

Cohen, Dax & Koenig, P.C.

ATTORNEYS

Jeffrey C. Cohen
John W. Dax
Joshua Noah Koenig

90 State Street, Suite 1030
Albany, New York 12207

Telephone: (518) 432-1002
Facsimile: (518) 432-1028

David M. Allen
Paul C. Rapp
Susan L. Taylor

PUBLIC SERVICE COMMISSION
RECEIVED August 3, 2000

Hon. Janet Hand Deixler, Secretary
Public Service Commission
Three Empire State Plaza
Albany, New York 12223-1350

AUG 03 2000

FILES
ALBANY, N.Y.

Subject: Joint Petition of Time Warner Entertainment-Advance/Newhouse
Partnership and CAT Partnership for Approval of the Transfer of Assets
Pursuant to PSL § 222

Related also to Case No. 00-V-1207

Dear Secretary Deixler:

On behalf of the Joint Petitioners in the above-referenced matter, we hereby deliver to you for filing with the Commission an original and six copies of the following:

The **Joint Petition** of Time Warner Entertainment-Advance/Newhouse Partnership and CAT Partnership for Approval of the Transfer of Assets Pursuant to PSL § 222;

A related **Form 394 Application**, as provided by the rules of the Federal Communications Commission in support of the request of the Petitioners for the approval of the Commission, as State-level franchising authority, for the transfer of the subject cable system and cable franchises from CAT Partnership to Time Warner Entertainment-Advance/Newhouse Partnership, pursuant to 47 C.F.R. § 76.502.

The instant filing is also directly related to the transactions which are the subject of the recent filing in Case No. 00-V-1207: Joint Petition of Time Warner Entertainment-Advance/Newhouse Partnership, Time Warner Entertainment Company, L.P.; TWFanch-one, Co., TWFanch-two, Co. for Approval of the Transfer of Assets Pursuant to PSL §222.

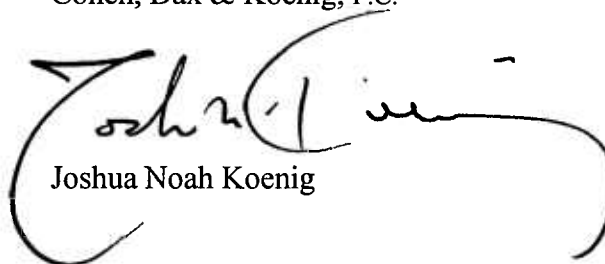
Copies of this transmittal letter and the Petition are being served upon each of the affected municipal franchising authorities, and a similar version of the FCC Form 394 is being filed directly with the town of Hounsfield as the local authority where municipal approval for the subject transaction is required by local franchise documents. A statement of proof of service upon the affected franchising authorities will follow.

Questions regarding these matters may be addressed to the undersigned, or to:

Mr. Satish R. Adige
Time Warner Cable
290 Harbor Drive
Stamford, CT 06902
(203) 328-0600

Respectfully,

Cohen, Dax & Koenig, P.C.



Joshua Noah Koenig

enclosures

cc: Mr. Satish Adige (Time Warner Cable)
Gary P. Matz, Esq.
Valerie Tyler, Esq. (Holland & Hart)

Mr. Chad Hume
Mr. Steven Shaye

STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

In the matter of

the Joint Petition of

Time Warner Entertainment-
Advance/Newhouse Partnership,
and CAT Partnership,
for approval of the transfer of assets
pursuant to § 222 of the
Public Service Law

Case No. 00-V-
Case No. 00-V-1207

JOINT PETITION

**of TIME WARNER ENTERTAINMENT - ADVANCE/NEWHOUSE
PARTNERSHIP, and CAT PARTNERSHIP**

FOR APPROVAL OF TRANSFERS

1. Time Warner Entertainment - Advance/Newhouse Partnership ("TWEAN"), and CAT Partnership (jointly, "Petitioners") submit this Joint Petition to the New York State Public Service Commission (the "Commission") pursuant to Section 222 of Article 11 of the Public Service Law, to request approval for the transfer to TWEAN of cable system franchises, certificates and facilities, now held in the name of CAT Partnership in various locations in and around the city of Watertown (Jefferson County) in the State of New

York (the "Petition"). The transactions described herein, and for which the approval of the Commission is requested, would effect the following: (a) the reorganization and redemption of participating investor interests in the CAT Partnership, with the related transfer of partnership assets and compensation; (b) the transfer of the subject Watertown cable system franchises, certificates and facilities to TWEAN (through temporary intervening ownership steps); and (c) the eventual consolidation of the surviving company entity within TWEAN. In support of this Petition, Petitioners respectfully submit:

2. A list of the subject municipal service areas and cable franchises is set forth as Attachment A to this Petition, and is also included as "Exhibit 1" in the accompanying Federal Communications Commission Form 394, which is appended to this Petition as Attachment B. The subject transactions are described in, and will be effected pursuant to, the provisions of: the *Redemption Agreement By and Between Time Warner Entertainment Company, L.P., KBL Communications, Inc., Comcast Hattiesburg Holding Company, Inc., TCI Holdings II, Inc. and CAT Partnership*, dated as of July 17, 2000; the *Transaction Agreement No. 4*, dated as of July 12, 2000, among Advance Publications, Inc., Newhouse

Broadcasting Corporation, Advance/Newhouse Partnership, TWE, Paragon Communications, and TWEAN; and the letter agreement regarding TWEAN by and among TWE, Advance/Newhouse Partnership, and Paragon Communications, dated as of July 12, 2000. Copies of these agreements are appended as "Exhibit 3" to the FCC Forms 394 referenced above. We note that copies of **Transaction Agreement No. 4**, referenced above, have been filed with this Commission recently in support of the related matter in Case No. 00-V-1207.¹ The instant Petition submitted herein should be considered to be in the nature of a supplement to the matter presented in Case No. 00-V-1207. The transactions described herein are directly related to those which are the subject of Case No. 00-V-1207 and are effectively a part of the group of transactions described in that matter.

3. As with the transactions described in Case No. 00-V-1207, the subject transactions addressed in this Petition, relating to the Watertown area cable system assets held in the name of CAT Partnership, may be described as being substantially in the form of a transfer of assets among related, although distinct, entities. We note that the

¹ Joint Petition of TIME WARNER ENTERTAINMENT-ADVANCE/NEWHOUSE PARTNERSHIP, TIME WARNER ENTERTAINMENT COMPANY, L.P., TWFANCH-ONE, CO., AND TWFANCH-TWO CO. – Joint petition of the companies for approval of the transfer of assets pursuant to Public Service Law 222. Case 00-V-1207, filed July 19, 2000.

cable systems in New York now owned by the CAT Partnership and TWEAN are already operated in the name of "Time Warner Cable." Here, too, the transactions accomplish a change of the name of the formal operating company listed on the franchises and certificates held for the subject cable system in the Watertown area, but with effectively no apparent impact on the services provided or customer relations. Upon completion, the franchises and systems operated in New York under the name of CAT Partnership will become part of the existing group of franchises and systems already operated under the name of TWEAN. The current balance of partnership ownership units in TWEAN will be adjusted to a limited extent to reflect the new balance of contributed system assets. No substantial change in the ownership or control of TWEAN will result from these transactions. The subject transactions will not cause any harmful impact on the operation or management of the subject cable systems, or any impairment of the financial or other capabilities of these systems to provide services to the public or to comply with all applicable service and operational commitments.

4. Petitioner TWEAN is a New York general partnership with its business offices located at 290 Harbor Drive, Stamford, Connecticut 06902. CAT Partnership is a Delaware

general partnership among TWE, KBL Communications, Inc. ("KBL"), TCI Holdings II, Inc. ("TCI") and Comcast Hattiesburg Holding Company, Inc. ("Comcast HHC").² TWE acts as the managing general partner for TWEAN and operates the TWE and TWEAN cable systems through its Time Warner Cable division. The subject cable system will continue to be managed by the Time Warner Cable division of TWE, using the dba Time Warner Cable, which has a regional operating division in Syracuse, New York.

5. Pursuant to the Redemption Agreement dated July 17, 2000, the CAT Partnership has agreed to (i) transfer substantially all of the assets of the Watertown System to CAT Holdings, LLC ("Holdings"), a Delaware limited liability company, of which the CAT Partnership owns the entire membership interest (the "Holdings Interest"); and (ii) distribute the Holdings Interest to TWE and KBL in liquidation of the partnership interests of TWE and KBL in CAT Partnership (collectively, the "Redemption"). TCI's interest in the CAT Partnership will be redeemed for cash, while Comcast's interest in the CAT Partnership will be redeemed for the assets of the Hattiesburg, Mississippi system. Upon consummation of the Redemption, TWE and KBL will no longer be partners in the CAT Partnership, and

² The CAT Partnership was originally organized and named with reference to its initial partners,

Holdings, which will own the Watertown System, will be wholly owned by TWE and KBL. Pursuant to the letter agreement of July 12, 2000, TWE and Paragon have agreed to transfer their entire membership interests in Holdings to TWEAN (the "Holdings Transfer"). Prior to the Holdings Transfer, KBL, which is a parent entity of Paragon, will transfer its membership interest in Holdings to Paragon. TWEAN plans to subsequently merge Holdings, which will be a single-member limited liability company after consummation of the Holdings Transfer, into TWEAN. This last merger will not happen simultaneously with the other events, but will probably take place within several months thereafter.

6. No aspect of the subject transactions will negatively affect the continuing conclusion that Time Warner Cable has the experience and the technical ability to operate the subject cable systems and a proven track record of good performance. TWEAN possesses the financial capacity to operate the subject system and the capability to make all appropriate system investments to maintain compliance with all applicable federal, State and local system requirements.

7. Petitioners provide herewith an executed FCC Form 394 at Attachment B. Confirmation of the financial qualifications of the subject Time Warner entities, including TWEAN, is provided by the recent Annual Report of Time Warner Inc. at "Exhibit 6" to the Form 394.

8. Petitioners have reviewed the local municipal franchises held for the subject cable system to determine in which instances it would be appropriate to request and obtain municipal consents for the proposed transfers. As a result of this review, it appears that it is appropriate to seek municipal consent for the subject transactions from the Town of Hounsfield. This consent is being sought from that town by a separate direct filing. Petitioners will advise the Commission when such consent is obtained.

9. The asset transfer of the subject cable system for which approval is sought in this Petition will be consistent with applicable State and federal law and the public interest. As a result of the subject transactions, the affected cable franchises and system assets will be held in the name of TWEAN and will continue to be operated in the name of Time Warner Cable, and the Commission has had a long and favorable experience with both of these entities. The

transfers for which approval is sought will not have any negative effect in the operations, rates, terms and conditions of cable service in the subject franchise areas.

10. Consistent with Section 222 of Article II of the Public Service Law, a copy of this Petition is being served upon each of the municipal franchising authorities for the subject cable television system in New York, notwithstanding whether a separate municipal franchise consent is required for these transactions.

WHEREFORE, in consideration of the above, and the materials provided in support of this Petition, the Petitioners hereby respectfully request that the Commission issue an order under Section 222 of Article II of the Public Service Law granting approval of the transfer to Time Warner Entertainment - Advance/Newhouse Partnership of the subject cable system franchises, certificates and service facilities, and approving the related changes in ownership control as described herein, including the subsequent merger of CAT Holdings, LLC into Time Warner Entertainment - Advance/Newhouse Partnership. It is respectfully requested that this matter be treated with an expedited process.

Jt. Pet. TWEAN, CAT Partnership
August 3, 2000

Dated: Albany, New York
August 3, 2000

Respectfully submitted,

Time Warner Entertainment -
Advance/Newhouse Partnership,
CAT Partnership,

COHEN, DAX & KOENIG, P.C.

90 State Street,
Suite 1030
Albany, New York 12207
Telephone: 518-432-1002

Joshua N. Koenig
David M. Allen,

Of Counsel

By: 

ATTACHMENT A

CAT Partnership

AFFECTED MUNICIPAL FRANCHISE AREAS

IN NEW YORK STATE (Jefferson County)

(* Where Municipal Consent Is Being Sought)

ORIGINAL

ATTACHMENT A

Franchisor	CUID
------------	------

Black River, Village of	NY0142
Brownville, Town of	NY1422
Brownville, Village of	NY0630
Glen Park, Village of	NY0631
* Hounsfield, Town of	NY1401
LeRay, Town of	NY0143
Pamelia, Town of	NY0144
Rutland, Town of	NY0562
Watertown, City of	NY0146
Watertown, Town of	NY0145

ATTACHMENT B

FCC FORM 394, CAT Partnership, Transferor

With Exhibits,

including: Redemption Agreement, July 17, 2000
 Transaction Agreement #4, July 12, 2000
 Annual Report of Time Warner Inc.

**APPLICATION FOR FRANCHISE AUTHORITY
CONSENT TO ASSIGNMENT OR TRANSFER OF CONTROL
OF CABLE TELEVISION FRANCHISE**

FOR FRANCHISE AUTHORITY USE ONLY

SECTION I. GENERAL INFORMATION

DATE 8/02/00	1. Community Unit Identification Number: SEE EXHIBIT 1
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2. Application for: Assignment of Franchise Transfer of Control

3. Franchising Authority: State of New York Public Service Commission	
4. Identify community where the system/franchise that is the subject of the assignment or transfer of control is located: State of New York Public Service Commission	
5. Date system was acquired or (for system's constructed by the transferor/assignor) the date on which service was provided to the first subscriber in the franchise area:	N/A
6. Proposed effective date of closing of the transaction assigning or transferring ownership of the system to transferee/assignee:	As soon as practicable

7. Attach as an Exhibit a schedule of any and all additional information or material filed with this application that is identified in the franchise as required to be provided to the franchising authority when requesting its approval of the type of transaction that is the subject of this application.

Exhibit No.
2

PART I - TRANSFEROR/ASSIGNOR

1. Indicate the name, mailing address, and telephone number of the transferor/assignor.

Legal name of Transferor/Assignor (if individual, list last name first) CAT Partnership			
Assumed name used for doing business (if any)			
Mailing street address or P.O. Box		340 Eastern Boulevard	
City Watertown	State NY	ZIP Code 13601	Telephone No. (include area code) 315-782-5240

2. (a) Attach as an Exhibit a copy of the contract or agreement that provides for the assignment or transfer of control (including any exhibits or schedules thereto necessary in order to understand the terms thereof). If there is only an oral agreement, reduce the terms to writing and attach. (Confidential trade, business, pricing or marketing information, or other information not otherwise publicly available, may be redacted).

Exhibit No.
3

(b) Does the contract submitted in response to (a) above embody the full and complete agreement between the transferor/assignor and the transferee/assignee?

Yes No

If No, explain in an Exhibit.

Exhibit No.
N/A

PART II - TRANSFEREE/ASSIGNEE

1. (a) Indicate the name, mailing address, and telephone number of the transferee/assignee.

Legal name of Transferee/Assignee (if individual, list last name first)			
Time Warner Entertainment-Advance/Newhouse Partnership			
Assumed name used for doing business (if any)			
Time Warner Cable			
Mailing street address or P.O. Box			
340 Eastern Boulevard			
City	State	ZIP Code	Telephone No. (include area code)
Watertown	NY	13601	315-782-5240

(b) Indicate the name, mailing address, and telephone number of person to contact, if other than transferee/assignee.

Name of contact person (list last name first)			
Brian Brennan			
Firm or company name (if any)			
Time Warner Cable			
Mailing street address or P.O. Box			
340 Eastern Boulevard			
City	State	ZIP Code	Telephone No. (include area code)
Watertown	NY	13601	315-782-5240

(c) Attach as an Exhibit the name, mailing address, and telephone number of each additional person who should be contacted, if any.

Exhibit No. N/A

(d) Indicate the address where the system's records will be maintained.

Street address		
340 Eastern Boulevard		
City	State	ZIP Code
Watertown	NY	13601

2. Indicate on an attached exhibit any plans to change the current terms and conditions of service and operations of the system as a consequence of the transaction for which approval is sought.

Exhibit No. N/A

SECTION II. TRANSFEREE'S/ASSIGNEE'S LEGAL QUALIFICATIONS

1. Transferee/Assignee is:

Corporation

a. Jurisdiction of incorporation:	d. Name and address of registered agent in jurisdiction:
b. Date of incorporation:	
c. For profit or not-for-profit:	

Limited Partnership

a. Jurisdiction in which formed:	c. Name and address of registered agent in jurisdiction:
b. Date of formation:	

General Partnership

a. Jurisdiction whose laws govern formation: New York	b. Date of formation: 9/9/94
--	-------------------------------------

Individual

Other. Describe in an Exhibit.

Exhibit No. N/A

2. List the transferee/assignee, and, if the transferee/assignee is not a natural person, each of its officers, directors, stockholders beneficially holding more than 5% of the outstanding voting shares, general partners, and limited partners holding an equity interest of more than 5%. Use only one column for each individual or entity. Attach additional pages if necessary. (Read carefully- the lettered items below refer to corresponding lines in the following table.)

- (a) Name, residence, occupation or principal business, and principal place of business. (If other than an individual, also show name, address and citizenship of natural person authorized to vote the voting securities of the applicant that it holds.) List the applicant first, officers, next, then directors and, thereafter, remaining stockholders and/or partners.
- (b) Citizenship.
- (c) Relationship to the transferee/assignee (e.g., officer, director, etc.).
- (d) Number of shares or nature of partnership interest.
- (e) Number of votes.
- (f) Percentage of votes.

(a)	PLEASE SEE EXHIBIT NO. 4	
(b)		
(c)		
(d)		
(e)		
(f)		

3. If the applicant is a corporation or a limited partnership, is the transferee/assignee formed under the laws of, or duly qualified to transact business in, the State or other jurisdiction in which the system operates?

Yes No

If the answer is No, explain in an Exhibit.

Exhibit No.
N/A

4. Has the transferee/assignee had any interest in or in connection with an applicant which has been dismissed or denied by any franchise authority?

Yes No

If the answer if Yes, describe circumstances in an Exhibit.

Exhibit No.
5

5. Has an adverse finding been made or an adverse final action been taken by any court or administrative body with respect to the transferee/assignee in a civil, criminal or administrative proceeding, brought under the provisions of any law or regulation related to the following: any felony; revocation, suspension or involuntary transfer of any authorization (including cable franchises) to provide video programming services; mass media related antitrust or unfair competition; fraudulent statements to another government unit; or employment discrimination?

Yes No

If the answer is Yes, attach as an Exhibit a full description of the persons and matter(s) involved, including an identification of any court or administrative body and any proceeding (by dates and file numbers, if applicable), and the disposition of such proceeding.

Exhibit No.
N/A

6. Are there any documents, instruments, contracts or understandings relating to ownership or future ownership rights with respect to any attributable interest as described in Question 2 (including, but not limited to, non-voting stock interests, beneficial stock ownership interests, options, warrants, debentures)?

Yes No

If Yes, provide particulars in an Exhibit.

7. Do documents, instruments, agreements or understandings for the pledge of stock of the transferee/assignee, as security for loans or contractual performance, provide that: (a) voting rights will remain with the applicant, even in the event of default on the obligation; (b) in the event of default, there will be either a private or public sale of the stock; and (c) prior to the exercise of any ownership rights by a purchaser at a sale described in (b), any prior consent of the FCC and/or of the franchising authority, if required pursuant to federal, state or local law or pursuant to the terms of the franchise agreement will be obtained?

Yes No

N/A

If No, attach as an Exhibit a full explanation.

Exhibit No.
N/A

SECTION III. TRANSFEREE'S/ASSIGNEE'S FINANCIAL QUALIFICATIONS

1. The transferee/assignee certifies that it has sufficient net liquid assets on hand or available from committed resources to consummate the transaction and operate the facilities for three months.
2. Attach as an Exhibit the most recent financial statements, prepared in accordance with generally accepted accounting principles, including a balance sheet and income statement for at least one full year, for the transferee/assignee or parent entity that has been prepared in the ordinary course of business, if any such financial statements are routinely prepared. Such statements, if not otherwise publicly available, may be marked CONFIDENTIAL and will be maintained as confidential by the franchise authority and its agents to the extent permissible under local law.

Yes No

Exhibit No.
6

SECTION IV. TRANSFEREE'S/ASSIGNEE'S TECHNICAL QUALIFICATIONS

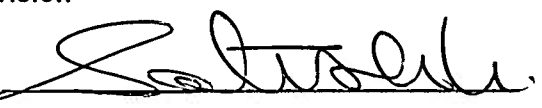
Set forth in an Exhibit a narrative account of the transferee's/assignee's technical qualifications, experience and expertise regarding cable television systems, including, but not limited to, summary information about appropriate management personnel that will be involved in the system's management and operations. The transferee/assignee may, but need not, list a representative sample of cable system currently or formerly owned or operated.

Exhibit No.
7

SECTION V - CERTIFICATIONS

Part I - Transferor/Assignor

All the statements made in the application and attached exhibits are considered material representations, and all the Exhibits are a material part hereof and are incorporated herein as if set out in full in the application.

<p>I CERTIFY that the statements in this application are true, complete and correct to the best of my knowledge and belief and are made in good faith.</p>	<p>CAT Partnership, By: Time Warner Entertainment Company, L.P., a general partner, through its Time Warner Cable Division</p> <p>By: </p>
<p>WILLFUL FALSE STATEMENTS MADE ON THIS FORM ARE PUNISHABLE BY FINE AND/OR IMPRISONMENT. U.S. CODE, TITLE 18, SECTION 1001.</p>	<p>Date</p> <hr/> <p>Print full name Satish R. Adige</p>
<p>Check appropriate classification:</p> <p> <input type="checkbox"/> Individual <input type="checkbox"/> General Partner <input checked="" type="checkbox"/> Corporate Officer (Indicate Title) <input type="checkbox"/> Other. Explain: Vice President - Investments </p>	

Part II - Transferee/Assignee

All the statements made in the application and attached Exhibits are considered material representations, and all the Exhibits are a material part hereof and are incorporated herein as if set out in full in the application.

The transferee/assignee certifies that he/she:

- (a) Has a current copy of the FCC's Rules governing cable television systems.
- (b) Has a current copy of the franchise that is the subject of this application, and of any applicable state laws or local ordinances and related regulations.
- (c) Will use its best efforts to comply with the terms of the franchise and applicable state laws or local ordinances and related regulations, and to effect changes, as promptly as practicable, in the operation system, if any changes are necessary to cure any violations thereof or defaults thereunder presently in effect or ongoing.

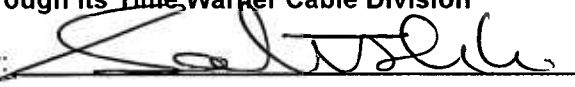
<p>I CERTIFY that the statements in this application are true, complete and correct to the best of my knowledge and belief and are made in good faith.</p>	<p>Signature Time Warner Entertainment-Advance/Newhouse Partnership By: Time Warner Entertainment Company, L.P. through its Time Warner Cable Division</p> <p>By: </p>
<p>WILLFUL FALSE STATEMENTS MADE ON THIS FORM ARE PUNISHABLE BY FINE AND/OR IMPRISONMENT. U.S. CODE, TITLE 18, SECTION 1001.</p>	<p>Date</p> <hr/> <p>Print full name Satish R. Adige</p>
<p>Check appropriate classification:</p> <p> <input type="checkbox"/> Individual <input type="checkbox"/> General Partner <input checked="" type="checkbox"/> Corporate Officer (Indicate Title) <input type="checkbox"/> Other. Explain: Vice President- Investments </p>	

EXHIBIT 1

Syracuse, NY Division (TWE pushdown to TWEAN)

Franchisor	CUID
Black River, Village of	NY0142
Brownville, Town of	NY1422
Brownville, Village of	NY0630
Glen Park, Village of	NY0631
Hounsfield, Town of	NY1401
LeRay, Town of	NY0143
Pamelia, Town of	NY0144
Rutland, Town of	NY0562
Watertown, City of	NY0146
Watertown, Town of	NY0145

EXHIBIT 2

The applicable cable franchise does not specify any additional information or material that is required to be provided to the franchising authority in connection with a transfer of the franchise.

Please see the following:

The Redemption Agreement provides for the transfer of the assets of the cable television system in and around the city of Watertown, New York (the "System"), including the franchises from CAT Partnership to a wholly-owned Delaware limited liability company, CAT Holdings, LLC ("CAT Holdings").

The Side Letter dated July 12, 2000 and the Transaction Agreement No. 4 together provide that, through several affiliate transfers, ownership of CAT Holdings will be transferred to an affiliate, Time Warner Entertainment-Advance/Newhouse Partnership ("TWEAN"). Subsequently, TWEAN will merge CAT Holdings into TWEAN, causing a transfer (by merger) of the franchises from CAT Holding to TWEAN.

FINAL

REDEMPTION AGREEMENT

BY AND AMONG

TIME WARNER ENTERTAINMENT COMPANY, L.P.,

KBL COMMUNICATIONS, INC.,

COMCAST HATTIESBURG HOLDING COMPANY, INC.,

TCI HOLDINGS II, INC.,

AND

CAT PARTNERSHIP

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REDEMPTION AGREEMENT

This Agreement is made and entered into this 17th day of July, 2000, by and among Time Warner Entertainment Company, L.P., a Delaware limited partnership ("TWE"), whose Taxpayer Identification Number is 13-3666692; KBL Communications, Inc., a Delaware corporation ("KBL"), whose Taxpayer Identification Number is 76-0202551; Comcast Hattiesburg Holding Company, Inc., a Delaware corporation ("CHHC"), whose Taxpayer Identification Number is 52-2009368; TCI Holdings II, Inc., a Colorado corporation ("TCI"), whose Taxpayer Identification Number is 84-1041702; and the CAT Partnership, a Delaware general partnership (the "Partnership"), whose Taxpayer Identification Number is 13-3411114. TWE, KBL, CHHC and TCI are collectively referred to herein as the "Partners", and each individually, as a "Partner". In addition, TWE and KBL are collectively referred to herein as the "Time Warner Partners", and CHHC is referred to herein as the "Comcast Partner".

RECITALS:

A. Partners are all of the partners in the Partnership. The Partnership owns cable television systems that are franchised or hold other operating authority and operate in and around the communities of Watertown, New York (the "Watertown System") and Hattiesburg, Mississippi (the "Hattiesburg System").

B. TCI desires to sell, and the Time Warner Partners and the Comcast Partner desire to acquire, a portion of TCI's interest in the Partnership.

C. The Partnership and TCI desire to redeem the balance of TCI's interest in the Partnership by making a one-time cash distribution to TCI in liquidation of its Partnership Interest.

D. The Partnership and the Comcast Partner desire to redeem the Comcast Partner's entire interest in the Partnership, including the interest acquired from TCI, by distributing the Hattiesburg System and related assets to the Comcast Partner in liquidation of the Comcast Partner's Partnership Interests.

E. The Partnership and the Time Warner Partners desire to redeem the Time Warner Partners' entire interest in the Partnership, including the interest acquired from TCI, by the Partnership (i) contributing the Watertown System and related assets to CAT Holdings, LLC, a Delaware limited liability company ("Holdings"), in exchange for the entire membership interest in Holdings (the "Holdings Interest") and (ii) distributing the Holdings Interest to the Time Warner Partners in liquidation of the Time Warner Partners' Partnership Interests.

AGREEMENT:

In consideration of the mutual covenants and promises set forth herein, the parties agree as follows:

ARTICLE 1 DEFINITIONS AND RULES OF CONSTRUCTION

1.1 Certain Terms Defined.

“Adjusted Hattiesburg System Value” means the sum of (a) the Hattiesburg System Value plus (b) any amounts paid or incurred by the Partnership between January 1, 2000 and the Closing Date directly in connection with the Hattiesburg Upgrade, including the cost of any digital boxes purchased in connection with the roll-out of digital services in the Hattiesburg System and the cost of any inventory purchased for use in connection with the Hattiesburg Upgrade.

“Adjusted Watertown System Value” means the sum of (a) the Watertown System Value plus (b) any amounts paid or incurred by the Partnership between January 1, 2000 and the Closing Date directly in connection with the Watertown Upgrade, including the cost of any digital boxes purchased in connection with the roll-out of digital services in the Watertown System and the cost of any inventory purchased for use in connection with the Watertown Upgrade.

“Adjustment Time” means 11:59 P.M., Eastern Time, on the date of Closing.

“Assumed Hattiesburg Liabilities” means any obligations or liabilities which are attributable to the Partnership’s ownership of the Hattiesburg System Assets or operation of the Hattiesburg System prior to the Adjustment Time, but only to the extent included in the Hattiesburg Current Items Amount.

