Barter Transactions

Time Warner enters into transactions that either exchange advertising for advertising ("Advertising Barter") or advertising for other products and services ("Non-advertising Barter"). Advertising Barter transactions are recorded at the lesser of estimated fair value of the advertising received or given in accordance with the provisions of EITF Issue No. 99-17, "Accounting for Advertising Barter Transactions." Revenue from barter transactions is recognized when advertising is provided, and services received are charged to expense when used. Revenues for Non-advertising Barter transactions are recognized at the estimated fair value when the product is available for telecast and the advertising spots received under such contracts are either used or sold to third parties. Revenue from barter transactions is not material to the Company's consolidated statement of operations for any of the periods presented herein.

Multiple-Element Transactions

Multiple-element transactions within Time Warner fall broadly into two categories:

1. Contemporaneous purchases and sales. The Company sells a product or service (e.g., advertising services) to a customer and at the same time purchases goods or services and/or makes an investment in that customer.
2. Sales of multiple products or services. The Company sells multiple products or services to a counterparty.

Contemporaneous Purchases and Sales

In the normal course of business, Time Warner enters into transactions in which it purchases a product or service and/or makes an investment in a customer and at the same time negotiates a contract for the sale of advertising, or other product, to the customer. Contemporaneous transactions may also involve circumstances where the Company is purchasing or selling goods and services and settling a Company dispute. For example, the AOL segment may have negotiated for the sale of advertising at the same time it purchased goods or services and/or made an investment in a counterparty. Similarly, when negotiating programming arrangements with cable networks, the Company's Cable segment may negotiate for the sale of advertising to the cable network.

Arrangements, although negotiated contemporaneously, may be documented in one or more contracts. In accounting for such arrangements, the Company looks to the guidance contained in the following authoritative literature:

- APB Opinion No. 29, "Accounting for Nonmonetary Transactions" ("APB 29");
- FASB Statement 153, "Exchanges of Nonmonetary Assets — an amendment of APB Opinion No. 29" ("FAS 153");
- Emerging Issues Task Force ("EITF") Issue No. 01-09, "Accounting for Consideration Given by a Vendor to a Customer" ("EITF 01-09"); and
- EITF Issue No. 02-16, "Accounting by a Customer (Including a Reseller) for Certain Consideration Received from a Vendor" ("EITF 02-16").

The Company accounts for each transaction negotiated contemporaneously based on the respective fair values of the goods or services purchased and the goods or services sold. If the Company is unable to determine the fair value of one or more of the elements being purchased, revenue recognition is limited to the total consideration received for the products or services sold less supported payments. For example, if the Company sells advertising to a customer for $10 million in cash and contemporaneously enters into an arrangement to acquire software for $2 million from the same customer; however, fair value for the software cannot be reliably determined, the Company would limit the recognized advertising revenue to $8 million and would ascribe no value to the software acquisition. As another example, if the Company sells advertising to a customer for $10 million in cash and contemporaneously invests $2 million in the equity of that same customer at fair value, the Company would recognize advertising revenue of $10 million and would ascribe $2 million to the equity investment. Accordingly, the judgments made in determining fair value in such arrangements impacts the amount and period in which revenues, expenses and net income are recognized over the term of the contract.

In determining the fair value of the respective elements, the Company refers to quoted market prices (where available), historical transactions or comparable cash transactions. In addition, the existence of price protection in the form of "most favored nation" clauses or similar contractual provisions are generally indicative that the stated terms of a transaction are at fair value.

Further, in a contemporaneous purchase and sale transaction, evidence of fair value for one element of a transaction may provide support for the fair value of the other element of a transaction. For example, if the Company sells advertising to a customer and contemporaneously invests in the equity of that same customer, evidence of the fair value of the investment may implicitly support the fair value of the advertising sold, since there are only two elements in the arrangement.

Sales of Multiple Products or Services

The Company's policy for revenue recognition in instances where multiple deliverables are sold contemporaneously to the same counterparty is in accordance with EITF Issue No. 00-21, "Revenue Arrangements with Multiple Deliverables" and SEC Staff Accounting Bulletin No. 104, "Revenue Recognition." Specifically, if the Company enters into sales contracts for the sale of multiple products or services, then the Company evaluates whether it has objective fair value evidence for each deliverable in the transaction. If the Company has objective fair value evidence for each deliverable of the transaction, then it accounts for each deliverable in the transaction separately, based on the relevant revenue recognition accounting policies. However, if the Company is unable to determine objective fair value for one or more undelivered elements of the transaction, the Company generally recognizes advertising revenue on a straight-line basis over the term of the agreement. For example, the AOL division might enter into an agreement for broadband service, that includes AOL providing a modem in connection with the service and the subscriber paying an upfront fee as well as monthly charges. Because AOL is providing both a product and a service, revenue is allocated to the modem and service based on relative fair value.

Gross versus Net Revenue Recognition

In the normal course of business, the Company acts as or uses an intermediary or agent in executing transactions with third parties. Pursuant to EITF No. 99-19, "Reporting Revenue Gross as a Principal versus Net as an Agent," such transactions are recorded on a gross or net basis depending on whether the Company is acting as the principal in a transaction or acting as an agent in the transaction. The Company serves as the principal in transactions in which it has substantial risks and rewards of ownership and, accordingly, records revenue on a gross basis. For those transactions in which the Company does not have substantial risks and rewards of ownership, the Company is considered an agent in the transaction and, accordingly, records revenue on a net basis. To the extent that revenues are recorded on a gross basis, any commissions or other payments to third parties are recorded as expenses so that the net amount (gross revenues less expenses) is reflected in Operating Income. Accordingly, the impact on Operating Income is the same whether the Company records revenue on a gross or net basis.

Advertising Costs

Time Warner expenses advertising costs as they are incurred, which, for communicating advertisements, is when the advertising is exhibited or aired. Advertising expense was $5.211 billion in 2004, $4.678 billion in

2003 and $4.271 billion in 2002. In addition, the Company had advertising costs of $145 million at December 31, 2004 and $132 million at December 31, 2003 recorded in Prepaid and other current assets on its consolidated balance sheet, which primarily related to prepaid advertising.

Income Taxes

Income taxes are provided using the asset and liability method prescribed by FASB Statement No. 109, "Accounting for Income Taxes." Under this method, income taxes (i.e., deferred tax assets, deferred tax liabilities, taxes currently payable/refunds receivable and tax expense) are recorded based on amounts refundable or payable in the current year and include the results of any difference between U.S. GAAP and tax reporting. Deferred income taxes reflect the tax effect of net operating loss, capital loss and general business credit carryforwards and the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial statement and income tax purposes, as determined under enacted tax laws and rates. Valuation allowances are established when management determines that it is more likely than not that some portion or all of the deferred tax asset will not be realized. The financial effect of changes in tax laws or rates is accounted for in the period of enactment. The subsequent realization of net operating loss and general business credit carryforwards acquired in acquisitions accounted for using the purchase method of accounting is recorded as a reduction of goodwill. Investment tax credits earned are offset against the cost of inventory or property acquired or produced. Research and development credits are recorded based on the amount of benefit the Company believes is probable of being earned. The majority of such research and development benefits were recorded to shareholders' equity as they resulted from stock option deductions for which such amounts are recorded as an increase to additional paid-in-capital.

Comprehensive Income (Loss)

Comprehensive income (loss) is reported on the accompanying consolidated statement of shareholders' equity as a component of retained earnings (accumulated deficit) and consists of net income (loss) and other gains and losses affecting shareholders' equity that, under U.S. generally accepted accounting principles, are excluded from net income (loss). For Time Warner, such items consist primarily of unrealized gains and losses on marketable equity investments, gains and losses on certain derivative financial instruments, foreign currency translation gains and losses and unfunded accumulated benefit obligations.

The following summary sets forth the components of other comprehensive income (loss), net of tax, accumulated in shareholders' equity:

	Foreign Currency Translation Losses	Net Unrealized Gains (Losses) on Securities	Net Derivative Financial Instrument Gains (Losses)	Net Unfunded Accumulated Benefit Obligation	Net Accumulated Other Comprehensive Income (Loss)
Balance at December 31, 2001	$ (28)	$ 66	$ (6)	$ —	$ 32
2002 activity	(300)	56	(21)	(319)	(584)
Balance at December 31, 2002 (restated)	(328)	122	(27)	(319)	(552)
2003 activity	(77)	(50)	(6)	270	137
Balance at December 31, 2003 (restated)	(405)	72	(33)	(49)	(415)
2004 activity	(66)	582	1	4	521
Balance at December 31, 2004	$(471)	$654	$(32)	$ (45)	$ 106

Stock-Based Compensation

The Company follows the FASB Statement No. 123, "Accounting for Stock-Based Compensation" ("FAS 123"), and FASB Statement No. 148, "Accounting for Stock-Based Compensation, Transition and Disclosure." The provisions of FAS 123 allow companies either to expense the estimated fair value of stock options or to continue to follow the intrinsic value method set forth in Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25"), but disclose the pro forma effect on net income (loss) had the fair value of the options been expensed. Time Warner has elected to continue to apply APB 25 in accounting for its stock option incentive plans.

The Company uses the attribution method under FASB Interpretation No. 28, "Accounting for Stock Appreciation Rights and Other Variable Stock Option Award Plans" in recognizing any compensation cost for its stock option incentive plans under APB 25 and in the FAS 123 pro forma disclosure below. Had compensation cost for Time Warner's stock option plans been determined based on the fair value method set forth in FAS 123 (or FAS123R, which will be adopted on July 1, 2005), Time Warner's net income (loss) and basic and diluted net income (loss) per common share would have been changed to the pro forma amounts indicated below:

	Years Ended December 31,		
	2004	2003	2002 (restated)
	(millions, except per share amounts)		
Net income (loss), as reported	$3,364	$2,639	$(97,217)
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(298)	(548)	(1,034)
Pro forma net income (loss)	$3,066	$2,091	$(98,251)
Basic net income (loss) per share:			
As reported	$ 0.74	$ 0.59	$ (21.82)

	Years Ended December 31, 2004	2003	2002 (restated)
	(millions, except per share amounts)		
Pro forma	$ 0.67	$ 0.46	$ (22.05)
Diluted net income (loss) per share:			
As reported	$ 0.72	$ 0.57	$ (21.82)
Pro forma	$ 0.65	$ 0.45	$ (22.05)

Income (Loss) Per Common Share

Basic income (loss) per common share is computed by dividing the net income (loss) applicable to common shares after preferred dividend requirements, if any, by the weighted average of common shares outstanding during the period. Weighted-average common shares include shares of Time Warner's common stock and Series LMCN-V common stock. Diluted income (loss) per common share adjusts basic income (loss) per common share for the effects of convertible securities, stock options, restricted stock and other potentially dilutive financial instruments, only in the periods in which such effect is dilutive.

Set forth below is a reconciliation of basic and diluted income (loss) per common share before discontinued operations and cumulative effect of accounting change:

	Years Ended December 31, 2004	2003	2002[a] (restated)
	(millions, except per share amounts)		
Income (loss) before discontinued operations and cumulative effect of accounting change — basic and diluted	$ 3,209	$ 3,146	$(41,970)
Average number of common shares outstanding — basic	4,560.2	4,506.0	4,454.9
Dilutive effect of stock options and restricted stock	57.4	55.2	—
Dilutive effect of mandatorily convertible preferred stock	77.1	62.5	—
Average number of common shares outstanding — diluted	4,694.7	4,623.7	4,454.9
Income (loss) per common share before discontinued operations and cumulative effect of accounting change:			
Basic	$ 0.70	$ 0.70	$ (9.42)
Diluted	$ 0.68	$ 0.68	$ (9.42)

[a] 2002 basic and diluted loss per common share are the same because the effect of Time Warner's stock options and convertible debt was antidilutive.

Reclassifications

Certain reclassifications have been made to prior year's financial information to conform to the current year presentation, including a reclassification impacting the Company and the Filmed Entertainment segment's operating results to reflect a change in how the Company classifies the accretion of discounts on long-term film licensing arrangements. Previously, the Company classified the accretion of discounts on long-term film licensing arrangements within Operating Income. To become more consistent with what the Company believes to be film industry practice, such accretion is now being classified as a reduction of Interest expense, net. The accretion for the years ended December 31, 2003 and 2002 was $110 million and

$134 million, respectively. Such reclassifications did not affect Net Income, Earnings per share or Cash Provided by Operations.

2. GOODWILL AND INTANGIBLE ASSETS

As a creator and distributor of branded information and copyrighted entertainment products, Time Warner has a significant number of intangible assets, including cable television and sports franchises, film and television libraries and other copyrighted products and trademarks. As discussed in Note 1, in January 2002, Time Warner adopted FAS 142, which requires companies to stop amortizing goodwill and certain intangible assets considered to have an indefinite useful life. Instead, FAS 142 requires that goodwill and intangible assets deemed to have an indefinite useful life be reviewed for impairment at least annually.

Goodwill impairment is determined using a two-step process. The first step of the goodwill impairment test is to identify a potential impairment by comparing the fair value of a reporting unit with its carrying amount, including goodwill. The estimates of fair value of a reporting unit, generally the Company's operating segments, are determined using various valuation techniques, with the primary technique being a discounted cash flow analysis. A discounted cash flow analysis requires one to make various judgmental assumptions including assumptions about future cash flows, growth rates and discount rates. The assumptions about future cash flows and growth rates are based on the Company's budget and business plans. Discount rate assumptions are based on an assessment of the risk inherent in the respective reporting units. In estimating the fair values of its reporting units, the Company also used analyst estimates, as well as comparable market analyses. If the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is not deemed impaired and the second step of the impairment test is not performed. If the carrying amount of a reporting unit exceeds its fair value, the second step of the goodwill impairment test is performed to measure the amount of impairment loss, if any. The second step of the goodwill impairment test compares the implied fair value of the reporting unit's goodwill with the carrying amount of that goodwill. If the carrying amount of the reporting unit's goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess. The implied fair value of goodwill is determined in the same manner as the amount of goodwill recognized in a business combination. That is, the fair value of the reporting unit is allocated to all of the assets and liabilities of that unit (including any unrecognized intangible assets) as if the reporting unit had been acquired in a business combination and the fair value of the reporting unit was the purchase price paid to acquire the reporting unit.

The impairment test for other intangible assets not subject to amortization consists of a comparison of the fair value of the intangible asset with its carrying value. If the carrying value of the intangible asset exceeds its fair value, an impairment loss is recognized in an amount equal to that excess. The estimates of fair value of intangible assets not subject to amortization are determined using various discounted cash flow valuation methodologies. The most common among these is a "relief from royalty" methodology, which is used in estimating the fair value of the Company's brands and trademark and income methodologies, which are used to value cable and sports franchises. Market based comparable methodologies were also used to value sports franchises. Significant assumptions inherent in these methodologies employed include estimates of royalty rates and discount rates. Discount rate assumptions are based on an assessment of the risk inherent in the respective intangible assets. Assumptions about royalty rates are based on the rates at which similar brands and trademarks are being licensed in the marketplace.

Upon adoption of FAS 142 in the first quarter of 2002, Time Warner recorded a noncash charge of $54.235 billion to reduce the carrying value of goodwill, including an impairment of the former Music segment's goodwill of $4.796 billion. Such charge was reflected as a cumulative effect of an accounting change in the accompanying consolidated statement of operations. In calculating the impairment charge, the fair value of the impaired reporting units underlying the segments was estimated using either a discounted cash flow methodology, market comparisons, recent comparable transactions or a combination thereof.

During the fourth quarter of 2002, the Company performed its annual impairment review for goodwill and recorded a noncash charge of $42.511 billion, which was recorded as a component of Operating Income in the accompanying consolidated statement of operations. This impairment charge reflects the impact of the Company restating results to adjust for its historical accounting for certain advertising revenues and its historical accounting for its investment in and consolidation of AOL Europe (Note 1). The $42.511 billion reflected the overall decline in market values during 2002 and includes charges to reduce the carrying value of goodwill at the AOL segment ($31.961 billion) and Cable segment ($10.550 billion). The $31.961 billion charge at the AOL segment reflected the AOL segment's lower than expected performance, including declines in 2002 in the online advertising market. The $10.550 billion charge at the Cable segment reflected current market conditions in the cable television industry at that time, as evidenced by the decline in 2002 in the stock prices of comparable cable television companies. Excluded from this charge were impairments of the Music segment's goodwill of $646 million and brands and trademarks of $853 million, which are included in discontinued operations.

