, as Borrowers.

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Exhibit No. Description of Exhibit

- 10.5 Second Amendment Agreement, dated as of March 11, 2009, to the Revolving Credit Agreement, by and among Time Warner and Time Warner International Finance Limited, as Borrowers, Citibank, N.A., as Administrative Agent, and the Lenders party thereto.
- 31.1 Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, with respect to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2009.
- 31.2 Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, with respect to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2009.
- 32 Certification of Principal Executive Officer and Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, with respect to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2009.

This certification will not be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934 (15 U.S.C. 78r), or otherwise subject to the liability of that section. Such certification will not be deemed to be incorporated by reference into any filing under the Securities Act or Securities Exchange Act, except to the extent that the Company specifically incorporates it by reference.