“Assumed Watertown Liabilities” means any obligations and liabilities which are attributable to the Partnership’s ownership of the Watertown System Assets or operation of the Watertown System prior to the Adjustment Time, but only to the extent included in the Watertown Current Items Amount.

“Cable Act” means Title VI of the Communications Act of 1934, 46 U.S.C. § 151 et seq., and all provisions of the Cable Communications Policy Act of 1984, Pub. L. N. 98-549, the Cable Television Consumer Protection and Competition Act of 1992, Pub. L. No. 102-385, and the Telecommunications Act of 1996 amending Title VI of the Communications Act.

“CAT Current Items Amount” means the current items amount calculated in accordance with Section 3.3 by reference to all Partnership assets and liabilities other than those assets and liabilities included in either the Hattiesburg Current Items Amount or the Watertown Current Items Amount.

“Code” means the Internal Revenue Code of 1986.

“Comcast Purchase Price” means the amount, if any, by which the sum of (a) the Adjusted Hattiesburg System Value plus (b) the Hattiesburg Current Items Amount, exceeds the quotient obtained by dividing the Preliminary Net Partnership Value by three.

“Communications Act” means the Communications Act of 1934.

“Consents” means any consent, authorization, or approval required to be obtained by the Partnership in connection with the transactions contemplated hereunder, including those set forth on Exhibits 5.1(c), 5.2(c) or 5.5(c).

“Contract” means any written contract, mortgage, deed of trust, bond, indenture, lease, license, note, franchise, certificate, option, warrant, right or other instrument, document, obligation or agreement, and any oral obligation, right or agreement.

“Copyright Act” means the Copyright Act of 1976.

“Credit Agreement” means the Credit Agreement dated as of February 27, 1991 by and among the Partnership, certain banks and Morgan Guaranty Trust Company of New York, as Agent.

“FCC” means the Federal Communications Commission.

“GAAP” means generally-accepted accounting principles as in effect in the United States of America.

“Governmental Authority” means the United States of America, any state, commonwealth, territory or possession thereof and any political subdivision or quasi-governmental authority of any of the same, including but not limited to courts, tribunals, departments, commissions, boards, bureaus, agencies, counties, municipalities, provinces, parishes and other instrumentalities.

“Hattiesburg Current Items Amount” means the current items amount calculated in accordance with Section 3.3 by reference to those Partnership assets and liabilities attributable only to the Hattiesburg System.

“Hattiesburg System Accounts Receivable” means all subscriber, trade and other accounts receivable relating to the Hattiesburg System.

“Hattiesburg System Assets” means all of the assets and properties, real and personal, tangible and intangible, used by the Partnership and owned or leased by the Partnership solely for the operation of, or otherwise relating solely to, the Hattiesburg System, including the Hattiesburg System Accounts Receivable, the Hattiesburg System Books and Records, the Hattiesburg System Contracts, the Hattiesburg System Franchises, the Hattiesburg System Licenses, the Hattiesburg System Real Property and

the Hattiesburg System Tangible Personal Property, but excluding the Hattiesburg System Excluded Assets.

“Hattiesburg System Books and Records” means all engineering records, files, data, drawings, blueprints, schematics, reports, lists, plans and processes, and all files of correspondence, lists, records, and reports concerning subscribers and prospective subscribers to the Hattiesburg System, signal and program carriage, and dealings with Governmental Authorities, including all reports filed with respect to the Hattiesburg System by or on behalf of the Partnership with the FCC and statements of account filed with respect to the Hattiesburg System by or on behalf of the Partnership with the U.S. Copyright Office.

“Hattiesburg System Contracts” means all leases, private easements or rights of access, contractual rights to easements, pole line or joint line agreements, underground conduit agreements, crossing agreements, construction permits, purchase orders, bulk and commercial service agreements, retransmission consent agreements, and other Contracts entered into with respect to the Hattiesburg System, including those described on Part I of Exhibit A.

“Hattiesburg System Excluded Assets” means the Partnership’s insurance policies and rights and claims thereunder, and bonds, letters of credit, surety instruments, and other similar items, in each case relating to the Hattiesburg System, together with the rights and assets described on Part II of Exhibit A.

“Hattiesburg System Franchises” means all franchises and similar authorizations or permits issued by any Governmental Authority or other Person with respect to the Hattiesburg System, including those described on Part III of Exhibit A.

“Hattiesburg System Licenses” means all intangible CATV channel distribution rights, cable television relay service (CARS), business radio and other licenses, intangible domestic satellite receive only (TVRO) licenses, all copyright notices, and all other licenses, authorizations, consents or permits issued by the FCC or any other Governmental Authority other than the Hattiesburg System Franchises with respect to the Hattiesburg System, including those described on Part IV of Exhibit A.

“Hattiesburg System Real Property” means all real property and interests in real property owned or leased by the Partnership with respect to the Hattiesburg System, including the fee interests in the real property described as Owned Real Property on Part V of Exhibit A and all improvements thereon (the “Hattiesburg System Owned Real Property”), and all leases, easements, rights of access and other interests in real property described as Real Property Interests on Part V of Exhibit A and improvements thereon or thereto owned by the Partnership.

“Hattiesburg System Tangible Personal Property” means all tangible personal property, including towers, tower equipment, aboveground and underground cable, distribution systems, headend amplifiers, line amplifiers, microwave equipment,

converters, testing equipment, motor vehicles, office equipment, furniture, fixtures, supplies, inventory, all antennae, earth satellite receive stations and related equipment, and other physical assets owned or leased by the Partnership with respect to the Hattiesburg System.

“Hattiesburg System Value” means \$[REDACTED]

“HSR Act” means the Hart-Scott-Rodino Antitrust Improvements Act of 1976.

“Judgment” means any judgment, writ, order, injunction, award or decree of any court, judge, justice or magistrate, including any bankruptcy court or judge, and any order of or by any Governmental Authority.

“Knowledge” of any Person of or with respect to any matter means that such Person (if a natural Person) or any of the officers, directors, or senior managers, including system managers, of such Person (if not a natural Person) has actual awareness or knowledge of such matter without independent investigation.

“Legal Requirements” means applicable common law and any applicable statute, ordinance, code or other law, rule, regulation, order, technical or other written standard, requirement, or procedure enacted, adopted, promulgated, applied or followed by any Governmental Authority, including Judgments.

“Lien” means any security agreement, financing statement filed with any Governmental Authority, conditional sale or other title retention agreement, any lease, consignment or bailment given for purposes of security, any lien, mortgage, indenture, pledge, option, encumbrance, adverse interest, constructive trust or other trust, claim, attachment, exception to or defect in title or other ownership interest (including but not limited to reservations, rights of entry, possibilities of reverter, encroachments, easements, rights-of-way, restrictive covenants, leases and license) of any kind, which otherwise constitutes an interest in or claim against property, whether arising pursuant to any Legal Requirement, Contract, or otherwise.

“Litigation” means any claim, action, suit, proceeding, arbitration, investigation, hearing or other activity or procedure that could result in a Judgment.

“Losses” means any claims, losses, liabilities, damages, Liens, penalties, costs, or out-of-pocket expenses, any interest imposed in connection therewith, out-of-pocket expenses of investigation, reasonable fees and disbursements of counsel and other experts, and the cost to any Person making a claim or seeking indemnification under this Agreement with respect to funds expended by such Person by reason of the occurrence of any event with respect to which indemnification is sought, but excluding all incidental and consequential damages, lost profits opportunities or goodwill, loss of use of facilities, claims of customers or any cost or expense related thereto.

“Manager” means, with respect to the Hattiesburg System, Comcast Corporation and, with respect to the Watertown System, Paragon Communications.

"Material Consent" means any Consent identified on Exhibits 5.1(c) or 5.2(c) as material.

"Net Partnership Value" means the amount equal to the sum, calculated as of the Closing Date, of (a) the Adjusted Watertown System Value, plus (b) the Adjusted Hattiesburg System Value, plus (c) the Partnership Current Items Amount.

"Occupational Safety and Health Act" means the Occupational Safety and Health Act of 1970, 29 U.S.C. § 651 et seq.

"Original Sharing Percentage" with respect to any Partner means such Partner's Sharing Percentage, as defined in the Partnership Agreement, immediately prior to the Closing.

"Partner Redemption Amount" means the amount equal to the quotient obtained by dividing the Net Partnership Value by three.

"Partnership Agreement" means the General Partnership Agreement of CAT Partnership, dated as of June 18, 1987, as amended.

"Partnership Current Items Amount" means the sum of (a) the CAT Current Items Amount, plus (b) the Watertown Current Items Amount, plus (c) the Hattiesburg Current Items Amount.

"Partnership Debt" means (a) all indebtedness (including principal and interest accrued through the date of calculation) of the Partnership for borrowed money, (b) indebtedness for the deferred purchase price of property or services, (c) any obligation for any lease of property (whether real, personal, or mixed), which in conformity with GAAP should be recorded on a balance sheet as a capital lease, (d) amounts due to third parties under any direct or indirect guaranty of the Partnership, and (e) any other liabilities reflected on the Partnership's balance sheet as of the date of Closing.

"Partnership Interest" means the entire ownership interest of a Partner in the Partnership at any particular time, including the interests of such Partner in the capital, profits and losses of, and distributions made by, the Partnership, voting rights and any other rights or benefits to which a Partner may be entitled under the Partnership Agreement, as well as the obligations of such Partner to comply with all of the terms and provisions of the Partnership Agreement.

"Permitted Liens" means (a) Liens for Taxes, assessments and governmental charges not yet due and payable; (b) zoning laws and ordinances and similar Legal Requirements; (c) rights reserved to any Governmental Authority to regulate the affected property; (d) as to leased System Assets, interests of the lessors thereof and Liens affecting the interests of the lessors thereof; (e) as to any parcel of System Real Property, any Liens that do not in any material respect, individually or in the aggregate, affect or impair the use thereof as it is currently being used in the ordinary course of business; and (f) with respect to (i) the Watertown System, Liens attributable to the

Assumed Watertown Liabilities, and (ii) the Hattiesburg System, Liens attributable to the Assumed Hattiesburg Liabilities.

“Person” means any natural person, Governmental Authority, corporation, general or limited partnership, joint venture, limited liability company, trust, association or unincorporated entity of any kind.

“Prime Rate” means the rate publicly announced from time to time by the Bank of New York as its prime rate.

“Pro Rata” with respect to any Partner or Partners means, for all purposes, in proportion to their respective Original Sharing Percentages.

“System Assets” means the Watertown System Assets, the Hattiesburg System Assets or both, as the context requires.

“System Franchises” means the Watertown System Franchises, the Hattiesburg System Franchises or both, as the context requires.

“System Licenses” means the Watertown System Licenses, the Hattiesburg System Licenses or both, as the context requires.

“System Contracts” means the Watertown System Contracts, the Hattiesburg System Contracts or both, as the context requires.

“System Real Property” means the Watertown System Real Property, the Hattiesburg System Real Property or both, as the context requires.

“System Tangible Personal Property” means the Watertown System Tangible Personal Property, the Hattiesburg System Tangible Personal Property or both, as the context requires.

“Systems” means the Watertown System, the Hattiesburg System or both, as the context requires.

“Taxes” means all taxes, fees, duties, tariffs, imposts, levies and assessments of any kind or nature imposed by any Governmental Authority, including but not limited to all income, sales, use, ad valorem, value added, franchise, severance, net or gross proceeds, withholding, payroll, employment, excise or property taxes, together with any interest thereon and any penalties, additions to tax, or additional amounts applicable thereto.

“Time Warner Purchase Price” means the amount, if any, by which the sum of (a) the Adjusted Watertown System Value plus (b) the Watertown Current Items Amount, exceeds the quotient obtained by dividing the Preliminary Net Partnership Value by three.

"Transaction Documents" means the instruments and documents described in Article 7 that are being executed and delivered by the Partnership or any of the Partners, or any officer, director, or affiliate of any of them in connection with this Agreement or the transactions contemplated hereby.

"Watertown Current Items Amount" means the current items amount calculated in accordance with Section 3.3 by reference to those Partnership assets and liabilities attributable only to the Watertown System.

"Watertown System Accounts Receivable" means all subscriber, trade, and other accounts receivable relating to the Watertown System.

"Watertown System Assets" means all of the assets and properties, real and personal, tangible and intangible, used by the Partnership and owned or leased by the Partnership solely for the operation of, or otherwise relating solely to, the Watertown System, including the Watertown System Accounts Receivable, the Watertown System Books and Records, the Watertown System Contracts, the Watertown System Franchises, the Watertown System Licenses, the Watertown System Real Property and the Watertown System Tangible Personal Property, but excluding the Watertown System Excluded Assets.

"Watertown System Books and Records" means all engineering records, files, data, drawings, blueprints, schematics, reports, lists, plans and processes, and all files of correspondence, lists, records, and reports concerning subscribers and prospective subscribers to the Watertown System, signal and program carriage, and dealings with Governmental Authorities, including all reports filed with respect to the Watertown System by or on behalf of the Partnership with the FCC and statements of account filed with respect to the Watertown System by or on behalf of the Partnership with the U.S. Copyright Office.

"Watertown System Contracts" means all leases, private easements or rights of access, contractual rights to easements, pole line or joint line agreements, underground conduit agreements, crossing agreements, construction permits, purchase orders, bulk and commercial service agreements, retransmission consent agreements, and other Contracts entered into with respect to the Watertown System, including those described on Part I of Exhibit B.

"Watertown System Excluded Assets" means the Partnership's insurance policies and rights and claims thereunder, and bonds, letters of credit, surety instruments, and other similar items, in each case relating to the Watertown System, together with those assets and rights described on Part II of Exhibit B.

"Watertown System Franchises" means all franchises and similar authorizations or permits issued by any Governmental Authority or other Person with respect to the Watertown System, including those described on Part III of Exhibit B.

“Watertown System Licenses” means all intangible CATV channel distribution rights, cable television relay service (CARS), business radio and other licenses, intangible domestic satellite receive only (TVRO) licenses, all copyright notices, and all other licenses, authorizations, consents or permits issued by the FCC or any other Governmental Authority other than the Watertown System Franchises with respect to the Watertown System, including those described on Part IV of Exhibit B.

“Watertown System Real Property” means all real property and interests in Real Property owned or leased by the Partnership with respect to the Watertown System, including the fee interests in real property described as Owned Real Property on Part V of Exhibit B (the “Watertown System Owned Real Property”), and all leases, easements, rights of access and other interests in real property described as Real Property Interests on Part V of Exhibit B and improvements thereon and thereto owned by the Partnership.

“Watertown System Tangible Personal Property” means all tangible personal property, including towers, tower equipment, aboveground and underground cable, distribution systems, headend amplifiers, line amplifiers, microwave equipment, converters, testing equipment, motor vehicles, office equipment, furniture, fixtures, supplies, inventory, all antennae, earth satellite receive stations and related equipment, and other physical assets, owned or leased by the Partnership with respect to the Watertown System.

“Watertown System Value” means \$ [REDACTED].

1.2 Other Defined Terms. The following terms, whether used in singular or plural forms, have the meanings given in the Sections indicated:

“Breaching Party”	9.1(b)
“Closing”	8.1
“Comcast Acquired Partnership Interest”	2.1(a)
“Comcast Assumed Obligations and Liabilities”	2.4
“Comcast Management Agreement”	6.1
“Comcast Partner	Preamble
“Comcast Partner Counsel Opinion”	7.1(h)
“Current Items Amounts”	3.1(a)
“Eligible Accounts Receivable”	3.3(a)(ii)
“Final Report”	3.1(b)
“Hattiesburg System”	Recital A
“Hattiesburg Upgrade”	6.4(b)
“Holdings”	Recital D
“Holdings Actions”	5.5(b)
“Holdings Interest”	Recital D
“Indemnatee”	10.4
“Indemnitor”	10.4
“Minimum Damage Requirement”	10.5(a)
“Outside Closing Date”	8.1

“Paragon Management Agreement”	6.1
“Partnership”	Preamble
“Pre-Closing Partnership Liabilities”	4.1
“Preliminary Net Partnership Value”	3.1(a)
“Preliminary Report”	3.1(a)
“Rate Regulatory Matter”	6.17
“Time Warner Acquired Partnership Interest”	2.1(b)
“Time Warner Assumed Obligations and Liabilities”	2.5
“TCI Counsel Opinion”	7.2(h)
“Time Warner Partners”	Preamble
“Time Warner Partners Counsel Opinions”	7.1(i)
“Title Commitments”	6.9
“Title Defect”	6.9
“Watertown System”	Recital A
“Watertown Upgrade”	6.4(b)

1.3 Rules of Construction. Unless otherwise expressly provided in this Agreement:

(a) all accounting terms used herein shall have the meanings given under GAAP;

(b) words used herein, regardless of gender and number used, shall be deemed and construed to include any other gender, masculine, feminine, or neuter, and any other number, singular or plural, as the context requires; (c) the word “including” is not limiting, and the word “or” is not exclusive; (d) the capitalized term “Section” refers to sections of this Agreement; (e) references to a particular Section include all subsections thereof; (f) references to a particular statute or regulation include all amendments thereto, rules and regulations thereunder and any successor statute, rule or regulation, or published clarifications or interpretations with respect thereto, in each case as from time to time in effect; (g) references to a Person include such Person’s successors and assigns to the extent not prohibited by this Agreement; and (h) references to a “day” or a number of “days” (without the explicit qualification “Business”) will be interpreted as a reference to a calendar day or number of calendar days.

ARTICLE 2
ACQUISITION AND REDEMPTION OF PARTNERSHIP INTERESTS

2.1 Acquisition of Partnership Interests. Subject to the terms and conditions of this Agreement, at Closing:

(a) the Partners shall cause the Partnership to organize Holdings as a wholly owned subsidiary and contribute to Holdings the Watertown System Assets free and clear of all Liens other than Permitted Liens;

(b) subject to and in consideration of the payment by the Comcast Partner of the Comcast Purchase Price, TCI shall sell and deliver to the Comcast Partner, and the Comcast Partner shall purchase and acquire from TCI, a percentage of the aggregate Partnership Interest (such percentage, the "Comcast Acquired Partnership Interest")

equal to the lesser of (i) TCI's entire Partnership Interest or (ii) the quotient obtained by dividing the Comcast Purchase Price by the Preliminary Net Partnership Value; and

(c) subject to and in consideration of the payment by each of the Time Warner Partners of 50% of the Time Warner Purchase Price, TCI shall sell and deliver in equal percentages to each of the Time Warner Partners, and each of the Time Warner Partners shall purchase and acquire in equal percentages from TCI, a percentage of the aggregate Partnership Interest (such percentage, the "Time Warner Acquired Partnership Interest") equal to the lesser of (i) TCI's entire Partnership Interest or (ii) the quotient obtained by dividing the Time Warner Purchase Price by the Preliminary Net Partnership Value.

2.2 Redemption Covenants. Subject to the terms and conditions set forth in this Agreement, at Closing and immediately after the sale and purchase of the Acquired Partnership Interests, the Partnership shall redeem each Partner's entire Partnership Interest.

(a) In consideration of the redemption and liquidation of the balance of TCI's Partnership Interest, the Partnership shall distribute to TCI, in immediately available funds, an amount equal to the positive difference, if any, between the Partner Redemption Amount and the sum of the Comcast Purchase Price and the Time Warner Purchase Price. Such amount shall be distributed as follows:

(i) at Closing, the Partnership shall distribute to TCI, in immediately available funds, an amount equal to the difference between the quotient obtained by dividing the Preliminary Net Partnership Value by three and the sum of the Comcast Purchase Price and the Time Warner Purchase Price; and

(ii) after the final determination of Net Partnership Value in accordance with Section 3.1(b), any remaining amounts distributable to TCI by the Partnership or repayable by TCI to the Partnership shall be distributed or paid, in immediately available funds, in accordance with Section 3.4 below.

(b) In consideration of the redemption and liquidation of the Comcast Partner's entire Partnership Interest (inclusive of the Comcast Acquired Partnership Interest), the Partnership shall convey, assign and transfer to the Comcast Partner, as a distribution in complete liquidation of the Comcast Partner's entire Partnership Interest (inclusive of the Comcast Acquired Partnership Interest), the Hattiesburg System Assets free and clear of all Liens other than the Permitted Liens.

(c) In consideration of the redemption and liquidation of the Time Warner Partners' entire Partnership Interest (inclusive of the Time Warner Acquired Partnership Interest), the Partnership shall convey, assign and transfer in equal proportions to each of the Time Warner Partners, as a distribution in complete liquidation of the Time Warner Partners' entire Partnership Interest (inclusive of the Time Warner Acquired Partnership Interest), the Holdings Interest free and clear of all Liens.

(d) Notwithstanding anything in Sections 2.1 or 2.2 to the contrary, (i) in the event either the Comcast Purchase Price or the Time Warner Purchase Price paid to TCI exceeds the quotient obtained by dividing the Preliminary Net Partnership Value by three, then TCI shall pay (as an adjustment to the applicable Purchase Price) such excess amount at Closing to the Time Warner Partners (where the Comcast Purchase Price exceeds such quotient) or to the Comcast Partner (where the Time Warner Purchase Price exceeds such quotient), and (ii) in the event there is cash remaining in the Partnership after the distribution contemplated in Section 2.2(a)(i), such cash shall be distributed at Closing to the Time Warner Partners or to the Comcast Partner, as applicable, if, and to the extent, the quotient obtained by dividing the Preliminary Net Partnership Value by three exceeds the sum of (y) the Adjusted Watertown System Value (in the case of the Time Warner Partners) or the Adjusted Hattiesburg System Value (in the case of the Comcast Partner) plus (z) the Watertown Current Items Amount (in the case of the Time Warner Partners) or the Hattiesburg Current Items Amount (in the case of the Comcast Partner).

2.3 Excluded Assets. At or before Closing, the Hattiesburg System Excluded Assets shall be terminated with respect to the Hattiesburg System by the Comcast Partner and the Partnership, and the Watertown System Excluded Assets shall be terminated with respect to the Watertown System by the Time Warner Partners and the Partnership, in each case as of the Closing Date. The costs of obtaining such terminations shall be borne one-third by each of TCI, the Comcast Partner and the Time Warner Partners.

2.4 Comcast Assumed Obligations and Liabilities. After Closing, the Comcast Partner shall assume, pay, discharge and perform the following (the "Comcast Assumed Obligations and Liabilities"):

(a) those obligations and liabilities attributable to facts, circumstances or conditions arising or occurring after the Adjustment Time under the Hattiesburg System Contracts, Hattiesburg System Franchises or Hattiesburg System Licenses or Hattiesburg System Real Property;

(b) all obligations and liabilities arising out of the ownership of the Hattiesburg System Assets or operation of the Hattiesburg System which are attributable to facts, circumstances or conditions arising or occurring after the Adjustment Time; and

(c) the Assumed Hattiesburg Liabilities.

2.5 Time Warner Assumed Obligations and Liabilities. After Closing, Time Warner Partners shall cause Holdings to assume, pay, discharge, and perform the following (the "Time Warner Assumed Obligations and Liabilities"):

(a) those obligations and liabilities attributable to facts, circumstances or conditions arising or occurring after the Adjustment Time under the Watertown System Contracts, Watertown System Franchises or Watertown System Licenses or Watertown System Real Property;

(b) all obligations and liabilities arising out of the ownership of the Watertown System Assets or operation of the Watertown System which are attributable to facts, circumstances or conditions arising or occurring after the Adjustment Time; and

(c) the Assumed Watertown Liabilities.

ARTICLE 3 NET PARTNERSHIP VALUE

3.1 Determination of Net Partnership Value. Preliminary and final determinations of Net Partnership Value shall be made as follows:

(a) At least ten business days prior to Closing, the Partnership shall deliver to the Partners a report (the "Preliminary Report"), prepared in good faith and on a reasonable basis, setting forth in reasonable detail the preliminary determination of Net Partnership Value (the "Preliminary Net Partnership Value"), estimated as of the Adjustment Time (or as of any other date and time unanimously agreed by the Partners), accompanied by appropriate documentation supporting such determination, including (i) an unaudited estimated balance sheet of the Partnership as of the Closing Date (which balance sheet, except for the omission of footnotes, will be prepared in accordance with GAAP), and (ii) a schedule setting forth the calculation of estimates of each of the CAT Current Items Amount, Hattiesburg Current Items Amount, Watertown Current Items Amount and Partnership Current Items Amount (collectively, the "Current Items Amounts").

(b) Subject to the procedures set forth in Section 3.2, the Partnership shall deliver to the Partners a report (the "Final Report"), prepared in good faith and on a reasonable basis, setting forth in reasonable detail the final determination of Net Partnership Value, accompanied by appropriate documentation supporting such determination, including an unaudited balance sheet of the Partnership as of the Closing (which balance sheet, except for the omission of footnotes, will be prepared in accordance with GAAP), the final Current Items Amounts and any other document that was required to be included with the Preliminary Report to the extent any change to the information included in such document shall have occurred.

3.2 Approval of Preliminary and Final Reports.

(a) Both the Preliminary Report and the Final Report shall require the unanimous approval of all of the Time Warner Partners, the Comcast Partner and TCI.

(b) The Partners shall cause a draft of the Final Report to be prepared and circulated to all Partners no later than 90 days after Closing. Within 15 days after receipt of the draft Final Report, each Partner shall give written notice of its objections, if any, to such draft report. If no Partner gives any such notice within such 15 day period, then the draft Final Report shall constitute the Final Report and shall be conclusive and binding on all of the Partners. If any Partner so objects to the draft Final

Report, then the Partners shall negotiate in good faith to resolve all issues in dispute with respect thereto within 30 days following receipt of the last notice of objection to be delivered.

(c) If the Partners are not able to resolve all such issues in dispute within such 30-day period, then all such issues remaining in dispute shall be submitted, within 10 business days thereafter, for determination by a nationally recognized accounting firm selected by the unanimous agreement of the Partners which is not the principal independent accountant for the Partnership or any Partner. Such firm shall be directed to make its determination in writing within 30 days after the submission to it of the disputed issues and its determination shall be conclusive and binding on the Partners and the Partnership. All of the fees and expenses payable to such firm in connection with such determination shall be borne one-third by the Time Warner Partners, one-third by the Comcast Partner and one-third by TCI. Within two business days after a resolution of any disputed issues in accordance with this Section 3.2(c), the Partnership shall prepare and deliver the Final Report to all Partners.

3.3 Current Items Amounts. The Hattiesburg Current Items Amount, the Watertown Current Items Amount and the CAT Current Items Amount shall be the net amounts calculated by reference to the appropriate Partnership assets and liabilities without duplication as of the Adjustment Time as follows:

(a) Credits. There shall be a credit for each of the following items:

(i) Cash and Cash Equivalents. An amount equal to the sum of all cash and cash equivalents of the Partnership;

(ii) Eligible Accounts Receivable. An amount equal to the sum of (A) 95% of the face amount of all Eligible Accounts Receivable that are 30 or fewer days past due as of the Adjustment Time, plus (B) 75% of the face amount of all Eligible Accounts Receivable that are more than 30 but less than 60 days past due as of the Adjustment Time. "Eligible Accounts Receivable" shall mean accounts receivable resulting from the provision of cable television service by the Partnership to active subscribers (as of the Adjustment Time) of the Systems that relate to periods of time prior to the Adjustment Time; provided that Eligible Accounts Receivable shall not include amounts receivable from subscribers whose cable television service is pending disconnection for nonpayment, in accordance with the then current disconnection policy of the applicable System's Manager, as of the Adjustment Time. For purposes of making "past due" calculations under this paragraph, billing statements shall be deemed to be due and payable on the first day of the period during which the service to which such billing statements relate is provided; and

(iii) Advertising Accounts Receivable. An amount equal to revenues actually collected during the 90-day period beginning on the date of Closing which are attributable to the sale by the Partnership of advertising availabilities prior to the Adjustment Time.

(b) Debits. There shall be a debit for each of the following items:

(i) Advance Payments and Deposits. An amount equal to the aggregates of (A) all deposits for converters, decoders, and similar items, and (B) all payments received by or on behalf of the Partnership prior to the Adjustment Time for services to be rendered or equipment to be provided after the Adjustment Time; and

(ii) Payables and Liabilities. An amount equal to the aggregate of (A) all accounts payable, (B) all accrued liabilities, and (C) all other Partnership Debt.