During 2003, the Company recorded impairment losses of $318 million to reduce the carrying value of certain intangible assets of the Turner winter sports teams and certain goodwill and intangible assets of Time Warner Book Group, which were recorded at the time of the merger of America Online, Inc. ("America Online") and Historic TW (the "America Online — Historic TW Merger"). In addition, in December 2003, the Company recognized an impairment charge of approximately $1.1 billion to reduce the carrying value of the Music segment's intangible assets, which is included in discontinued operations. These impairment charges were computed based on information received during the negotiations for sale of these businesses. The Company determined during its annual impairment reviews for goodwill, which occur in the fourth quarter, that no additional impairments existed at December 31, 2004 or 2003.

The impairment charges were noncash in nature and did not affect the Company's liquidity or result in non-compliance with respect to any debt covenants.

A summary of changes in the Company's goodwill during the years ended December 31, 2003 and 2004 by reportable segment is as follows (millions):

	December 31, 2002	Acquisitions & Adjustments[a]	Impairment	December 31, 2003	Acquisitions & Adjustments[b]	December 31, 2004
AOL[c] ...	$ 2,776	$ 8	$ —	$ 2,784	$ 243	$ 3,027
Cable.....	—	1,909	—	1,909	12	1,921
Filmed Entertainment	4,948	297	—	5,245	(27)	5,218
Networks[d]	20,481	261	—	20,742	(116)	20,626
Publishing[e]	8,781	20	(22)	8,779	96	8,875
Total	$36,986	$2,495	$(22)	$39,459	$ 208	$39,667

(a) Relates primarily to the recognition of deferred tax liabilities, which were established in the purchase price allocation associated with the Time Warner Entertainment Company, L.P.'s restructuring.

(b) Includes tax reserves and tax purchase price and tax valuation allowance adjustments which had the net impact of decreasing goodwill by approximately $213 million. Also includes various adjustments that were recorded in error in connection with the America Online-Historic TW Merger, which had the net impact of increasing goodwill by approximately $6 million. The adjustments affected multiple segments.

(c) 2004 primarily includes $269 million related to the purchase of Advertising.com and $24 million related to the consolidation of AOLA.

(d) 2004 primarily includes $31 million related to the purchase of the remaining interest in Warner Channel Latin America and $29 million related to the consolidation of Cartoon Network Japan, offset by $25 million related to the sale of the winter sports teams assets as well as the adjustments discussed in (b) above.

(e) 2004 primarily includes $94 million related to the purchase of an additional interest in Synapse Group, Inc.

The Company's intangible assets and related accumulated amortization consisted of the following (millions):

	As of December 31, 2004			As of December 31, 2003		
	Gross	Accumulated Amortization[a][b]	Net	Gross	Accumulated Amortization[a][b]	Net
Intangible assets subject to amortization:						
Film library	$ 3,967	$ (830)	$ 3,137	$ 3,969	$ (608)	$ 3,361
Customer lists and other intangible assets[c]	2,316	(1,561)	755	2,035	(1,167)	868
Total	$ 6,283	$(2,391)	$ 3,892	$ 6,004	$(1,775)	$ 4,229
Intangible assets not subject to amortization:						
Cable television franchises	$31,241	$(1,489)	$29,752	$31,240	$(1,489)	$29,751
Sports franchises	282	(20)	262	282	(20)	262
Brands, trademarks and other intangible assets	9,905	(263)	9,642	9,906	(263)	9,643
Total	$41,428	$(1,772)	$39,656	$41,428	$(1,772)	$39,656

[a] Accumulated amortization for intangible assets not subject to amortization relates to amortization expense recognized prior to the adoption of FAS 142.

[b] Amortization of intangible assets subject to amortization is provided generally on the straight-line method over their respective useful lives. The weighted-average useful lives for the film library and customer lists are 20 years and 5 years, respectively. The Company evaluates the useful lives of its finite-lived intangible assets each reporting period to determine whether events or circumstances warrant revised estimates of useful lives.

[c] The change includes $206 million related to the purchase of Advertising.com for technology ($98 million), advertiser and publisher relationships ($50 million), tradename ($40 million) and non-compete agreements ($18 million).

The Company recorded amortization expense of $626 million in 2004 compared to $640 million in 2003 and $557 million in 2002. Based on the current amount of intangible assets subject to amortization, the estimated amortization expense for each of the succeeding five years is as follows (millions):

2005	$552
2006	394
2007	281
2008	248
2009	239

These amounts may vary as acquisitions and dispositions occur in the future and as purchase price allocations are finalized.

3. MERGER AND RESTRUCTURING COSTS

Merger Costs

In accordance with U.S. generally accepted accounting principles, Time Warner generally treats merger costs relating to business combinations accounted for using the purchase method of accounting as additional purchase price paid. However, certain merger costs do not meet the criteria for capitalization and are expensed as incurred. Certain merger costs were expensed as incurred as they either related to the operations of the acquirer, including the AOL operations with respect to the merger of America Online and Time Warner, now known as Historic TW, or otherwise did not qualify as a liability or cost assumed in a purchase business combination. Merger costs, both capitalized and expensed, are discussed in more detail in the following paragraphs.

Merger Costs Capitalized as a Cost of Acquisition

In connection with the America Online-Historic TW Merger, the Company reviewed its operations and implemented several plans to restructure the operations of both companies ("restructuring plans"). As part of the restructuring plans, the Company accrued a restructuring liability of approximately $1.031 billion during 2001. These restructuring accruals relate to costs to exit and consolidate certain activities of Historic TW, as well as costs to terminate employees across various Historic TW business units. Such amounts were recognized as liabilities assumed in the purchase business combination and included in the allocation of the cost to acquire Historic TW. Accordingly, such amounts resulted in additional goodwill being recorded in connection with the America Online-Historic TW Merger.

Of the total restructuring accrual, approximately $619 million related to work force reductions and represented employee termination benefits and relocation costs. Employee termination costs occurred across most Historic TW business units and ranged from senior executives to line personnel. The total number of employees initially identified to be involuntarily terminated or relocated approximated 5,700, which was reduced to approximately 3,900 by December 31, 2002, as the remaining terminations were no longer expected to occur. Because certain employees can defer receipt of termination benefits, cash payments may continue after the employee was terminated. As of December 31, 2004, out of the remaining liability of $12 million, $7 million was classified as a current liability with the remaining $5 million classified as a long-term liability in the accompanying consolidated balance sheet. Amounts are expected to be paid through 2007.

The restructuring accrual also included approximately $412 million associated with exiting certain activities, primarily related to lease and contract termination costs. Specifically, the Company consolidated certain operations and has exited other under-performing operations, including the Studio Stores operations at the Filmed Entertainment segment and the World Championship Wrestling operations at the Networks segment. The restructuring accrual associated with other exit activities specifically includes contractual termination obligations for items such as lease termination payments and other facility exit costs incurred as a direct result of these plans, which will not have future benefits. As of December 31, 2004, out of the remaining liability of $26 million, $5 million was classified as a current liability with the remaining $21 million classified as a long-term liability in the accompanying consolidated balance sheet. Amounts are expected to be paid through 2009.

Selected information relating to the restructuring costs included in the allocation of the cost to acquire Historic TW is as follows (millions):

	Employee Termination	Other Exit Costs	Total
Initial Accruals	$ 619	$ 412	$1,031
Cash paid — 2001	(248)	(158)	(406)
Restructuring liability as of December 31, 2001	371	254	625
Cash paid — 2002	(156)	(115)	(271)
Noncash reductions[a] — 2002	(114)	(34)	(148)
Restructuring liability as of December 31, 2002	101	105	206
Cash paid — 2003	(47)	(28)	(75)
Noncash reductions[a] — 2003	(26)	(41)	(67)
Restructuring liability as of December 31, 2003	28	36	64
Cash paid — 2004	(14)	(7)	(21)
Noncash reductions[a] — 2004	(2)	(3)	(5)
Restructuring liability as of December 31, 2004	$ 12	$ 26	$ 38

[a] Noncash reductions represent adjustments to the restructuring accrual and a corresponding reduction in goodwill, as actual costs related to employee terminations and other exit costs were less than originally estimated.

Restructuring Costs

In addition to the costs of activities related to the America Online-Historic TW Merger, the Company has also recognized restructuring costs that are unrelated to business combinations and are expensed as incurred.

2004 Restructuring Costs

For the year ended December 31, 2004, the Company incurred restructuring costs of $55 million related to employee terminations at the AOL segment. The number of employees terminated was 861 (770 domestic and 91 internationally). The terminations are expected to be completed in the first quarter of 2005. For the year ended December 31, 2004, payments of $5 million have been made against this accrual.

As of December 31, 2004, a majority of the remaining liability of $50 million was classified as a current liability in the accompanying consolidated balance sheet.

2003 Restructuring Costs

For the year ended December 31, 2003, the Company incurred restructuring costs related to various employee and contractual terminations of $109 million, including $52 million at the AOL segment, $21 million at the Networks segment, $21 million at the Publishing segment and $15 million at the Cable segment. Employee termination costs occurred across each of the segments mentioned above and ranged from senior executives to line personnel. The number of employees expected to be terminated was 974. By the end of the first quarter of 2004, all of the terminations had occurred. During the year ended December 31, 2004, a $5 million reduction in restructuring costs was made in order to reflect changes in estimates of previously established restructuring accruals.

As of December 31, 2004, out of the remaining liability of $40 million, $15 million was classified as a current liability, with the remaining liability of $25 million classified as a long-term liability in the accompanying consolidated balance sheet. Amounts are expected to be paid through 2010.

Selected information relating to the 2003 restructuring costs is as follows (millions):

	Employee Terminations	Other Exit Costs	Total
2003 Accruals	$ 64	$45	$109
Cash paid — 2003	(17)	(1)	(18)
Remaining liability as of December 31, 2003	47	44	91
Cash paid — 2004	(42)	(4)	(46)
Noncash reductions — 2004	(2)	(3)	(5)
Remaining liability as of December 31, 2004	$ 3	$37	$ 40

2002 Restructuring Costs

During the year ended December 31, 2002, the Company incurred and accrued other restructuring costs of $327 million related to various contractual terminations and obligations, including certain contractual employee termination benefits. Of the $327 million of restructuring costs, $266 million related to the AOL segment, $46 million to the Corporate segment and $15 million to the Cable segment.

Included in the 2002 restructuring charge was $131 million related to lease obligations of the AOL segment for network modems that would no longer be used because network providers were upgrading their networks to newer technology. Specifically, under certain existing agreements with network providers, AOL leased the modems used in providing network services. During 2002, a plan was established under which network providers would upgrade and replace the AOL-supplied modems. Accordingly, the Company accrued the remaining lease obligations, less estimated recoveries, for the period that these modems would no longer be in use.

In addition, included in the 2002 restructuring charge was approximately $92 million related to work force reductions and employee termination benefits. Employee termination costs occurred across the AOL, Cable and Corporate segments and ranged from senior executives to line personnel. The number of employees expected to be terminated was approximately 1,000. As of December 31, 2002, all terminations had occurred. The remaining $104 million primarily related to contractual termination obligations for items such as lease termination payments and other facility exit costs. During the second quarter of 2004, a $12 million severance accrual, initially established in 2002, was reversed in connection with the settlement of that accrual with the issuance of options to purchase stock of the Company. The obligation related to the option issuance was valued at $10 million and is reflected in shareholders' equity in the accompanying consolidated balance sheet.

As of December 31, 2004, out of the remaining liability of $27 million, $13 million was classified as a current liability, with the remaining liability of $14 million classified as a long-term liability in the accompanying consolidated balance sheet. Amounts are expected to be paid through 2010.

Selected information relating to the 2002 restructuring costs is as follows (millions):

	Employee Terminations	Other Exit Costs	Total
Initial Accruals	$ 92	$ 235	$ 327
Cash paid — 2002	—	(79)	(79)
Remaining liability as of December 31, 2002	92	156	248
Cash paid — 2003	(40)	(146)	(186)
Remaining liability as of December 31, 2003	52	10	62
Cash paid — 2004	(17)	(6)	(23)
Noncash reductions — 2004	(12)	—	(12)
Remaining liability as of December 31, 2004	$ 23	$ 4	$ 27

Other Charges

In connection with relocating its Corporate headquarters, the Company recorded certain exit costs at the date various floors of the former headquarters facility were no longer being occupied by employees of the Company in accordance with FASB Statement No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." During the first six months of 2004, the Company recorded a $67 million charge, of which $14 million was reversed in the third quarter of 2004 as a result of an agreement having been finalized to lease a portion of the space to the AOL business unit. Of the $53 million charge, approximately $26 million relates to a noncash write-off of an intangible asset recorded in connection with the America Online-Historic TW Merger, representing the favorable terms of the lease relative to market rates at that time. The remaining amount primarily relates to the accrual of the expected loss on the sub-lease of the building, which is expected to be incurred over the remaining term of the lease of approximately ten years, and represents the present value of such obligations.

Through December 31, 2004, payments and other miscellaneous adjustments of $9 million, net of imputed interest, were made against this liability. Of the remaining $18 million at December 31, 2004, $11 million of the accrual is classified as a current liability, with the remaining liability of $7 million classified as a long-term liability in the accompanying balance sheet.

4. SALE OF MUSIC SEGMENT

On October 24, 2003, the Company completed the sale of WMG's CD and DVD manufacturing, printing, packaging and physical distribution operations (together, "Warner Manufacturing") to Cinram International Inc. ("Cinram") for approximately $1.05 billion in cash. In connection with the Warner Manufacturing transaction, the Company entered into long-term arrangements under which Cinram will provide manufacturing, printing, packaging and physical distribution for the Company's DVDs in North America and Europe. The costs incurred under the manufacturing arrangements will be recognized as increases in inventory as the costs are incurred and as a cost of sale when the related product is sold. The Company believes that the terms of the manufacturing arrangements are at market rates and, accordingly, none of the sale proceeds were allocated to the manufacturing arrangements.

On March 1, 2004, the Company sold its WMG recorded music and Warner/Chappell music publishing operations to a private investment group ("Investment Group") for approximately $2.6 billion in cash and an option to reacquire a minority interest in the operations to be sold. The option allows Time Warner to purchase a 15% interest in WMG's recorded music and music publishing operations at any time during the three years following the closing of the transaction or to purchase a 19.9% interest in the event the Investment Group enters into a music merger transaction with another major music business within three years of closing of the transaction. This option will be accounted for in accordance with FASB Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities." The strike price for the option to purchase a 15% interest is equal to 75% of the then estimated equity value of the 15% interest acquired but not less than a pro rata share (i.e., 15%) of the Investment Group's equity purchase price (reduced by a pro rata share of cash distributions). The strike price for the option to purchase a 19.9% interest is equal to a pro rata share (i.e., 19.9%) of the Investment Group's equity purchase price (reduced by a pro rata share of cash distributions) accreted at 8.5% per annum if the transaction is signed prior to March 1, 2005, and if a transaction is signed between March 1, 2005 and March 1, 2007, interest is accreted at 8.5% for the first 15 months and 15% thereafter. To the extent the option is exercised for either the 15% or the 19.9% interest on a gross basis, the Company would account for its interest using the cost method of accounting. The value of the consideration ascribed to the option was approximately $35 million. In the fourth quarter of 2004, the value of the option was increased to $85 million based primarily on the results of the WMG recorded music and publishing business. The $50 million increase in value was recorded in Other income (expense), net in the consolidated statement of operations.

With the closing of the WMG recorded music and music publishing transaction, the Company has disposed of its music operations. Accordingly, the Company has presented the results of operations and financial condition of the Music segment as discontinued operations for all periods presented.