(c) Income and Expenses. All income and expenses of the Partnership shall be prorated, in accordance with GAAP, as follows:

(i) all income and expenses for any periods prior to the Adjustment Time shall be included in the applicable Current Items Amount calculation unless already included therein pursuant to Sections 3.3(a) or (b) above;

(ii) all income and expenses attributable to the Watertown System for periods after the Adjustment Time shall be included in the Watertown Current Items Amount;

(iii) all income and expenses attributable to the Hattiesburg System for periods after the Adjustment Time shall be included in the Hattiesburg Current Items Amount; and

(iv) all other income and expenses attributable to periods after the Adjustment Time shall be included in the CAT Current Items Amount.

Without limiting the generality of the foregoing, the following expenses shall be prorated as described in clauses (i), (ii) and (iii) of the preceding sentence:

(A) all payments and charges under or with respect to any System Franchise, System License and System Contract;

(B) Taxes levied or assessed against any System Assets or payable with respect to cable television service and related sales to System subscribers;

(C) charges for utilities and other goods or services furnished to any System;

(D) copyright fees based on signal carriage by any System; and

(E) all other items of expense relating to any System.

3.4 Adjustments To Reflect Net Partnership Value.

(a) Within 10 business days after delivery of a conclusive and binding Final Report and subject to subsection (b) hereof:

(i) TCI shall pay to the Time Warner Partners, or the Time Warner Partners shall pay to the TCI, as appropriate, in immediately available funds, the amount, if any, that, when added or subtracted (as appropriate) to or from (y) the sum of (A) the Adjusted Watertown System Value plus (B) the final Watertown Current Items Amount plus (C) any amounts paid or distributed to the Time Warner Partners by TCI or the Partnership pursuant to Section 2.2(d), minus (z) the Time Warner Purchase Price, will yield a sum which is equal to the Partner Redemption Amount; and

(ii) TCI shall pay to the Comcast Partner, or the Comcast Partner shall pay to TCI, as appropriate, in immediately available funds, an amount, if any, that, when added or subtracted (as appropriate) to or from (y) the sum of (A) the Adjusted Hattiesburg System Value plus (B) the final Hattiesburg Current Items Amount plus (C) any amounts paid or distributed to the Comcast Partner by TCI or the Partnership pursuant to Section 2.2(d), minus (z) the Comcast Purchase Price, will yield a sum which is equal to the Partner Redemption Amount.

(b) In the event the final CAT Current Items Amount reflected in the Final Report exceeds the estimated CAT Current Items Amount reflected in the Preliminary Report, and such increase is attributable to an increase in the amount of Partnership cash, the Partners shall cause the Partnership to distribute such additional cash to TCI. In the event the final CAT Current Items Amount is less than the estimated CAT Current Items Amount, and such decrease is attributable to additional liabilities included in the final CAT Current Items Amount, TCI shall be responsible for paying such liabilities.

(c) Any distribution or payment required to be made pursuant to Section 3.4(a) shall be made or paid together with interest on the amount required to be distributed or paid at a rate per annum equal to the Prime Rate plus one percent from the Closing Date to the date of distribution or payment. Payments by or to TCI under Sections 3.4(a)(i) or (ii) shall be deemed adjustments to the Time Warner Purchase Price or the Comcast Purchase Price, as applicable. Notwithstanding anything to the contrary in this Agreement, it is the intention of the Partners that each shall have received one-third of the net value of the Partnership in distributions of cash and/or assets after consummation of the transactions contemplated herein.

ARTICLE 4 TREATMENT OF LIABILITIES

4.1 Liabilities which are the Responsibility of all Partners. Subject to Section 4.2 and Article 10, the Partners shall retain and have full responsibility and obligation with respect to, and shall timely perform and discharge, all liabilities, responsibilities and obligations relating to, arising out of, or in connection with, or resulting from the use or ownership or operation of, the Systems or the Partnership on or before the Adjustment Time (the "Pre-Closing Partnership Liabilities"). Without limiting the generality of the foregoing, the Pre-Closing Partnership Liabilities shall include, without duplication, the following; provided, that the Pre-Closing Partnership Liabilities will not include any

amount included in the Comcast Assumed Obligations and Liabilities or the Time Warner Assumed Obligations and Liabilities.

(a) all liabilities and obligations with respect to any System, System Assets, System Franchises, System Licenses, System Contracts, System Real Property or System Tangible Personal Property arising (i) on or before the Adjustment Time, and (ii) after the Adjustment Time to the extent that such liabilities and obligations relate to facts, circumstances or conditions arising or occurring on or before the Adjustment Time;

(b) all current liabilities of the Partnership as of the Adjustment Time, including trade, interest and other payables;

(c) all Taxes of the Partnership relating to the use, ownership or operation of the Systems on or before the Adjustment Time;

(d) all liabilities, responsibilities and obligations arising out of or related to any Litigation (other than Litigation relating to the subject matter of clauses (e) or (g) hereof) based on facts, circumstances or conditions arising, existing or occurring on or before the Adjustment Time, regardless of whether known or unknown, asserted or unasserted, as of the Adjustment Time, including the matters set forth on Exhibit 4.1(d);

(e) all liabilities and obligations (and any Litigation relating thereto) of any System for prior period adjustments of revenues from such System and for refunds of rate overcharges or customer overbillings relating to any period prior to the Adjustment Time, including the matters set forth on Exhibit 4.1(e);

(f) any liability under any claim and relating to the period ending on the Adjustment Time which is or, but for the consummation of the transactions contemplated hereby, would have been covered under any insurance policy of the Partnership;

(g) all liabilities and obligations (and any Litigation relating thereto) of the Partnership or any System arising on or before the Adjustment Time and relating to any programming broadcast on any System or under or relating to any programming Contract to which the Partnership or any Partner is or was a party; and

(h) all other liabilities, responsibilities and obligations of the Partnership attributable to facts, circumstances or conditions arising or occurring on or before the Adjustment Time, other than the Assumed Hattiesburg Liabilities and the Assumed Watertown Liabilities.

4.2 Limitations on Liabilities. Notwithstanding the provisions of Section 4.1:

(a) TCI's liability with respect to Pre-Closing Partnership Liabilities (other than those described in Sections 4.1(c) and (e) above) to the extent derived from the ownership or operation of one or both of the Systems shall expire on the eighteen month anniversary of the Adjustment Time with respect to claims which are not asserted on or before the eighteen month anniversary of the Adjustment Time, and TCI's liability with

respect to Pre-Closing Partnership Liabilities of the type described in Section 4.1(c) shall survive until the expiration of the applicable statutes of limitation, and its liability with respect to Pre-Closing Partnership Liabilities of the type described in Section 4.1(e) above shall be limited to its Pro Rata share of refunds of rate overcharges or customer overbillings relating to periods prior to the Adjustment Time that result from a formal rate order that becomes effective within eighteen months after the Adjustment Time;

(b) the Comcast Partner's liability with respect to Pre-Closing Partnership Liabilities (other than those described in Sections 4.1(c) and (e) above) to the extent derived from the ownership or operation of the Watertown System shall expire on the eighteen month anniversary of the Adjustment Time with respect to claims which are not asserted on or before the eighteen month anniversary of the Adjustment Time, and the Comcast Partner's liability with respect to Pre-Closing Partnership Liabilities of the type described in Section 4.1(c) shall survive until the expiration of the applicable statutes of limitation, and its liability with respect to Pre-Closing Partnership Liabilities of the type described in Section 4.1(e) above to the extent derived from the ownership or operation of the Watertown System shall be limited to its Pro Rata share of refunds of rate overcharges or customer overbillings relating to periods prior to the Adjustment Time that result from a formal rate order that becomes effective within eighteen months after the Adjustment Time; and

(c) each Time Warner Partner's liability with respect to Pre-Closing Partnership Liabilities (other than those described in Sections 4.1(c) and (e) above) to the extent derived from the ownership or operation of the Hattiesburg System shall expire on the eighteen month anniversary of the Adjustment Time with respect to claims which are not asserted on or before the eighteen month anniversary of the Adjustment Time, and each Time Warner Partner's liability with respect to Pre-Closing Partnership Liabilities of the type described in Section 4.1(c) shall survive until the expiration of the applicable statutes of limitation, and its liability with respect to Pre-Closing Partnership Liabilities of the type described in Section 4.1(e) above to the extent derived from the ownership or operation of the Hattiesburg System shall be limited to its Pro Rata share of refunds of rate overcharges or customer overbillings relating to periods prior to the Adjustment Time that result from a formal rate order that becomes effective within eighteen months after the Adjustment Time.

Nothing in this Section 4.2 shall be deemed or construed to limit or alter any Partner's liability for liabilities included or which should be included in the CAT Current Items Amount.

ARTICLE 5 REPRESENTATIONS AND WARRANTIES

5.1 By All Partners With Respect to the Partnership. As of the date of this Agreement and as of Closing, each Partner hereby severally represents and warrants to each of the other Partners with respect to the Partnership as follows:

(a) Organization and Qualification of the Partnership. The Partnership is a general partnership duly organized and validly existing under the laws of the State of Delaware, and has all requisite partnership power and authority to own and lease the assets that comprise the Systems and to conduct its activities as such activities are currently conducted. The Partnership is duly qualified to do business in all jurisdictions in which the ownership or leasing of the assets that comprise the Systems or the nature of its activities in connection therewith makes such qualification necessary.

(b) Authority. The Partnership has all requisite partnership power and authority to execute, deliver, and perform this Agreement and consummate the transactions contemplated hereby. The execution, delivery, and performance of this Agreement and the consummation of the transactions contemplated hereby by the Partnership have been duly and validly authorized by all necessary action on the part of the Partnership. This Agreement has been duly and validly executed and delivered by the Partnership, and is the valid and binding obligation of the Partnership, enforceable against the Partnership in accordance with its terms, except as may be limited by applicable bankruptcy, insolvency or similar laws affecting creditors' rights generally or the availability of equitable remedies.

(c) No Conflict; Required Consents. To its Knowledge, except as described on Exhibit 5.1(c) and subject to compliance with the HSR Act, the execution, delivery, and performance by the Partnership of this Agreement do not and will not: (i) conflict with or violate any provision of the Partnership Agreement; (ii) violate any provision of any Legal Requirements; (iii) conflict with, violate, result in a breach of, constitute a default under (without regard to requirements of notice, lapse of time, or elections of other Persons, or any combination thereof), accelerate or permit the acceleration of the performance required by, any Contract or Lien to which the Partnership is a party or by which the Partnership or the assets or properties owned or leased by it are bound or affected; (iv) result in the creation or imposition of any Lien against or upon any of the assets that comprise the Systems; or (v) require any consent, approval, or authorization of, or filing of any certificate, notice, application, report, or other document with, any Governmental Authority or other Person.

(d) Litigation. To its Knowledge, except as set forth in Exhibit 5.1(d): (i) there is no Litigation pending or threatened, by or before any Governmental Authority or private arbitration tribunal, against the Partnership that could adversely affect the Partnership's ability to perform its obligations under this Agreement, nor is there any basis for any such Litigation; and (ii) there is not in existence any Judgment requiring the Partnership to take any action of any kind with respect to any Partnership asset, or to which any Partnership assets is subject or by which any Partnership assets is bound or affected.

(e) Title to Assets; Sufficiency. To its Knowledge, except for Permitted Liens, including those described on Exhibit 5.1(e), which sets forth certain Permitted Liens affecting System Assets, the Partnership has good and marketable title to (or in the case

of System Assets that are leased, valid leasehold interests in) and possession of all of the System Assets, free and clear of all Liens.

(f) Franchises, Licenses, and Contracts. To its Knowledge, each of the System Franchises, System Licenses and material System Contracts is in full force and effect and is valid, binding and enforceable in accordance with its terms. Except as described on Exhibit 5.1(f), to its Knowledge there has not occurred any material default by the Partnership or any other Person under any of the System Franchises, System Licenses or System Contracts.

(g) Compliance with Legal Requirements. To its Knowledge, except as described on Exhibit 5.1(g) (i) the Partnership has complied and is in compliance in all material respects with all Legal Requirements applicable to the Systems, including but not limited to the Communications Act, the Cable Act, the Copyright Act, or the Occupational Safety and Health Act; and (ii) neither the Partnership nor any Partner has received notice from the FCC of any violation of the FCC's rules and regulations insofar as they apply to any System.

(h) Tax Returns; Other Reports. To its Knowledge, the Partnership has filed in true and correct form all federal, state, local, and foreign tax returns and other reports required to be filed, and has timely paid all Taxes that have become due and payable, whether or not so shown on any such return or report, the failure to file or pay which could affect or result in the imposition of a Lien upon any Partnership asset. To its Knowledge, the Partnership has received no notice of, nor does it have any Knowledge of, any deficiency or assessment or proposed deficiency or assessment from any taxing Governmental Authority which could affect or result in the imposition of a Lien upon any Partnership asset.

(i) Taxpayer Identification Number. The Partnership's U.S. Taxpayer Identification Number is as set forth in the introductory paragraph of this Agreement.

5.2 By Each Partner With Respect to Itself. As of the date of this Agreement and as of Closing, each Partner hereby represents and warrants to the other Partners as follows:

(a) Organization and Qualification. It is a partnership or corporation, as applicable, duly organized, validly existing, and in good standing under the laws of the state of its formation or incorporation, as applicable, and has all requisite partnership or corporate, as applicable, power and authority to own its Partnership Interest and to conduct its activities as such activities are currently conducted. It is duly qualified to do business as a foreign limited partnership or a foreign corporation, as applicable, and is in good standing in all jurisdictions in which the ownership of its Partnership Interest or the nature of its activities in connection with the Systems makes such qualification necessary.

(b) Authority. It has all requisite partnership or corporate, as applicable, power and authority to execute, deliver, and perform this Agreement and consummate

the transactions contemplated hereby. The execution, delivery, and performance of this Agreement and the consummation of the transactions contemplated hereby on its part have been duly and validly authorized by all necessary partnership or corporate action. This Agreement has been duly and validly executed and delivered by it, and is its valid and binding obligation, enforceable against it in accordance with its terms, except as may be limited by applicable bankruptcy, insolvency or similar laws affecting creditors' rights generally or the availability of equitable remedies.

(c) No Conflict; Required Consents. Except as described on Exhibit 5.2(c), and subject to compliance with the HSR Act, the execution, delivery, and performance by it of this Agreement do not and will not: (i) conflict with or violate any provision of its articles of incorporation or bylaws or partnership agreement or agreement of limited partnership, as applicable; (ii) violate any provision of any Legal Requirements; (iii) conflict with, violate, result in a breach of, constitute a default under (without regard to requirements of notice, lapse of time, or elections of other Persons, or any combination thereof), accelerate, or permit the acceleration of the performance required by, any Contract or Lien to which it is a party or by which it or the assets or properties owned or leased by it are bound or affected; (iv) result in the creation or imposition of any Lien against or upon its Partnership Interest; or (v) require any consent, approval or authorization of, or filing of any certificate, notice, application, report, or other document with, any Governmental Authority or other Person; except, for purposes of clauses (ii), (iii) and (v) above only, such matters as would not, individually or in the aggregate, have a material adverse effect on its Partnership Interest, the ability of any party to perform its obligations under this Agreement, or on any System or other Partnership asset.

(d) Litigation. Except as set forth in Exhibit 5.2(d): (i) there is no Litigation pending or, to its Knowledge, threatened, by or before any Governmental Authority or private arbitration tribunal, against it that could adversely affect its ability to perform its obligations under this Agreement, nor, to its Knowledge, is there any basis for any such Litigation; and (ii) there is not in existence any Judgment requiring it to take any action of any kind with respect to its Partnership Interest or any System, or to which it (with respect to its Partnership Interest or the Systems), is subject or by which it is bound or affected.

(e) Tax Returns; Other Reports. It has filed in true and correct form all federal, state, local, and foreign tax returns and other reports required to be filed, and has timely paid all Taxes which have become due and payable, whether or not so shown on any such return or report, the failure to file or pay which could affect or result in the imposition of a Lien upon its Partnership Interest or any System. It has received no notice of, nor does it have any Knowledge of, any deficiency or assessment or proposed deficiency or assessment from any taxing Governmental Authority which could affect or result in the imposition of a Lien upon its Partnership Interest or any System.

(f) Title to Partnership Interests. It holds its Partnership Interest free and clear of all Liens other than Liens imposed pursuant to the Partnership Agreement or approved in writing by all Partners.

(g) No Breaches of Partnership Agreement. To its Knowledge, no Partner is in breach of any provision of the Partnership Agreement.

(h) Taxpayer Identification Number. Its U.S. Taxpayer Identification Number is as set forth in the introductory paragraph of this Agreement.

5.3 By the Time Warner Partners With Respect to the Watertown System. As of the date of this Agreement and as of Closing, the Time Warner Partners hereby represent and warrant to the other Partners that Exhibit 5.3 sets forth a materially true and accurate description as of the date set forth in such Exhibit of the number of residential and commercial subscribers served by the Watertown System. Notwithstanding any other provision of this Agreement, the representations and warranties in this Section 5.3 shall not survive Closing.

5.4 By the Comcast Partner With Respect to the Hattiesburg System. As of the date of this Agreement and as of Closing, the Comcast Partner hereby represents and warrants to the other Partners that Exhibit 5.4 sets forth a materially true and accurate description as of the date set forth in such Exhibit, of the number of residential and commercial subscribers served by the Hattiesburg System. Notwithstanding any other provision of this Agreement, the representations and warranties in this Section 5.4 shall not survive Closing.

5.5 By All Partners With Respect to Holdings. As of the date of this Agreement and as of Closing, each Partner hereby severally represents and warrants to each of the other Partners with respect to Holdings as follows:

(a) Organization and Qualification of Holdings. Holdings is a limited liability company duly organized, validly existing, and in good standing under the laws of the State of Delaware, and has all requisite limited liability company power and authority to conduct its activities as such activities are currently conducted. Holdings is duly qualified as a foreign limited liability company in the State of New York.

(b) Authority of Holdings. Holdings has all requisite limited liability company power and authority to acquire, own and operate the Watertown System and Watertown System Assets, and to assume, pay, discharge and perform the Time Warner Assumed Obligations and Liabilities after Closing (collectively, the "Holdings Actions"), and the Holdings Actions have been duly and validly authorized by all necessary action on the part of Holdings.

(c) No Conflict; Required Consents. Except as described on Exhibit 5.5(c), the performance of the Holdings Actions by Holdings do not and will not: (i) conflict with or violate any provision of the organizational certificate or operating agreement of

Holdings; (ii) violate any provision of any Legal Requirements; (iii) conflict with, violate, result in a breach of, constitute a default under (without regard to requirements of notice, lapse of time, or elections of other Persons, or any combination thereof), accelerate or permit the acceleration of the performance required by, any Contract or Lien to which Holdings is a party or by which Holdings or the assets or properties owned or leased by it are bound or affected; (iv) result in the creation or imposition of any Lien against or upon any of Holding's assets; or (v) require any consent, approval, or authorization of, or filing of any certificate, notice, application, report or other document with, any Governmental Authority of other Person.

(d) Litigation. Except as set forth on Exhibit 5.5(d): (i) there is no Litigation or, to its Knowledge, threatened, by or before any Governmental Authority or private arbitration tribunal, against Holdings that could adversely affect Holding's ability to perform the Holdings Actions, nor, to its Knowledge, is there any basis for any such Litigation; and (ii) there is not in existence any Judgment requiring Holdings to take any action of any kind with respect to any of its assets, or to which any of Holdings' assets are subject or by which any of Holdings' assets are bound or affected.

ARTICLE 6 COVENANTS

6.1 Affirmative Covenant. Except as each of the other Partners otherwise may consent in writing, between the date of this Agreement and Closing, the Time Warner Partners shall cause their affiliate, Paragon Communications, as Manager of the Watertown Systems under that certain Cable Television Management Agreement between Paragon Communications and the Partnership dated April 7, 1989 (the "Paragon Management Agreement"), to use its commercially-reasonable efforts to obtain in writing as promptly as possible the Consents related to the Watertown System, and the Comcast Partner shall cause its affiliate, Comcast Corporation, as Manager of the Hattiesburg System under that certain Cable Television System Management Agreement between Comcast Corporation and the Partnership dated April 7, 1989 (the "Comcast Management Agreement"), to use its commercially-reasonable efforts to obtain in writing as promptly as possible the Consents related to the Hattiesburg System, and each of the Time Warner Partners and the Comcast Partner shall deliver or cause to be delivered to all the other Partners copies, reasonably satisfactory in form and substance to each of them, of the Consents; provided, however, that the Partnership shall afford the Time Warner Partners (with respect to the Watertown System) or the Comcast Partner (with respect to the Hattiesburg System) the opportunity to review, approve and revise the form of consent prior to delivery to the party whose consent is sought, and no Partner shall cause the Partnership to accept or agree or accede to any modifications or amendments to, or any conditions to the transfer of, any of the Watertown System Franchises, Watertown System Licenses or Watertown System Contracts that are not acceptable to the Time Warner Partners, or any of the Hattiesburg System Franchises, Hattiesburg System Licenses or Hattiesburg System Contracts that are not acceptable to the Comcast Partner; and provided further that the Partnership shall not have any obligation to offer or pay any consideration (other than normal and usual processing and

filing fees incurred in obtaining such approvals, authorizations and consents), or to act as surety or guarantor, in order to obtain any such approval, authorization, or consent.

6.2 Negative Covenant. Except as the other Partners may otherwise consent in writing, or as contemplated by this Agreement, between the date of this Agreement and Closing none of the Partners or the Partnership shall enter into any transaction or take any action that would result in any of its representations and warranties in this Agreement not being true and correct in all material respects when made or at Closing.

6.3 Certain Additional Covenants. Each party shall cooperate reasonably with all the other parties in its efforts to obtain all Consents, but shall have no obligation to agree or accede to any modifications or amendments thereto that are not acceptable to it in its reasonable discretion. Subject to the terms and conditions of this Agreement, each Partner shall use its commercially reasonable efforts to take, or cause to be taken, all actions and to do, or cause to be done, all things within its control necessary or desirable to consummate the transactions contemplated by this Agreement as promptly as practicable.

6.4 Operation in the Ordinary Course; Upgrade.

(a) Except as the other Partners may otherwise consent in writing, between the date of this Agreement and Closing each of the Comcast Partner (with respect to the Hattiesburg System and the Hattiesburg System Assets) and the Time Warner Partners (with respect to the Watertown System and the Watertown System Assets) shall (i) operate such System and Assets only in the usual, regular, and ordinary course and in accordance with the applicable Management Agreement and past practices (including but not limited to completing line extensions, placing conduit or cable in new developments, fulfilling installation requests, and continuing work on existing construction projects), and (ii) to the extent consistent with such operation, use its reasonable efforts to preserve the current business organization of such System intact, including preserving existing relationships with franchising authorities, suppliers, customers, and others having business dealings with the System.

(b) By its execution hereof, each Partner shall be deemed to have approved, in accordance with the Partnership Agreement, (i) the upgrade of the Watertown System to 750 MHz and the roll-out of digital services in the Watertown System (the "Watertown Upgrade"), and (ii) the upgrade of the Hattiesburg System to 750 MHz and the roll-out of digital services in the Hattiesburg System (the "Hattiesburg Upgrade"). The Time Warner Partners shall cause Paragon Communications to use its commercially reasonable efforts to perform the Watertown Upgrade, and CHHC shall use its commercially reasonable efforts to cause Comcast Corporation to perform the Hattiesburg Upgrade.

6.5 Notification of Certain Matters.

(a) Each party shall promptly notify the other parties of any fact, event, circumstance, action or omission (i) which, if known at the date of this Agreement,

would have been required to be disclosed in or pursuant to this Agreement, or (ii) the existence or occurrence of which would cause any of such party's representations or warranties under this Agreement not to be true in any material respect and, with respect to clause (ii), (X) if the representation or warranty at issue was made by more than one Partner, then all of such Partners shall use their commercially reasonable efforts to remedy the same and shall bear equally the costs incurred in connection with such remedial efforts, and (Y) if the representation or warranty at issue was made by only one Partner, then such Partner shall use its commercially reasonable efforts to remedy the same and shall bear 100% of the costs incurred in connection with such remedial efforts.

(b) Promptly upon becoming aware of such matter, each party shall notify the other parties of any fact, event, circumstance, action or omission that constitutes a breach by any of the other parties of any of the representations or warranties made by such other party in the performance of or compliance with any covenant, agreement or obligation required to be performed or complied with prior to the date of Closing.

6.6 Post-Closing Obtaining of Consents. Subsequent to Closing, the Time Warner Partners or the Comcast Partner, as appropriate shall continue to use commercially reasonable efforts to obtain in writing as promptly as possible any Consent relating to the Watertown System or the Hattiesburg System, respectively, in form and substance reasonably satisfactory to the Time Warner Partners or the Comcast Partner, as appropriate, that was not obtained on or before Closing, and to deliver copies of such Consents to the other Partners; provided, however, that the costs of obtaining any such Consents shall be borne one-third by each of TCI, the Time Warner Partners and the Comcast Partner, except that no party shall have any obligation to offer or pay any consideration (other than normal and usual processing and filing fees incurred in obtaining such approvals, authorizations and consents), or to act as surety or guarantor, in order to obtain any such approval, authorization, or consent. The obligations set forth in this Section 6.6 shall survive Closing and shall not be merged in the consummation of the transactions contemplated hereby. From Closing until each such Consent is obtained, the Time Warner Partners shall act as the agent for the Partnership with respect to the Watertown System, and the Comcast Partner shall act as agent for the Partnership with respect to the Hattiesburg System, and the Time Warner Partners or Comcast Partner, as appropriate, shall preserve the benefit of and enforce any Watertown System Contract or Hattiesburg System Contract, as the case may be; or other right to which such Consent pertains to the fullest extent permissible under the applicable Watertown System Contract, the Hattiesburg System Contract or other right. Upon request by any party, at Closing, the Time Warner Partners or the Comcast Partner, as applicable, and the Partnership shall enter into an agency agreement in a form mutually satisfactory to each party specifying the terms of such agency.

6.7 Certain Matters Relating to the Credit Agreement and Other Partnership Liabilities. Subject to the terms of the Credit Agreement, each of the Partners shall take, or shall cause the Partnership to take, all actions, including execution and delivery of any documents or instruments, which may be necessary or convenient in order to cause all indebtedness outstanding under the Credit Agreement to be paid in full and the Credit

Agreement to be terminated at least one business day prior to Closing. The Partners shall cause the Partnership to pay all liabilities included in the CAT Current Items Amount in the ordinary course of business.

6.8 Confidentiality and Publicity.

(a) Any non-public information regarding this Agreement or the transactions contemplated hereby shall be confidential and, unless and until Closing shall occur, no Partner shall disclose any such information to any other Person (other than its directors, officers and employees, its partners and such partner's directors, officers and employees, and representatives of its advisers and lenders whose knowledge thereof is necessary to facilitate the consummation of the transactions contemplated hereby) or use such information to the detriment of any other Partner; except that any Partner may disclose such documents and information to any Governmental Authority reviewing the transactions contemplated hereby or as required in any Partner's judgment pursuant to any Legal Requirement.

(b) Each of the Partners shall consult and cooperate with the others with respect to the content and timing of all press releases and other public announcements, and any oral or written statements to any System's employees concerning this Agreement and the transactions contemplated hereby. Except as required by applicable Legal Requirements, none of the Partners shall make any such release, announcement, or statements without the prior written consent and approval of each of the others.

6.9 Title Matters. The Time Warner Partners, or the Comcast Partner, as appropriate, shall have the right, but not the obligation, to obtain, at Partnership expense, (i) commitments of title insurance ("Title Commitments") committing to insure fee title in Holdings to all of the Watertown System Owned Real Property listed on Part I of Exhibit 6.9, and fee title in CHHC all of the Hattiesburg System Owned Real Property listed on Part II of Exhibit 6.9, by current ALTA's owner's policies of title insurance, and (ii) surveys of each such parcel in such form as is necessary to obtain the title insurance to be issued pursuant to the Title Commitments, subject only to (w) zoning restrictions, prohibitions, and other requirements imposed by any Governmental Authority having jurisdiction over the Watertown System Owned Real Property or the Hattiesburg System Owned Real Property, as applicable; (x) public utility easements of record; (y) liens for Taxes not yet due and payable; and (z) Permitted Liens. If the Time Warner Partners or Comcast Partner, as applicable, shall notify the Partnership on or before the 45th day following the date hereof of any Lien or other matter (other than Permitted Liens) affecting title to the Watertown System Owned Real Property or the Hattiesburg System Owned Real Property, as applicable, that, in the determination of the Time Warner Partners or the Comcast Partner, as applicable, renders title uninsurable or unmerchantable, or that could adversely affect the use of any parcel of the Watertown System Owned Real Property or Hattiesburg System Owned Real Property for the purpose for which it is currently used (a "Title Defect"), the Partners shall cause the Partnership to exercise its best efforts to remove or, with the consent of the Time

Warner Partners or the Comcast Partner, as applicable, cause the title company to commit to insure over, each Title Defect prior to Closing.

6.10 HSR Act Compliance. Within 30 days after the date of this Agreement, the Partners shall, if required, prepare and file proper premerger notification and report forms and related affidavits in compliance with the HSR Act. The fees payable to Governmental Authorities required for such filings relating to the transactions contemplated by this Agreement shall be borne by the Partnership or equally by each of TCI, the Time Warner Partners and the Comcast Partner, as determined by the Partners. If following the filing of such forms any Governmental Authority shall challenge the transaction contemplated hereby, or request additional filings or information, the Partners shall take preliminary steps to attempt to ascertain the nature of the challenge and the likelihood that the Governmental Authority will permit the transaction contemplated hereby to proceed notwithstanding the challenge. After taking such preliminary steps, neither the Partnership nor the Partners shall have any obligation to contest such challenge or make or provide any such filing or information, and each shall be entitled, at their option, to withdraw its filing and terminate this Agreement.

6.11 Access to Books and Records. Following the Closing, the Time Warner Partners with respect to the Watertown System and the Comcast Partner with respect to the Hattiesburg System shall cause such books and records as the Partnership reasonably may require in order to prepare tax returns or in connection with tax audits or other similar matters to be preserved and made available to the Partnership during normal business hours.

6.12 Supplements to Exhibits. Each of the Partners shall, from time to time prior to Closing, supplement the Exhibits to this Agreement with additional information that, if existing or known to it on the date of this Agreement, would have been required to be included in one or more Exhibits to this Agreement. For purposes of determining the satisfaction of any of the conditions to the obligations of any of the Partners in Article 7 and the liability of any of the Partners following Closing for breaches of its respective representations or warranties under this Agreement, the Exhibits to this Agreement shall be deemed to include only the information contained therein on the date of this Agreement or added to the Exhibits by written amendments or supplements to this Agreement delivered prior to Closing by the party making such amendment and accepted in writing by the other parties.

6.13 Defaults. Subject to Section 6.5 above, none of the Partners shall have an obligation to cure any default, deficiency, violation or other condition rendering any of its representations or warranties untrue or inaccurate. If one party elects to consummate the transaction contemplated by this Agreement despite its Knowledge that any representation or warranty of any other party is untrue or inaccurate, such representation or warranty shall be deemed amended and limited to conform to the scope of the first party's Knowledge with regard thereto.

6.14 Tax Treatment. Upon the election of any Partner, the Partners shall cause the Partnership to elect, pursuant to Section 754 of the Code, to adjust the basis of the Partnership assets in the manner provided by Section 743 of the Code as the result of purchase by the Time Warner Partners and/or the Comcast Partner of all or a portion of TCI's Partnership Interest, or by Section 734 of the Code as the result of the redemption of the balance, if any, of TCI's Partnership Interest pursuant to this Agreement.

6.15 Guaranties. Concurrently with the execution of this Agreement:

(a) CHHC shall provide a written guaranty of its obligations under this Agreement from Comcast Cable Communications, Inc. in the form of Exhibit 6.15;

(b) KBL shall provide a written guaranty of its obligations under this Agreement from TWE in the form of Exhibit 6.15; and

(c) TCI shall provide a written guaranty of its obligations under this Agreement from AT&T Broadband LLC in the form of Exhibit 6.15.

6.16 Liquidation and Dissolution of Partnership. As promptly as practicable following delivery of the Final Report pursuant to Section 3.2 and completion of the adjustments under Section 3.4, the Partners shall take such actions and execute and deliver such instruments as shall be necessary or appropriate to cause the Partnership to be liquidated and dissolved in accordance with the terms and conditions of Article VII of the Partnership Agreement and applicable Legal Requirements.

6.17 Cooperation Upon Inquiries as to Rates. For a commercially reasonable period after Closing, the Time Warner Partners shall cooperate with and assist the Comcast Partner by providing, upon request, all programming-related information (other than any confidential programming-related information) in the Time Warner Partners' possession (and not previously provided to the Comcast Partner) that the Comcast Partner may reasonably require to justify rates charged by the Hattiesburg System in response to any inquiry, order or requirement of any Governmental Authority or any Rate Regulatory Matter instituted before or after the date of this Agreement. With respect to confidential programming-related information requested by the Comcast Partner under this Section 6.17, the Time Warner Partners shall use their good faith efforts to cooperate with the Comcast Partner to identify and generate information which summarizes or is derivative of such confidential programming-related information for use by third-party consultants (reasonably acceptable to the Comcast Partner) of the Time Warner Partners in connection with such inquiry, order, requirement or Rate Regulatory Matter; provided that such consultants have executed confidentiality agreements reasonably acceptable to the Time Warner Partners; and provided further that, except as required under applicable Legal Requirements, the Time Warner Partners shall not be required to disclose or provide in any manner any confidential programming-related information or any other information in breach of any contractual obligations. For purposes hereof, "Rate Regulatory Matter" means any proceeding or investigation with respect to a System arising out of or related to the Cable Act (other than those affecting the cable television

industry generally) dealing with, limiting or affecting the rates which can be charged by such system for programming.

6.18 Waiver of Transfer Restrictions. Effective as of the Closing, each Partner and the Partnership hereby waive all restrictions on and conditions to the sale, assignment, disposition or other transfer of TCI's Partnership Interest under the Partnership Agreement.

ARTICLE 7 CONDITIONS PRECEDENT

7.1 Conditions to TCI's Obligations. The obligations of TCI to consummate the transactions contemplated by this Agreement shall be subject to the following conditions, which may be waived by TCI, in its sole discretion:

(a) Accuracy of Representations and Warranties of the Comcast Partner. The representations and warranties of the Comcast Partner, for itself and on behalf of the Partnership, in this Agreement and in any Transaction Document shall be true and accurate in all material respects at and as of the Adjustment Time with the same effect as if made at and as of the Adjustment Time, except for representations and warranties expressly stated to be made only at and as of some other date.

(b) Performance Of Agreements by the Comcast Partner. The Comcast Partner, for itself and on behalf of the Partnership, shall have performed in all material respects all obligations and agreements and complied in all material respects with all covenants in this Agreement and in any Transaction Document to be performed and complied with by it at or before Closing.

(c) Officer's Certificate of the Comcast Partner. The Comcast Partner shall have delivered to TCI a certificate executed by an executive officer of the Comcast Partner, dated as of Closing, reasonably satisfactory in form and substance to TCI, certifying that the conditions specified in Sections 7.1(a) and 7.1(b) have been satisfied.

(d) Accuracy of Representations and Warranties of the Time Warner Partners. The representations and warranties of each of the Time Warner Partners, for itself and on behalf of the Partnership, in this Agreement and in any Transaction Document shall be true and accurate in all material respects at and as of the Adjustment Time with the same effect as if made at and as of the Adjustment Time, except for representations and warranties expressly stated to be made only at and as of some other date.

(e) Performance Of Agreements by the Time Warner Partners. Each of the Time Warner Partners, for itself and on behalf of the Partnership, shall have performed in all material respects all obligations and agreements and complied in all material respects with all covenants in this Agreement and in any Transaction Document to be performed and complied with by it at or before Closing.

(f) Officer's Certificate of the Time Warner Partners. Each of the Time Warner Partners shall have delivered to TCI a certificate executed by an executive officer of such Time Warner Partner, dated as of Closing, reasonably satisfactory in form and substance to TCI, certifying that the conditions specified in Sections 7.1(d) and 7.1(e) have been satisfied.

(g) HSR Act Compliance. All waiting periods under the HSR Act applicable to the transactions contemplated hereby shall have expired or been terminated.

(h) Comcast Partner Counsel Opinion. The Comcast Partner shall have delivered to TCI an opinion of Arthur Block, Esq. counsel to the Comcast Partner, dated as of Closing, in form and substance reasonably satisfactory to the Partners (the "Comcast Partner Counsel Opinion").

(i) Time Warner Partners Counsel Opinions. The Time Warner Partners shall have delivered to TCI (i) an opinion of Mary Carroll Huey, Esq., and/or Holland & Hart, LLP, counsel to TWE, dated as of Closing, in form and substance reasonably satisfactory to the Partners, with respect to TWE, and (ii) an opinion of Mary Carroll Huey, Esq., and/or Holland & Hart, LLP, counsel to KBL, dated as of Closing, in form and substance reasonably satisfactory to the Partners, with respect to KBL (the "Time Warner Partners Counsel Opinions").

(j) Satisfaction of Conditions to Other Parties' Obligations to Close. Each of the conditions to the obligations of the Comcast Partner and the Time Warner Partners to consummate the transactions contemplated by this Agreement shall have been satisfied or waived by each party entitled to the benefit thereof.

(k) Termination of Management Agreements. The Partners shall have delivered, on behalf of the Partnership, evidence, in form and substance reasonably satisfactory to TCI that the Paragon Management Agreement and the Comcast Management Agreement have been terminated.

(l) Termination of Credit Agreement. The Partners shall have delivered, on behalf of the Partnership, evidence, in form and substance reasonably satisfactory to TCI that the Credit Agreement has been terminated.

(m) Consents. The Partners shall have delivered, on behalf of the Partnership, evidence, in form and substance reasonably satisfactory to TCI, that there have been obtained all of the Material Consents.

7.2 Conditions to the Comcast Partner's Obligations. The obligations of the Comcast Partner to consummate the transactions contemplated by this Agreement shall be subject to the following conditions, which may be waived by the Comcast Partner, in its sole discretion:

(a) Accuracy of Representations and Warranties of TCI. The representations and warranties of TCI, for itself and on behalf of the Partnership, in this Agreement and

in any Transaction Document shall be true and accurate in all material respects at and as of the Adjustment Time with the same effect as if made at and as of the Adjustment Time, except for representations and warranties expressly stated to be made only at and as of some other date.

(b) Performance Of Agreements by TCI. TCI, for itself and on behalf of the Partnership, shall have performed in all material respects all obligations and agreements and complied in all material respects with all covenants in this Agreement and in any Transaction Document to be performed and complied with by it at or before Closing.

(c) Officer's Certificate of TCI. TCI shall have delivered to the Comcast Partner a certificate executed by an executive officer of TCI, dated as of Closing, reasonably satisfactory in form and substance to the Comcast Partner, certifying that the conditions specified in Sections 7.2(a) and 7.2(b) have been satisfied.

(d) Accuracy of Representations and Warranties of the Time Warner Partners. The representations and warranties of each of the Time Warner Partners, for itself and on behalf of the Partnership, in this Agreement and in any Transaction Document shall be true and accurate in all material respects at and as of the Adjustment Time with the same effect as if made at and as of the Adjustment Time, except for representations and warranties expressly stated to be made only at and as of some other date.

(e) Performance Of Agreements by the Time Warner Partners. Each of the Time Warner Partners, for itself and on behalf of the Partnership, shall have performed in all material respects all obligations and agreements and complied in all material respects with all covenants in this Agreement and in any Transaction Document to be performed and complied with by it at or before Closing.

(f) Officer's Certificate of the Time Warner Partners. Each of the Time Warner Partners shall have delivered to the Comcast Partner a certificate executed by an executive officer of each of the Time Warner Partners, dated as of Closing, reasonably satisfactory in form and substance to the Comcast Partner, certifying that the conditions specified in Sections 7.2(d) and 7.2(e) have been satisfied.

(g) HSR Act Compliance. All waiting periods under the HSR Act applicable to the transactions contemplated hereby shall have expired or been terminated.

(h) TCI Counsel Opinion. TCI shall have delivered to the Comcast Partner an opinion of Sherman & Howard LLC, counsel to TCI, dated as of Closing, in form and substance reasonably satisfactory to the Partners (the "TCI Counsel Opinion").

(i) Time Warner Partners Counsel Opinions. The Time Warner Partners shall have delivered to the Comcast Partner the Time Warner Partners Counsel Opinions.

(j) Termination of Management Agreements. The Partners shall have delivered, on behalf of the Partnership, evidence, in form and substance reasonably

satisfactory to the Comcast Partner, that the Paragon Management Agreement and the Comcast Management Agreement have been terminated.

(k) Termination of Credit Agreement. The Partners shall have delivered, on behalf of the Partnership, evidence, in form and substance reasonably satisfactory to the Comcast Partner, that the Credit Agreement has been terminated.

(l) Consents. The Partners shall have delivered, on behalf of the Partnership, evidence, in form and substance reasonably satisfactory to the Comcast Partner, that there have been obtained all of the Material Consents.

(m) Title Defects. There shall exist no Title Defects that shall not have been cured or removed or that the title company shall not have, with the consent of the Comcast Partner, committed to insure over.

(n) No Material Adverse Change. There shall not have been any material adverse change in the Hattiesburg System Assets or the operations, financial condition or the results of operations of the Hattiesburg System since December 31, 1999 other than a change that affects the cable television industry generally and other than a change caused by Comcast Corporation as Manager of the Hattiesburg System (excluding any change resulting from the Partnership requiring Comcast Corporation to take or to omit to take an action).

(o) Satisfaction of Conditions to Other Parties' Obligations to Close. Each of the conditions to the obligations of TCI and the Time Warner Partners to consummate the transactions contemplated by this Agreement shall have been satisfied or waived by each party entitled to the benefit thereof.

7.3 Conditions to the Time Warner Partners' Obligations. The obligations of the Time Warner Partners to consummate the transactions contemplated by this Agreement shall be subject to the following conditions, which may be waived by the Time Warner Partners, in its sole discretion:

(a) Accuracy of Representations and Warranties of TCI. The representations and warranties of TCI, for itself and on behalf of the Partnership, in this Agreement and in any Transaction Document shall be true and accurate in all material respects at and as of the Adjustment Time with the same effect as if made at and as of the Adjustment Time, except for representations and warranties expressly stated to be made only at and as of some other date.

(b) Performance Of Agreements by TCI. TCI, for itself and on behalf of the Partnership, shall have performed in all material respects all obligations and agreements and complied in all material respects with all covenants in this Agreement and in any Transaction Document to be performed and complied with by it at or before Closing.

(c) Officer's Certificate of TCI. TCI shall have delivered to each of the Time Warner Partners a certificate executed by an executive officer of TCI, dated as of

Closing, reasonably satisfactory in form and substance to the Time Warner Partners, certifying that the conditions specified in Sections 7.3(a) and 7.3(b) have been satisfied.

(d) Accuracy of Representations and Warranties of the Comcast Partner. The representations and warranties of the Comcast Partner, for itself and on behalf of the Partnership, in this Agreement and in any Transaction Document shall be true and accurate in all material respects at and as of the Adjustment Time with the same effect as if made at and as of the Adjustment Time, except for representations and warranties expressly stated to be made only at and as of some other date.

(e) Performance Of Agreements by the Comcast Partner. The Comcast Partner, for itself and on behalf of the Partnership, shall have performed in all material respects all obligations and agreements and complied in all material respects with all covenants in this Agreement and in any Transaction Document to be performed and complied with by it at or before Closing.

(f) Officer's Certificate of the Comcast Partner. The Comcast Partner shall have delivered to each of the Time Warner Partners a certificate executed by an executive officer of the Comcast Partner dated as of Closing, reasonably satisfactory in form and substance to the Time Warner Partners, certifying that the conditions specified in Sections 7.3(d) and 7.3(e) have been satisfied.

(g) HSR Act Compliance. All waiting periods under the HSR Act applicable to the transactions contemplated hereby shall have expired or been terminated.

(h) TCI Counsel Opinion. TCI shall have delivered to the Time Warner Partners the TCI Counsel Opinion.

(i) Comcast Partner Counsel Opinion. The Comcast Partner shall have delivered to the Time Warner Partners the Comcast Partner Counsel Opinion.

(j) Termination of Management Agreements. The Partners shall have delivered, on behalf of the Partnership, evidence, in form and substance reasonably satisfactory to the Time Warner Partners, that the Paragon Management Agreement and the Comcast Management Agreement have been terminated.

(k) Termination of Credit Agreement. The Partners shall have delivered, on behalf of the Partnership, evidence, in form and substance reasonably satisfactory to the Time Warner Partners, that the Credit Agreement has been terminated.

(l) Consents. The Partners shall have delivered, on behalf of the Partnership, evidence, in form and substance reasonably satisfactory to the Time Warner Partners, that there have been obtained all of the Material Consents.

(m) Title Defects. There shall exist no Title Defects that shall not have been cured or removed or that the title company shall not have, with the consent of the Time Warner Partners, committed to insure over.

(n) No Material Adverse Change. There shall not have been any material adverse change in the Watertown System Assets or the operations, financial condition or the results of operations of the Watertown System since December 31, 1999 other than a change that affects the cable television industry generally and other than a change caused by Paragon Communications as Manager of the Watertown System (excluding any change resulting from the Partnership requiring Paragon Communications to take or to omit to take an action).

(o) Satisfaction of Conditions to Other Parties' Obligations to Close. Each of the conditions to the obligations of TCI and the Comcast Partner to consummate the transactions contemplated by this Agreement shall have been satisfied or waived by each party entitled to the benefit thereof.

ARTICLE 8 CLOSING

8.1 Closing; Time and Place. The closing of the transactions contemplated by this Agreement ("Closing") shall take place on the last calendar day of the month in which occurs the first business day after all conditions set forth in Article 7 have either been satisfied or waived in writing by the party entitled to the benefit of such condition at a time and location mutually determined by the Partners, provided that the parties shall use all commercially reasonable efforts to cause the Closing to occur on or before the first anniversary of the date hereof (the "Outside Closing Date").

8.2 TCI's Obligations. At Closing, TCI shall deliver or cause to be delivered to the Partnership and to the Comcast Partner and the Time Warner Partners, as appropriate, the following:

(a) Receipt. An executed receipt for the Partner Redemption Amount in form and substance reasonably satisfactory to the Partners.

(b) Officer's Certificate. The certificate described in Article 7.

(c) TCI Counsel Opinion. The TCI Counsel Opinion.

(d) Evidence of Necessary Actions. Evidence reasonably satisfactory to each of the Comcast Partner and the Time Warner Partners that TCI has taken all actions necessary to authorize the execution of this Agreement and all other Transaction Documents and the consummation of the transactions contemplated hereby.

(e) Assignments. To the Comcast Partner, an assignment of the Comcast Acquired Partnership Interest, and to each of the Time Warner Partners an assignment of 50% of the Time Warner Acquired Partnership Interest.

(f) Other. Such other documents and instruments as shall be necessary or reasonably requested by the Comcast Partner or the Time Warner Partners to effect the intent of this Agreement and consummate the transactions contemplated hereby.

8.3 The Comcast Partner's Obligations. At Closing, the Comcast Partner shall deliver or cause to be delivered to TCI and the Time Warner Partners or the Partnership, as appropriate, the following:

- (a) Officer's Certificate. The certificate described in Article 7.
- (b) Comcast Partner Counsel Opinion. The Comcast Partner Counsel Opinion.
- (c) Evidence of Necessary Actions. Evidence reasonably satisfactory to each of TCI and the Time Warner Partners that the Comcast Partner has taken all actions necessary to authorize the execution of this Agreement and all other Transaction Documents and the consummation of the transactions contemplated hereby.
- (d) Comcast Purchase Price. The Comcast Purchase Price.
- (e) Other. Such other documents and instruments as shall be necessary or reasonably requested by TCI or the Time Warner Partners to effect the intent of this Agreement and consummate the transactions contemplated hereby.

8.4 Time Warner Partners' Obligations. At Closing, except as otherwise provided below, the Time Warner Partners shall deliver or cause to be delivered to TCI and the Comcast Partner, or the Partnership, as appropriate, the following:

- (a) Officer's Certificate. The certificate described in Article 7.
- (b) Time Warner Partners Counsel Opinions. The Time Warner Partners Counsel Opinions.
- (c) Evidence of Necessary Actions. Certified resolutions of the governing entities of each of the Time Warner Partners, or other evidence reasonably satisfactory to TCI and the Comcast Partner, that each of the Time Warner Partners has taken all action necessary to authorize the execution of this Agreement and all other Transaction Documents and the consummation of the transactions contemplated hereby.
- (d) Time Warner Purchase Price. The Time Warner Purchase Price.
- (e) Other. Such other documents and instruments as shall be necessary or as reasonably requested by TCI or the Comcast Partner to effect the intent of this Agreement and consummate the transactions contemplated hereby.

8.5 The Partnership's Obligations. At Closing, except as otherwise provided below, each of the Partners shall cause the Partnership to deliver or cause to be delivered to TCI, the Time Warner Partners or the Comcast Partner, as appropriate, the following:

- (a) Partner Redemption Amount. To TCI, the agreed estimated Partner Redemption Amount.

(b) Bill of Sale and Assignment Agreement. To the Comcast Partner, an executed Bill of Sale and Assignment in form and substance reasonably satisfactory to the Comcast Partner.

(c) Vehicle Titles. To the Comcast Partner, title certificates to all vehicles included among the Hattiesburg System Assets, endorsed for transfer of title to The Comcast Partner, and separate bills of sale therefor, if required by the laws of the States in which such vehicles are titled.

(d) Deeds. To the Comcast Partner, special warranty deeds (in form and substance reasonably satisfactory to the Comcast Partner) conveying to the Comcast Partner, subject only to the exceptions reflected on the relevant deed, each parcel of the Hattiesburg System Owned Real Property.

(e) Title Commitments. To the Comcast Partner, updated Title Commitments, to the extent required to remove or insure over any Title Defects reflected on previously delivered Title Commitments.

(f) Lien Releases. To the Comcast Partner, evidence reasonably satisfactory to the Comcast Partner that all Liens (other than Permitted Liens) affecting or encumbering the Hattiesburg System Assets have been terminated, released, or waived, as appropriate, or original, executed instruments in form and substance reasonably satisfactory to the Comcast Partner effecting such terminations, releases, or waivers.

(g) FIRPTA Certificate. To the Comcast Partner and the Time Warner Partners, a FIRPTA Non-Foreign Seller Certificate certifying that the Partnership is not a foreign person within the meaning of Section 1445 of the Code, reasonably satisfactory in form and substance to the Comcast Partner.

(h) Assignment. To the Time Warner Partners, an assignment of the entire Holdings Interest, allocated 50% to TWE and 50% to KBL.

(i) Other. Such other documents and instruments as shall be necessary or as reasonably requested by TCI, the Time Warner Partners or the Comcast Partner to effect the intent of this Agreement and consummate the transactions contemplated hereby.

ARTICLE 9 TERMINATION AND DEFAULT

9.1 Termination Events. This Agreement may be terminated and the transactions contemplated hereby may be abandoned:

- (a) at any time, by the mutual agreement of all of the Partners;
- (b) by TCI, the Comcast Partner or the Time Warner Partners, at any time, if any of the others (the "Breaching Party") is in material breach or default of its respective covenants, agreements, or other obligations herein or in any Transaction Document, or if

any of its representations herein or in any Transaction Document are not true and accurate in all material respects when made or when otherwise required by this Agreement or any Transaction Document to be true and accurate; provided, however, that (i) the Breaching Party is given prompt written notice which provides a reasonably detailed explanation of the facts and circumstances surrounding such breach and (ii) the Breaching Party is given 30 days after the receipt of such written notice within which to cure such breach to the reasonable satisfaction of the non-Breaching Party or, if such breach cannot be cured, to agree to fairly compensate the non-Breaching Party for such breach to the reasonable satisfaction of the non-Breaching Party;

(c) by any of TCI, the Comcast Partner or the Time Warner Partners, upon written notice to all of the others, if any conditions (other than those referred to in Section 9.1(b) above) to its obligations set forth in Article 7 shall not have been satisfied by the Outside Closing Date, for any reason other than a material breach or default by such terminating party of its respective covenants, agreements, or other obligations hereunder, or any of its representations herein not being true and accurate in all material respects when made or when otherwise required by this Agreement to be true and accurate in all material respects; or

(d) as otherwise provided herein.

9.2 Effect of Termination. If this Agreement shall be terminated pursuant to Section 9.1(a) or 9.1(c), all obligations of the parties hereunder shall terminate, except for the obligations set forth in Sections 6.8, 11.4 and 11.15. Termination of this Agreement pursuant to Section 9.1(b) shall not limit or impair any remedies that any of the Partners may have with respect to a breach or default by any of the others of its covenants, agreements or obligations hereunder.

9.3 Specific Performance; Remedies Cumulative. Each of TCI, the Comcast Partner and the Time Warner Partners acknowledge that, if it is in material breach or default of the covenants, agreements or obligations hereunder, the other parties would be irreparably damaged by such breach or default and that, in addition to the other remedies that may be available in law or equity, such party or parties shall be entitled to specific performance of this Agreement and injunctive relief. Prior to Closing, and subject only to the express provisions of Sections 10.4 and 10.5, all rights and remedies under this Agreement are cumulative of, and not exclusive of, any rights or remedies otherwise available, and the exercise of such rights or remedies shall not bar the exercise of any other rights or remedies. After Closing, the parties' respective rights and remedies with respect to any material breach or default of the covenants, agreements or obligations hereunder shall be limited to those set forth in Article 10 of this Agreement.

ARTICLE 10 INDEMNIFICATION

10.1 Indemnification By Each Partner. From and after Closing, each Partner shall indemnify and hold harmless the other Partners, their affiliates, officers and directors,

employees, agents, and representatives, and any Person claiming by or through any of them, as the case may be, from and against:

(a) any and all Losses arising out of or resulting from any representations and warranties made jointly by all Partners in Section 5.1 or otherwise in this Agreement not being true and accurate in all material respects when made or at Closing;

(b) any and all Losses arising out of or resulting from any representations and warranties made by such Partner individually in this Agreement not being true and accurate in all material respects when made or at Closing;

(c) any and all Losses arising out of or resulting from any failure by such Partner to perform, or to cause the Partnership to perform, in all material respects any of their respective covenants, agreements, or obligations in this Agreement; and

(d) any and all Losses in excess of the Indemnitee's Pro Rata share thereof arising out of or resulting from the Pre-Closing Partnership Liabilities; provided, that notwithstanding anything to the contrary herein, none of TCI, the Comcast Partner or the Time Warner Partners shall have any indemnification liability to the other Partners with respect to any Pre-Closing Partnership Liabilities as to which its responsibility has terminated pursuant to Section 4.2.

10.2 Indemnification By the Time Warner Partners. From and after Closing, the Time Warner Partners shall indemnify and hold harmless the other Partners, their affiliates, officers and directors, employees, agents, and representatives, and any Person claiming by or through any of them, as the case may be, from and against any and all Losses arising out of or resulting from the Time Warner Assumed Obligations and Liabilities or from any Pre-Closing Partnership Liabilities related to the Watertown System as to which such Partner's responsibility has terminated pursuant to Section 4.2

10.3 Indemnification By the Comcast Partner. From and after Closing, the Comcast Partner shall indemnify and hold harmless the other Partners, their affiliates, officers and directors, employees, agents, and representatives, and any Person claiming by or through any of them, as the case may be, from and against any and all Losses arising out of or resulting from the Comcast Assumed Obligations and Liabilities or from any Pre-Closing Partnership Liabilities related to the Hattiesburg System as to which such Partner's responsibility has terminated pursuant to Section 4.2.

10.4 Procedure for Indemnified Third Party Claim. Promptly after receipt by a party entitled to indemnification hereunder (the "Indemnitee") of written notice of the assertion or the commencement of any Litigation with respect to any matter referred to in Sections 10.1, 10.2 or 10.3, the Indemnitee shall give written notice thereof to the party from whom indemnification is sought pursuant hereto (the "Indemnitor") and thereafter shall keep the Indemnitor reasonably informed with respect thereto if the Indemnitor does not assume the defense of such claim; provided, however, that failure of the Indemnitee to give the Indemnitor notice as provided herein shall not relieve the

Indemnitor of its obligations hereunder, except to the extent that such failure to give notice shall prejudice any defense or claim available to the Indemnitor. In case any Litigation shall be brought against the Indemnitee, the Indemnitor shall be entitled to assume the defense thereof with counsel reasonably satisfactory to the Indemnitee, at the Indemnitor's sole expense. If the Indemnitor shall assume the defense of any Litigation, it shall not settle the Litigation unless the settlement shall include as an unconditional term thereof the giving by the claimant or the plaintiff of a release of the Indemnitee, satisfactory to the Indemnitee, from all liability with respect to such Litigation. If the Indemnitor does not assume the defense of any Litigation, the Indemnitor shall nevertheless provide reasonable cooperation to the Indemnitee in the defense of such Litigation, and any settlement of such Litigation shall be on terms reasonably satisfactory to the Indemnitor.