The 2004 income (charges) recorded in the accompanying consolidated statement of operations relate primarily to adjustments to the initial estimates of the assets sold to and liabilities assumed by, the acquirors in such transactions and to the resolution of various tax matters surrounding the music business dispositions.

Financial data of the Music operations, included in discontinued operations for all periods presented, is as follows:

	For the Year Ended December 31,		
	2004	2003	2002
		(millions)	
Total revenues	$780	$4,312	$ 4,205
Pretax loss	(2)	(567)	(1,398)
Income tax benefit	123	72	273
Net income (loss)	121	(495)	(1,125)

As of December 31, 2004, there are $89 million of liabilities associated with the former Music operations. The liabilities are principally related to severance and pension obligations to former employees of the Music segment, which were retained by Time Warner. Assets and liabilities as of December 31, 2003 were as follows (millions):

	December 31, 2003
Receivables, net	$1,014
Inventory	61
Other current assets	600
Property, plant and equipment, net	220
Intangible assets	2,374
Other assets	38
Total assets	$4,307
Current liabilities	$1,574
Noncurrent liabilities[a]	901
Total liabilities	$2,475

[a] Other noncurrent liabilities include deferred taxes of $726 million.

5. OTHER SIGNIFICANT BUSINESS ACQUISITIONS AND DISPOSITIONS

2004 Transactions

Acquisition of Advertising.com

On August 2, 2004, America Online completed the acquisition of Advertising.com for $445 million (net of cash acquired). Advertising.com purchases online advertising inventory from third-party websites and principally sells this inventory using performance-based advertising arrangements. The purchase price allocation for this transaction is still preliminary. As of December 31, 2004, the Company has recorded $269 million of goodwill and $206 million of intangible assets subject to amortization for technology ($98 million), advertising and publisher relationships ($50 million), tradename ($40 million) and non-compete agreements ($18 million) related to the purchase of Advertising.com (Note 2). From the time it was acquired through December 31, 2004, Advertising.com contributed Advertising revenues of $97 million from sales of advertising run on third-party websites.

Sale of the Winter Sports Teams

On March 31, 2004, the Company completed the sale of the Turner winter sports teams (the Atlanta Thrashers, an NHL team, and the Atlanta Hawks, an NBA team) and the entity holding the operating rights to Philips Arena, an Atlanta sports and entertainment venue, to Atlanta Spirit LLC ("Atlanta Spirit"). In addition to the $219 million of impairment charges recognized in 2003, the Company recorded an approximate $7 million loss on the closing of the sale in the first quarter of 2004. As of December 31, 2004, Turner owns an approximate 10% interest in Atlanta Spirit and accounts for its interest in the limited liability company under the equity method of accounting.

Through the date of the sale on March 31, 2004, the winter sports teams had revenues of $66 million and an Operating Loss of $8 million. For the full year of 2003, the winter sports teams contributed approximately $160 million of revenues and an Operating Loss of $37 million.

Consolidation of Warner Village Cinemas S.P.A.

Warner Village Cinemas S.P.A. ("Warner Village") is a joint-venture arrangement that operates cinemas in Italy. Prior to December 2004, this entity was owned 45% by Warner Bros., 45% by Village Cinemas International Pty. Ltd. ("Village Cinemas") and 10% by a third-party investor. The 10% owner was bought out by Warner Bros. and Village Cinemas in December 2004. As previously announced, in April 2004, Warner Bros. and Village Cinemas agreed that: (i) Warner Bros. would control the voting rights associated with Village Cinemas' interest and (ii) beginning in March 2007 and continuing for one year, Village Cinemas can require that both Warner Bros. and Village Cinemas place their collective interests for sale and, to the extent that a bona fide offer is received, can require Warner Bros. to acquire the Village Cinemas interest at that value in the event that Warner Bros. elects not to proceed with such sale. If such right is not exercised by Village Cinemas, the voting rights associated with its interest will revert to Village Cinemas in March 2008.

As a result of controlling Village Cinemas' voting interest, Warner Bros. began consolidating the results of Warner Village in the second quarter of 2004. As permitted by U.S. generally accepted accounting principles, Warner Village results have been consolidated retroactive to the beginning of the year. For the year ended December 31, 2004, Warner Village revenues were $101 million and its Operating Income was $3 million.

2003 Transactions

Sale of Time Life

In December 2003, the Company sold its Time Life Inc. ("Time Life") operations to Direct Holdings Worldwide LLC ("Direct Holdings"), a venture of Ripplewood Holdings LLC and ZelnickMedia Corporation. In connection with the transaction, the Company recognized a loss of $29 million. Under the terms of the sale transaction, the Company did not receive any cash consideration and instead agreed to a contingent consideration arrangement under which it will receive payments in the future if the business sold meets certain performance targets. Specifically, the Company would receive consideration equal to four times the amount by which the average annual earnings before interest, taxes, depreciation and amortization ("EBITDA") over a two-year period exceeds $10 million. Based on the recent performance of Time Life, the Company does not believe, at this time, that it is probable that any additional consideration will be received under this arrangement. The Company will not record this contingent payment as incremental proceeds on the sale of the Time Life business unless and until the point at which all contingencies with regard to the payment have been resolved.

In conjunction with this transaction, the Company entered into multi-year service agreements with Direct Holdings to provide certain fulfillment, customer service and related services primarily for Time Life's European operations. In addition, the Company agreed to license the name "Time Life" to Direct Holdings for ten years, with an additional ten-year renewal option. The Company will receive royalty payments from Direct Holdings beginning in 2005. The Company believes that the terms of the licensing arrangement and fulfillment service agreements are at market rates and, accordingly, no amounts have been allocated to either agreement. Finally, as part of the transaction, the Company provided for up to $13 million in financing to Direct Holdings, of which only $8 million was actually funded and subsequently repaid in the first quarter of 2005.

Sale of U.K. Cinemas

In the second quarter of 2003, the Company recognized a $43 million gain on the sale of its interest in U.K. cinemas, which had previously been consolidated by the Filmed Entertainment segment.

2002 Transactions

AOL Europe (Restated)

On January 31, 2002, Time Warner acquired 80% of Bertelsmann's 49.5% interest in AOL Europe for $5.0 billion as a result of Bertelsmann's exercise of its initial put option. On July 1, 2002, Time Warner acquired the remaining 20% of Bertelsmann's interest for $1.3 billion. Previously, the Company owned a 49.5% preferred interest in AOL Europe. AOL Europe is a leading Internet, online and e-commerce services company in Europe. In connection with the allocation of the purchase price paid by Time Warner to acquire the additional interest in AOL Europe, the AOL segment recognized approximately $6.9 billion of goodwill and subscriber lists with a value of approximately $230 million. The subscriber lists are being amortized over a useful life of five years with no residual value (Note 1).

6. TWE AND TWC INC. RELATED TRANSACTIONS

TWE Restructuring

On March 31, 2003, Time Warner and Comcast Corporation ("Comcast") completed a restructuring of Time Warner Entertainment Company, L.P. ("TWE") (the "TWE Restructuring"). As a result of the TWE Restructuring, Time Warner acquired complete ownership of TWE's content businesses, including Warner Bros., Home Box Office, and TWE's interests in The WB Network, Comedy Central and the Courtroom Television Network ("Court TV"). Additionally, all of Time Warner's interests in the Cable segment, including those that were wholly-owned and those that were held through TWE, are now controlled by a new subsidiary of Time Warner called TWC Inc. As part of the TWE Restructuring, Time Warner received a 79% economic interest in TWC Inc.'s cable systems. TWE is now a subsidiary of TWC Inc.

In exchange for its previous stake in TWE, Comcast: (i) received Time Warner preferred stock, which will be converted into $1.5 billion of Time Warner common stock (Note 12); (ii) received a 21.0% economic interest in TWC Inc.'s cable systems; and (iii) was relieved of $2.1 billion of pre-existing debt at one of its subsidiaries, which was assumed by TWC Inc. as part of the TWE Restructuring.

Comcast's 21% economic interest in TWC Inc.'s cable business is held through a 17.9% direct common ownership interest in TWC Inc. (representing a 10.7% voting interest) and a limited partnership interest in TWE representing a 4.7% residual equity interest. Time Warner's 79% economic interest in TWC Inc.'s cable business is held through an 82.1% common ownership interest in TWC Inc. (representing an 89.3% voting interest) and a limited partnership interest in TWE representing a 1% residual equity interest. Time Warner also holds a $2.4 billion mandatorily redeemable preferred equity interest in TWE.

The additional ownership interests acquired by Time Warner in the TWE Restructuring have been accounted for as a step acquisition, with a total purchase consideration of approximately $4.6 billion. This consideration consisted primarily of the above-noted debt assumed and the issuance of mandatorily convertible preferred stock, as well as an interest in certain cable systems that were previously wholly owned by Time Warner with an approximate value of $1.0 billion.

The purchase consideration has been allocated to the tangible and intangible assets as follows (millions):

Fair value of tangible net assets acquired	$2,337
Intangible assets subject to amortization	504
Intangible assets not subject to amortization	1,402
Goodwill	35
Investment	313
Other assets	62

The intangible assets subject to amortization are comprised of approximately $436 million related to the acquired film library, which is being amortized over approximately 20 years, and approximately $68 million of cable subscriber lists, which are being amortized over four years. The film library and cable subscriber intangible assets were valued based on a discounted cash flow analysis. The assumptions about future cash flows and growth rates were based on the Company's budget and long-term plans. The goodwill balance of $35 million is recorded in the Networks segment.

The intangible assets not subject to amortization of $1.402 billion are comprised of approximately $811 million related to cable franchises and approximately $591 million related to brands and trademarks. The fair value of the cable franchise was determined using both a discounted cash flow and a residual value methodology. The brands and trademark intangible assets were valued using a discounted cash flow methodology. Significant assumptions inherent in a discounted cash flow methodology include estimates of cash flows, discount rates and, in the case of brand and trademarks, royalty rates. Discount rate assumptions are based on an assessment of the risk inherent in the respective intangible assets. Assumptions about royalty rates are based on the rates at which similar intangibles are being licensed in the marketplace. In addition, it was assumed that existing cable franchise agreements would be renewed without material modification to the underlying existing terms and conditions and without incurring substantial cost. Under the residual value method, the fair value of the cable franchise intangible asset was determined to be the difference between the estimated fair value of the incremental 6% interest in Cable acquired and the fair value of remaining cable net assets acquired (including intangible assets other than cable franchise intangible assets). The traditional discounted cash flow method (as determined by an independent valuation specialist) provided a range for the value of the cable franchise intangible asset and the residual value method fell within that range. Pursuant to the recently issued EITF Topic D-108, the Company performed its annual valuation of the franchise intangible assets under FAS 142 based on a discounted cash flow methodology which did not result in an impairment of the franchise intangible asset.

In addition to the allocations above, the Company has recorded approximately $1.4 billion of deferred tax liabilities and a corresponding increase in goodwill for deferred tax liabilities related to the above intangible assets.

Finally, in conjunction with the TWE Restructuring, Comcast's basis in TWC Inc. was stepped up to its estimated fair value and was recorded as an increase in minority interest of $2.362 billion, an increase in intangible assets not subject to amortization of $2.171 billion and an increase in intangible assets subject to amortization of $191 million. The fair value of the Comcast interest was estimated using a combination of a discounted cash flow analysis and a review of market comparisons and recent transactions. The assumptions about future cash flows and growth rates were based on the Company's budget and long-term plans. The discount rates used were based upon an assessment of the risk inherent in the cash flows. In addition, a deferred tax liability of $945 million and a corresponding amount of goodwill related to the step-up in Comcast's basis was recorded.

In connection with the TWE Restructuring, Comcast received (1) customary registration rights relating to its 17.9% interest in the common stock of TWC Inc. and (2) the right, at any time following March 31, 2005, to require TWC Inc. or Time Warner to purchase all or a portion of Comcast's 4.7% limited partnership interest in TWE at an appraised fair market value. The purchase price payable by TWC Inc. or Time Warner as consideration for Comcast's limited partnership interest may be paid in cash, Time Warner or TWC Inc. common stock (if TWC Inc. common stock is then publicly traded) or a combination of cash and stock. Following March 31, 2005, Comcast also has the right to sell all or a portion of its interest in TWE to a third party, subject to rights of first refusal by the Company and TWC Inc. On December 29, 2003, TWC Inc. received a notice from Comcast requesting that TWC Inc. start the registration process under the Securities Act of 1933 for the sale in a firm underwritten offering of Comcast's 17.9% common interest in TWC Inc.

Comcast Tolling and Optional Redemption Agreement

On September 24, 2004, TWC Inc. entered into a Tolling and Optional Redemption Agreement (the "Agreement") with Comcast and certain affiliates of Comcast, including the trust that holds shares of TWC Inc. on behalf of Comcast. Pursuant to the Agreement, Comcast was granted an option (the "Option"), which originally could be exercised between December 1, 2004 and April 1, 2005, to require TWC Inc. to redeem a portion of the TWC Inc. stock held by Comcast in exchange for a TWC Inc. subsidiary with cable systems serving approximately 90,000 basic subscribers as of December 31, 2004, plus approximately $750 million in cash. The Agreement was amended in February 2005 to extend the expiration date of the Option to 60 days following notice by either TWC Inc. or Comcast or, after April 1, 2005, immediately if Comcast irrevocably elects not to exercise the Option. Closing of the transactions contemplated by the Agreement is subject to the exercise of the Option, required governmental and regulatory approvals and other customary closing conditions. As of the date of this filing, Comcast has not exercised the Option.

The Agreement, as amended, also provides that Comcast will not exercise or pursue registration rights with respect to the TWC Inc. stock owned by it until the Option expires. This provision of the Agreement supersedes the Comcast request to TWC Inc. in December 2003 to register its TWC Inc. stock.

Upon entering into the Agreement, no cash consideration was exchanged between the Company and Comcast; however, the Company recorded a liability of approximately $8 million, determined using an option pricing model, in Other current liabilities related to the Option. The liability will be adjusted to reflect fair market value each period in Other income (expense), net until the Option is exercised or expires. A corresponding asset of approximately $8 million was also recorded in Other current assets, representing the value attributable to Comcast's agreement to defer its right to demand registration of the TWC Inc. stock Comcast holds. This asset will be amortized as a component of Operating Income over the six-month deferral period. If the Option is exercised, the Company would account for the transaction as the acquisition of a minority interest through the transfer of cable systems and a payment of $750 million in cash. A gain or loss would be recognized based on the difference between the fair value of the cable systems transferred to Comcast and the Company's book basis in such systems. In addition, the Company would apply purchase accounting to the portion of the TWC Inc. interest indirectly acquired from Comcast. In December 2004, the Company revalued the written option at approximately $1 million and recorded the change in the value of the option in Other income, net.

Restructuring of TWE-Advance/Newhouse and Road Runner Partnerships

Prior to August 1, 2002, TWE-A/N was owned approximately 64.8% by TWE, the managing partner, 33.3% by the Advance/Newhouse Partnership ("Advance/Newhouse") and 1.9% indirectly by Time Warner. The financial position and operating results of TWE-A/N were consolidated by Time Warner and TWE, and the partnership interest owned by Advance/Newhouse was reflected in the consolidated financial statements of Time Warner and TWE as minority interest. In addition, prior to August 1, 2002, Road Runner, a high-speed cable modem Internet service provider, was owned by TWI Cable Inc. (then a wholly owned subsidiary of Time Warner), TWE and TWE-A/N, with Time Warner owning approximately 65% on a fully attributed basis (i.e., after considering the portion attributable to the minority partners of TWE and TWE-A/N). Time Warner's interest in Road Runner was accounted for using the equity method of accounting because of certain approval rights held by Advance/Newhouse.