10.5 Determination of Indemnification Amounts and Related Matters.

(a) No Partner shall have any liability under Section 10.1, and neither the Time Warner Partners nor the Comcast Partner shall have any liability under Sections 10.2 or 10.3, respectively, unless, and only to the extent that, the aggregate amount of Losses otherwise subject to its indemnification obligations thereunder, exceeds \$ [REDACTED] (the "Minimum Damage Requirement"); provided that the Minimum Damage Requirement shall not apply to any Losses resulting from or arising out of (i) the failure of any Partner to pay any Tax to any Governmental Authority when due or any other breach of a Partner's representations, warranties, covenants or agreements with respect to Tax matters contained in this Agreement, or (ii) any breach of a Partner's representations, warranties, covenants or agreements with respect to title to System Assets or Partnership Interests contained in this Agreement.

(b) No Partner shall have any liability under Sections 10.1(a) or 10.1(d) for any amounts in excess of the amount calculated by multiplying (i) the aggregate amount of the Losses attributable to such Section(s), by (ii) such Partner's Original Sharing Percentage.

(c) Amounts payable by the Indemnitor to the Indemnitee in respect of any Losses under Sections 10.1, 10.2 or 10.3 shall be payable by the Indemnitor as incurred by the Indemnitee, and shall bear interest at a rate per annum equal to the Prime Rate plus two percent from the date the Losses for which indemnification is sought were incurred by the Indemnitee until the date of payment of indemnification by the Indemnitor.

10.6 Time and Manner of Certain Claims. The indemnification obligations and remedies set forth in this Article 10 are intended to be the sole and exclusive remedy of the parties with respect to the matters for which indemnification may be sought pursuant to Sections 10.1, 10.2 or 10.3 or elsewhere in this Agreement. The representations and warranties of the Partners in this Agreement and any Transaction Document shall survive Closing for a period of two years except that (a) the liability of the parties shall extend beyond such two-year period with respect to any claim that has been asserted in a written

notice before the expiration of such two-year period, (b) all such representations and warranties with respect to any federal, state or local taxes and with respect to any FCC or Copyright Act matters will survive until the expiration of the applicable statute of limitations, (c) the representations and warranties contained in Sections 5.1(e) and 5.2(f) shall survive the Closing and shall continue in full force and effect without limitation, and (d) the covenants and agreements of the parties in this Agreement and in the Transaction Documents, and all representations and warranties with respect to title to any System Assets or with respect to the Partnership and not to any Systems or System Assets, shall survive the Closing and shall continue in full force and effect without limitation.

ARTICLE 11 MISCELLANEOUS

11.1 Bulk Sales. Each Partner and the Partnership hereby waives compliance by the others with any Legal Requirements relating to bulk sales applicable to the transactions contemplated by this Agreement.

11.2 Treatment of Certain Costs. All sales, use, transfer, and similar Taxes or assessments, if any, including but not limited to transfer fees and similar assessments for System Franchises, System Licenses, System Contracts, vehicles, System Real Property, arising from or payable by reason of the transactions contemplated hereby shall be paid one-third each by the Comcast Partner, the Time Warner Partners and TCI.

11.3 Further Assurances. At or after Closing, each of the Partners and the Partnership, at the request of any of the others, shall promptly execute and deliver, or cause to be executed and delivered, to the others all such documents and instruments, in addition to those otherwise required by this Agreement, in form and substance reasonably satisfactory to the others, as reasonably may be requested to carry out or evidence the terms of this Agreement, or to collect any accounts receivable or other claims. Without limiting the generality of the foregoing, each of the Partners and the Partnership shall take, or cause to be taken, all actions consistent with the terms of this Agreement, including execution and delivery of any documents or instruments, as any Partner reasonably may request to effect the qualification of the transactions contemplated hereby as redemptions of Partnership Interests under the Code.

11.4 Expenses. Except as otherwise provided in Section 11.2 and Section 11.15 or elsewhere in this Agreement, each of the parties shall pay its own expenses and the fees and expenses of its counsel, accountants, and other experts in connection with this Agreement.

11.5 Waivers. Except as otherwise provided in the provisos set forth in Sections 10.1, 10.2 and 10.3, (a) no action taken pursuant to this Agreement, including any investigation by or on behalf of any party hereto, shall be deemed to constitute a waiver by the party taking the action of compliance with any representation, warranty, covenant or agreement contained herein or in any Transaction Document; (b) the waiver by any party hereto of any condition or of a breach of another provision of this Agreement or

any Transaction Document shall be in writing and shall not operate or be construed as a waiver of any other condition or subsequent breach; and (c) the waiver by any party of any of the conditions precedent to its obligations under this Agreement shall not preclude it from seeking redress for breach of this Agreement other than with respect to the condition so waived.

11.6 Notices. All notices, requests, demands, applications, services of process, and other communications that are required to be or may be given under this Agreement or any Transaction Document shall be in writing and shall be deemed to have been duly given if sent by telecopy or facsimile transmission, delivered by courier or mailed, certified first class mail, postage prepaid, return receipt requested, to the parties hereto at the following addresses:

To the Time Warner Partners:

c/o Time Warner Entertainment
Company, L.P.
290 Harbor Drive
Stamford, Connecticut 06902
Attn: Satish Adige
Telecopy: (203) 328-0691

Copies: (which shall not
constitute notice)

Holland & Hart LLP
555 Seventeenth Street
Suite 3200
Denver, Colorado 80202
Attn: Davis O'Connor, Esq.
Telecopy: (303) 295-8261

To the Comcast Partner:

c/o Comcast Corporation
1500 Market Street
Philadelphia, Pennsylvania 19102-2148
Attn: General Counsel
Telecopy: (215) 981-7794

To TCI:

c/o AT&T Broadband, LLC
9197 South Peoria Street
Englewood, Colorado 80112
Attn: Corporate Development
Telecopy: (720) 875-5396

Copies: (which shall not constitute notice)

AT&T Broadband, LLC
9197 South Peoria Street
Englewood, Colorado 80112
Attn: Legal Department
Telecopy: (720) 875-5858

Copies: (which shall not constitute notice)

Sherman & Howard LLC
633 17th Street, Suite 3000
Denver, CO 80202
Attn: Joanne F. Norris, Esq.
Telecopy: (303) 298-0940

or to such other address as any party shall have furnished to the other by notice given in accordance with this Section. Such notice shall be effective, (a) if delivered in person or by courier, upon actual receipt by the intended recipient, or (b) if sent by telecopy or facsimile transmission, upon confirmation of receipt, or (c) if mailed, upon the earlier of three days after deposit in the mail and the date of delivery as shown by the return receipt therefor.

11.7 Entire Agreement; Prior Representations; Amendments. This Agreement embodies the entire agreement between the parties hereto with respect to the subject matter hereof and supersedes all prior representations, agreements and understandings, oral or written, with respect thereto. This Agreement may not be modified orally, but only by an agreement in writing signed by all parties hereto.

11.8 Binding Effect; Benefits. This Agreement shall inure to the benefit of and will be binding upon the parties hereto and their respective heirs, legal representatives, successors, and permitted assigns. No party shall assign this Agreement or delegate any of its duties hereunder to any other Person without the prior written consent of the other parties except that without such consent any Time Warner Partner, or the Comcast Partner, may assign its rights and delegate its duties hereunder to an affiliate with the financial capacity to perform such obligations.

11.9 Headings and Exhibits. The Section and other headings contained in this Agreement are for reference purposes only and will not affect the meaning or interpretation of this Agreement. Reference to Exhibits shall, unless otherwise indicated, refer to the Exhibits attached to this Agreement, which shall be incorporated in and constitute a part of this Agreement by such reference.

11.10 Counterparts. This Agreement may be executed in any number of counterparts, each of which, when executed, shall be deemed to be an original and all of which together will be deemed to be one and the same instrument.

11.11 Governing Law. The validity, performance, and enforcement of this agreement and all Transaction Documents, unless expressly provided to the contrary, shall be

governed by the laws of the State of Delaware, without giving effect to the principles of conflicts of law of such state.

11.12 Severability. Any term or provision of this Agreement that is invalid or unenforceable shall be ineffective to the extent of such invalidity or unenforceability without rendering invalid or unenforceable the remaining rights of the Person intended to be benefited by such provision or any other provisions of this Agreement.

11.13 Third Parties. This Agreement constitutes an agreement solely among the parties hereto, and, except as otherwise provided herein, is not intended to and will not confer any rights, remedies, obligations, or liabilities, legal or equitable, including any right of employment, on any Person other than the parties hereto and their respective successors, or assigns, or otherwise constitute any Person a third party beneficiary under or by reason of this Agreement.

11.14 Construction. This Agreement has been negotiated by the parties and their respective legal counsel, and legal or equitable principles that might require the construction of this Agreement or any provision of this Agreement against the party drafting this Agreement shall not apply in any construction or interpretation of this Agreement.

11.15 Attorneys' Fees. If any Litigation between any of the parties with respect to this Agreement or the transactions contemplated hereby shall be resolved or adjudicated by a Judgment of any court, the prevailing party under such Judgment shall be entitled, as part of such Judgment, to recover from the other party its reasonable attorneys' fees and the costs and expenses of litigation.


11.16 Risk of Loss. The risk of any loss or damage to the System Assets resulting from fire, theft or any other casualty (except reasonable wear and tear) shall be borne by the Partnership for all periods prior to Closing. In the event that any such loss or damage shall be sufficiently substantial so as to preclude and prevent resumption of normal operations of any material portion of a System or the replacement or restoration of the lost or damaged property within twenty days from the occurrence of the event resulting in such loss or damage, the Time Warner Partners or the Comcast Partner, as appropriate, shall immediately notify the other Partners in writing of the inability to resume normal operations or to replace or restore the lost or damaged property and, at any time within ten days after delivery of such notice, may elect by written notice to the other Partners either to (a) waive such defect and proceed toward consummation of the transactions contemplated by this Agreement in accordance with the terms hereof, or (b) terminate this Agreement. If the Time Warner Partners or the Comcast Partner elects to so terminate this Agreement, each of the Partners and the Partnership shall stand fully released and discharged of any and all obligations hereunder. If the Time Warner Partners or the Comcast Partner shall elect to consummate the transactions contemplated by this Agreement notwithstanding such loss or damage and do so, there shall be no diminution of the Watertown System Value or the Hattiesburg System Value, as the case may be, on account of such loss or damage. All insurance proceeds payable as a result of

the occurrence of the event resulting in such loss or damage shall (X) in the case of loss or damage to the Watertown System Assets, be delivered by the Partnership to Paragon, or the rights thereto shall be assigned by the Partnership to Paragon if not yet paid over to Paragon, or (Y) in the case of loss or damage to the Hattiesburg System Assets, be delivered by the Partnership to the Comcast Partner, or the rights thereto shall be assigned by the Partnership to the Comcast Partner if not yet paid over to it.

[INTENTIONALLY BLANK]

Each of the parties has executed this Agreement as of the date first written above.

**TIME WARNER ENTERTAINMENT
COMPANY, L.P., through its Time
Warner Cable Division**

By: 
David E. O'Hayre,
Senior Vice President

KBL COMMUNICATIONS, INC.

By: _____
Name: _____
Title: _____

**COMCAST HATTIESBURG HOLDING
COMPANY, INC.**

By: _____
Name: _____
Title: _____

TCI HOLDINGS II, INC.

By: _____
Name: _____
Title: _____

Each of the parties has executed this Agreement as of the date first written above.

**TIME WARNER ENTERTAINMENT
COMPANY, L.P., through its Time
Warner Cable Division**

By: _____
David E. O'Hayre,
Senior Vice President

KBL COMMUNICATIONS, INC.

By:  _____
David E. O'Hayre
Vice President

**COMCAST HATTIESBURG HOLDING
COMPANY, INC.**

By: _____
Name: _____
Title: _____

TCI HOLDINGS II, INC.

By: _____
Name: _____
Title: _____

Each of the parties has executed this Agreement as of the date first written above.

**TIME WARNER ENTERTAINMENT
COMPANY, L.P., through its Time
Warner Cable Division**

By: _____
David E. O'Hayre,
Senior Vice President

KBL COMMUNICATIONS, INC.

By: _____
Name: _____
Title: _____

**COMCAST HATTIESBURG HOLDING
COMPANY, INC.**

By: Arthur R. Block
Name: ARTHUR R. BLOCK
Title: Senior Vice President

TCI HOLDINGS II, INC.

By: _____
Name: _____
Title: _____

Each of the parties has executed this Agreement as of the date first written above.

**TIME WARNER ENTERTAINMENT
COMPANY, L.P., through its Time
Warner Cable Division**

By: _____
David E. O'Hayre,
Senior Vice President

KBL COMMUNICATIONS, INC.

By: _____
Name: _____
Title: _____

**COMCAST HATTIESBURG HOLDING
COMPANY, INC.**

By: _____
Name: _____
Title: _____

TCI HOLDINGS II, INC.

By: AIB
Name: Alfredo Di Blasio
Title: Vice President

CAT PARTNERSHIP

By: TIME WARNER ENTERTAINMENT
COMPANY, L.P., through its Time
Warner Cable Division, General Partner

By: 
David E. O'Hayre,
Senior Vice President

By: KBL COMMUNICATIONS, INC.,
General Partner

By: _____
Name: _____
Title: _____

By: COMCAST HATTIESBURG HOLDING
COMPANY, INC., General Partner

By: _____
Name: _____
Title: _____

By: TCI HOLDINGS II, INC.,
General Partner

By: _____
Name: _____
Title: _____

CAT PARTNERSHIP

By: TIME WARNER ENTERTAINMENT
COMPANY, L.P., through its Time
Warner Cable Division, General Partner

By: _____
David E. O'Hayre,
Senior Vice President

By: KBL COMMUNICATIONS, INC.,
General Partner

By: 
David E. O'Hayre
Vice President

By: COMCAST HATTIESBURG HOLDING
COMPANY, INC., General Partner

By: _____
Name: _____
Title: _____

By: TCI HOLDINGS II, INC.,
General Partner

By: _____
Name: _____
Title: _____

CAT PARTNERSHIP

By: TIME WARNER ENTERTAINMENT
COMPANY, L.P., through its Time
Warner Cable Division, General Partner

By: _____
David E. O'Hayre,
Senior Vice President

By: KBL COMMUNICATIONS, INC.,
General Partner

By: _____
Name: _____
Title: _____

By: COMCAST HATTIESBURG HOLDING
COMPANY, INC., General Partner

By: Arthur
Name: ARTHUR R. BLOCK
Title: Senior Vice President

By: TCI HOLDINGS II, INC.,
General Partner

By: _____
Name: _____
Title: _____

CAT PARTNERSHIP

By: TIME WARNER ENTERTAINMENT
COMPANY, L.P., through its Time
Warner Cable Division, General Partner

By: _____
David E. O'Hayre,
Senior Vice President


By: KBL COMMUNICATIONS, INC.,
General Partner

By: _____
Name: _____
Title: _____

By: COMCAST HATTIESBURG HOLDING
COMPANY, INC., General Partner

By: _____
Name: _____
Title: _____

By: TCI HOLDINGS II, INC.,
General Partner

By:  _____
Name: Alfredo Di Blasio
Title: Vice President

LIST OF EXHIBITS

Exhibit A-Part I	Hattiesburg System Contracts
Exhibit A-Part II	Hattiesburg System Excluded Assets
Exhibit A-Part III	Hattiesburg System Franchises
Exhibit A-Part IV	Hattiesburg System Licenses
Exhibit A-Part V	Hattiesburg System Owned Real Property and Hattiesburg System Real Property Interests
Exhibit B-Part I	Watertown System Contracts
Exhibit B-Part II	Watertown System Excluded Assets
Exhibit B-Part III	Watertown System Franchises
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Exhibit B-Part V	Watertown System Owned Real Property and Real Property Interests
Exhibit 4.1(d)	Pre-Closing Partnership Liabilities
Exhibit 4.1(e)	Obligations and Liabilities
Exhibit 5.1(c)	Partnership No Conflicts; Required Consents
Exhibit 5.1(d)	Partnership Litigation
Exhibit 5.1(e)	Partnership Permitted Liens
Exhibit 5.1(f)	Partnership Defaults
Exhibit 5.1(g)	Partnership Noncompliance
Exhibit 5.2(c)	Partner No Conflicts; Required Consents
Exhibit 5.2(d)	Partner Litigation
Exhibit 5.3	Watertown System Information
Exhibit 5.4	Hattiesburg System Information
Exhibit 5.5(c)	Holdings No Conflicts; Required Consents
Exhibit 5.5(d)	Holdings Litigation
Exhibit 6.9-Parts I and II	System Owned Real Property for which Title Commitments Will Be Obtained
Exhibit 6.15	Form of Guaranties

**Exhibit A-Part I
to Redemption Agreement
between
Time Warner Entertainment Company, L.P.
KBL Communications, Inc.,
Comcast Hattiesburg Holding Company, Inc.,
TCI Holdings II, Inc.
and
CAT Partnership**

HATTIESBURG SYSTEM CONTRACTS

1. Pole Attachment Agreements

- a. Agreement between Mississippi Power Company and Pinebelt Cable dated July 27, 1993. The Partnership and Mississippi Power Company are currently in the process of negotiating a new agreement.
- b. License Agreement for Pole Attachments between South Central Bell Telephone Company and Pinebelt Cable dated July 1, 1990 (unsigned by Licensor).
- c. Contract and Agreement for Joint Use of Wood Poles between Pearl River Valley Electric Power Association and CAT Partnership dated 1989.
- d. Agreement between Dixie Electric Power Association and CAT Partnership dated March 1, 1990 (unsigned by Licensor).

2. Crossing/Right-of-Way Agreements

- a. Master Agreement for Location of Electric Power and Communication Utility Lines on State Highway Right-of-Way between Mississippi Department of Transportation and CAT Partnership d/b/a Pine Belt Cable dated August 18, 1997.
- b. Encroachment Agreement between Dixie Pipeline Company and Pine Belt Cable dated October 25, 1993.
- c. Agreement between The Alabama Great Southern Railroad Company and General Electric Cablevision Corporation dated May 16, 1983.
- d. Right-of-Way Instrument between David M. Cox, Inc. and UACC Midwest, Inc. dated October 28, 1988.

3. **Retransmission Consent Agreements:** None.
4. **Bulk and Commercial Service Agreements:** Miscellaneous
5. **Leased Real Property**
 - a. Short-Form Commercial Lease between PS LCC and CAT Partnership d/b/a Comcast Cablevision of Hattiesburg dated January 27, 1998.
6. **Other Agreements**
 - a. Cable Television System Management Agreement between Comcast Corporation and CAT Partnership dated April 7, 1989.

**Exhibit A-Part II
to Redemption Agreement
between
Time Warner Entertainment Company, L.P.
KBL Communications, Inc.,
Comcast Hattiesburg Holding Company, Inc.,
TCI Holdings II, Inc.
and
CAT Partnership**

HATTIESBURG SYSTEM EXCLUDED ASSETS

None

**Exhibit A-Part III
to Redemption Agreement
between
Time Warner Entertainment Company, L.P.
KBL Communications, Inc.,
Comcast Hattiesburg Holding Company, Inc.,
TCI Holdings II, Inc.
and
CAT Partnership**

HATTIESBURG SYSTEM FRANCHISES

1. Franchise Agreement between the City of Hattiesburg, Mississippi and CAT Partnership d.b.a. Comcast Cablevision of Hattiesburg dated December 8, 1998.
2. Cable Television and Audio Communications Services Agreement between City of Petal, State of Mississippi and CAT Partnership, dba Pine Belt Cable dated April 22, 1991.
3. Cable Television and Audio Communications Franchise between City of Purvis, State of Mississippi and CAT Partnership d/b/a Pine Belt Cable dated February 4, 1992.
4. Resolution of the Board of Supervisors of Lamar County, Mississippi, Approving Of and Consenting To the Transfer and Assignment of the Rights and Duties of Licensee/ Franchisee of Cable Television and Audio Communications Services Agreement Made and Entered Into on February 6, 1989 pertaining to UACC Midwest, Inc.
5. Cable Television and Audio Communications Services Agreement between Board of Supervisors, Forrest County, State of Mississippi and CAT Partnership dated August 20, 1992.

**Exhibit A-Part IV
to Redemption Agreement
between
Time Warner Entertainment Company, L.P.
KBL Communications, Inc.,
Comcast Hattiesburg Holding Company, Inc.,
TCI Holdings II, Inc.
and
CAT Partnership**

HATTIESBURG SYSTEM LICENSES

1. Earth Station Registration: Location: Hattiesburg, MS; Call Sign: E6435
2. Antenna Structure Registration: Location: Hattiesburg, MS; Registration Number: 1042624

**Exhibit A-Part V
to Redemption Agreement
between
Time Warner Entertainment Company, L.P.
KBL Communications, Inc.,
Comcast Hattiesburg Holding Company, Inc.,
TCI Holdings II, Inc.
and
CAT Partnership**

**HATTIESBURG SYSTEM OWNED REAL PROPERTY
HATTIESBURG SYSTEM REAL PROPERTY INTERESTS**

1. Owned Real Property

- a. Warranty Deed recorded on October 5, 1982, in Book 516, Page 308, in Forrest County, Mississippi for the real property more commonly known as 2100 Lincoln Road, Hattiesburg, Mississippi 39402:

That part of the Southeast Quarter of the Southwest Quarter of Section 17, Township 4 North, Range 13 West, in the City of Hattiesburg, Forrest County, Mississippi, and being more particularly described as commencing at the Southwest corner of the Southeast Quarter of the Southwest Quarter of said Section 17 and run thence East for a distance of 968 feet to and for the point of beginning; from said point of beginning; from said point of beginning run thence North for a distance of 445 feet to the South line of Lincoln Road, run thence East and along the South line of Lincoln Road for a distance of 375 feet to the intersection with the East line of said Southeast Quarter of the Southwest Quarter, run thence South and along the East line of said Southeast Quarter of the Southwest Quarter for a distance of 445 feet to the Southeast corner of the said Southeast Quarter of the Southwest Quarter and run thence West and along the South line of said Southeast Quarter of the Southwest Quarter for a distance of 375 feet back to the point of beginning, and comprising 3.83 acres, more or less;

TOGETHER WITH all improvements thereon and appurtenances thereunto belonging;

SUBJECT TO the right of way for Alice Drive as the same is presently constructed and maintained by the City of Hattiesburg, Mississippi;

SUBJECT TO that certain Easement Agreement executed by R. M. Ross in favor of the City of Hattiesburg, Mississippi, dated June 17, 1960, and recorded in the Land Deed Book 224 at Page 146 in the office of the Chancery Clerk of Forrest County, Mississippi, granting an easement 20 feet in width across the East side of the above described real property;

SUBJECT TO that certain Easement executed by R. M. Ross in favor of Willmut Gas & Oil Company dated February 16, 1962, and recorded in Land Deed Book 241 at Page 249 in the office of the Chancery Clerk of Forrest County, Mississippi, granting an easement 10 feet in width across the East side of the above described property;

LESS AND EXCEPT all of the oil, gas and other minerals in, on and under the above described real property, together with all rights relating thereto, that have been excepted and reserved by prior owners.

2. Leased Real Property

- a. Short-Form Commercial Lease between PS LCC and CAT Partnership d/b/a Comcast Cablevision of Hattiesburg dated January 27, 1998.

3. Other Real Property Interests

- a. Master Agreement for Location of Electric Power and Communication Utility Lines on State Highway Right-of-Way between Mississippi Department of Transportation and CAT Partnership d/b/a Pine Belt Cable dated August 18, 1997.
- b. Encroachment Agreement between Dixie Pipeline Company and Pine Belt Cable dated October 25, 1993.
- c. Agreement between The Alabama Great Southern Railroad Company and General Electric Cablevision Corporation dated May 16, 1983.
- d. Right-of-Way Instrument between David M. Cox, Inc. and UACC Midwest, Inc. dated October 28, 1988.

**Exhibit B-Part I
to Redemption Agreement
between
Time Warner Entertainment Company, L.P.
KBL Communications, Inc.,
Comcast Hattiesburg Holding Company, Inc.,
TCI Holdings II, Inc.
and
CAT Partnership**

WATERTOWN SYSTEM CONTRACTS

1. Pole Attachment Agreements

- a. Pole Attachment Agreement dated June 16, 1988, by Contel of New York, Inc. and UA Cable Systems of New York. [Appendix 1 and 2 are missing]. License Agreement, Assumption and Consent dated April 7, 1989 between UACC Midwest, Inc., CAT Partnership and Contel of New York, Inc., consenting to transfer of Agreement to CAT Partnership.
- b. Pole Attachment Agreement made October 24, 1994, between Niagara Mohawk Power Corporation and Paragon Communications.
- c. Pole Attachment Agreement dated September 1, 1986, between New York Telephone Company and UACC Midwest, Incorporated and Agreement, Assumption and Consent dated April 7, 1989 between UACC Midwest, Inc., CAT Partnership and Contel of New York, Inc., consenting to transfer of Agreement to CAT Partnership.

2. Crossing/Right-of-Way Agreements

- a. License Agreement for Wire, Pipe and Cable Transverse Crossings and Longitudinal Occupations made June 16, 1971, between [REDACTED] Trustees, Penn Central Transportation Company and General Electric Cablevision Corp. (Polk Street)
- b. License Agreement for Wire, Pipe and Cable Transverse Crossings and Longitudinal Occupations made June 16, 1971, between [REDACTED] Trustees, Penn Central Transportation Company and General Electric Cablevision Corp. (Sheridan Street)
- c. License Agreement for Wire, Pipe and Cable Transverse Crossings and Longitudinal Occupations made June 16, 1971, between [REDACTED] Trustees, Penn

Central Transportation Company, and General Electric Cablevision Corp.
(Snell Street)

- d. License Agreement for Wire, Pipe and Cable Transverse Crossings and Longitudinal Occupations made June 16, 1971, between [REDACTED], Trustees, of Penn Central Transportation Company, Debtor and General Electric Cablevision Corp. (Pearl Street)
- e. License Agreement for Wire, Pipe and Cable Transverse Crossings and Longitudinal Occupations made June 16, 1971, between [REDACTED], Trustees of Penn Central Transportation Company and General Electric Cablevision Corp. (Water Street)
- f. License Agreement for Wire, Pipe and Cable Transverse Crossings and Longitudinal Occupations made June 16, 1971, between [REDACTED], Trustees of Penn Central Transportation Company and General Electric Cablevision Corp. (High Street)

3. Retransmission Consent Agreements

- a. Cable Television Retransmission Agreement dated as of April 18, 1999 between United Communications Corporation, licensee of WWNY-TV, and CAT Partnership, dba Time Warner Cable.
- b. Cable Television Retransmission Agreement dated as of November 12, 1993 between WSTM Federal Broadcasting Company, and CAT Partnership, d/b/a Cablesystems of Watertown. (Channel 7)
- c. Video Service Agreement dated as of April 19, 1999 between United Communications Corporation, licensee of WWNY-TV and CAT Partnership, dba Time Warner Cable.
- d. Cable Television Retransmission Agreement dated as of October 1, 1993 between Desert Communications V. Inc., Dial Tower, Dial Corporate Center, WWTI-TV and C.A.T. Partnership d/b/a Cablesystems of Watertown

4. Bulk and/or Commercial Service Agreements, Easements Attached

- a. Time Warner Cable Standard Form of Service and Easement Agreement dated February 3, 2000 between CAT Partnership d/b/a Time Warner Cable and Margaret J. & Wieslaw M. Jedynek (Davidson Motel, 26177 NYS Route 3, Watertown, New York, 13601

- b. Standard Form of Service and Easement Agreement dated November 23, 1999 between CAT Partnership, d/b/a Time Warner Cable and Arun C. Patel (19226 County Route 165, Watertown, New York).
- c. Standard Form of Service and Easement Agreement dated June 25, 1999, between CAT Partnership, d/b/a Time Warner Cable, and Denesh R. Patel, owner of Rainbow Motel (24480 NYS Route 12).
- d. Standard Form of Service and Easement Agreement dated December 10, 1998 and is between CAT Partnership,, d/b/a Time Warner Cable, and Redwood Motor Lodge (24098 NY Route 12, Watertown, New York).
- e. Standard Form of Service and Easement Agreement dated November 11, 1998 between CAT Partnership, d/b/a Time Warner Cable, and Econolodge & Adirondak Efficiencies (1030 Arsenal St., Watertown, NY 13601).
- f. Service and Easement Agreement dated October 12, 1998 between Time Warner Entertainment-Advance/Newhouse Partnership, d/b/a Time Warner Cable and Ives Hill Retirement Community, Inc. (Jewell Drive, Watertown, New York).
- g. Standard Form of Service and Easement Agreement dated October 9, 1998, between CAT Partnership, d/b/a as Time Warner Cable, and Taylor Motels Corp. dba Quality Inn, Fredrick Taylor (1190 Arsenal St., Watertown, New York).
- h. Standard Form of Service and Easement Agreement dated September 1, 1998 between CAT Partnership, d/b/a Time Warner Cable, and Genesis Health Care (218 Stone Street, Watertown, New York 13601, New York (hospital)).

5. Bulk and/or Commercial Service Agreements, Easements Not Attached

- a. Standard Form of Service and License Agreement dated December 22, 1999, between CAT Partnership and Samaritan Keep, a Nursing Home (133 Pratt Street, New York).
- b. Cable Television Bulk Service Agreement dated August 16, 1995 between the Auxiliary to the House of the Good Samaritan, Samaritan Keep Home and C.A.T. Partnership, d/b/a Cablevision of Watertown (830 Washington Street, Watertown, NY).
- c. Standard Commercial Agreement dated June 18, 1997 between Time Warner Cable of Watertown and Best Western (340 Eastern Boulevard, Watertown, NY).

- d. Standard Commercial Agreement (Hotel-Motel) dated May 22, 1997 by Cablesystems of Watertown and Days Inn (1142 Arsenal Street, Watertown, New York 13601).
- e. Standard Commercial Agreement (Hotel-Motel) dated May 7, 1997 between Time Warner Cable of Watertown and Ramada Inn (Arsenal Street Road, Watertown, New York).
- f. Cable Television Bulk Service Agreement dated November 11, 1996 between Tony Lee and C.A.T. d/b/a Cablesystems of Watertown (Super 8 Motel, 104 Green Avenue, Watertown, New York).
- g. Cable Television Bulk Service Agreement dated August 16, 1995 between the Auxiliary to the House of The Good Samaritan and Samaritan Keep Home and C.A.T. Partnership, d/b/a Cablesystems of Watertown (830 Washington Street, Watertown, New York).
- h. Cable Television Bulk Service Agreement dated January 9, 1993 between Dinesh Patel and C.A.T. Partnership, d/b/a Cablesystems of Watertown (Longways Motel, Rt. 37, Box 26A, Watertown, New York).
- i. Cable Television Bulk Service Agreement dated May 26, 1992 between William Landers and C.A.T. Partnership, d/b/a Cablesystems of Watertown (New Parrott Motel, 5795 Washington Street Rd., New York).
- j. Cable Television Bulk Service Agreement dated May 21, 1992 between Dinesh Patel and CAT Partnership d/b/a Cablesystems of Watertown (Rainbow Motel, 7284 Rt. 12 N, Watertown, New York).
- k. Cable Television Bulk Service Agreement dated May 15, 1992 between Roy Perry and CAT Partnership d/b/a Cablesystems of Watertown (Pine Grove Motel, 9444 Rt. 3, Felts Mills, New York).
- l. Cable Television Bulk Service Agreement dated May 5, 1992 between Arun Patel and CAT Partnership d/b/a Cablesystems of Watertown (City Line Motel, 5780 Washington Street Rd., Watertown, New York).
- m. Cable Television Bulk Service Agreement dated April 26, 1992 between Hudson Hotel and CAT Partnership d/b/a Cablesystems of Watertown (8000 Virginia Smith Dr., Calcium, New York).
- n. Cable Television Bulk Service Agreement dated April 17, 1992 between Wieslaw Jedynek and CAT Partnership d/b/a Cablesystems of Watertown (7779 Black River Rd., Watertown, New York).

- o. Cable Television Installation and Service Agreement dated July 25, 1991 between Henry Keep Apartments and CAT Partnership d/b/a Cablesystems of Watertown (206 State Street in City of Watertown, New York).

6. Leased Real Property

- a. Lease Agreement dated as of May 1, 1997, by and between CAT Partnership, d/b/a Cablesystems of Watertown, and Intermedia Communications (Watertown Tower, Longitude W 75 52 44 and Latitude N 43 58 17) (antennas & equipment racks)).

7. Other Real Property Interests

- a. Easement and Right of Entry Agreement dated July 19, 1999 between CAT Partnership, d/b/a as Time Warner Cable, and Nancy A. Knowles

Midtown Towers
142 Mechanic Street,
City of Watertown, NY

Hilltop Towers
113 West Main Street,
City of Watertown, NY

Skyline Apartments
454 Mill Street,
City of Watertown, NY

LeRay Street Apartments
847 LeRay Street,
City of Watertown, NY

East Hills Apartments
1708 Ohio Street,
City of Watertown, NY

Meadow Brook
328 Walker Avenue
City of Watertown, NY

Maywood Terrace
239 Hillside Avenue
City of Watertown, NY

8. Real Property Leased to Others

- a. NYNEX Mobile Communications Option and Lease Agreement dated October 24, 1990 between CAT Partnership and St. Lawrence Seaway RSA Cellular Partnership d/b/a NYNEX Mobile Communications (Broadcasting/radio tower constructed at State Street Hill, Town of Rutland, New York).

9. Miscellaneous Agreements

- a. Channel Lease Agreement dated March 6, 1999 between CAT Partnership, d/b/a Time Warner Cable and Steve Weed Productions.
- b. Fiber Interconnection Agreement dated September 16, 1996, between CAT Partnership, assignee of Time Warner Entertainment-Advance/Newhouse Partnership, and WWNV-TV7.
- c. Fiber Interconnection Agreement dated December 28, 1995, between CAT Partnership, assignee of Time Warner Entertainment-Advance/Newhouse Partnership, and St. Lawrence Valley Educational/Television Council, Inc.

10. Other Agreements

- a. Cable Television Systems Management Agreement dated April 7, 1989 between Paragon Communications and CAT Partnership.

**Exhibit B-Part II
to Redemption Agreement
between
Time Warner Entertainment Company, L.P.
KBL Communications, Inc.,
Comcast Hattiesburg Holding Company, Inc.,
TCI Holdings II, Inc.
and
CAT Partnership**

WATERTOWN SYSTEM EXCLUDED ASSETS

None

**Exhibit B-Part III
to Redemption Agreement
between
Time Warner Entertainment Company, L.P.
KBL Communications, Inc.,
Comcast Hattiesburg Holding Company, Inc.,
TCI Holdings II, Inc.
and
CAT Partnership**

WATERTOWN SYSTEM FRANCHISES

1. Non - Exclusive Cable Television Franchise Renewal Agreement dated May 7, 1998 between the Town of Brownville, New York and CAT Partnership.
2. Non-Exclusive Franchise dated June 26, 1996 between the Town of Pamelaia, New York and CAT Partnership.
3. Non-Exclusive Franchise dated June 15, 1996 between the Town of Watertown, New York and CAT Partnership.
4. Non-Exclusive Franchise dated June 3, 1996 between the Village of Black River, New York and CAT Partnership.
5. Non-Exclusive Franchise dated May 24, 1996 between the Town of Rutland, New York and CAT Partnership.
6. Non-Exclusive Franchise dated May 10, 1996 between the Town of Leray, New York and CAT Partnership.
7. Non-Exclusive Franchise dated May 7, 1996 between the Village of Brownville, New York and CAT Partnership.
8. Non-Exclusive Franchise dated May 6, 1996 between the Village of Glen Park, New York and CAT Partnership.
9. Non-Exclusive Franchise dated March 18, 1996 between the City of Watertown, New York and CAT Partnership.
10. Non Exclusive Cable Television and Audio Communications Service Agreement made and entered into January 6, 1988 between the town of Hounsfield, NY and UACC Midwest, Inc., and Resolution dated February 9, 1989 approving transfer to CAT Partnership.

**Exhibit B-Part IV
to Redemption Agreement
between
Time Warner Entertainment Company, L.P.
KBL Communications, Inc.,
Comcast Hattiesburg Holding Company, Inc.,
TCI Holdings II, Inc.
and
CAT Partnership**

WATERTOWN SYSTEM LICENSES

1. Business Radio License KRV975 File No. 98109338508 - CAT Partnership
2. Radio Station E873722 File No.004919-DSE-L - CAT Partnership

**Exhibit B-Part V
to Redemption Agreement
between
Time Warner Entertainment Company, L.P.
KBL Communications, Inc.,
Comcast Hattiesburg Holding Company, Inc.,
TCI Holdings II, Inc.
and
CAT Partnership**

**WATERTOWN SYSTEM OWNED REAL
PROPERTY AND REAL PROPERTY INTERESTS**

1. Owned Real Property

- a. Quit Claim Deed, dated September 24, 1996, between UACC Midwest, Inc. and CAT Partnership for real property more commonly known as 340 Eastern Boulevard (Business Office).

Beginning at an iron pipe set in the easterly margin of Eastern Boulevard, said iron pipe is situate N. 29° 58' 05" E., along the easterly margin of Eastern Boulevard a distance of 81.91 feet from an angle point in said easterly margin, said last mentioned angle point is situate N. 20° 39' 33" E., along the easterly margin of Eastern Boulevard a distance of 1326.36 feet from the intersection of the easterly margin of Eastern Boulevard and the northerly margin of State Street:

THENCE N. 29° 58' 05" E., along the easterly margin of Eastern Boulevard a distance of 220.0 feet to an iron pipe set at an angle point in said margin;

THENCE N. 21° 04' 11" E., along the easterly margin of Eastern Boulevard a distance of 442.97 feet to an iron pipe set at an angle point in said margin;

THENCE N. 35° 21' 29" E., along the easterly margin of Eastern Boulevard of distance of 181.12 feet to an iron pipe set in the southerly line of the lands now or formerly owned by the Penn Central Railroad Company;

THENCE S. 73° 38' 27" E., along the southerly line of the land now or formerly of Penn Central Railroad Company, passing through a concrete monument found at 261.65 feet and continuing a total distance of 351.65 feet to an iron pipe set;

THENCE S. 35° 03' 02" W., a distance of 135.00 feet to an iron pipe set;

THENCE N. 73° 38' 27" W., a distance of 90.00 feet to an iron pipe set;

THENCE S. 35° 03' 02" W., a distance of 126.82 feet to the point of beginning.

CONTAINING 4.090 acres of land more or less.

ALSO INCLUDING the right to cross the remaining land of the Grantor for necessary easements for water, sewer or any other services that may be necessary to serve the above described 4.090 acre parcel, said easements to be more accurately described when a determination has been made for their needs.

- b. Quit Claim Deed, dated September 24, 1996, between UACC Midwest, Inc. and CAT Partnership for real property located in Town of Rutland (Tower location).

Beginning at an iron pipe set at the intersection of the southerly highway limits of N.Y.S. Route 126 and the most easterly property line of the parcel of land conveyed by George F. Staplin as the Executor of the Last Will and Testament of Robert H. Staplin, deceased to Robert H. Staplin, Jr. by Executor's Deed recorded in the Jefferson County Clerk's office in Liber 907 at Page 1141 on June 18, 1980;

THENCE S. 6E 14' W. along the Staplin easterly property line a distance of 1689.1 feet to an iron pipe set;

THENCE N. 74E 03' W. a distance of 557.1 feet to an iron pipe set;

THENCE N. 15E 49' E. a distance of 299.3 feet to an iron pipe set;

THENCE N. 5E 23' E. a distance of 277.5 feet to an iron pipe set;

THENCE N. 22E 48' E. a distance of 1064.0 feet to an iron pipe set in the southerly highway limits of N.Y.S. Route 126;

THENCE S. 84E 31' E. along the southerly highway limits of N.Y.S. Route 126 a distance of 200.0 feet to the point of beginning.

CONTAINING 15.58 acres of land more or less.

SUBJECT to any rights or restrictions of record.

2. **Leased Real Property**

- a. Lease Agreement dated as of May 1, 1997, by and between CAT Partnership, d/b/a Cablesystems of Watertown, and Intermedia Communications (Watertown Tower, Longitude W 75 52 44 and Latitude N 43 58 17) (antennas & equipment racks)).

3. **Other Real Property Interests**

- a. Easement and Right of Entry Agreement dated July 19, 1999 between CAT Partnership, d/b/a as Time Warner Cable, and Nancy A. Knowles for the following properties:

Midtown Towers
142 Mechanic Street,
City of Watertown, NY

Hilltop Towers
113 West Main Street,
City of Watertown, NY

Skyline Apartments
454 Mill Street,
City of Watertown, NY

LeRay Street Apartments
847 LeRay Street,
City of Watertown, NY

East Hills Apartments
1708 Ohio Street,
City of Watertown, NY

Meadow Brook
328 Walker Avenue
City of Watertown, NY

Maywood Terrace
239 Hillside Avenue
City of Watertown, NY

- b. Time Warner Cable Standard Form of Service and Easement Agreement dated February 3, 2000 between CAT Partnership d/b/a by Time Warner Cable and Margaret J. & Wieslaw M. Jedynak (Davidson Motel, 26177 NYS Route 3, Watertown, New York, 13601).

- c. Standard Form of Service and Easement Agreement dated November 23, 1999 between CAT Partnership, d/b/a Time Warner Cable and Arun C. Patel (19226 County Route 165, Watertown, New York).
- d. Standard Form of Service and Easement Agreement dated June 25, 1999, between CAT Partnership, d/b/a Time Warner Cable, and Denesh R. Patel, owner of Rainbow Motel (24480 NYS Route 12).
- e. Standard Form of Service and Easement Agreement dated December 10, 1998, between CAT Partnership, d/b/a Time Warner Cable, and Redwood Motor Lodge (24098 NY Route 12, Watertown, New York).
- f. Standard Form of Service and Easement Agreement dated November 11, 1998, between CAT Partnership, d/b/a Time Warner Cable, and Econolodge & Adirondak Efficiencies (1030 Arsenal St., Watertown, NY 13601).
- g. Service and Easement Agreement dated October 12, 1998, between Time Warner Entertainment-Advance/Newhouse Partnership, d/b/a Time Warner Cable and Ives Hill Retirement Community, Inc. (Jewell Drive, Watertown, New York).
- h. Standard Form of Service and Easement Agreement dated October 9, 1998, between CAT Partnership, d/b/a as Time Warner Cable, and Taylor Motels Corp. dba Quality Inn, Fredrick Taylor (1190 Arsenal St., Watertown, NY, New York).
- i. Standard Form of Service and Easement Agreement dated September 1, 1998, between CAT Partnership, d/b/a Time Warner Cable, and Genesis Health Care (218 Stone Street, Watertown, New York 13601, hospital, New York).

4. Real Property Leased to Others

- a. NYNEX Mobile Communications Option and Lease Agreement dated October 24, 1990 between CAT Partnership and St. Lawrence Seaway RSA Cellular Partnership d/b/a NYNEX Mobile Communications (Broadcasting/radio tower constructed at State Street Hill, Town of Rutland, New York).

**Exhibit 4.1(d)
to Redemption Agreement
between
Time Warner Entertainment Company, L.P.
KBL Communications, Inc.,
Comcast Hattiesburg Holding Company, Inc.,
TCI Holdings II, Inc.
and
CAT Partnership**

PRE-CLOSING PARTNERSHIP LIABILITIES

<u>Hattiesburg System</u>	None.
<u>Watertown System</u>	None.

Exhibit 4.1(e)
to Redemption Agreement
between
Time Warner Entertainment Company, L.P.
KBL Communications, Inc.,
Comcast Hattiesburg Holding Company, Inc.,
TCI Holdings II, Inc.
and
CAT Partnership

LIABILITIES & OBLIGATIONS

1. The FCC has asserted that, during the period of March 1995 to October 1997, the Partnership in the Hattiesburg System overcharged subscribers of the B-2 tier \$0.40 per month. As of the date of this Agreement, the Partnership estimates that the aggregate liability with respect to this claim is approximately \$326,000, which includes interest. The Partnership has accrued this amount as a liability on its balance sheet. To date, the FCC has not issued a formal order for the Partnership to refund the rate overcharge.

Exhibit 5.1(c)
to Redemption Agreement
between
Time Warner Entertainment Company, L.P.
KBL Communications, Inc.,
Comcast Hattiesburg Holding Company, Inc.,
TCI Holdings II, Inc.
and
CAT Partnership

PARTNERSHIP NO CONFLICTS; REQUIRED CONSENTS

* Denotes a Material Consent

Watertown System

1. **Franchises**

- a. Non Exclusive Cable Television and Audio Communications Service Agreement made and entered into January 6, 1988 between the town of Hounsfield, NY and UACC Midwest, Inc., and Resolution dated February 9, 1989 approving transfer to CAT Partnership. *

2. **Pole Attachment Agreements**

- a. Pole Attachment Agreement dated June 16, 1988, by Contel of New York, Inc. and UA Cable Systems of New York. [Appendix 1 and 2 are missing]. License Agreement, Assumption and Consent dated April 7, 1989 between UACC Midwest, Inc., CAT Partnership and Contel of New York, Inc., consenting to transfer of Agreement to CAT Partnership.
- b. Pole Attachment Agreement made October 24, 1994, between Niagara Mohawk Power Corporation and Paragon Communications.
- c. Pole Attachment Agreement dated September 1, 1986, between New York Telephone Company and UACC Midwest, Incorporated and Agreement, Assumption and Consent dated April 7, 1989 between UACC Midwest, Inc., CAT Partnership and Contel of New York, Inc., consenting to transfer of Agreement to CAT Partnership.

3. **Crossing/Right-of-Way Agreements**

- a. License Agreement for Wire, Pipe and Cable Transverse Crossings and Longitudinal Occupations dated June 16, 1971, between [REDACTED] Trustees, Penn [REDACTED]

Central Transportation Company and General Electric Cablevision Corp.
(Polk Street).

- b. License Agreement for Wire, Pipe and Cable Transverse Crossings and Longitudinal Occupations dated June 16, 1971, between [REDACTED] Trustees, Penn Central Transportation Company and General Electric Cablevision Corp: (Sheridan Street).
- c. License Agreement for Wire, Pipe and Cable Transverse Crossings and Longitudinal Occupations dated June 16, 1971, between [REDACTED] Trustees, Penn Central Transportation Company, and General Electric Cablevision Corp. (Snell Street).
- d. License Agreement for Wire, Pipe and Cable Transverse Crossings and Longitudinal Occupations dated June 16, 1971, between [REDACTED] Trustees, of Penn Central Transportation Company, Debtor and General Electric Cablevision Corp. (Pearl Street).
- e. License Agreement for Wire, Pipe and Cable Transverse Crossings and Longitudinal Occupations dated June 16, 1971, between [REDACTED] Trustees of Penn Central Transportation Company and General Electric Cablevision Corp. (Water Street).
- f. License Agreement for Wire, Pipe and Cable Transverse Crossings and Longitudinal Occupations dated June 16, 1971, between [REDACTED] Trustees of Penn Central Transportation Company and General Electric Cablevision Corp. (High Street)

4. **Bulk Service Agreements**

- a. Standard Commercial Agreement (Hotel-Motel) dated May 22, 1997 by Cablesystems of Watertown and Days Inn (1142 Arsenal Street, Watertown, New York 13601).

5. **Leased Real Property**

- a. Lease Agreement dated May 1, 1997, between CAT Partnership, d/b/a Cablesystems of Watertown, and Intermedia Communications (Watertown Tower, Longitude W 75 52 44 and Latitude N 43 58 17) (antennas & equipment racks).*

6. **Miscellaneous Agreements**

- a. Channel Lease Agreement dated March 6, 1999 CAT Partnership, d/b/a Time Warner Cable and Steve Weed Productions.

Hattiesburg System

7. **Franchises**

- a. City of Petal *

8. **Pole Attachment Agreements**

- a. Agreement between Mississippi Power Company and PineBelt Cable dated July 27, 1993. The Partnership and Mississippi Power Company are currently in the process of negotiating a new agreement.
- b. License Agreement for Pole Attachments between South Central Bell Telephone Company and Pinebelt Cable dated July 1, 1990 (unsigned by Licensor).
- c. Contract and Agreement for Joint Use of Wood Poles between Pearl River Valley Electric Power Association and CAT Partnership dated 1989.
- d. Agreement between Dixie Electric Power Association and CAT Partnership dated March 1, 1990 (unsigned by Licensor).

9. **Crossing/Right-of-Way Agreements**

- a. Encroachment Agreement between Dixie Pipeline Company and Pine Belt Cable dated October 25, 1993.

**Exhibit 5.1(d)
to Redemption Agreement
between
Time Warner Entertainment Company, L.P.
KBL Communications, Inc.,
Comcast Hattiesburg Holding Company, Inc.,
TCI Holdings II, Inc.
and
CAT Partnership**

PARTNERSHIP LITIGATION

Watertown System: None.

Hattiesburg System: None.

**Exhibit 5.1(e)
to Redemption Agreement
between
Time Warner Entertainment Company, L.P.
KBL Communications, Inc.,
Comcast Hattiesburg Holding Company, Inc.,
TCI Holdings II, Inc.
and
CAT Partnership**

PARTNERSHIP PERMITTED LIENS

Hattiesburg System: None.

Watertown System: None.

Exhibit 5.1(f)
to Redemption Agreement
between
Time Warner Entertainment Company, L.P.
KBL Communications, Inc.,
Comcast Hattiesburg Holding Company, Inc.,
TCI Holdings II, Inc.
and
CAT Partnership

PARTNERSHIP DEFAULTS

Hattiesburg System:

- a. See Exhibit 4.1(e) regarding refund of rate overcharges and customer overbilling.
- b. The retransmission consent agreements for WHLT and WXXV have expired. The Comcast Partner and the broadcast stations are beginning to negotiate new agreements.

Watertown System: None.

**Exhibit 5.1(g)
to Redemption Agreement
between
Time Warner Entertainment Company, L.P.
KBL Communications, Inc.,
Comcast Hattiesburg Holding Company, Inc.,
TCI Holdings II, Inc.
and
CAT Partnership**

PARTNERSHIP COMPLIANCE WITH LEGAL REQUIREMENTS

Hattiesburg System: See Exhibit 4.1(e) regarding refund of rate overcharges and customer over billing.

Watertown System: None.

Exhibit 5.2(c)
to Redemption Agreement
between
Time Warner Entertainment Company, L.P.
KBL Communications, Inc.,
Comcast Hattiesburg Holding Company, Inc.,
TCI Holdings II, Inc.
and
CAT Partnership

PARTNER NO CONFLICTS; REQUIRED CONSENTS

Comcast Partner: None.

Time Warner Partner: None.

**Exhibit 5.2(d)
to Redemption Agreement
between
Time Warner Entertainment Company, L.P.
KBL Communications, Inc.,
Comcast Hattiesburg Holding Company, Inc.,
TCI Holdings II, Inc.
and
CAT Partnership**

PARTNER LITIGATION

Comcast Partner: None.

Time Warner Partner: None.

Exhibit 5.3
to Redemption Agreement
between
Time Warner Entertainment Company, L.P.
KBL Communications, Inc.,
Comcast Hattiesburg Holding Company, Inc.,
TCI Holdings II, Inc.
and
CAT Partnership

WATERTOWN SYSTEM INFORMATION

As of the June, 2000 cut-off, the number of residential and commercial subscribers served by the Watertown System was 14,095.

**Exhibit 5.4
to Redemption Agreement
between
Time Warner Entertainment Company, L.P.
KBL Communications, Inc.,
Comcast Hattiesburg Holding Company, Inc.,
TCI Holdings II, Inc.
and
CAT Partnership**

HATTIESBURG SYSTEM INFORMATION

As of the May, 2000 cut-off, the number of residential and commercial subscribers served by the Hattiesburg System was 24,510.

Exhibit 5.5(c)
to Redemption Agreement
between
Time Warner Entertainment Company, L.P.
KBL Communications, Inc.,
Comcast Hattiesburg Holding Company, Inc.,
TCI Holdings II, Inc.
and
CAT Partnership

HOLDINGS NO CONFLICTS; REQUIRED CONSENTS

1. Franchises

- a. Non Exclusive Cable Television and Audio Communications Service Agreement dated January 6, 1988 by and between the town of Hounsfield, NY and UACC Midwest, Inc., and Resolution dated February 9, 1989 approving transfer to CAT Partnership.

2. Pole Attachment Agreements

- a. Pole Attachment Agreement dated June 16, 1988, by Contel of New York, Inc. and UA Cable Systems of New York. [Appendix 1 and 2 are missing]. License Agreement, Assumption and Consent dated April 7, 1989 between UACC Midwest, Inc., CAT Partnership and Contel of New York, Inc., consenting to transfer of Agreement to CAT Partnership.
- b. Pole Attachment Agreement made October 24, 1994, between Niagara Mohawk Power Corporation and Paragon Communications.
- c. Pole Attachment Agreement dated September 1, 1986, between New York Telephone Company and UACC Midwest, Incorporated and Agreement, Assumption and Consent dated April 7, 1989 between UACC Midwest, Inc., CAT Partnership and Contel of New York, Inc., consenting to transfer of Agreement to CAT Partnership.

3. Crossing/Right-of-Way Agreements

- a. License Agreement for Wire, Pipe and Cable Transverse Crossings and Longitudinal Occupations dated June 16, 1971, between [REDACTED] Trustees, Penn Central Transportation Company and General Electric Cablevision Corp. (Polk Street).

- b. License Agreement for Wire, Pipe and Cable Transverse Crossings and Longitudinal Occupations dated June 16, 1971, between [REDACTED] Trustees, Penn Central Transportation Company and General Electric Cablevision Corp. (Sheridan Street).
- c. License Agreement for Wire, Pipe and Cable Transverse Crossings and Longitudinal Occupations dated June 16, 1971, between [REDACTED] Trustees, Penn Central Transportation Company, and General Electric Cablevision Corp. (Snell Street).
- d. License Agreement for Wire, Pipe and Cable Transverse Crossings and Longitudinal Occupations dated June 16, 1971, between [REDACTED] Trustees, of Penn Central Transportation Company, Debtor and General Electric Cablevision Corp. (Pearl Street).
- e. License Agreement for Wire, Pipe and Cable Transverse Crossings and Longitudinal Occupations dated June 16, 1971, between [REDACTED] Trustees of Penn Central Transportation Company and General Electric Cablevision Corp. (Water Street).
- f. License Agreement for Wire, Pipe and Cable Transverse Crossings and Longitudinal Occupations dated June 16, 1971, between [REDACTED] Trustees of Penn Central Transportation Company and General Electric Cablevision Corp. (High Street)

4. **Bulk Service Agreements**

- a. Standard Commercial Agreement (Hotel-Motel) dated May 22, 1997 by Cablesystems of Watertown and Days Inn (1142 Arsenal Street, Watertown, New York 13601).

5. **Leased Real Property**

- a. Lease Agreement dated May 1, 1997, between CAT Partnership, d/b/a Cablesystems of Watertown, and Intermedia Communications (Watertown Tower, Longitude W 75 52 44 and Latitude N 43 58 17) (antennas & equipment racks).

6. **Miscellaneous Agreements**

- a. Channel Lease Agreement dated March 6, 1999 between CAT Partnership, d/b/a Time Warner Cable and Steve Weed Productions.

Exhibit 5.5(d)
to Redemption Agreement
between
Time Warner Entertainment Company, L.P.
KBL Communications, Inc.,
Comcast Hattiesburg Holding Company, Inc.,
TCI Holdings II, Inc.
and
CAT Partnership

HOLDINGS LITIGATION

None.

**Exhibit 6.9-Parts I and II
to Redemption Agreement
between
Time Warner Entertainment Company, L.P.
KBL Communications, Inc.,
Comcast Hattiesburg Holding Company, Inc.,
TCI Holdings II, Inc.
and
CAT Partnership**

**SYSTEM OWNED REAL PROPERTY FOR
WHICH TITLE COMMITMENTS WILL BE OBTAINED**

1. PART 1 - Watertown System

- a. Quit Claim Deed, dated September 24, 1996, between UACC Midwest, Inc. and CAT Partnership for real property more commonly known as 340 Eastern Boulevard (Business Office).