On June 24, 2002, TWE and Advance/Newhouse agreed to restructure TWE-A/N, which, on August 1, 2002 (the "Debt Closing Date"), resulted in Advance/Newhouse assuming responsibility for the day-to-day operations of certain TWE-A/N cable systems serving approximately 2.1 million subscribers located primarily in Florida (the "Advance/Newhouse Systems"). On the Debt Closing Date, Advance/Newhouse and its affiliates arranged for a new credit facility, which is independent of and not guaranteed by Time Warner, to support the Advance/Newhouse Systems, and assumed and repaid approximately $780 million of TWE-A/N's senior indebtedness. As of the Debt Closing Date, Advance/Newhouse assumed responsibility for the day-to-day operations of the Advance/Newhouse Systems. As a result, Time Warner and TWE have deconsolidated the financial position and operating results of these systems. Additionally, all prior period results associated with the Advance/Newhouse Systems, including the historical minority interest allocated to Advance/Newhouse's interest in TWE-A/N, have been reflected as a discontinued operation for all periods presented. Under the new TWE-A/N Partnership Agreement, effective as of the Debt Closing Date, Advance/Newhouse's partnership interest tracks only the economic performance of the Advance/Newhouse Systems, including associated liabilities, while Time Warner retains all of the economic interests in the other TWE-A/N assets and liabilities. The restructuring was completed on December 31, 2002.

As part of the restructuring of TWE-A/N, on the Debt Closing Date, Time Warner acquired Advance/Newhouse's attributable interest in Road Runner, thereby increasing its ownership to approximately 82% on a fully attributed basis. Time Warner paid approximately $85 million to Advance/Newhouse for its interest in Road Runner. The difference between the proportionate net assets acquired of $15 million and the consideration paid of $85 million was recognized as goodwill ($70 million). As a result of the termination of Advance/Newhouse's minority rights in Road Runner, Time Warner has consolidated the financial position and results of operations of Road Runner with the financial position and results of operations of Time Warner's Cable segment. As permitted under U.S. generally accepted accounting principles, the Company has consolidated the results of Road Runner retroactive to the beginning of 2002.

In connection with the TWE-A/N restructuring, Time Warner recognized a noncash pretax gain of approximately $1.4 billion, which is offset by approximately $1.2 billion of minority interest expense, which were both recorded in discontinued operations in the accompanying consolidated statement of operations. The gain was calculated as the difference between the fair value received in the restructuring (e.g., the Company's increased economic interest in the TWE-A/N cable systems remaining under the management of the Company) and the carrying value surrendered (e.g., the carrying value of the Company's interest in the Advance/Newhouse Systems). In order to determine fair value, in addition to internal analysis, the Company obtained an appraisal from an independent valuation firm. Of this gain, approximately $1.2 billion related to Comcast's interest in the Advance/Newhouse Systems, which is held through the interest in TWE it acquired as part of the merger of the broadband businesses of Comcast and AT&T Corp. ("AT&T"). TWE is a consolidated subsidiary of the Company. This gain is included as part of discontinued operations in the accompanying consolidated statement of operations. However, because this gain relates to Comcast's interest in TWE-A/N, it is offset by an equal amount of minority interest expense, which is similarly included as part of discontinued operations. The remaining pretax gain of $188 million relates to Time Warner's interest in TWE-A/N. The $188 million pretax gain primarily relates to Advance/Newhouse's payment to Time Warner to effectively compensate Time Warner for certain adverse tax consequences incurred as a result of the restructuring. The payment was in the form of Advance/Newhouse assuming more than its pro rata share of TWE-A/N's outstanding debt in the restructuring. The $188 million pretax gain related to Time Warner's interest in TWE-A/N is significantly less than the approximate $1.2 billion gain related to Comcast's interest in TWE-A/N, because the carrying value of Time Warner's interest in TWE-A/N, including its interest in the Advance/Newhouse Systems, was recently adjusted to fair value as part of the purchase accounting for the America Online — Historic TW Merger. Exclusive of the gains associated with these transactions, the impact of the TWE-A/N restructuring on Time Warner's consolidated net income is substantially mitigated because the earnings of TWE-A/N attributable to Advance/Newhouse's historical one-third interest were reflected as minority interest expense. As stated previously, this historical minority interest expense is currently classified as part of the discontinued operations for all periods presented.

Cable Television System Joint Ventures

On May 1, 2004, the Company completed the restructuring of two joint ventures that it manages, Kansas City Cable Partners ("KCCP"), previously a 50-50 joint venture between Comcast and TWE serving approximately 295,000 basic video subscribers as of December 31, 2004, and Texas Cable Partners, L.P. ("TCP"), a previously 50-50 joint venture between Comcast and TWE-A/N serving approximately 1.224 million basic video subscribers as of December 31, 2004. Prior to the restructuring, the Company accounted for its investment in these joint ventures using the equity method. Under the restructuring, KCCP was merged into TCP, which was renamed "Texas and Kansas City Cable Partners, L.P." Following the restructuring, the combined partnership was owned 50% by Comcast and 50% collectively by TWE and TWE-A/N. Since the net assets of the combined partnership were owned 50% by Time Warner Cable and 50% by Comcast both before and after the restructuring and there were no changes in the rights or economic interests of either party, the Company viewed the transaction as a non-substantive reorganization to be accounted for at book value, similar to the transfer of assets under common control. In February 2005, TWE's interest in the combined partnership was contributed to TWE-A/N in exchange for preferred equity in TWE-A/N. TWC Inc. continues to account for its investment in the restructured joint venture using the equity method. Beginning any time after June 1, 2006, either TWC Inc. or Comcast can trigger a dissolution of the partnership. If a dissolution is triggered, the non-triggering party has the right to choose and take full ownership of one of two pools of the combined partnership's systems — one pool consisting of the Houston systems and the other consisting of the Kansas City and southwest Texas systems — with an arrangement to distribute the partnership's debt between the two pools. The party triggering the dissolution would own the remaining pool of systems and any debt associated with that pool.

7. INVESTMENTS, INCLUDING AVAILABLE-FOR-SALE SECURITIES

The Company's investments consist of equity-method investments, fair-value investments, including available-for-sale investments and cost-method investments. Time Warner's investments, by category, consist of:

	December 31, 2004	December 31, 2003
	(millions)	
Equity-method investments	$2,624	$2,486
Fair-value investments, including available-for-sale investments[a]	1,958	888
Cost-method investments[a]	121	396
Total	$4,703	$3,770

[a] The fair value and carrying value of Time Warner's fair-value and cost-method investments, including equity derivative instruments, was approximately $2.079 billion and $991 million, respectively, as of December 31, 2004, and $1.284 billion and $1.165 billion, respectively, as of December 31, 2003.

Equity-Method Investments

Investments in companies in which Time Warner has the ability to exert significant influence, but less than a controlling voting interest, are accounted for using the equity method. This is generally presumed to exist when Time Warner owns between 20% and 50% of the investee. However, in certain circumstances, Time Warner's ownership percentage exceeds 50% but the Company accounts for the investment using the equity method because the minority shareholders hold certain rights that allow them to participate in the day-to-day operations of the business.

At December 31, 2004, investments accounted for using the equity method, and the ownership percentage held by Time Warner, primarily include the following: AOL Canada (80% owned), Time Warner Telecom Inc. ("Time Warner Telecom") (44% owned), certain cable joint ventures (50% owned), Court TV (50% owned) and certain network and filmed entertainment joint ventures (generally 25-50% owned). A summary of combined financial information as reported by these equity investees of Time Warner is set forth below. In 2003, equity investee information was provided for AOLA, which was consolidated during 2004. In 2002, equity investee information was provided for Comedy Central, which was sold during 2003 and AOL Japan, which was consolidated in 2003 and subsequently sold during 2004.

	As of December 31, 2004	As of December 31, 2003
	(millions)	
Current assets	$ 890	$1,038
Noncurrent assets	4,464	4,602
Total assets	5,354	5,640
Current liabilities	892	1,020
Noncurrent liabilities	3,435	3,520
Total liabilities	4,327	4,540
Total shareholders' equity or partners' capital	1,027	1,100

	Years Ended December 31, 2004	2003	2002
		(millions)	
Revenues	$2,824	$2,864	$3,180
Operating income (loss)	335	195	(184)
Net income (loss)	34	(126)	(483)

Time Warner has investments accounted for using the equity method of accounting that are publicly traded, including Time Warner Telecom. Based upon the respective closing share prices as of December 31, 2004, the value of Time Warner's investment in Time Warner Telecom approximated $220 million. As of December 31, 2004, the Company's investment in Time Warner Telecom had a carrying value of zero primarily due to impairments in previous years. The Company's interest in other equity investees approximates the Company's investment balance in that investee.

Fair-Value Investments, Including Available-for-Sale Investments

Investments in companies in which Time Warner does not have a controlling interest or is unable to exert significant influence are accounted for at market value if the investments are publicly traded and resale restrictions of less than one year exist ("available-for-sale investments"). Also included within fair-value investments are equity derivatives and amounts related to the Company's deferred compensation program. The deferred compensation program is an elective program whereby eligible employees may defer a portion of their annual compensation. A corresponding liability is included within current or noncurrent other liabilities as appropriate. The carrying value, unrealized gains, unrealized losses and fair market value of fair-value investments are set forth below.

	December 31, 2004	2003
	(millions)	
Carrying value of available-for-sale investments	$ 870	$769
Gross unrealized gain[(a)(b)]	1,089	120
Gross unrealized loss[(b)]	(1)	(1)
Fair-value investments, including available-for-sale securities	$1,958	$888
Deferred tax liability	$ 435	$ 47

(a) Includes a gross unrealized gain of approximately $965 million related to Google. As of December 31, 2004, the Company owned 5.1 million shares of Google's Class B common stock. As the Company does not consider its interest in Google to be a strategic investment, the total fair value of the Company's interest of approximately $980 million is classified as an available-for-sale investment.

(b) In 2004 and 2003, $25 million and $169 million, respectively, of unrealized gains were reclassified out of Accumulated other comprehensive income (loss), net due to investment sales based on specific identification.

Cost-Method Investments

Investments in companies that are not publicly traded or have resale restrictions greater than one year are accounted for at cost. The Company's cost-method investments typically include investments in start-up companies and investment funds. The Company uses available qualitative and quantitative information to evaluate all cost-method investment impairments at least annually. No single investment individually or in the aggregate is considered significant for the periods presented.

2004 Transactions

In 2004, the Company recognized gains from the sales of certain investments of $453 million, including a $44 million gain related to the sale of the Company's interest in Gateway, Inc. ("Gateway"), a $188 million gain related to the sale of a portion of the Company's interest in Google and a $113 million gain related to the sale of the Company's interest in VIVA Media AG ("VIVA") and VIVA Plus. The Company also recorded a $50 million fair value adjustment related to the Company's option in WMG (Note 4).

2003 Transactions

In 2003, the Company recognized gains from the sales of certain investments of $797 million, including a $513 million gain from the sale of the Company's interest in Comedy Central, a $52 million gain from the sale of the Company's interest in chinadotcom, a $50 million gain from the sale of the Company's interest in Hughes Electronics Corp. ("Hughes") and gains of $66 million on the sale of the Company's equity interest in certain international theater chains not previously consolidated.

2002 Transactions

In 2002, the Company recognized gains from the sale of certain investments of $124 million, including a $59 million gain from the sale of a portion of the Company's interest in Columbia House and a $31 million gain from the redemption of shares in TiVo Inc. ("TiVo").

Equity Derivatives and Investment Write-Downs

If it has been determined that an investment has sustained an other-than-temporary decline in its value, the investment is written down to its fair value, by a charge to earnings. Such an evaluation is dependent on the specific facts and circumstances. Factors that are considered by the Company in determining whether an other-than-temporary decline in value has occurred include: the market value of the security in relation to its cost basis, the financial condition of the investee and the intent and ability to retain the investment for a sufficient period of time to allow for recovery in the market value of the investment.

In evaluating the factors above for available-for-sale securities, management presumes a decline in value to be other-than-temporary if the quoted market price of the security is 20% or more below the investment's cost basis for a period of six months or more (the "20% criterion") or the quoted market price of the security is 50% or more below the security's cost basis at any quarter end (the "50% criterion"). However, the presumption of an other-than-temporary decline in these instances may be overcome if there is persuasive evidence indicating that the decline is temporary in nature (e.g., strong operating performance of investee, historical volatility of investee, etc.). Additionally, there may be instances in which impairment losses are recognized even if the 20% and 50% criteria are not satisfied (e.g., there is a plan to sell the security in the near term and the fair value is below the Company's cost basis).

For investments accounted for using the cost or equity method of accounting, management evaluates information (e.g., budgets, business plans, financial statements, etc.) in addition to quoted market prices, if any, in determining whether an other-than-temporary decline in value exists. Factors indicative of an other-than-temporary decline include recurring operating losses, credit defaults and subsequent rounds of financing at an amount below the cost basis of the investment. This list is not exhaustive, and management weighs all known quantitative and qualitative factors in determining if an other-than-temporary decline in the value of an investment has occurred.

For the year ended December 31, 2004, noncash charges to reflect other-than-temporary declines in the Company's investments were $29 million. These amounts consisted of $15 million to reduce the carrying value of certain investments that experienced other-than-temporary declines in market value and $14 million of losses related to market fluctuations in equity derivative instruments.

For the year ended December 31, 2003, noncash charges to reflect other-than-temporary declines in the Company's investments were $204 million. These amounts consisted of $212 million to reduce the carrying value of certain investments that experienced other-than-temporary declines in market value, offset in part by $8 million of gains related to market fluctuations in equity derivative instruments. Included in the 2003 charges were a writedown of $77 million related to the Company's equity interest in AOL Japan and a $71 million writedown related to the Company's equity interest in n-tv KG ("NTV-Germany").

For the year ended December 31, 2002, noncash charges to reflect other-than-temporary declines in the Company's investments were $2.199 billion. These amounts consisted of $2.212 billion to reduce the carrying value of certain investments that experienced other-than-temporary declines in market value, offset in part by $13 million of gains related to market fluctuations in equity derivative instruments. Included in the $2.212 billion charge relating to other-than-temporary declines in value were noncash charges to reduce the carrying value of the Company's investments in Time Warner Telecom by $796 million, Hughes by $505 million, Gateway by $140 million, AOLA by $131 million and certain unconsolidated cable television system joint ventures by $420 million.

The portion of the above charges relating to publicly traded securities (including equity derivative instruments) was $18 million in 2004, $75 million in 2003 and $1.728 billion in 2002. Equity derivative gains (losses) and writedowns are included as a component of Other income (expense), net, in the accompanying consolidated statement of operations.

While Time Warner has recognized all declines that are believed to be other-than-temporary, it is reasonably possible that individual investments in the Company's portfolio may experience an other-than-temporary decline in value in the future if the underlying investee experiences poor operating results or the U.S. equity markets experience declines in value.

8. MICROSOFT SETTLEMENT

On January 22, 2002, Netscape Communications Corporation ("Netscape"), a subsidiary of America Online, sued Microsoft Corporation ("Microsoft") in the U.S. District Court for the District of Columbia for antitrust violations under Sections 1 and 2 of the Sherman Act, as well as for other common law violations.

On May 29, 2003, Microsoft and Time Warner announced an agreement to settle the pending litigation between Microsoft and Netscape and to collaborate on long-term digital media initiatives that will accelerate the adoption of digital content (the "Microsoft Settlement"). As part of the settlement, Microsoft agreed to pay $750 million to Time Warner and Time Warner agreed to release Microsoft from the Netscape action and related antitrust claims. In addition, Microsoft agreed to a variety of steps designed to ensure that Microsoft and AOL products work better with each other, including giving AOL the same access to early builds of the Microsoft Windows operating system that Microsoft affords to other third parties, as well as providing AOL with seven years of dedicated support by Microsoft engineers who have access to Windows source code, to help AOL with compatibility and other engineering efforts. The digital media initiative also established a long-term, non-exclusive license agreement allowing Time Warner the right, but not the obligation, to use Microsoft's entire Windows Media 9 Series digital media platform, as well as successor Microsoft digital rights management software. Microsoft also agreed to provide AOL with a new distribution channel for its software to certain PC users worldwide. Finally, as part of this settlement, Microsoft agreed to release Time Warner from the obligation to reimburse Microsoft's attorneys' fees in connection with an arbitration ruling under a 1996 distribution agreement.