Beginning at an iron pipe set in the easterly margin of Eastern Boulevard, said iron pipe is situate N. 29° 58' 05" E., along the easterly margin of Eastern Boulevard a distance of 81.91 feet from an angle point in said easterly margin, said last mentioned angle point is situate N. 20° 39' 33" E., along the easterly margin of Eastern Boulevard a distance of 1326.36 feet from the intersection of the easterly margin of Eastern Boulevard and the northerly margin of State Street:

THENCE N. 29° 58' 05" E., along the easterly margin of Eastern Boulevard a distance of 220.0 feet to an iron pipe set at an angle point in said margin;

THENCE N. 21° 04' 11" E., along the easterly margin of Eastern Boulevard a distance of 442.97 feet to an iron pipe set at an angle point in said margin;

THENCE N. 35° 21' 29" E., along the easterly margin of Eastern Boulevard of distance of 181.12 feet to an iron pipe set in the southerly line of the lands now or formerly owned by the Penn Central Railroad Company;

THENCE S. 73° 38' 27" E., along the southerly line of the land now or formerly of Penn Central Railroad Company, passing through a concrete monument found at 261.65 feet and continuing a total distance of 351.65 feet to an iron pipe set;

THENCE S. 35° 03' 02" W., a distance of 135.00 feet to an iron pipe set;

THENCE N. 73° 38' 27" W., a distance of 90.00 feet to an iron pipe set;

THENCE S. 35° 03' 02" W., a distance of 126.82 feet to the point of beginning.

CONTAINING 4.090 acres of land more or less.

ALSO INCLUDING the right to cross the remaining land of the Grantor for necessary easements for water, sewer or any other services that may be necessary to serve the above described 4.090 acre parcel, said easements to be more accurately described when a determination has been made for their needs.

- b. Quit Claim Deed, dated September 24, 1996, between UACC Midwest, Inc. and CAT Partnership for real property located in Town of Rutland (Tower location).

Beginning at an iron pipe set at the intersection of the southerly highway limits of N.Y.S. Route 126 and the most easterly property line of the parcel of land conveyed by George F. Staplin as the Executor of the Last Will and Testament of Robert H. Staplin, deceased to Robert H. Staplin, Jr. by Executor's Deed recorded in the Jefferson County Clerk's office in Liber 907 at Page 1141 on June 18, 1980;

THENCE S. 6E 14' W. along the Staplin easterly property line a distance of 1689.1 feet to an iron pipe set;

THENCE N. 74E 03' W. a distance of 557.1 feet to an iron pipe set;

THENCE N. 15E 49' E. a distance of 299.3 feet to an iron pipe set;

THENCE N. 5E 23' E. a distance of 277.5 feet to an iron pipe set;

THENCE N. 22E 48' E. a distance of 1064.0 feet to an iron pipe set in the southerly highway limits of N.Y.S. Route 126;

THENCE S. 84E 31' E. along the southerly highway limits of N.Y.S. Route 126 a distance of 200.0 feet to the point of beginning.

CONTAINING 15.58 acres of land more or less. SUBJECT to any rights or restrictions of record.

2. PART II - Hattiesburg System

- a. Warranty Deed recorded on October 5, 1982, in Book 516, Page 308, in Forrest County, Mississippi for the real property more commonly known as 2100 Lincoln Road, Hattiesburg, Mississippi 39402:

That part of the Southeast Quarter of the Southwest Quarter of Section 17, Township 4 North, Range 13 West, in the City of Hattiesburg, Forrest County, Mississippi, and being more particularly described as commencing at the Southwest corner of the Southeast Quarter of the Southwest Quarter of said Section 17 and run thence East for a distance of 968 feet to and for the point of beginning; from said point of beginning; from said point of beginning run thence North for a distance of 445 feet to the South line of Lincoln Road, run thence East and along the South line of Lincoln Road for a distance of 375 feet to the intersection with the East line of said Southeast Quarter of the Southwest Quarter, run thence South and along the East line of said Southeast Quarter of the Southwest Quarter for a distance of 445 feet to the Southeast corner of the said Southeast Quarter of the Southwest Quarter and run thence West and along the South line of said Southeast Quarter of the Southwest Quarter for a distance of 375 feet back to the point of beginning, and comprising 3.83 acres, more or less;

TOGETHER WITH all improvements thereon and appurtenances thereunto belonging;

SUBJECT TO the right of way for Alice Drive as the same is presently constructed and maintained by the City of Hattiesburg, Mississippi;

SUBJECT TO that certain Easement Agreement executed by R. M. Ross in favor of the City of Hattiesburg, Mississippi, dated June 17, 1960, and recorded in the Land Deed Book 224 at Page 146 in the office of the Chancery Clerk of Forrest County, Mississippi, granting an easement 20 feet in width across the East side of the above described real property;

SUBJECT TO that certain Easement executed by R. M. Ross in favor of Willmut Gas & Oil Company dated February 16, 1962, and recorded in Land Deed Book 241 at Page 249 in the office of the Chancery Clerk of Forrest County, Mississippi, granting an easement 10 feet in width across the East side of the above described property;

LESS AND EXCEPT all of the oil, gas and other minerals in, on and under the above described real property, together with all rights relating thereto, that have been excepted and reserved by prior owners.

Exhibit 6.15
to Redemption Agreement
between
Time Warner Entertainment Company, L.P.
KBL Communications, Inc.,
Comcast Hattiesburg Holding Company, Inc.,
TCI Holdings II, Inc.
and
CAT Partnership

FORM OF GUARANTIES

THIS GUARANTY is made as of this ____ day of July, 2000 by [____], a [____] ("Guarantor"), with an address of [____], for the benefit of [____], a [____], and [____], a [____] (collectively, the "Beneficiaries").

RECITALS

- A. [____] ("Party") is [an indirect, wholly-owned subsidiary] [affiliate] of Guarantor.
- B. Party, the Beneficiaries and the CAT Partnership have entered into a Redemption Agreement dated July __, 2000 (the "Redemption Agreement").
- C. All agreements, liabilities and obligations of Party under, or pursuant to, the Redemption Agreement or any agreement or instrument to be executed and delivered pursuant to the Redemption Agreement (the "Related Agreements"), both now existing and hereafter arising, are referred to collectively as the "Obligations."
- D. Guarantor will benefit from the transactions pursuant to which the Obligations shall be incurred, and the Beneficiaries would be unwilling to enter into the Redemption Agreement without receiving this Guaranty.
- E. Capitalized terms not otherwise defined herein shall have the meanings assigned to them in the Redemption Agreement.

AGREEMENTS

NOW THEREFORE, in consideration of the foregoing and intending to be legally bound, Guarantor hereby agrees as follows:

1. To induce the Beneficiaries to execute, deliver and perform the Redemption Agreement and Related Agreements, Guarantor (a) hereby unconditionally and irrevocably guarantees to each of the Beneficiaries, as applicable, the punctual and

complete payment and performance of all of the Obligations, and (b) agrees to cause and enable Party to perform each and every Obligation.

2. The obligations and agreements of Guarantor under this Guaranty are irrevocable, absolute and unconditional. Without being required to proceed first against Party or any other person or entity, each Beneficiary may proceed directly against Guarantor (without the necessity of joining Party in any action brought against Guarantor) whenever Party fails to make any payment when due relating to the Obligations or fails to perform any Obligation now or hereafter owed to any Beneficiary. This Guaranty shall remain in full force and effect until all Obligations have been performed and indefeasibly paid in full to each of the Beneficiaries, as applicable, and until all such sums or other things of value received by each such Beneficiary are not subject to rescission or repayment upon the bankruptcy, insolvency or reorganization of Party, and if any such sums are rescinded or repaid, then, to such extent, Party shall not, for the purposes of this Guaranty, be deemed to have paid such amounts or things of value, and Guarantor shall remain liable for the payment thereof.

3. Notwithstanding anything to the contrary herein, Guarantor's aggregate liability under this Guaranty shall in no event exceed the Partner Redemption Amount.

4. The obligations of Guarantor under this Guaranty shall remain in full force and effect, and shall not be negated or impaired, irrespective of (a) the impossibility or the illegality of performance on the part of Party of the Obligations, (b) the involvement of Party in any bankruptcy, reorganization, insolvency or any other proceedings, or (c) any other circumstances, occurrence or condition, whether similar or dissimilar to any of the foregoing, which might otherwise constitute a legal or equitable defense, discharge or release of a guarantor or surety.

5. Guarantor represents and warrants that (a) Guarantor has the full power, authority and legal right to enter into, execute and deliver this Guaranty; and (b) this Guaranty is a valid and binding obligation of Guarantor, and is fully enforceable against Guarantor in accordance with its terms, except as such enforcement may be limited (i) by bankruptcy, insolvency, reorganization, moratorium or other similar laws now or hereafter in effect relating to or affecting creditor's rights generally or (ii) by general principles of equity (regardless of whether enforcement is sought in a proceeding in equity or at law).

6. Any notice, demand, request or other communication which any of the Beneficiaries may desire to give to Guarantor with respect to this Guaranty shall be deemed sufficient if in writing and mailed by certified or registered mail, postage prepaid, addressed to Guarantor at the address of Guarantor set forth in the heading of this Guaranty or such other address of which such Beneficiary has received notice pursuant to the provisions of this paragraph, with a copy of such notice, demand, request or other communication to each of the other Beneficiaries at the address of each such Beneficiary set forth in the heading of this Guaranty.

7. All rights and remedies of the Beneficiaries under this Guaranty or law are separate and cumulative, and the exercise of one shall not limit or prejudice the exercise of any other such rights or remedies. The enumeration in this Guaranty of any waivers or consents by any Beneficiary shall not be deemed exclusive of any additional waivers or consents by such Beneficiary which may be deemed to exist in law or equity. No delay or omission by any Beneficiary in exercising any such right or remedy shall operate as a waiver thereof. No waiver of any rights and remedies hereunder, and no modification or amendment of this Guaranty shall be deemed made by any Beneficiary unless in writing and duly signed by each Beneficiary. Any such written waiver shall apply only to the particular instance specified therein and shall not impair the further exercise of such right or remedy or of any other right or remedy of such Beneficiary, and no single or partial exercise of any right or remedy under this Guaranty shall preclude any other or further exercise thereof or any other right or remedy.

8. Guarantor will reimburse any Beneficiary, upon demand, for all reasonable expenses incurred in connection with the collection and/or enforcement of this Guaranty (including, without limitation, attorneys' fees) whether or not suit is actually instituted.

9. This Guaranty shall be a continuing Guaranty and shall be binding upon Guarantor, and Guarantor's successors and assigns, and shall inure to the benefit of each Beneficiary and each of their successors and assigns. Notwithstanding the foregoing, Guarantor may not assign any of its obligations under this Guaranty without the consent of all of the Beneficiaries, not to be unreasonably withheld. This Guaranty shall not be affected by any change in the name of Party, or by the acquisition or any change whatsoever in the objects, capital structure or constitution of Party, or by any merger, amalgamation or consolidation of Party with any corporation, or by any dissolution or liquidation of Party, but shall notwithstanding the happening of any such event, continue to be incurred, and in this instrument the term "Party" shall include every such person, firm, partner, member and corporation and all successors thereof.

10. If any provision of this Guaranty is held to be invalid or unenforceable by a court of competent jurisdiction, the other provisions of this Guaranty shall remain in full force and effect.

11. The validity, performance and enforcement of this Agreement shall be governed by the laws of the State of Delaware, without giving effect to the principles of conflicts of law of such state.

12. Nothing contained in this Agreement shall be deemed or construed to prevent the Guarantor from asserting that any Obligation has not been breached by Party or is not due and owing or from disputing or challenging the substance, nature or extent of any such breach of any Obligation asserted by a Beneficiary (except to the extent that any such assertion, dispute or challenge is, directly or indirectly, based on any defense arising out of or in connection with the insolvency, bankruptcy or other disability of Party).

IN WITNESS WHEREOF, Guarantor has executed this Guaranty the day and year first above written.

GUARANTOR

[_____]

Name: _____

Title: _____

2675332_9.DOC

TRANSACTION AGREEMENT NO. 4

TRANSACTION AGREEMENT NO. 4, dated as of July 12, 2000 (this "Agreement"), among ADVANCE PUBLICATIONS, INC., a New York corporation ("Advance"), NEWHOUSE BROADCASTING CORPORATION, a New York corporation ("Newhouse"), ADVANCE/NEWHOUSE PARTNERSHIP, a New York general partnership ("Advance/Newhouse"), TIME WARNER ENTERTAINMENT COMPANY, L.P., a Delaware limited partnership ("TWE"), PARAGON COMMUNICATIONS, a Colorado general partnership ("Paragon"), and TIME WARNER ENTERTAINMENT-ADVANCE/NEWHOUSE PARTNERSHIP, a New York general partnership (the "Partnership").

WHEREAS, Advance/Newhouse and TWE entered into a Partnership Agreement, dated as of September 9, 1994, as amended, pursuant to which they formed the Partnership (the "Partnership Agreement");

WHEREAS, Advance, Newhouse, Advance/Newhouse, TWE and the Partnership entered into a Contribution Agreement, dated as of September 9, 1994, as amended (the "Contribution Agreement"), pursuant to which each of Advance/Newhouse and TWE contributed certain specified assets to the Partnership;

WHEREAS, in connection with the Amended and Restated Transaction Agreement, dated as of October 27, 1997, among Advance, Newhouse, Advance/Newhouse, TWE, TW Holding Co. and the Partnership, TWE, Advance/Newhouse and Paragon entered into the First Amendment to the Partnership Agreement, dated as of February 12, 1998 (the "First Amendment"), pursuant to which, among other things, Paragon became a partner of the Partnership;

WHEREAS, the Partnership, TWE-A/N Texas Cable Partners General Partner LLC, TCI Texas Cable Holdings LLC, TCI Texas Cable, Inc. and Texas Cable Partners, L.P., a Delaware limited partnership (the "TCI Joint Venture"), entered into a Contribution Agreement, dated as of June 23, 1998 (the "TCI Contribution Agreement"), pursuant to which, among other things, the Partnership contributed certain assets to the TCI Joint Venture;

WHEREAS, in connection with the TCI Contribution Agreement the parties hereto entered into Transaction Agreement No. 2, dated as of June 23, 1998 (the "Second Transaction Agreement"), pursuant to which, among other things, the parties entered into the Second Amendment to the Partnership Agreement, dated as of December 31, 1998 (the "Second Amendment"), to further amend the Partnership Agreement;

WHEREAS, in connection with the Transaction Agreement No. 3, dated as of September 15, 1998, among Advance, Newhouse, Advance/Newhouse, TWE,

Paragon and the Partnership, TWE, Advance/Newhouse and Paragon entered into the Third Amendment to the Partnership Agreement, dated as of March 1, 1999 (the "Third Amendment"), pursuant to which, among other things, Paragon contributed certain assets to the Partnership;

WHEREAS, the parties hereto desire to cause the cable television systems described on Schedule 1 hereto (the "Fourth Transaction Systems") to be contributed to the Partnership on the terms set forth herein;

WHEREAS, currently the Fourth Transaction Systems described on Part A of Schedule 1 hereto (the "Fanch I Systems"), are owned by TWfanch-one Co. ("Fanch I"), the Fourth Transaction Systems described on Part B of Schedule 1 hereto (the "Fanch II Systems") are owned by TWfanch-two Co. ("Fanch II") and the Fourth Transaction Systems described on Part C of Schedule 1 hereto are owned by TWE (the "TWE Systems");

WHEREAS, prior to the Closing (as defined below), the Fanch I Systems will be transferred by Fanch I to TWE and the Fanch II Systems will be transferred by Fanch II to TWE, and pursuant to this Agreement, TWE will transfer all Fourth Transaction Systems to the Partnership.

NOW, THEREFORE, in consideration of the mutual covenants and agreements contained herein and for other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties agree as follows:

1. Contribution of Fourth Transaction Systems.

(a) Subject to the conditions set forth in Section 3, at the Closing (as defined below), (i) TWE shall contribute, assign, convey, transfer and deliver to the Partnership its right, title and interest in and to all of the assets and properties, real, personal, mixed, tangible or intangible, owned, leased, licensed, that are principally used or held for use in connection with the ownership and operation of the Fourth Transaction Systems and (ii) the Partnership shall assume, and agree to pay and discharge, as and when they become due, or otherwise take subject to the indebtedness and other liabilities associated with the Systems that are described on Schedule 2 hereto (the "Assumed Fourth Transaction Liabilities").

(b) At the Closing, (i) TWE shall deliver instruments executed by it and in form and substance reasonably satisfactory to the Partnership contributing, assigning, conveying, transferring and delivering to the Partnership its right, title and interest in and to the Fourth Transaction Systems and (ii) the Partnership shall deliver instruments executed by it and in form and substance reasonably

satisfactory to TWE by which it shall assume and agree to pay and discharge the Assumed Fourth Transaction Liabilities.

(c) In exchange for the contributions contemplated by Section 1(a), TWE shall receive (i) Common Partnership Units (as defined in the Amended Partnership Agreement described below) having a value equal to 50% of the Net Contribution and (ii) Series C Preferred Partnership Units (as defined in the Amended Partnership Agreement (defined below) having a value equal to 50% of the Net Contribution. For purposes of the foregoing, "Net Contribution" means the excess of (A) the Fourth Transaction System Value determined in accordance with Section 7 over (B) the Assumed TWE Indebtedness (as defined on Schedule 2 hereof).

2. Beneficial Assets and Subsidiary Beneficial Assets. If any consent or approval is required in connection with the contribution to the Partnership pursuant to this Agreement of any cable television system (or the franchise pursuant to which such cable television system is operated) and such consent or approval is not obtained prior to the Closing, then in lieu of contributing (and pending the actual contribution of) such cable television systems to the Partnership, TWE will hold such cable television systems (or cause such cable television systems to be held) for the use and benefit of the Partnership. Such cable television systems shall be treated as Beneficial Assets (as defined in the Contribution Agreement) or Subsidiary Beneficial Assets (as defined in the Contribution Agreement) in either case in accordance with Section 5.8 of the Amended Partnership Agreement (defined below) and Section 6.7 of the Contribution Agreement. In accordance with Section 6.7 of the Contribution Agreement, following the Effective Date, TWE shall continue to use its reasonable best efforts to obtain any consent or approval necessary to effectuate the contribution to the Partnership of any Beneficial Asset or Subsidiary Beneficial Asset not contributed to the Partnership on the Effective Date, and shall take all reasonable actions to effectuate the contribution of such Beneficial Asset or Subsidiary Beneficial Asset after such consent or approval is obtained; provided, however, that no cable television franchise comprising a Beneficial Asset or Subsidiary Beneficial Asset shall be required to be contributed to the Partnership until consents or approvals shall have been obtained with respect to the contribution of all cable television franchises in the same cable television system as such franchise.

3. Closing Conditions. The obligations of TWE and the Partnership to effect the transactions contemplated by this Agreement, shall be subject to the satisfaction at or prior to the Closing of the following conditions, the imposition of which are solely for the benefit of such parties and any one or more of which may be waived by such parties in their discretion:

(a) each of TWE, Advance/Newhouse and Paragon shall have executed and delivered the Amended and Restated Partnership Agreement substantially in the form of Exhibit A (the "Amended Partnership Agreement");

(b) with respect to the assumption by the Partnership of the Assumed Fourth Transaction Liabilities, each of the conditions to Assumption, as defined in the Credit Agreement dated as of November 10, 1997 (the "Credit Agreement") among Time Warner Inc. ("TWX"), Time Warner Companies, Inc., TWE, Turner Broadcasting System, Inc., the Partnership, TWI Cable Inc., the Lenders Party thereto and The Chase Manhattan Bank, as Administrative Agent, shall have been satisfied (or waived by the parties entitled to waive same);

(c) the consents and approvals required in connection with the contribution of the franchises pursuant to which the Fourth Transaction Systems are operated shall have been obtained or not required with respect to franchises having at least 85% of the total number of subscribers in the Fourth Transaction Systems, as set forth on Schedule 1 hereto;

(d) the board of directors of TWX and the Management Committee of TWE shall have approved the transactions contemplated by this Agreement;

(e) the waiting periods (and any extensions thereof), if any, applicable to the transactions contemplated by this Agreement under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 (the "HSR Act") shall have been terminated or shall have expired (it being understood that as soon as practicable after the execution of this Agreement, the parties will complete and file, or cause to be completed and filed, any notification and report required to be filed under the HSR Act and each such filing shall request early termination of the waiting period imposed by the HSR Act); and

(f) no temporary restraining order, preliminary or permanent injunction or other order issued by any court of competent jurisdiction or other legal restraint or prohibition preventing the consummation of the transactions contemplated hereby shall be in effect; and

(g) the Closing under, and as defined in, the Asset Exchange Agreement, dated as of July 12, 2000, between the Partnership and Fanch I shall occur concurrently with the Closing hereunder.

4. Advance/Newhouse Contribution. Subject to the consummation of the transfer or beneficial assignment of the Fourth Transaction Systems to the Partnership, on or prior to the fourth anniversary of the Effective Date (the "Maturity

Date”), Advance/Newhouse shall contribute to the Partnership cash in an amount equal to the Advance/Newhouse Contribution Amount, plus interest thereon at the Interest Rate compounded (to the extent not paid) on a quarterly basis, from the Effective Date until the date such contribution is made in full. For the purposes of the foregoing, (i) “Advance/Newhouse Contribution Amount” means an amount equal to 50% of the aggregate value of the Common Partnership Units received by TWE in exchange for its contribution of the Fourth Transaction Systems and (ii) “Interest Rate” shall mean a rate per annum equal to the average interest rate applicable from time to time to borrowings by the Partnership under the senior revolving credit facility of the Partnership. At the Closing, Advance/Newhouse shall execute and deliver to the Partnership a promissory note (the “Advance/Newhouse Note”) substantially in the form of Exhibit B hereto having a principal amount equal to the Advance/Newhouse Contribution Amount, as security for its obligation to contribute to the Partnership the Advance/Newhouse Contribution Amount, plus interest as provided in this Section 4. Advance/Newhouse shall take any and all actions and execute and deliver all documents or agreements reasonably requested by the Partnership to enable the Partnership to perfect its security interest in the Advance/Newhouse Note. Advance/Newhouse and the Partnership acknowledge and agree that the Advance/Newhouse Note shall not be deemed an asset of the Partnership unless and until the Partnership seeks to realize upon its security interest therein. In exchange for its agreement to contribute the Advance/Newhouse Contribution Amount, Advance/Newhouse shall receive Common Partnership Units having a value equal to 50% of the aggregate value of the Common Partnership Units received by TWE in exchange for its contribution of the Fourth Transaction Systems.

5. Time and Place of Closing. Subject to the satisfaction (or waiver) of each of the conditions set forth in Section 3, the closing of the transactions contemplated by this Agreement (the “Closing”) shall take place at the offices of Paul, Weiss, Rifkind, Wharton & Garrison, 1285 Avenue of the Americas, New York, New York 10019-6064 (or such other place as the parties may mutually agree), at 10:00 a.m. (New York City time) on the last day of the month following the date that is the fifth business day following satisfaction or waiver of the conditions set forth in Section 3, or such earlier date as TWE may determine (upon 2 business days' notice to Advance/Newhouse), or such later date as the parties may mutually agree in writing. The date on which the Closing occurs is referred to herein as the “Effective Date.”

6. Representations and Warranties: Indemnification. Subject to the Closing having occurred, TWE (i) shall use commercially reasonable efforts, at the Partnership's expense, to enforce its rights with respect to the representations and warranties set forth in the Acquisition Agreements to the extent such representations and warranties relate to the Fourth Transaction Systems, including by way of seeking indemnification in accordance with the terms of the Acquisition Agreements, and (ii) shall grant to the Partnership the benefits, if any, obtained as a result of the

enforcement of such rights. For purposes of the foregoing, "Acquisition Agreements" means, collectively, the Asset Exchange Agreement dated as of April 6, 1998 between TWE and A-R Cable Services, Inc.; the Asset Purchase Agreement dated December 28, 1998 between TWE and OUR Cable Systems, Inc.; and the Asset Purchase Agreement dated as of April 19, 1999, as amended, among TWE, J. Feeney Associates, Inc. and PCI One Incorporated.

7. Valuation of Fourth Transaction Systems Subscribers.

(a) Fourth Transaction Systems. The gross value of the Fourth Transaction Systems (the "Fourth Transaction System Value") shall equal \$191,058,408, as adjusted pursuant to Section 8.

(b) Procedure: Dispute Resolution. Within 60 days following the Effective Date, TWE shall deliver to the Partnership, Advance/Newhouse and Paragon a certificate (the "Valuation Certificate"), signed by an appropriate officer of TWE after due inquiry by such officer, but without any personal liability to such officer, setting forth the Fourth Transaction System Value, the Net Contribution and the calculation thereof in accordance with Section 1(c), Section 3 and this Section 7. At the request of Advance/Newhouse or Paragon, TWE shall provide the requesting party with prompt and complete access to all working papers and relevant supporting documentation as well as appropriate TWE personnel, in each case reasonably necessary in connection with such party's review of the information set forth in the Valuation Certificate. If Advance/Newhouse shall conclude that the Valuation Certificate is not accurate, then Advance/Newhouse, within 90 days of receipt of such Valuation Certificate, shall furnish TWE with a written statement of any discrepancy or discrepancies believed to exist (the "Discrepancy Certificate"). Advance/Newhouse and TWE shall attempt jointly to resolve any discrepancy set forth in the Discrepancy Certificate within 30 days after receipt thereof, which resolution, if achieved, shall be binding upon all parties to this Agreement and not subject to dispute or review. If Advance/Newhouse and TWE cannot resolve the discrepancy to their mutual satisfaction within such 30-day period, Advance/Newhouse and TWE shall within 10 days following the expiration of such 30-day period, jointly designate a nationally known independent certified public accounting firm to review the Valuation Certificate, together with the Discrepancy Certificate, and any other relevant documents. If Advance/Newhouse and TWE do not agree upon a nationally known independent certified public accounting firm in accordance with the preceding sentence within such 10-day period, then such review shall be performed by a nationally known independent certified public accounting firm selected by two other nationally known certified public accounting firms, one selected by Advance/Newhouse and one selected by TWE; provided that if one party fails to notify the other party of its selection within five days following receipt from another party of its selection, the accounting firm selected by the other party or parties shall perform such review. The cost of retaining such

independent public accounting firm shall be borne one-half by Advance/Newhouse and one-half by the TWE. Such firm shall report its conclusions and such report shall be conclusive and binding on all parties to this Agreement and not subject to dispute or review. The Fourth Transaction System Value, the Net Contribution, the Advance/Newhouse Contribution Amount and the Assumed Fourth Transaction Liabilities, shall be adjusted, if necessary, to reflect any such resolution.

8. Closing Adjustments.

(a) At the Closing, TWE shall deliver to the Partnership a certificate setting forth the estimated TWE Adjustment Amount (as defined below), which shall be determined in good faith by TWE. If the estimated TWE Adjustment Amount is greater than zero, then the Fourth Transaction System Value shall be increased by an amount equal to such estimated TWE Adjustment Amount. If the estimated TWE Adjustment Amount is less than zero, then the Fourth Transaction System Value shall be reduced by an amount equal to the absolute value of such TWE Adjustment Amount. The Valuation Certificate delivered by TWE pursuant to Section 7(b) shall set forth the final TWE Adjustment Amount and, to the extent necessary, the Fourth Transaction System Value, the Net Contribution, the Advance/Newhouse Contribution Amount and the Assumed Fourth Transaction Liabilities shall be adjusted to reflect the difference between the final TWE Adjustment Amount and the estimated TWE Adjustment Amount.

(b) For purposes of the foregoing, "TWE Adjustment Amount" means all capital expenditures in respect of the Fourth Transaction Systems during the period from April 1, 2000 to the Effective Date, plus any positive working capital existing at the end of such period or minus the absolute value of any negative working capital existing at the end of such period.

(c) The adjustments made pursuant to this Section 8 are already reflected in the capital account balances of the partners of the Partnership and, accordingly, no additional adjustments to the partners' capital account balances shall be made in respect of such adjustments.

9. Miscellaneous.

(a) This Agreement shall be governed by and construed in accordance with the laws of the State of New York (other than its rules of conflicts of law to the extent the application of the law of another jurisdiction would be required thereby).