In determining the gain recognized in connection with the Microsoft Settlement, the Company evaluated the fair value of all elements received in addition to the cash payment of $750 million. The Company has estimated the value of the aggregated noncash elements received in connection with the Microsoft Settlement at approximately $10 million. Accordingly, the total gain recognized by Time Warner as a result of the Microsoft Settlement is approximately $760 million, which is included in Other income (expense), net, in the Company's consolidated statement of operations for the year ended December 31, 2003.

9. INVENTORIES AND FILM COSTS

Inventories and film costs consist of:

	December 31, 2004	December 31, 2003
	(millions)	
Programming costs, less amortization	$ 2,599	$ 2,348
Videocassettes, DVDs, books, paper and other merchandise	522	368
Film costs — Theatrical:		
Released, less amortization	893	918
Completed and not released	60	118
In production	843	904
Development and pre-production	51	104
Film costs — Television:		
Released, less amortization	493	475
Completed and not released	191	270
In production	494	340
Development and pre-production	6	10
Total inventories and film costs[a]	6,152	5,855
Less: current portion of inventory[b]	(1,737)	(1,390)
Total noncurrent inventories and film costs	$ 4,415	$ 4,465

[a] Does not include $3.137 billion and $3.361 billion of net film library costs as of December 31, 2004 and December 31, 2003, respectively, which are included in intangible assets subject to amortization on the accompanying consolidated balance sheet (Note 2).

[b] Current inventory as of December 31, 2004 and December 31, 2003, is comprised of programming inventory at the Networks segment ($1.215 billion and $1.022 billion, respectively), books, magazines, paper and other merchandise at the Publishing segment ($199 million and $196 million, respectively), videocassettes, DVDs and laservision discs at the Filmed Entertainment segment ($318 million and $167 million, respectively) and general merchandise at the AOL segment ($5 million and $5 million, respectively).

Approximately 87% of unamortized film costs for released films are expected to be amortized within three years. Approximately $1.1 billion of the costs of released and completed and not released films are expected to be amortized during the next twelve months.

10. LONG-TERM DEBT AND OTHER FINANCING ARRANGEMENTS

Long-term debt consists of:

	Weighted Average Interest Rate at December 31, 2004	Maturities	2004 Committed Capacity	Letters of Credit[a]	2004 Unused Committed Capacity	Outstanding Debt at December 31, 2004	2003
			(millions)				
Cash and equivalents			$ 6,139	$ —	$ 6,139		
Bank credit agreement debt and commercial paper programs[b]	2.47%	2009	11,000	351	9,126	$ 1,523	$ 2,575
Fixed-rate public debt[b]	7.20%	2005-2036	20,393	—	—	20,393	22,485
Other fixed-rate obligations[c]	8.00%	—	459	—	—	459	685
Total			37,991	351	15,265	22,375	25,745
Debt due within one year[d]			(1,672)	—	—	(1,672)	(2,287)
Total			$36,319	$351	$15,265	$20,703	$23,458

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

(b) The bank credit agreements, commercial paper programs and fixed-rate public debt of the Company rank pari passu with 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 12 years.

(c) Includes obligations under capital leases.

(d) Debt due within one year for 2004 primarily relates to $1 billion of 5.625% Notes due May 2005 and $500 million of 7.75% Notes due June 2005.

Bank Credit Agreements and Commercial Paper Programs

Time Warner Credit Agreement

Time Warner has a $7.0 billion senior unsecured five-year revolving credit facility with a maturity date of June 30, 2009 (the "TW Facility"). The permitted borrowers under the TW Facility are Time Warner and Time Warner Finance Ireland (the "Borrowers"). The obligations of both Time Warner and Time Warner Finance Ireland are directly or indirectly guaranteed by America Online, Historic TW, Turner and Time Warner Companies, Inc. The obligations of Time Warner Finance Ireland are also guaranteed by Time Warner.

Borrowings under the TW Facility bear interest at a rate determined by the credit rating of Time Warner, which rate is currently LIBOR plus 0.39%. In addition, the Borrowers are required to pay a facility fee on the aggregate commitments under the TW Facility at a rate determined by the credit rating of Time Warner, which rate is currently 0.11% per annum. The Borrowers also incur an additional usage fee of 0.10% per annum on the outstanding loans and other extensions of credit under the TW Facility if and when such amounts exceed 50% of the aggregate commitments thereunder.

The TW Facility provides same-day funding and multi-currency capability, and a portion of the commitment, not to exceed $500 million at any time, may be used for the issuance of letters of credit. The TW Facility contains a maximum leverage ratio covenant of 4.5 times consolidated EBITDA of Time Warner and an interest coverage covenant of 2.0 times consolidated cash interest expense of Time Warner. Each of these terms, ratios and related financial metrics is defined in the agreement. At December 31, 2004, the Company was in compliance with all of these covenants, with a leverage ratio and interest coverage ratio, as calculated in accordance with the agreement, of approximately 1.8 times and 5.5 times, respectively. The TW Facility does not contain any credit ratings-based defaults or covenants, or any ongoing covenant or representations specifically relating to a material adverse change in Time Warner's financial condition or results of operations. Borrowings may be used for general corporate purposes, and unused credit is available to support borrowings under commercial paper programs. As of December 31, 2004, there were no loans outstanding and $351 million in outstanding face amount of letters of credit were issued under the TW Facility.

TWC Inc. and TWE Credit Agreement

TWC Inc. and TWE have a $4.0 billion senior unsecured five-year revolving credit facility with a maturity date of November 23, 2009 (the "Cable Facility"). TWC Inc. and TWE have cross-guaranteed their respective obligations under the Cable Facility, and Warner Communications Inc. and American Television and Communications Corporation (both indirect wholly-owned subsidiaries of Time Warner but not subsidiaries of TWC Inc.) have each guaranteed a pro-rata portion of TWE's obligations under the Cable Facility (including TWE's obligations under its guarantee of TWC Inc.'s obligations). There are generally no restrictions on the ability of Warner Communications Inc. and American Television and Communications Corporation to transfer material assets (other than their interests in TWC Inc. or TWE) to parties that are not guarantors.

Borrowings under the Cable Facility bear interest at a rate based on the credit rating of TWC Inc., which rate is currently LIBOR plus 0.39%. In addition, the borrowers are required to pay a facility fee on the aggregate commitments under the Cable Facility at a rate determined by the credit rating of TWC Inc., which rate is currently 0.11% per annum. The borrowers also incur an additional usage fee of 0.10% per annum on the outstanding loans and other extensions of credit under the Cable Facility if and when such amounts exceed 50% of the aggregate commitments thereunder.

The Cable Facility provides same-day funding capability and a portion of the commitment, not to exceed $300 million at any time, may be used for the issuance of letters of credit. The Cable Facility contains a maximum leverage ratio covenant of 5.0 times consolidated EBITDA of TWC Inc. and an interest coverage covenant of 2.0 times consolidated cash interest expense of TWC Inc. Each of these terms, ratios and related financial metrics is defined in the agreement. At December 31, 2004, TWC Inc. was in compliance with all of these covenants, with a leverage ratio and interest coverage ratio, as calculated in accordance with the agreement, of approximately 1.4 times and 6.7 times, respectively. The Cable Facility does not contain any credit ratings-based defaults or covenants, or any ongoing covenant or representations specifically relating to a material adverse change in the financial condition or results of operations of Time Warner, TWC Inc. or TWE. Borrowings may be used for general corporate purposes and unused credit is available to support borrowings under commercial paper programs. As of December 31, 2004, there were no loans or letters of credit outstanding, and approximately $1.523 billion of commercial paper was supported by the Cable Facility.

Commercial Paper Programs

Time Warner maintains a $5.0 billion unsecured commercial paper program. Included as part of the $5.0 billion commercial paper program is a $2.0 billion European commercial paper program under which Time Warner and Time Warner Finance Ireland can issue European commercial paper. The obligations of both Time Warner and Time Warner Finance Ireland are directly and indirectly guaranteed by America Online, Historic TW, Turner and Time Warner Companies, Inc. The obligations of Time Warner Finance Ireland are also guaranteed by Time Warner. Proceeds from the commercial paper program may be used for general corporate purposes, including investments, repayment of debt and acquisitions. Commercial paper borrowings at Time Warner and Time Warner Finance Ireland are supported by the unused committed capacity of the $7.0 billion TW Facility. As of December 31, 2004, there was no commercial paper outstanding under the Time Warner commercial paper programs.

In the second quarter of 2004, TWC Inc. established a $2.0 billion unsecured commercial paper program. TWE continues to maintain its own $1.5 billion unsecured commercial paper program, although the combined total of the unsecured notes outstanding at any time under these commercial paper programs (the "Notes") may not exceed $3.0 billion. Commercial paper borrowings at TWC Inc. and TWE are supported by the unused committed capacity of the $4.0 billion Cable Facility. TWC Inc. is a guarantor of Notes issued by TWE, and TWE is a guarantor of Notes issued by TWC Inc. In addition, Warner Communications Inc. and American Television and Communications Corporation (each indirect wholly-owned subsidiaries of the Company, but not subsidiaries of TWC Inc. or TWE) have each guaranteed a pro-rata portion of the obligations under the Notes, although there are generally no restrictions on the ability of Warner Communications Inc. and American Television and Communications Corporation to transfer material assets (other than their interests in TWC Inc. or TWE) to parties that are not guarantors. The Notes rank pari passu with TWC Inc.'s and TWE's other unsecured senior indebtedness. As of December 31, 2004, there were approximately $1.523 billion of Notes outstanding under the TWC Inc. and TWE commercial paper programs.

TWE Bond Indenture

On November 1, 2004, TWE, TWC Inc., certain other affiliates of the Company, and the Bank of New York, as Trustee, entered into the Ninth Supplemental Indenture to the Indenture governing approximately $3.2 billion of notes issued by TWE (the "TWE bonds"). As a result of this supplemental indenture, Time Warner NY Cable Inc., a subsidiary of TWC Inc. and a general partner of TWE, assumed certain statutorily imposed liabilities with respect to the TWE bonds.

New Line Film Financing Facility

During 2003, the Company's film financing facility for New Line Cinema matured and was not renewed. This facility had provided for borrowings of up to approximately $400 million.

Fixed-Rate Public Debt

Convertible Notes

During December 1999, America Online sold $2.3 billion principal at maturity of Zero-Coupon Convertible Subordinated Notes due December 6, 2019 (the "Zero-Coupon Notes"), and received net proceeds of approximately $1.2 billion. The Zero-Coupon Notes had a 3% yield to maturity and were convertible into Time Warner's common stock at a conversion rate of 5.8338 shares of common stock for each $1,000 principal amount at maturity of the Zero-Coupon Notes (equivalent to a conversion price of $94.4938 per share based on the initial offering price of the Zero-Coupon Notes). During 2004 and 2003, the Company purchased on the open market and retired $219 million and $194 million, respectively, of the face value of these securities. Also, in December 2004, the Company redeemed the remaining Zero-Coupon Notes (other than a small amount of the Zero-Coupon Notes that were exchanged for a nominal amount of common shares), having a face value of approximately $1.9 billion, for approximately $1.2 billion in cash.

Other Publicly Issued Debt

Time Warner and certain of its subsidiaries have various public debt issuances outstanding. At issuance, the maturities of these outstanding debt issues ranged from three to 40 years and the interest rates ranged from 5.625% to 10.15%. At December 31, 2004 and December 31, 2003, the total debt outstanding from these offerings was $20.393 billion and $21.160 billion, respectively.

Capital Leases

The Company has entered into various leases primarily related to network equipment that qualify as capital lease obligations. As a result, the present value of the remaining future minimum lease payments is recorded as a capitalized lease asset and related capital lease obligation in the accompanying consolidated balance sheet. Assets recorded under capital lease obligations totaled $622 million and $573 million as of

December 31, 2004 and 2003, respectively. Related accumulated amortization totaled $396 million and $237 million as of December 31, 2004 and 2003, respectively.

Future minimum capital lease payments at December 31, 2004 are as follows (millions):

2005	$ 125
2006	58
2007	17
2008	2
2009	1
Thereafter	10
Total	213
Amount representing interest	(12)
Present value of minimum lease payments	201
Current portion	(119)
Total long-term portion	$ 82

Interest Expense and Maturities

Interest expense amounted to $1.754 billion in 2004, $1.926 billion in 2003 and $1.870 billion in 2002. The weighted average interest rate on Time Warner's total debt was 6.88% at December 31, 2004, and 6.42% at December 31, 2003; and approximately 6% and 5% for short-term debt at December 31, 2004 and December 31, 2003, respectively. The Company recognized interest income of $221 million in 2004, $192 million in 2003 and $246 million in 2002.

Annual repayments of long-term debt for the five years subsequent to December 31, 2004 consist of $1.682 billion due in 2005, $1.626 billion due in 2006, $1.621 billion due in 2007, $856 million due in 2008, $1.535 billion due in 2009 and $15.037 billion thereafter.

Fair Value of Debt

Based on the level of interest rates prevailing at December 31, 2004, the fair value of Time Warner's fixed-rate debt exceeded its carrying value by $3.007 billion. At December 31, 2003, the fair value of fixed-rate debt exceeded the carrying value by $2.705 billion. Unrealized gains or losses on debt do not result in the realization or expenditure of cash and generally are not recognized for financial reporting purposes unless the debt is retired prior to its maturity.

Other Financing Arrangements

From time to time, the Company enters into various other financing arrangements with special purpose entities ("SPEs"). These arrangements include facilities that provide for the accelerated receipt of cash on certain accounts receivable and film backlog licensing contracts. The Company employs these arrangements because they provide a cost-efficient form of financing, as well as an added level of diversification of funding sources. The Company is able to realize cost efficiencies under these arrangements since the assets securing the financing are held by a legally separate, bankruptcy-remote SPE and provide direct security for the funding being provided. These arrangements do not contain any rating-based defaults or covenants. The assets and financing associated with these arrangements, which are discussed in more detail in the following paragraphs, generally qualify for off-balance sheet accounting treatment.

Accounts Receivable Securitization Facilities

Time Warner has certain accounts receivable securitization facilities that provide for the accelerated receipt of up to $805 million of cash on available accounts receivable. As of December 31, 2004, Time Warner had unused capacity under these facilities of $97 million, representing the amount of cash that could be generated through the sale of additional qualifying accounts receivable. In connection with each of these securitization facilities, Time Warner sells, on a revolving and nonrecourse basis, a percentage ownership interest in certain of its accounts receivable ("Pooled Receivables") through a SPE to third-party commercial paper conduits sponsored by financial institutions. These securitization transactions are accounted for as sales in accordance with FAS 140, because the Company has relinquished control of the receivables. Accordingly, accounts receivable sold under these facilities are excluded from receivables in the accompanying consolidated balance sheet.

As proceeds for the accounts receivable sold to the SPE, Time Warner receives cash, which there is no obligation to repay, and an interest-bearing retained interest, which is included in receivables on the accompanying consolidated balance sheet. In addition, Time Warner services the Pooled Receivables on behalf of the SPE. Income received by Time Warner in exchange for this service is equal to the prevailing market rate for such services and has not been material in any period. The retained interest, which has been adjusted to reflect the portion that is not expected to be collectible, bears an interest rate that varies with the prevailing market interest rates. The retained interest may become uncollectible to the extent that the SPE has credit losses and operating expenses. For this reason and because the accounts receivable underlying the retained ownership interest sold to the SPE are generally short-term in nature, the fair value of the retained interest approximated its carrying value at both December 31, 2004 and December 31, 2003. The retained interest related to the sale of Pooled Receivables to a SPE is reflected in receivables on the Company's consolidated balance sheet, and was $1.084 billion at December 31, 2004 and $839 million at December 31, 2003. Net proceeds repaid under Time Warner's accounts receivable securitization programs were $151 million in 2004 and $204 million in 2003.

On December 3, 2004, the securitization program for publishing advertising receivables was terminated. Prior to termination, the facility had $200 million of available capacity.

Backlog Securitization Facility

Time Warner also has a backlog securitization facility, which effectively provides for the accelerated receipt of up to $500 million of cash on available licensing contracts. Assets securitized under this facility consist of cash contracts for the licensing of theatrical and television product for broadcast network and syndicated television exhibition, under which revenues have not been recognized because such product is not available for telecast until a later date ("Backlog Contracts"). In connection with this securitization facility, Time Warner sells, on a revolving basis without credit recourse, an undivided interest in the Backlog Contract receivables to multi-seller third-party commercial paper conduits. The Company is not the primary beneficiary with regard to these commercial paper conduits and accordingly does not consolidate their operations. As of December 31, 2004, Time Warner had approximately $52 million of unused capacity under this facility.

Because the Backlog Contracts securitized under this facility consist of cash contracts for the licensing of theatrical and television product that has already been produced, the recognition of revenue for such completed product is principally dependent upon the commencement of the availability period for telecast under the terms of the licensing agreements. Accordingly, the proceeds received under the program are classified as deferred revenue in long-term liabilities in the accompanying consolidated balance sheet. The amount of deferred revenue, net of required reserves, reflected on Time Warner's accompanying consolidated balance sheet related to the backlog securitization facility was $437 million and $491 million at December 31, 2004 and December 31, 2003, respectively. Total filmed entertainment backlog contracts outstanding were approximately $3.7 billion at December 31, 2004 and $3.9 billion at December 31, 2003.

Film Sale-Leaseback Arrangements

From time to time the Company has entered into arrangements where certain film assets are sold to third-party investors that generate tax benefits to the investors that are not otherwise available to the Company. The forms of these transactions differ, but it is generally that of a sale-leaseback arrangement with a third-party SPE. Such SPEs are capitalized with approximately $3.7 billion of debt and equity from the third-party investors. The Company does not guarantee and is not otherwise responsible for the equity and debt in these SPEs and does not participate in the profits or losses of these SPEs but does have a performance guarantee to produce such films. Accordingly, the Company does not consolidate these SPEs. Instead, the Company accounts for these arrangements based on their substance. That is, the net benefit paid to the Company from these transactions is recorded as a reduction of film costs. These transactions resulted in reductions of film costs totaling $177 million, $80 million and $60 million for the years ended December 31, 2004, 2003 and 2002, respectively.

Once executed, the sale-leaseback arrangement obligates the Company to deliver a completed film to the SPE. As of December 31, 2004, the Company is obligated (based on current production budgets) to spend approximately $440 million to complete films covered by these arrangements.

Covenants and Rating Triggers

Each of the Company's bank credit agreements, public debt and financing arrangements with SPEs contain customary covenants. A breach of such covenants in the bank credit agreements that continues beyond any grace period constitutes a default, which can limit the Company's ability to borrow and can give rise to a right of the lenders to terminate the applicable facility and/or require immediate payment of any outstanding debt. A breach of such covenants in the public debt beyond any grace period constitutes a default which can require immediate payment of the outstanding debt. A breach of such covenants in the financing arrangements with SPEs that continues beyond any grace period can constitute a termination event, which can limit the facility as a future source of liquidity; however, there would be no claims on the Company for the receivables or backlog contracts previously sold. Additionally, in the event that the Company's credit ratings decrease, the cost of maintaining the bank credit agreements and facilities and of borrowing increases and, conversely, if the ratings improve, such costs decrease. There are no rating-based defaults or covenants in the credit agreements, public debt or financing arrangements with SPEs.

As of December 31, 2004, and through the date of this filing, the Company was in compliance with all covenants. Management does not foresee that the Company will have any difficulty in the foreseeable future complying with the existing covenants.

11. INCOME TAXES

Domestic and foreign income (loss) before income taxes, discontinued operations and cumulative effect of accounting change is as follows:

	Years Ended December 31,		
	2004	2003 (restated)	2002 (restated)
		(millions)	
Domestic	$4,517	$4,393	$(41,431)
Foreign	390	123	(226)
Total	$4,907	$4,516	$(41,657)

Current and deferred income taxes (tax benefits) provided are as follows:

	Years Ended December 31, 2004	2003 (restated)	2002 (restated)
		(millions)	
Federal:			
Current[a]	$ 191	$ (6)	$249
Deferred	1,030	824	(229)
Foreign:			
Current[b]	206	286	176
Deferred	35	(4)	18
State and Local:			
Current[a]	147	121	168
Deferred	89	149	(69)
Total	$1,698	$1,370	$313

(a) Excludes federal, state and local tax benefits of $222 million in 2004, $162 million in 2003 and $265 million in 2002 resulting from the exercise of stock options and vesting of restricted stock awards, which were credited directly to paid-in-capital except for $25 million in 2004, which was credited to goodwill.

(b) Includes foreign withholding taxes of $149 million in 2004, $150 million in 2003 and $124 million in 2002.

In addition, the Company recorded an income tax benefit on discontinued operations in 2004, 2003 and 2002 of $123 million, $72 million and $196 million, respectively. The effective tax rate on discontinued operations differs from the statutory rate due primarily to adjustments to the initial estimates of the assets sold to, and liabilities assumed by, the acquirers in the music transactions and to the resolution of various tax matters surrounding the music business dispositions in 2004, to foreign income taxed at different rates and state and local income taxes in 2003, and to non-deductible goodwill impairment in 2002.

The differences between income taxes expected at the U.S. federal statutory income tax rate of 35% and income taxes provided are as set forth below:

	Years Ended December 31, 2004	2003 (restated)	2002 (restated)
		(millions)	
Taxes on income at U.S. federal statutory rate	$1,718	$1,581	$(14,580)
State and local taxes, net of federal tax benefits	174	222	65
Nondeductible goodwill amortization and impairments	—	8	14,879
Legal reserves related to the government investigations	126	—	—
Other nondeductible expenses	10	23	14
Foreign income taxed at different rates, net of U.S. foreign tax credits (including benefits associated with certain foreign source income, i.e. extraterritorial income exclusion)	(156)	(68)	(25)
Capital loss utilization	(110)	(450)	—
Other	(64)	54	(40)
Total	$1,698	$1,370	$ 313

Significant components of Time Warner's net deferred tax liabilities are as follows:

	December 31, 2004	December 31, 2003 (restated)
	(millions)	
Assets acquired in business combinations	$15,344	$15,738
Depreciation and amortization	2,293	1,761
Unrealized appreciation of certain marketable securities	466	78
Unremitted earnings of foreign subsidiaries	47	26
Other	1,139	794
Deferred tax liabilities	19,289	18,397
Tax attribute carryforwards	4,191	5,795
Accrued liabilities	40	95
Receivable allowances and return reserves	364	365
Investments	1,037	1,094
Other	811	684
Valuation allowance[a]	(2,097)	(2,291)
Deferred tax assets	4,346	5,742
Net deferred tax liability[b]	$14,943	$12,655

[a] The Company has recorded valuation allowances for certain tax attributes. At this time, sufficient uncertainty exists regarding the future realization of these deferred tax assets. Tax attributes and related valuation allowances of approximately $1.5 billion were recorded through additional paid-in-capital and goodwill. Therefore, if in the future the Company believes that it is more likely than not that these deferred tax benefits will be realized, the valuation allowances will be reversed against additional paid-in-capital and goodwill.

[b] The deferred tax liability balance at December 31, 2004 increased during the year due primarily to deferred tax liabilities recorded as part of the current year tax provision and deferred tax liabilities recorded in connection with unrealized appreciation of certain marketable securities.

U.S. income and foreign withholding taxes have not been recorded on permanently reinvested earnings of certain foreign subsidiaries aggregating approximately $1.2 billion at December 31, 2004. Determination of the amount of unrecognized deferred U.S. income tax liability with respect to such earnings is not practicable. On October 22, 2004, the American Jobs Creation Act was signed into law and provided a special one-time deduction of 85% of certain foreign earnings that are repatriated. The Company is currently in the process of evaluating the impact of the repatriation provision but is unable to reasonably estimate the income tax effects at this time. The Company expects to complete its evaluation after pending Congressional and Treasury guidance is published.

U.S. federal tax attribute carryforwards at December 31, 2004, consist primarily of $6.9 billion of net operating losses, $607 million of capital losses and $166 million of alternative minimum tax credits. The utilization of these carryforwards as an available offset to future taxable income is subject to limitations under U.S. federal income tax laws. If the net operating losses are not utilized, they expire in varying amounts, starting in 2018 and continuing through 2021. The capital losses expire in 2008 and the alternative minimum tax credits do not expire.

In the normal course of business, the Company takes positions on its tax returns that may be challenged by domestic and foreign taxing authorities. Certain of these tax positions arise in the context of transactions involving the purchase, sale or exchange of businesses or assets. All such transactions are subject to substantial tax due diligence and planning, in which the underlying form, substance and structure of the transaction is evaluated. Although the Company believes it has support for the positions taken on its tax return, the Company has recorded a liability for its best estimate of the probable loss on certain of these transactions. This liability is included in other long term liabilities. The Company does not expect the final resolution of tax examinations to have a material impact on the Company's financial results.

12. PREFERRED SECURITIES

Mandatorily Redeemable Preferred Securities

In February 2002, the Company purchased all of the 2,082,231 preferred securities issued by AOL Europe with a liquidation preference of $215 million for $255 million in cash, including accumulated dividends. In April 2003, the Company purchased all of the remaining 725,000 outstanding shares of redeemable preferred securities of AOL Europe with a liquidation preference of $725 million for $813 million in cash including accumulated dividends.

Mandatorily Convertible Preferred Stock

The Company has outstanding one share of its Series A mandatorily convertible preferred stock, par value $0.10 per share (the "Series A Preferred Stock"), held by a trust for the benefit of Comcast, that was issued on March 31, 2003, as part of the TWE Restructuring. The Series A Preferred Stock is not entitled to receive a dividend, has a liquidation preference of $0.10 per share and, after payment of the liquidation preference, would participate on a pro rata basis with the common stock in the event of a liquidation of the Company. The holder of the Series A Preferred Stock is entitled to vote on all matters submitted to shareholders of the Company and votes with the holders of common stock as a class, with the Series A Preferred Stock having a number of votes equal to 134,245,006 shares of common stock. Upon conversion, the Series A Preferred Stock will be converted into shares of the Company's common stock having a value equal to $1.5 billion, based on the value of the Company's common stock at the time of conversion, up to a maximum of 225,056,264 shares. The Series A Preferred Stock will be converted upon the earliest to occur of (i) the date a registration statement providing for the resale of the shares of common stock received on conversion is declared effective, (ii) the occurrence of specified events such as a merger of the Company or (iii) the second anniversary of the closing of the TWE Restructuring, i.e., on March 31, 2005. As of December 31, 2004, the Series A Preferred Stock would be converted into 77,120,823 shares of common stock of the Company.

13. SHAREHOLDERS' EQUITY

Shares Authorized and Outstanding

At December 31, 2004, shareholders' equity of Time Warner included 105.7 million shares of Series LMCN-V common stock and 4.483 billion shares of common stock (net of approximately 81 million shares of common stock in treasury). As of December 31, 2004, Time Warner was authorized to issue up to 750 million shares of preferred stock, up to 25 billion shares of common stock and up to 1.8 billion shares of additional classes of common stock, including Series LMCN-V common stock. Of the preferred stock authorization, one share of Series A Preferred Stock has been authorized and issued in connection with the TWE Restructuring. Shares of Series LMCN-V common stock have substantially identical rights as shares of Time Warner's common stock, except that shares of Series LMCN-V common stock have limited voting rights and are nonredeemable. The holders of Series LMCN-V common stock are entitled to 1/100 of a vote per share on the election of directors and do not have any other voting rights, except as required by law or with respect to limited matters, including amendments to the terms of the Series LMCN-V common stock adverse to such holders. The Series LMCN-V common stock is not transferable, except in limited circumstances, and is not listed on any securities exchange. Each share of Series LMCN-V common stock is convertible into one share of Time Warner common stock at any time, assuming certain restrictive provisions have been met. During 2004, 65.5 million shares of LMCN-V common stock were converted into common stock.

Common Stock Repurchase Program

In 2002, the Company concluded a common stock repurchase program. During 2002, the Company repurchased approximately 3.6 million shares at a total cost of $102 million. The Company currently does not have a stock repurchase program.

Dilutive Securities

Time Warner had convertible securities and outstanding stock options that were convertible or exercisable into approximately 704 million shares of the Company's common stock at December 31, 2004, 747 million shares of the Company's common stock at December 31, 2003 and 671 million shares at December 31, 2002.

Paid-in-Capital

During 2002, prior to the purchase of its interest in TWE by Comcast, AT&T exercised an option to increase its ownership in certain capital accounts of TWE by approximately 2.13%. Time Warner's corresponding interests in TWE decreased by the same amount. In accordance with the SEC's Staff Accounting Bulletin No. 51, "Accounting for Sales of Stock of a Subsidiary," Time Warner reflected the pretax impact of the dilution of its interest in TWE of approximately $690 million as an adjustment to paid-in-capital.

14. STOCK-BASED COMPENSATION PLANS

Stock Option Plans

The Company has various stock option plans under which it may grant options to purchase Time Warner common stock to employees of Time Warner and its subsidiaries. Such options have been granted to employees of Time Warner and its subsidiaries with exercise prices equal to, or in excess of, fair market value at the date of grant. Accordingly, in accordance with APB 25 and related interpretations, compensation cost generally is not recognized for these stock option plans. Generally, the options become exercisable ratably, over a four-year vesting period, and expire ten years from the date of grant.

For purposes of applying FAS 123, the fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions used for grants in 2004, 2003 and 2002: dividend yields of 0% in all periods; expected volatility of 34.9%, 53.9% and 52.9%, respectively; risk-free interest rates of 3.07%, 2.56% and 4.12%, respectively; and expected terms to exercise of 1.10 years after vesting for 2004, .61 years after vesting for 2003 and .47 years after vesting for 2002. In 2004, the Company evaluated expected volatility and used an average of historic and implied volatilities to better reflect future volatility for stock option grants over the expected terms. Expected volatility in 2003 and 2002 was based on historic volatilities. The weighted-average fair value of an option granted during the year was $5.12 ($3.07, net of taxes), $4.15 ($2.49, net of taxes) and $9.65 ($5.79, net of taxes) for the years ended December 31, 2004, 2003 and 2002, respectively.

A summary of stock option activity under all plans is as follows:

	Thousands of Shares	Weighted-Average Exercise Price
Balance at December 31, 2001	627,315	$31.88
2002 Activity:		
Options exchanged for outstanding AOL Europe options	8,780	40.80
Granted	115,033	25.22
Exercised	(49,786)	6.31
Cancelled	(43,902)	44.76
Balance at December 31, 2002	657,440	31.91
2003 Activity:		
Granted	96,867	10.91
Exercised	(53,697)	6.96
Cancelled	(50,008)	36.67
Balance at December 31, 2003	650,602	30.48
2004 Activity:		
Granted	70,839	17.27
Exercised	(49,414)	7.14
Cancelled	(53,029)	35.45
Balance at December 31, 2004	618,998	30.41

	December 31,		
	2004	2003	2002
		(thousands)	
Exercisable	421,576	409,533	403,629
Available for future grants	159,921	220,611	118,193

The following table summarizes information about stock options outstanding at December 31, 2004:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding as of 12/31/04	Weighted-Average Remaining Contractual Life (in Years)	Weighted-Average Exercise Price	Number Exercisable as of 12/31/04	Weighted-Average Exercise Price
	(thousands)			(thousands)	
Under $10.00	34,643	2.27	$ 4.32	34,452	$ 4.33
$10.01 to $15.00	135,225	5.61	11.45	78,853	12.08
$15.01 to $20.00	89,209	8.15	17.13	15,578	16.81
$20.01 to $30.00	95,795	6.23	25.82	61,836	25.42
$30.01 to $45.00	40,822	5.63	38.03	34,368	38.26
$45.01 to $50.00	148,020	5.65	48.06	125,110	48.02
$50.01 to $60.00	59,930	5.44	56.79	57,964	56.87
$60.01 to $90.00	15,277	5.57	68.43	13,338	68.59
$90.01 and above	77	4.96	97.38	77	97.38
Total	618,998	5.88 years	30.41	421,576	34.34

For options exercised by employees of TWC Inc. and its subsidiaries, Time Warner is reimbursed by TWC Inc. and its subsidiaries for the amount by which the market value of Time Warner common stock exceeds the exercise price on the exercise date. There were 48.4 million options held by employees of TWC Inc. and its subsidiaries at December 31, 2004, 25.9 million of which were exercisable.

Restricted Stock Plans

Time Warner also has various restricted stock plans for employees and non-employee directors of the Board. Under these plans, shares of common stock are granted which do not vest until the end of a restriction period, generally in installments over three to five years or in one installment between three to five years after grant. During 2004, Time Warner issued approximately 2.1 million shares of restricted stock at a weighted-average fair value of $17.27. During 2003, Time Warner issued approximately 4.4 million shares of restricted stock at a weighted-average fair value of $12.32. The Company did not issue restricted stock in 2002.

15. BENEFIT PLANS

Time Warner and certain of its subsidiaries have both funded and unfunded noncontributory defined benefit pension plans covering a majority of domestic employees, and to a lesser extent, have various defined benefit plans covering international employees. Pension benefits are 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 the majority of its plans. A summary of activity for Time Warner's domestic and international defined benefit pension plans is as follows:

Benefit Obligations — Defined Benefit Plans

	Domestic December 31,		International December 31,	
	2004	2003	2004	2003
	(millions)		(millions)	
Change in benefit obligations				
Projected benefit obligation, beginning of year	$2,355	$2,014	$517	$409
Service cost	119	106	22	21
Interest cost	156	144	31	26
Actuarial loss	205	244	51	27
Benefits paid	(146)	(104)	(6)	(2)
Amendments to plan provisions	—	1	—	—
Settlements and curtailments	—	(50)	—	(5)
Foreign currency exchange rates	—	—	39	41
Projected benefit obligation, end of year	$2,689	$2,355	$654	$517
Accumulated benefit obligation	$2,356	$2,060	$600	$458

Plan Assets — Defined Benefit Plans

	Domestic		International	
	December 31,		December 31,	
	2004	2003	2004	2003
	(millions)		(millions)	
Change in plan assets				
Fair value of plan assets, beginning of year	$2,188	$1,244	$447	$287
Actual return on plan assets	242	405	52	49
Employer contributions	358	648	45	84
Benefits paid	(146)	(104)	(6)	(2)
Settlements and curtailments	—	(5)	—	—
Foreign currency exchange rates	—	—	33	29
Fair value of plan assets, end of year	$2,642	$2,188	$571	$447

Funded Status

	Domestic		International	
	December 31,		December 31,	
	2004	2003	2004	2003
	(millions)		(millions)	
End of year				
Fair value of plan assets	$2,642	$2,188	$571	$447
Benefit obligations	2,689	2,355	654	517
Funded status	(47)	(167)	(83)	(70)
Unrecognized net actuarial loss	750	665	137	104
Unrecognized prior service cost	30	34	—	—
Net amount recognized	$ 733	$ 532	$ 54	$ 34

Amounts recognized in the consolidated balance sheet consist of:

	Domestic		International	
	December 31,		December 31,	
	2004	2003	2004	2003
	(millions)		(millions)	
Prepaid benefit cost	$ 921	$ 709	$ 67	$ 48
Accrued benefit cost	(279)	(254)	(62)	(31)
Intangible assets	18	22	—	—
Accumulated other comprehensive income	73	55	49	17
Net amount recognized	$ 733	$ 532	$ 54	$ 34

Included in the change in benefit obligation table previously provided are projected benefit obligations and accumulated benefit obligations for domestic unfunded defined benefit pension plans:

	Domestic December 31, 2004	Domestic December 31, 2003
	(millions)	
Projected benefit obligation	$263	$244
Accumulated benefit obligation	$279	$254

For the domestic plans, as of December 31, 2004 and 2003, plan assets exceeded accumulated benefit obligations in the funded pension plans. The projected benefit obligation, accumulated benefit obligation, and fair value of plan assets for international funded pension plans with accumulated benefit obligation in excess of plan assets was $244 million, $232 million, and $192 million, respectively, for the year ended December 31, 2004 and $339 million, $299 million, and $279 million, respectively, for the year ended December 31, 2003.

	Domestic December 31,			International December 31,		
	2004	2003	2002	2004	2003	2002
		(millions)			(millions)	
Components of Net Periodic Costs						
Service cost	$ 119	$ 106	$ 78	$ 22	$ 21	$ 20
Interest cost	156	144	127	31	26	19
Expected return on plan assets	(173)	(122)	(127)	(36)	(23)	(22)
Amortization of prior service cost	4	4	1	—	—	—
Amortization of net (gain) loss	50	70	15	6	5	—
Net periodic benefit costs	$ 156	$ 202	$ 94	$ 23	$ 29	$ 17

In addition, certain domestic employees of the Company participate in multi-employer pension plans, not included in the net periodic cost above, as to which the expense amounted to $54 million in 2004, $52 million in 2003 and $47 million in 2002.

Assumptions

Weighted-average assumptions used to determine benefit obligations at December 31,

	Domestic			International		
	2004	2003	2002	2004	2003	2002
Discount rate	6.00%	6.25%	6.75%	5.35%	5.50%	5.65%
Rate of compensation increase	4.50%	4.50%	4.50%	3.90%	3.80%	3.70%

Weighted-average assumptions used to determine net periodic benefit cost for years ended December 31,

	Domestic			International		
	2004	2003	2002	2004	2003	2002
Discount rate	6.25%	6.75%	7.50%	5.50%	5.65%	5.85%
Expected long-term return on plan assets	8.00%	8.00%	9.00%	7.25%	7.55%	7.50%
Rate of compensation increase	4.50%	4.50%	4.50%	3.80%	3.70%	3.95%

For domestic plans, the discount rate was determined by comparison against the Moody's Aa Corporate Index rate, adjusted for coupon frequency and duration of the obligation. The discount rate for international plans was determined by comparison against country-specific Aa Corporate Indices, adjusted for duration of the obligation. In developing the expected long-term rate of return on assets, the Company considered the pension portfolio's composition past average rate of earnings and discussions with portfolio managers. The expected long-term rate of return for domestic plans is based on an asset allocation assumption of 75% equities and 25% fixed-income securities. A similar approach has been utilized in selecting the expected long-term rate of return for plans covering international employees. The expected rate of return for each plan is based upon its expected asset allocation.

Plan Assets

Time Warner's pension plan weighted-average asset allocations at December 31, 2004 and 2003, by asset category, are as follows:

	Domestic December 31,		International December 31,	
	2004	2003	2004	2003
	(millions)		(millions)	
Equity securities	75%	76%	72%	73%
Debt securities	25%	24%	28%	27%
Total	100%	100%	100%	100%

The Company's investment strategy for its domestic pension plans is to maximize the long-term rate of return on plan assets within an acceptable level of risk while maintaining adequate funding levels. The Company's practice is to conduct a strategic review of its asset allocation strategy every five years. The Company's current broad strategic targets are to have a pension asset portfolio comprising 75% equity securities and 25% fixed-income securities. A portion of the fixed-income allocation is reserved in short-term cash to provide for expected benefits to be paid in the short term. The Company's equity portfolios are managed to achieve optimal diversity. The Company's fixed-income portfolio is investment-grade in the aggregate. The Company does not manage any assets internally, does not have any passive investments in index funds and does not utilize hedging, futures or derivative instruments.

The domestic pension plan assets include 4.4 million shares of Time Warner common stock in the amount of $86 million (3% of total plan assets) at December 31, 2004, and 4.4 million shares in the amount of $80 million (4% of total plan assets) at December 31, 2003.

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 December 31, 2004, there were no minimum required contributions for domestic funded plans and no discretionary or noncash contributions are currently planned. For domestic unfunded plans, contributions will continue to be made to the extent benefits are paid. Expected benefit payments for domestic unfunded plans for 2005 is approximately $16 million. In addition, the Company expects to fund an additional $16 million in connection with international plans in 2005.

Information about the expected benefit payments for the Company's defined benefit plans is as follows (millions):

	Domestic	International
Expected benefit payments:		
2005	$90	$10
2006	95	10
2007	104	11
2008	109	12
2009	115	14
2010 — 2014	689	99

Defined contribution plans

Time Warner has certain domestic defined contribution plans, including savings and profit sharing plans, for which the expense amounted to $134 million in 2004, $130 million in 2003 and $113 million in 2002. The Company's contributions to the savings plans are based upon a percentage of the employees' elected contributions and are subject to plan provisions.

Other postretirement benefit plans

Time Warner also sponsors several unfunded other domestic postretirement benefit plans covering certain retirees and their dependents. Included in other long-term liabilities in the consolidated balance sheet are $173 million for the years ended December 31, 2004 and 2003, related to these plans. In addition, the Company recognized expense of $17 million, $19 million and $15 million related to these plans for the years ended December 31, 2004, 2003 and 2002, respectively.

16. DERIVATIVE INSTRUMENTS

Time Warner uses derivative instruments, principally forward and swap contracts, to manage the risk associated with movements in foreign currency exchange rates, the risk that changes in interest rates will affect the fair value or cash flows of its debt obligations and equity price risk in the Company's investment holdings. The following is a summary of Time Warner's risk management strategies and the effect of these strategies on Time Warner's consolidated financial statements.

Foreign Currency Risk Management

Foreign exchange derivative contracts are used primarily by Time Warner to manage the risk associated with volatility of future cash flows denominated in foreign currencies, primarily the British pound and the Euro, and changes in fair value resulting from changes in foreign currency exchange rates, primarily changes in the British pound and the Euro. As part of its overall strategy to manage the level of exposure to the risk of foreign currency exchange rate fluctuations, Time Warner hedges a portion of its foreign currency exposures anticipated over an eighteen-month period beginning in January of each year (the "hedging period"). Foreign exchange contracts are placed with a number of major financial institutions in order to minimize credit risk. The Company's most common use of foreign exchange derivative contracts relate to hedging (a) unremitted or forecasted future royalties and license fees to be received from the sale or anticipated sale of U.S. copyrighted products abroad, (b) foreign currency denominated assets and liabilities, (c) certain foreign currency denominated film production costs abroad and (d) other forecasted foreign currency denominated transactions. Time Warner records these foreign exchange contracts at fair value in Prepaid expenses and Other current assets or other current liabilities in the consolidated balance sheet, depending on whether the contracts are in a net gain or net loss position. Derivative instruments that are used to hedge exposures to variability in foreign-currency-denominated cash flows are designated as cash flow hedges. Derivative instruments that are used to hedge the currency risk associated with foreign-currency-denominated assets and liabilities and unrecognized foreign-currency-denominated firm commitments are designated as fair value hedges. The Company does not use foreign exchange derivative contracts for speculative purposes.

At December 31, 2004, Time Warner had contracts for the sale of $3.375 billion and the purchase of $1.714 billion of foreign currencies at fixed rates, including net contracts for the sale of $496 million of the British pound and $825 million of the Euro. At December 31, 2003, Time Warner had contracts for the sale of $3.544 billion and the purchase of $1.934 billion of foreign currencies at fixed rates, including net contracts for the sale of $692 million of the British pound and $633 million of the Euro. At December 31, 2002, Time Warner had contracts for the sale of $975 million and the purchase of $911 million of foreign currencies at fixed rates, including net contracts for the sale of $156 million of the Euro and net contracts for the purchase of $190 million of the British pound. For the years ended December 31, 2004, 2003 and 2002, Time Warner recognized losses of $177 million, $149 million and gains of $16 million, respectively, on foreign exchange contracts. Such amounts were largely offset by corresponding gains (losses in 2002) from the transactions being hedged.

Cash Flow Hedges

For cash flow hedges, such as the hedge of forecasted royalty or license fees, the related gains or losses on these contracts are deferred in shareholders' equity (as a component of accumulated other comprehensive income). These deferred gains and losses are recognized in income in the period in which the transaction being hedged is recognized in income and are reported as a component of operating income or Other income (expense), net depending on where the hedged item is recognized. However, to the extent that any of these contracts are not considered to be perfectly effective in offsetting the change in the value of the item being hedged, any changes in fair value relating to the ineffective portion of these contracts are immediately recognized in income as a component of Other income (expense), net.

As previously noted, Time Warner hedges a portion of its foreign currency exposures anticipated over the hedging period. The hedging period for royalties and license fees covers revenues expected to be recognized over the first twelve-months of the hedging period; however, there is often a lag between the time that revenue is recognized and the transfer of foreign-denominated cash back into U.S. dollars. To hedge this exposure, Time Warner uses foreign exchange contracts that generally have maturities of three months to eighteen months to provide continuing coverage throughout the hedging period. At December 31, 2004, Time Warner had effectively hedged approximately 70% of the estimated net foreign currency exposures that principally relate to anticipated cash flows to be remitted to the United States over the hedging period.

At December 31, 2004, Time Warner has recorded a liability of approximately $43 million for net losses on foreign currency derivatives used in cash flow hedges with the offset recorded in shareholders' equity. Such amount is expected to be substantially recognized in income over the next twelve months at the same time the hedged item is recognized in income. For the years ended December 31, 2004, 2003 and 2002, approximately $70 million, $44 million and $13 million of losses, respectively, were reclassified to earnings from Accumulated other comprehensive income (loss), net on the consolidated balance sheet. During 2004, there were approximately $1 million of losses resulting from the ineffectiveness of foreign currency cash flow hedges. During 2004, 2003 and 2002, amounts recorded resulting from the discontinuance of cash flow hedges, because it was probable that the original forecasted transaction would not occur within the specified time period, were $0 million, $1 million and $0 million, respectively.

Fair Value Hedges

At December 31, 2004, Time Warner has recorded a liability of approximately $42 million for net losses on foreign currency derivatives used in fair value hedges. For fair value hedges, such as the hedge of firmly committed film production costs abroad, gains or losses resulting from recording the derivative instrument at fair value are recorded in the consolidated statement of operations as an offset to the change in the fair value of the foreign currency component of the related firm commitment and are reported as a component of operating income or Other income (expense), net depending on where the hedged item is recognized. However, to the extent that any of these contracts are not considered to be perfectly effective in offsetting the change in the value of the item being hedged, any changes in the fair value relating to the ineffective portion of these contracts are recognized in Other income (expense), net, in the consolidated statement of operations. During 2004, there were no amounts resulting from the ineffectiveness of foreign currency fair value hedges.

Interest Rate Risk Management

From time to time, the Company uses interest rate swaps to hedge the fair value of its fixed-rate obligations. Under the interest rate swap contract, the Company agrees to receive a fixed-rate payment (in most cases equal to the stated coupon rate of the bond being hedged) for a floating-rate payment. The net payment on the swap is exchanged at a specified interval that usually coincides with the bond's underlying coupon payment on the agreed upon notional amount.

At December 31, 2004, interest rate swaps with a notional amount of $200 million were outstanding. These swaps mature in June 2005 and are designated as hedging the fair value of certain of the Company's fixed-rate debt. The swaps effectively convert the fixed-rate debt to variable-rate instruments indexed to LIBOR. These swaps have been designated as a fair value hedge of the changes in fair value of the Company's fixed-rate debt attributable to changes in benchmark interest rates. As key terms of the swap match the debt they are intended to hedge, changes in the fair value of the swap are substantially offset in the consolidated statement of operations by changes in the fair value of the hedged fixed rate obligation. The fair value of these swaps at December 31, 2004, was not material.

The Company monitors its positions with, and the credit quality of, the financial institutions that are party to any of its financial transactions. Credit risk related to interest rate swaps is considered low because swaps are entered into with strong, creditworthy counterparties and are limited to the net interest payments receivable, if any, for the remaining life of the swap.

Equity Risk Management

Time Warner manages an investment portfolio, excluding investments accounted for using the equity method and cost method of accounting, with a fair value of $1.958 million as of December 31, 2004, including an investment in Google with a fair value of approximately $980 million. As part of the Company's strategy to manage the equity price risk inherent in the portfolio, the Company may enter into hedging transactions to protect the fair value of investments in the portfolio or the anticipated future cash flows associated with the forecasted sale of certain investments. At December 31, 2004, there were no equity derivative instruments designated as hedges. In addition, Time Warner holds investments in equity derivative instruments (e.g., warrants), which are not designated as hedges. The equity derivative instruments are recorded at fair value in the accompanying consolidated balance sheet, and the related gains and losses are immediately recognized in income.

17. SEGMENT INFORMATION

Time Warner classifies its business interests into five reportable segments: *AOL*, consisting principally of interactive services; *Cable*, consisting principally of interests in cable systems that provide video programming, high-speed data and Digital Phone services; *Filmed Entertainment*, consisting principally of feature film, television and home video production and distribution; *Networks*, consisting principally of cable television and broadcast networks; and *Publishing*, consisting principally of magazine and book publishing.

Information as to the operations of Time Warner in each of its business 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 noncash 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. The accounting policies of the business segments are the same as those described in the summary of significant accounting policies in Note 1.

	Years Ended December 31,		
	2004	2003 (restated) (millions)	2002 (restated)
Revenues			
AOL	$ 8,692	$ 8,598	$ 8,860
Cable	8,484	7,699	7,035
Filmed Entertainment	11,853	10,967	10,040
Networks	9,054	8,434	7,655
Publishing	5,565	5,533	5,422
Intersegment elimination	(1,559)	(1,668)	(1,952)
Total revenues	$42,089	$39,563	$37,060

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 revenue by licensing television and theatrical programming to the Networks segment;
- The Networks segment generating Subscription revenue by selling cable network programming to the Cable segment;
- The AOL, Cable, Networks and Publishing segments generating Advertising revenue by cross-promoting the products and services of all Time Warner segments; and
- The AOL segment generating Other revenue by providing the Cable segment's customers access to the AOL Transit Data Network (ATDN) for high-speed access to the Internet.

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

	Years Ended December 31,		
	2004	2003	2002 (restated)
		(millions)	
Intersegment Revenues			
AOL	$ 59	$ 102	$ 283
Cable	54	69	159
Filmed Entertainment	757	816	841
Networks	602	605	576
Publishing	87	76	93
Total intersegment revenues	$1,559	$1,668	$1,952

Included in the total intersegment revenues above are Advertising revenues, as follows:

	Years Ended December 31,		
	2004	2003	2002 (restated)
		(millions)	
Intersegment Advertising Revenues			
AOL	$ 11	$ 40	$178
Cable	16	11	132
Filmed Entertainment	—	—	—
Networks	87	111	150
Publishing	48	49	93
Total intersegment advertising revenues	$162	$211	$553

During 2003, there was a change in the application of the AOL segment's policy for intercompany advertising barter transactions, which reduced both the amount of intercompany advertising revenues and advertising expenses recognized by the AOL segment by $51 million. This change, however, had no impact on the AOL segment's Operating Income or its Operating Income before Depreciation and Amortization. In addition, because intercompany transactions are eliminated on a consolidated basis, this change in policy did not impact the Company's consolidated results of operations.

	Years Ended December 31, 2004	2003 (restated)	2002 (restated)
		(millions)	
Operating Income (Loss) before Depreciation and Amortization[a]			
AOL	$1,772	$1,505	$(30,683)
Cable	3,278	2,992	(7,799)
Filmed Entertainment	1,474	1,355	1,098
Networks	2,694	2,027	2,032
Publishing	1,196	955	1,155
Corporate	(1,020)	(424)	(398)
Intersegment elimination	(22)	(17)	(56)
Total Operating Income (Loss) before Depreciation and Amortization	$9,372	$8,393	$(34,651)

[a] In 2004, Operating Income before Depreciation and Amortization includes asset gains (losses) of an approximate $(7) million for the Networks segment, $8 million for the Publishing segment and $20 million at the AOL segment. In 2004, the amounts also include a $10 million impairment charge at the AOL segment for a building held for sale in Virginia, $53 million of costs at the Corporate segment associated with relocating from the Company's former headquarters and $510 million in legal reserves at the Corporate segment related to the government investigations. In 2003, the amounts include asset gains (losses), including impairments of goodwill and intangible assets of $43 million for the Filmed Entertainment segment, $(219) million for the Networks segment and $(128) million for the Publishing segment. In 2002, the amounts include $(31.961) billion for the AOL segment and $(10.544) billion for the Cable segment.

	Years Ended December 31, 2004	2003 (restated)	2002
		(millions)	
Depreciation of Property, Plant and Equipment			
AOL	$ 662	$ 668	$ 624
Cable	1,438	1,403	1,206
Filmed Entertainment	104	86	79
Networks	212	192	172
Publishing	122	116	97
Corporate	43	34	28
Total depreciation	$2,581	$2,499	$2,206

	Years Ended December 31, 2004	2003	2002
		(millions)	
Amortization of Intangible Assets			
AOL	$176	$175	$161
Cable	76	58	7
Filmed Entertainment	213	206	191
Networks	21	26	21
Publishing	140	175	177
Total amortization	$626	$640	$557

	Years Ended December 31,		
	2004	2003 (restated)	2002 (restated)
		(millions)	
Operating Income (Loss)			
AOL	$ 934	$ 662	$(31,468)
Cable	1,764	1,531	(9,012)
Filmed Entertainment	1,157	1,063	828
Networks	2,461	1,809	1,839
Publishing	934	664	881
Corporate	(1,063)	(458)	(426)
Intersegment elimination	(22)	(17)	(56)
Total Operating Income (Loss)	$ 6,165	$5,254	$(37,414)

	Years Ended December 31,	
	2004	2003 (restated)
	(millions)	
Assets		
AOL	$ 7,175	$ 6,224
Cable	43,165	42,920
Filmed Entertainment	18,105	17,668
Networks	33,042	32,744
Publishing	14,012	13,789
Corporate	7,840	4,128
Discontinued operations	—	4,307
Total assets	$123,339	$121,780

	Years Ended December 31,		
	2004	2003	2002
		(millions)	
Capital Expenditures and Product Development Costs			
AOL	$ 417	$ 467	$ 560
Cable	1,712	1,637	1,813
Filmed Entertainment	178	136	113
Networks	320	269	189
Publishing	232	148	133
Corporate	165	104	35
Total capital expenditures and product development costs	$3,024	$2,761	$2,843

Because a substantial portion of international revenues are derived from the sale of U.S. copyrighted products abroad, assets located outside the United States, which represent approximately 3% of total assets, are not material. Revenues in different geographical areas are as follows:

	Years Ended December 31,		
	2004	2003 (restated)	2002 (restated)
		(millions)	
Revenues[a]			
United States	$33,572	$32,123	$30,516
United Kingdom	2,507	2,194	2,059
Germany	1,161	1,239	919
Japan	685	577	562
France	879	773	572
Canada	503	413	345
Other international	2,782	2,244	2,087
Total revenues	$42,089	$39,563	$37,060

[a] Revenues are attributed to countries based on location of customer.

18. COMMITMENTS AND CONTINGENCIES

Commitments

Time Warner's total net rent expense from continuing operations amounted to $564 million in 2004, $712 million in 2003 and $909 million in 2002. The Company has long-term noncancelable lease commitments for office space, studio facilities and operating equipment in various locations around the world. The minimum rental commitments under noncancelable long-term operating leases during the next five years are as follows:

2005	$ 588
2006	557
2007	514
2008	489
2009	450
Thereafter	2,246
Total	$4,844

Additionally, Time Warner recognized sublease income of $32 million in 2004 and as of December 31, 2004, the Company had future sublease income commitments of $203 million.

Time Warner also has commitments under certain programming, network licensing, artist, athlete, franchise and other agreements aggregating approximately $27 billion at December 31, 2004, which are payable principally over a ten-year period, as follows:

2005	$ 7,199
2006-2007	9,745
2008-2009	5,865
2010-Thereafter	3,771
Total	$26,580

The Company also has certain contractual arrangements that would require it to make payments or provide funding if certain circumstances occur ("contingent commitments"). For example, the Company has guaranteed certain lease obligations of joint-venture investees. In this circumstance, the Company would be required to make payments due under the lease to the lessor in the event of default by the joint-venture investee. The Company does not expect that these contingent commitments will result in any material amounts being paid by the Company in the foreseeable future.

The following table summarizes separately the Company's contingent commitments at December 31, 2004. The timing of amounts presented in the table represents when the maximum contingent commitment will expire and does not mean that the Company expects to incur an obligation to make any payments within that time frame.

Nature of Contingent Commitments	Total Commitments	2005	2006-2007	2008-2009	2010 and thereafter
			(millions)		
Guarantees	$2,327	$ 95	$185	$204	$1,843
Letters of credit and other contingent commitments	531	394	6	1	130
Total contingent commitments	$2,858	$489	$191	$205	$1,973

The following is a description of the Company's contingent commitments at December 31, 2004:

- Guarantees include guarantees the Company has provided on certain lease and operating commitments entered into by (a) entities formerly owned by the Company as described below, and (b) joint ventures in which the Company is or was a venture partner.

  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"), the Company agreed to guarantee (the "Six Flags Guarantee") certain obligations relating to the partnerships that hold the Parks (the "Partnerships"). The Six Flags Guarantee principally covers the following obligations (the "Guaranteed Obligations"): (a) the obligation to make a minimum amount of annual distributions to the limited partners of the Partnerships; (b) the obligation to make a minimum amount of capital expenditures each year; (c) the requirement that an annual offer to purchase be made in respect of 5% of the limited partnership units of the Partnerships (plus any such units not purchased 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 or $374.8 million in the case of Six Flags Texas and (ii) a multiple of EBITDA and (d) either (i) the purchase of all of the outstanding limited partnership units upon the earlier of the occurrence of certain specified events or 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) the obligation to cause 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 purchase price in respect to all of the limited partnership units for the End of Term Purchase is equal to $250 million in the case of Six Flags Georgia and $374.8 million in the case of Six Flags Texas (in each case, subject to a consumer price index based adjustment calculated annually from 1998 in respect of Six Flags Georgia and 1999 in respect of Six Flags Texas). Such aggregate amount will be reduced in respect of limited partnership units previously purchased.

In connection with the 1998 sale of Six Flags Entertainment Corporation to Premier Parks Inc. ("Premier"), Premier and the Company, among others, entered into a Subordinated Indemnity Agreement pursuant to which Premier agreed to guarantee the performance of the Guaranteed Obligations when due and to indemnify the Company, among others, in the event that the Guaranteed Obligations are not performed and the Six Flags Guarantee is called upon. Premier's obligations to the Company are secured by its interest in all limited partnership units that are purchased by Premier.

To date, no payments have been made by the Company pursuant to the Six Flags Guarantee.

- Generally, letters of credit and surety bonds support performance and payments for a wide range of global contingent and firm obligations including insurance, litigation appeals, import of finished goods, real estate leases, cable installations and other operational needs. The Cable segment has obtained letters of credit for several of its joint ventures. Should these joint ventures default on their obligations supported by the letters of credit, the Cable segment would be obligated to pay these costs to the extent of the letters of credit.

Except as otherwise discussed above or below, Time Warner does not guarantee the debt of any of its investments accounted for using the equity method of accounting.

Certain Investee Obligations

Cable Joint Ventures

In 2004, TWE-A/N (which owns the Company's equity stake in Texas and Kansas City Cable Partners, L.P.) agreed to extend its commitment to provide a ratable share (i.e., 50%) of any funding required to maintain certain Texas systems (i.e., Houston and southwest Texas systems) in compliance with their financial covenants under the bank credit facilities (which facilities are otherwise nonrecourse to the Company, its other subsidiaries or to the Kansas City systems). Funding made with respect to this funding agreement is contributed to the Texas systems in the form of partner subordinated loans. The aggregate amount of subordinated debt provided by TWE-A/N in 2004 with respect to its obligations under the funding agreement was $33 million. TWE-A/N's ultimate liability in respect of the funding agreements is dependent upon the financial results of the Texas systems.

The existing bank credit facilities of the Texas systems and the Kansas City systems (approximately $805 million in aggregate principal outstanding as of December 31, 2004 for the Texas systems and $400 million in aggregate principal outstanding as of December 31, 2004 for the Kansas City systems) mature at the earlier of June 30, 2007, for the Texas systems and March 31, 2007 for the Kansas City systems or the refinancing thereof pursuant to the dissolution of the partnership.

Urban Cable Works of Philadelphia, L.P.

Urban Cable Works of Philadelphia, L.P. ("Urban Cable") is an unconsolidated joint venture of TWC Inc., with approximately 50,000 basic subscribers at December 31, 2004, that operates cable television systems in Philadelphia, Pennsylvania. Urban Cable is 40% owned by TWC Inc. and 60% owned by an investment group led by Inner City Broadcasting ("Inner City"). Under a management agreement, TWC Inc. is responsible for the day-to-day management of Urban Cable. During 2004, TWC Inc. and Inner City settled certain disputes regarding the joint venture for $34 million in cash.

TWC Inc. has also agreed to purchase, subject to receipt of applicable regulatory approvals, all of Inner City's interests in the Urban Cable venture for approximately $53 million in cash. In addition, upon closing, TWC Inc. will eliminate $67 million in consolidation debt and interest owed to it by Urban Cable and will assume $53 million of Urban Cable's third-party debt. On March 3, 2005, the City Council of Philadelphia denied TWC Inc.'s request for approval of this transaction. TWC Inc. believes the denial was invalid, but is unable to predict when the transaction may be completed. For the year ended December 31, 2004, Urban Cable's revenues and Operating Income were $47 million and $3 million, respectively.

Court TV Joint Venture

The Company and Liberty Media ("Liberty") each have a 50% interest in Court TV. Beginning January 2006, Liberty may give written notice to Time Warner requiring Time Warner to purchase all of Liberty's interest in Court TV (the "Liberty Put"). In addition, as of the same date, Time Warner may, by notice to Liberty, require Liberty to sell all of its interest in Court TV to Time Warner (the "Time Warner Call"). The price to be paid upon exercise of either the Liberty Put or the Time Warner Call will be an amount equal to one-half of the fair market value of Court TV, determined by an appraisal. The consideration is required to be paid in cash if the Liberty Put is exercised. If the Time Warner Call is exercised, the consideration is also payable in cash only if Liberty determines that the transaction cannot be structured as a tax efficient transaction, or if Time Warner determines that a tax efficient transaction may either violate applicable law or cause a breach or default under any other agreement affecting Time Warner. For the year ended December 31, 2004, Court TV's Operating Income was approximately $36 million.

Bookspan Joint Venture

The Company and Bertelsmann each have a 50% interest in the Bookspan joint venture, which operates the U.S. book clubs of Book-of-the-Month Club, Inc., and Doubleday Direct, Inc. Under the General Partnership Agreement, beginning on June 30, 2005, and then on January 1 of each subsequent year, either Bertelsmann or the Company may elect to terminate the partnership by giving notice during 60-day termination periods. If such an election is made, a confidential bid process will take place, pursuant to which the highest bidder will purchase the other party's entire venture interest. The Company is unable to predict whether this bid process will occur or the amount that may be paid out or received under it. For the year ended December 31, 2004, the Bookspan joint venture had Operating Income of approximately $26 million.

Backlog

Backlog represents the amount of future revenue not yet recorded from cash contracts for the licensing of theatrical and television product for pay cable, basic cable, network and syndicated television exhibition. Backlog was approximately $3.7 billion and $3.9 billion at December 31, 2004 and December 31, 2003, respectively. Included in these amounts is licensing of film product from the Filmed Entertainment segment to the Networks segment of $514 million and $740 million at December 31, 2004 and December 31, 2003, respectively.

Because backlog generally relates to contracts for the licensing of theatrical and television product which have already been produced, the recognition of revenue for such completed product is principally dependent upon the commencement of the availability period for telecast under the terms of the related licensing agreement. Cash licensing fees are collected periodically over the term of the related licensing agreements or, as referenced above and discussed in more detail in Note 10 to the accompanying consolidated financial statements, on an accelerated basis using a $500 million securitization facility. The portion of backlog for which cash has not already been received has significant value as a source of future funding. Of the approximately $3.7 billion of backlog relating to the Filmed Entertainment segment as of December 31, 2004, Time Warner has recorded $437 million of deferred revenue on the accompanying consolidated balance sheet, representing cash received through the utilization of the backlog securitization facility. The backlog excludes