(b) The parties hereto shall cooperate with each other and their respective counsel and accountants in connection with any steps required to be taken as

part of their respective obligations under this Agreement and will each use reasonable best efforts to perform or fulfill all conditions and obligations to be performed or fulfilled by them under this Agreement so that the transactions contemplated hereby shall be consummated.

(c) Section headings contained in this Agreement are inserted only as a matter of convenience and reference and in no way define, limit, extend or describe the scope of this Agreement or the intent of any provisions hereof.

(d) This Agreement may be executed in one or more counterparts, each of which shall be an original and all of which, when taken together, shall constitute one and the same instrument.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first above written.

ADVANCE PUBLICATIONS, INC.

By: 

Name: S.I. Newhouse, Jr.

Title: Chairman/Vice President

NEWHOUSE BROADCASTING
CORPORATION

By: 

Name: Robert J. Miron

Title: Vice President

ADVANCE/NEWHOUSE PARTNERSHIP

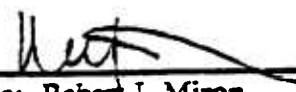
By: ADVANCE COMMUNICATION
CORP., General Partner

By: 

Name: Robert J. Miron

Title: President

By: NEWHOUSE BROADCASTING
CORPORATION, General Partner

By: 
Name: Robert J. Miron
Title: Vice President

TIME WARNER ENTERTAINMENT
COMPANY, L.P., through its
TIME WARNER CABLE DIVISION

By: _____
Name: David E. O'Hayre
Title: Senior Vice President - Investments

PARAGON COMMUNICATIONS

By: KBL COMMUNICATIONS, INC.,
Managing General Partner

By: _____
Name: David E. O'Hayre
Title: Vice President

By: NEWHOUSE BROADCASTING CORPORATION, General Partner

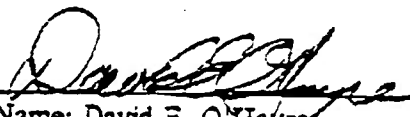
By: _____
Name: Robert J. Miron
Title: Vice President

TIME WARNER ENTERTAINMENT COMPANY, L.P., through its TIME WARNER CABLE DIVISION

By:  _____
Name: David E. O'Hayre
Title: Senior Vice President - Investments

PARAGON COMMUNICATIONS

By: KBL COMMUNICATIONS, INC., Managing General Partner

By:  _____
Name: David E. O'Hayre
Title: Vice President

**TIME WARNER ENTERTAINMENT -
ADVANCE/NEWHOUSE PARTNERSHIP**

By: **TIME WARNER ENTERTAINMENT
COMPANY, L.P., Managing General
Partner, through its TIME WARNER
CABLE DIVISION**

By: 

Name: David E. O'Hayre
Title: Senior Vice President -
Investments

By: **ADVANCE/NEWHOUSE
PARTNERSHIP, General Partner**

By: **ADVANCE COMMUNICATION
CORP., General Partner**

By: _____

Name: Robert J. Miron
Title: President

By: **NEWHOUSE BROADCASTING
CORPORATION, General Partner**

By: _____

Name: Robert J. Miron
Title: Vice President

By: **PARAGON COMMUNICATIONS**

By: **KBL COMMUNICATIONS, INC.,
Managing General Partner**

By: 

Name: David E. O'Hayre
Title: Vice President

**TIME WARNER ENTERTAINMENT -
ADVANCE/NEWHOUSE PARTNERSHIP**

By: **TIME WARNER ENTERTAINMENT
COMPANY, L.P., Managing General
Partner, through its TIME WARNER
CABLE DIVISION**

By: _____
Name: David E. O'Hayre
Title: Senior Vice President -
Investments

By: **ADVANCE/NEWHOUSE
PARTNERSHIP, General Partner**

By: **ADVANCE COMMUNICATION
CORP., General Partner**

By: _____
Name: Robert J. Miron
Title: President

By: **NEWHOUSE BROADCASTING
CORPORATION, General Partner**

By: _____
Name: Robert J. Miron
Title: Vice President

By: **PARAGON COMMUNICATIONS**

By: **KBL COMMUNICATIONS, INC.,
Managing General Partner**

By: _____
Name: David E. O'Hayre
Title: Vice President

Exhibit B
(to Transaction
Agreement
No. 4)

PROMISSORY NOTE

New York, New York
_____, 2000^{1/}

\$ _____

^{1/} To be dated the Fourth Effective Date.

SCHEDULE 1

FOURTH TRANSACTION SYSTEMS¹

PART A - FANCH I SYSTEMS

Franchisor	Division	System	
Bridge City	Southwest Texas	Texas	
Kountze, City of	Southwest Texas	Texas	
Pine Forest, City of	Southwest Texas	Texas	
Vidor, City of	Southwest Texas	Texas	
Winnie	Southwest Texas	Texas	

PART B - FANCH II SYSTEMS

Franchisor	Division	System	
Alma, Town of	Binghamton, NY	Dansville	
Angelica, Village of	Binghamton, NY	Dansville	
Avoca, Village of	Binghamton, NY	Dansville	
Avoca, Town of	Binghamton, NY	Dansville	
Belfast, Town of	Binghamton, NY	Dansville	
Bolivar, Town of	Binghamton, NY	Dansville	
Bolivar, Village of	Binghamton, NY	Dansville	
Dansville, Town of	Binghamton, NY	Dansville	
Dansville, Village of	Binghamton, NY	Dansville	
Dundee, Village of	Binghamton, NY	Dansville	
Genessee, Town of	Binghamton, NY	Dansville	
Groveiland, Town of	Binghamton, NY	Dansville	
Jasper, Town of	Binghamton, NY	Dansville	
Lindley, Town of	Binghamton, NY	Dansville	
North Dansville, Town of	Binghamton, NY	Dansville	
Richburg, Village of	Binghamton, NY	Dansville	
Scio, Town of	Binghamton, NY	Dansville	
Sparta, Town of	Binghamton, NY	Dansville	
Springwater, Town of	Binghamton, NY	Dansville	
Starkey, Town of	Binghamton, NY	Dansville	
Troupsburg, Town of	Binghamton, NY	Dansville	
Wayland, Town of	Binghamton, NY	Dansville	
Wayland, Village of	Binghamton, NY	Dansville	
West Sparta, Village of	Binghamton, NY	Dansville	
Wheeler, Town of	Binghamton, NY	Dansville	
Wirt, Town of	Binghamton, NY	Dansville	
Woodhull, Town of	Binghamton, NY	Dansville	

¹ As of May 31, 1999, there were a total of 53,017 subscribers in the Fourth Transaction Systems.

Franchisor	Division	System	
Ceres. Town of	Binghamton, NY	Ulysses	
Deerfield. Township of	Binghamton, NY	Ulysses	
Elkland. Borough of	Binghamton, NY	Ulysses	
Lawrence. Township of	Binghamton, NY	Ulysses	
Lawrenceville. Borough of	Binghamton, NY	Ulysses	
Nelson. Village of	Binghamton, NY	Ulysses	
Osceola. Township of	Binghamton, NY	Ulysses	
Shinglehouse. Borough of	Binghamton, NY	Ulysses	
Tioga. Township of	Binghamton, NY	Ulysses	
Tioga. Borough of	Binghamton, NY	Ulysses	
Ulysses. Borough of	Binghamton, NY	Ulysses	
Caneadea. Town of	Rochester, NY	Fillmore	
Dresden. Town of	Rochester, NY	Dresden	
Hume. Town of	Rochester, NY	Fillmore	
Naples. Town of	Rochester, NY	Naples	
Naples. Village of	Rochester, NY	Naples	

PART C - TWE SYSTEMS

Franchisor	Division	System	
Bethlehem. Town of	Albany, NY	Rensselaer	
Castleton-on-Hudson, Village of	Albany, NY	Rensselaer	
Cherry Valley. Town of	Albany, NY	Rensselaer	
Cherry Valley. Village of	Albany, NY	Rensselaer	
Cobleskill. Town of	Albany, NY	Rensselaer	
Cobleskill. Village of	Albany, NY	Rensselaer	
Coevans. Town of	Albany, NY	Rensselaer	
Delanson. Village of	Albany, NY	Rensselaer	
Duanesburg. Town of	Albany, NY	Rensselaer	
Esperance. Town of	Albany, NY	Rensselaer	
Esperance. Village of	Albany, NY	Rensselaer	
Fulton. Town of	Albany, NY	Rensselaer	
Kinderhook. Town of	Albany, NY	Rensselaer	
Kinderhook. Village of	Albany, NY	Rensselaer	
Middleburgh. Town of	Albany, NY	Rensselaer	
Middleburgh. Village of	Albany, NY	Rensselaer	
Nassau. Town of	Albany, NY	Rensselaer	
Nassau. Village of	Albany, NY	Rensselaer	
New Scotland. Town of	Albany, NY	Rensselaer	
North Greenbush. Town of	Albany, NY	Rensselaer	
Poestenkill. Town of	Albany, NY	Rensselaer	
Rensselaer. City of	Albany, NY	Rensselaer	
Richmondville. Town of	Albany, NY	Rensselaer	
Richmondville. Village of	Albany, NY	Rensselaer	
Sand Lake. Town of	Albany, NY	Rensselaer	
Schodak. Town of	Albany, NY	Rensselaer	
Schoharie. Town of	Albany, NY	Rensselaer	

Franchisor	Division	System	
Schoharie, Village of	Albany, NY	Rensselaer	
Seward, Town of	Albany, NY	Rensselaer	
Sharon Springs, Village of	Albany, NY	Rensselaer	
Sharon, Town of	Albany, NY	Rensselaer	
Stuyvesant, Town of	Albany, NY	Rensselaer	
Valatie, Village of	Albany, NY	Rensselaer	
Voorheesville, Village of	Albany, NY	Rensselaer	
No franchises	Austin, TX	Cedar Valley	
Norwich, Town of	Binghamton, NY	Mt. Upton	
Guilford, Town of	Binghamton, NY	Mt. Upton	
Harpersfield, Town of	Binghamton, NY	Stamford	
Hobart, Village of	Binghamton, NY	Stamford	
Kortright, Town of	Binghamton, NY	Stamford	
Stamford, Town of	Binghamton, NY	Stamford	
Stamford, Village of	Binghamton, NY	Stamford	
Brookfield, Town of	Syracuse, NY	Brookfield	
Preble, Town of	Syracuse, NY	Brookfield	
Scott, Town of	Syracuse, NY	Brookfield	

7060371.doc

ASSUMED FANCH TRANSACTION LIABILITIES

- 1 Indebtedness for money borrowed equal to 77% of the Fourth Transaction System Value (the "Assumed TWE Indebtedness").
- 2 All obligations, liabilities, claims, litigation or proceedings relating to the ownership or operation of the Fourth Transaction Systems (other than indebtedness for money borrowed).

**TIME WARNER ENTERTAINMENT-
ADVANCE/NEWHOUSE PARTNERSHIP**

**TO: TIME WARNER ENTERTAINMENT COMPANY, L.P.
ADVANCE/NEWHOUSE PARTNERSHIP
PARAGON COMMUNICATIONS**

July 12, 2000

Reference is made to Transaction Agreement No. 4, dated as of July 12, 2000 (the "Fourth Transaction Agreement"), among ADVANCE PUBLICATIONS, INC., a New York corporation, NEWHOUSE BROADCASTING CORPORATION, a New York corporation, ADVANCE/NEWHOUSE PARTNERSHIP, a New York general partnership, TIME WARNER ENTERTAINMENT COMPANY, L.P., a Delaware limited partnership ("TWE"), PARAGON COMMUNICATIONS, a Colorado general partnership, and TIME WARNER ENTERTAINMENT-ADVANCE/NEWHOUSE PARTNERSHIP, a New York general partnership (the "Partnership"). Capitalized terms used herein and not otherwise defined shall have the meaning ascribed thereto in the Fourth Transaction Agreement.

The parties acknowledge that the Partnership holds a beneficial interest in one-sixth of TWE's interests in the cable television systems described on Schedule 1 hereto (the "Watertown Systems"), all of which are currently owned by the CAT Partnership, a Delaware general partnership (the "CAT Partnership"), among TWE, KBL Communications, Inc. ("KBL"), TCI Holdings II, Inc. ("TCI") and Comcast Hattiesburg Holding Company, Inc. ("Comcast"). The parties hereto agree to continue to use commercially reasonable efforts to cause the Watertown Systems to be contributed to the Partnership. Currently, the parties contemplate (subject to the approval of TCI and Comcast) effecting a redemption transaction between the CAT Partnership and its partners which would result in the contribution of all of the Watertown Systems to CAT Holdings, LLC, a Delaware limited liability company, and the subsequent distribution of the entire membership interest in CAT Holdings, LLC in equal shares to TWE and KBL. Upon the closing of the last of such transactions (the "Watertown Closing"), each of TWE and KBL would then cause the Watertown Systems owned by it (subject to associated liabilities and indebtedness for money borrowed equal to 77% of the value of such systems) to be contributed to the Partnership on terms substantially similar to the terms contained in the Fourth Transaction Agreement. With respect to the Watertown Systems that are then owned by KBL, KBL would contribute such systems to Paragon, which, in turn, would contribute such systems to the Partnership in exchange for Common Partnership Units and Series C Preferred Partnership Units, in each case worth 50% of the net value of such contribution (i.e. the gross value less assumed debt). Accordingly, if the Watertown Closing occurs prior to the Effective Date, the parties hereto agree to amend the Fourth Transaction Agreement to (a) include the Watertown Systems as part of the Fourth Transaction Systems, (b) increase the Fourth Transaction System Value by \$36,459,055 (subject to the closing adjustment in Section 8 thereof) (c) adjust the Net Contribution, the Advance/Newhouse Contribution Amount and the

adjust the Net Contribution, the Advance/Newhouse Contribution Amount and the Assumed Fourth Transaction Liabilities as necessary to reflect the foregoing and (d) make such other conforming changes to any exhibits and schedules hereto as are necessary or appropriate to effectuate the intent of the foregoing (including further amending the Amended Partnership Agreement to provide for the Paragon contributions in exchange for equity). If, notwithstanding the parties' efforts, the Watertown Closing does not occur prior to the Effective Time, the parties will continue to use commercially reasonable efforts to effectuate the contribution of the Watertown Systems to the Partnership on substantially the same terms as described above.

This letter shall be governed by and construed in accordance with the laws of the State of New York (other than its rules of conflicts of law to the extent the application of the law of another jurisdiction would be required thereby).

The parties hereto shall cooperate with each other and their respective counsel and accountants in connection with any steps required to be taken as part of their respective obligations under this letter and will each use reasonable best efforts to perform or fulfill all conditions and obligations to be performed or fulfilled by them under this letter so that the transactions contemplated hereby shall be consummated.

This letter may be executed in one or more counterparts, each of which shall be an original and all of which, when taken together, shall constitute one and the same instrument.

If the foregoing correctly sets forth the understanding of the parties, please execute and return a copy of this letter, whereupon it will be a binding agreement among the parties hereto as of the date first above written.

TIME WARNER ENTERTAINMENT -
ADVANCE/NEWHOUSE PARTNERSHIP

By: TIME WARNER ENTERTAINMENT
COMPANY, L.P., Managing General
Partner, through its TIME WARNER
CABLE DIVISION

By: 

Name: David B. O'Hayre
Title: Senior Vice President --
Investments

By: ADVANCE/NEWHOUSE
PARTNERSHIP, General Partner

By: ADVANCE COMMUNICATION
CORP., General Partner


By: _____
Name: Robert J. Miron
Title: President

By: NEWHOUSE BROADCASTING
CORPORATION, General Partner

By: _____
Name: Robert J. Miron
Title: Vice President

By: PARAGON COMMUNICATIONS

By: KBL COMMUNICATIONS, INC.,
Managing General Partner


By: 
Name: David E. O'Hayre
Title: Vice President

ADVANCE PUBLICATIONS, INC.


By: _____
Name: S.I. Newhouse, Jr.
Title: Chairman/Vice President

By: ADVANCE/NEWHOUSE
PARTNERSHIP, General Partner

By: ADVANCE COMMUNICATION
CORP., General Partner

By: 
Name: Robert J. Miron
Title: President


By: NEWHOUSE BROADCASTING
CORPORATION, General Partner

By: 
Name: Robert J. Miron
Title: Vice President

By: PARAGON COMMUNICATIONS

By: KBL COMMUNICATIONS, INC.,
Managing General Partner

By: _____
Name: David E. O'Hayre
Title: Vice President

ADVANCE PUBLICATIONS, INC.

Name: S.I. Newhouse, Jr.
Title: Chairman/Vice President

NEWHOUSE BROADCASTING CORPORATION

By: [Signature]
Name: Robert J. Miron
Title: Vice President

ADVANCE/NEWHOUSE PARTNERSHIP

By: ADVANCE COMMUNICATION CORP., General Partner

By: [Signature]
Name: Robert J. Miron
Title: President

By: NEWHOUSE BROADCASTING CORPORATION, General Partner

By: [Signature]
Name: Robert J. Miron
Title: Vice President

TIME WARNER ENTERTAINMENT COMPANY, L.P., through its TIME WARNER CABLE DIVISION

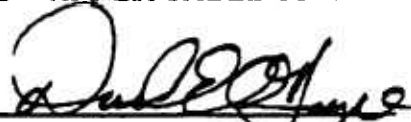
By: _____
Name: David E. O'Hayre
Title: Senior Vice President -- Investments

PARAGON COMMUNICATIONS

By: KBL COMMUNICATIONS, INC.,
Managing General Partner

Doc#: NY3: 696798.1

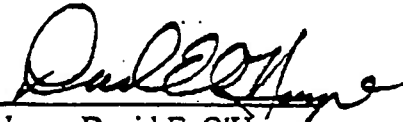
TIME WARNER ENTERTAINMENT
COMPANY, L.P., through its
TIME WARNER CABLE DIVISION

By: 

Name: David E. O'Hayre
Title: Senior Vice President -- Investments

PARAGON COMMUNICATIONS

By: KBL COMMUNICATIONS, INC.,
Managing General Partner

By: 

Name: David E. O'Hayre
Title: Vice President

Schedule 1

Franchisor	Division	System
Black River, Village of	Syracuse, NY	Watertown
Brownville, Town of	Syracuse, NY	Watertown
Brownville, Village of	Syracuse, NY	Watertown
Glen Park, Village of	Syracuse, NY	Watertown
Hounsfield, Town of	Syracuse, NY	Watertown
LeRay, Town of	Syracuse, NY	Watertown
Pamelia, Town of	Syracuse, NY	Watertown
Rutland, Town of	Syracuse, NY	Watertown
Watertown, City of	Syracuse, NY	Watertown
Watertown, Town of	Syracuse, NY	Watertown
Fort Drum	Syracuse, NY	Watertown

Total number of subscribers being contributed (as of May 31, 2000): 12,079

712374.doc

* Indicates that no franchise agreement exists

TIME WARNER ENTERTAINMENT-ADVANCE/NEWHOUSE PARTNERSHIP

Time Warner Entertainment-Advance/Newhouse Partnership 13-3790433
 290 Harbor Drive
 Stamford, CT 06902
 A New York general partnership

General Partners and Addresses:	Partnership Interest	E.I. Number
Time Warner Entertainment Company, L.P. 75 Rockefeller Plaza New York, NY 10019 A Delaware limited partnership	66.66%	13-3666692
Advance/Newhouse Partnership 5015 Campuswood Drive East Syracuse, NY 13057 A New York general partnership	33.33%	16-1466735

With respect to question 4 of Section 2: We believe this question is applicable to transfer applications and renewal applications. We are aware of no instance in which an application by Time Warner Entertainment-Advance/Newhouse Partnership ("TWEAN") for renewal of a franchise has been denied. Approximately 900 franchises have been transferred into TWEAN under no objection. Described below are two instances of which we are aware in which applications for consent to transfer a franchise have been denied:

1. On February 3, 1995, the City of Ithaca, New York determined to hold its "authorization and consent" to a cable television transfer from Time Warner Entertainment Company, L.P. ("TWE") to TWEAN until certain issues in dispute between TWE and the City of Ithaca are resolved. Those issues include a disagreement about the rates for Time Warner Cable's Plus Service; a disagreement about the amount of franchise fee itemized; and a disagreement about whether certain expenses were appropriately charged against PEG access capital equipment funds paid by TWE to the franchise.

2. The City of Winter Springs, Florida voted not to approve the application for consent to transfer of a franchise from TWE to TWEAN. Franchisee is in the process of reviewing the City of Winter Spring's action.

EXHIBIT 6

No separate financial statements are prepared for Time Warner Entertainment-Advance/Newhouse Partnership ("TWEAN"). Attached is the annual report of Time Warner Inc., which includes consolidated financials of Time Warner Entertainment Company, L.P., the managing general partner of TWEAN.

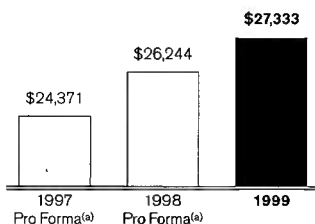
Keyword: timewarner2000

Search

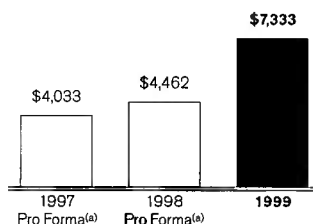
TIME WARNER

FINANCIAL HIGHLIGHTS

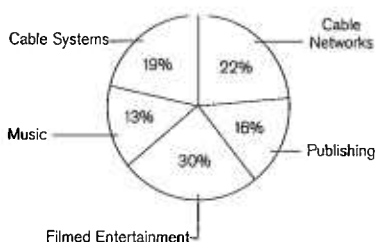
Revenues
(millions)



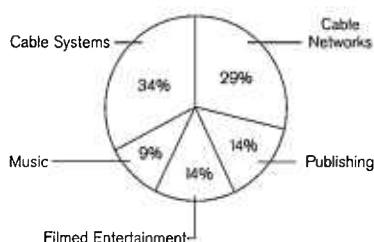
EBITA^(b)
(millions)



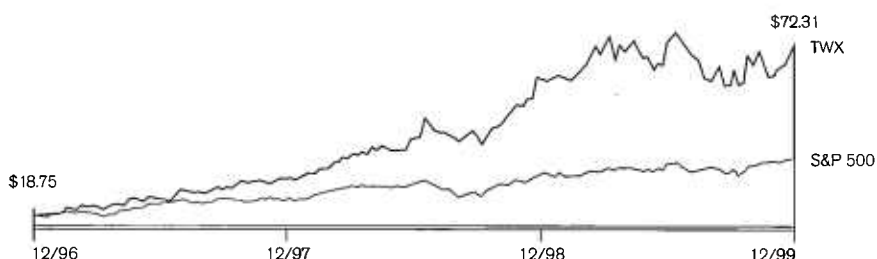
1999 Revenues by Business Segment^(c)



1999 EBITA by Business Segment^(c)



**Time Warner Common Stock
Price Performance vs. S&P 500 Index**



Time Warner's stock price appreciation outpaced the S&P 500 over the past three years.

Caution Concerning Forward-Looking Statements. This Report includes certain "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are based on management's current expectations and are naturally subject to uncertainty and changes in circumstances. Actual results may vary materially from the expectations contained herein due to changes in economic, business, competitive and/or regulatory factors and factors affecting the proposed combination of Time Warner and America Online, Inc. More detailed information about those factors is set forth in Management's Discussion and Analysis of Results of Operations and Financial Condition included in our accompanying separate report entitled *1999 Financials*. Time Warner is under no obligation to (and expressly disclaims any such obligation to) update or alter its forward-looking statements whether as a result of new information, future events or otherwise.

These financial highlights should be read in conjunction with Management's Discussion and Analysis and Time Warner's Consolidated Financial Statements included in our accompanying separate report entitled *1999 Financials*.

- (a) Reflects the consolidation of the Entertainment Group only and does not adjust for the effects of other significant transactions and nonrecurring items.
- (b) Includes net pretax Filmed Entertainment gains of approximately \$206 million in 1999. Also includes net pretax Cable gains of approximately \$2,247 billion in 1999, \$108 million in 1998 and \$212 million in 1997 related to the sale or exchange of certain cable television systems and investments.
- (c) Revenue and EBITA percentages are calculated before intercompany eliminations. In addition, EBITA percentages are normalized to exclude the effects of certain significant transactions and nonrecurring items.

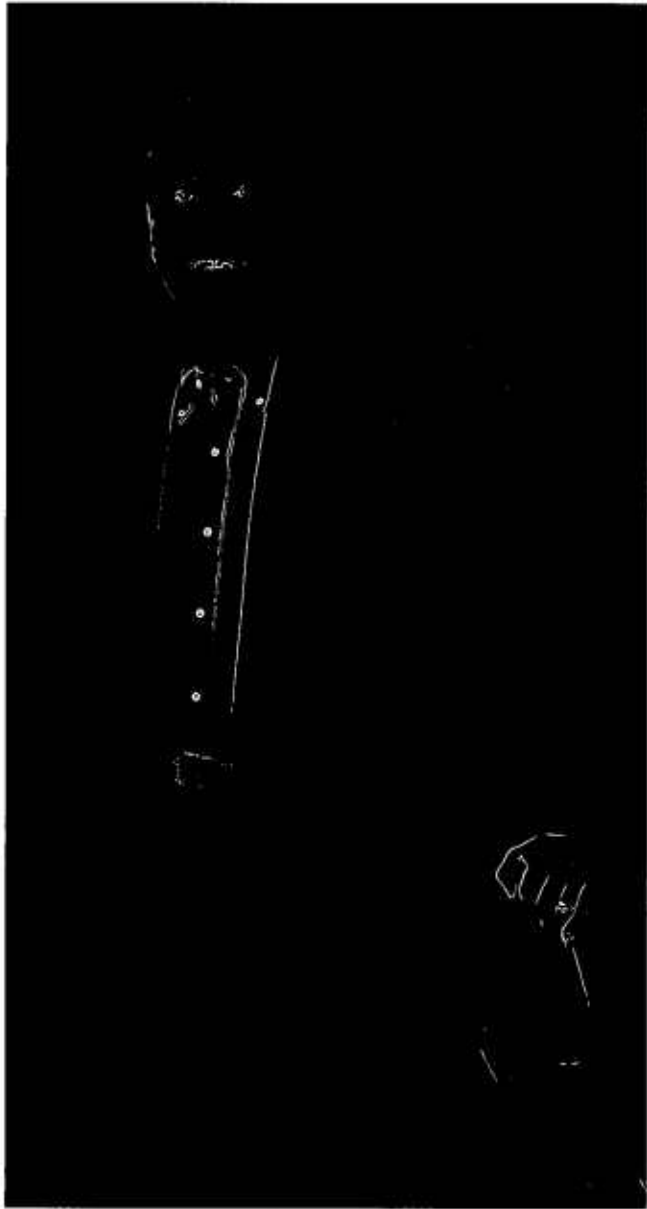
17%

COMPOUNDED ANNUAL
RISE IN TIME WARNER'S STOCK
IN THE 1990s

OUTPACED THE S&P

.....

Over the last decade, Time Warner's stock price rose 380 percent, or 17 percent on a compounded annual basis, substantially outperforming the rise in the S&P 500 during that same period. Our forthcoming merger with America Online means we will be strategically positioned to build on that performance by making the fullest possible use of the immense and rapidly unfolding potential of digital interactivity. We are committed to ensuring that AOL Time Warner will be one of the great growth companies of the 21st century.



Gerald M. Levin
Chairman and Chief Executive Officer

TIME WARNER 2000

The strength of Time Warner's information and entertainment brands continued to be reflected in its overall operating performance, resulting in another record year in 1999. Now, as Time Warner and America Online become one company, we will have unique opportunities to build on that strength and expand consumers' choices—online and off—in exciting ways.

Dear Shareholders:

As the 2000 cover date indicates, this is a forward-looking document. Time Warner's 1999 financials, which can be found in an accompanying report, testify to the continued strength of our operating performance, with normalized growth of 15 percent. As pleased as we are by this result, the focus of our company is on the future—on both continuing to invest in our businesses and realizing the unprecedented possibilities for accelerated growth that the planned merger with AOL will give us.

The agreement that AOL Chairman Steve Case and I reached is transforming in every sense. At the same time that Time Warner instantly gains the Internet expertise to take its brands into the networked future, AOL joins the most creative, content-rich media and entertainment company on the planet. Together, AOL and Time Warner will have the skill, resources and vision to enrich the consumer's experience of interactive services and communications through multimedia platforms, and to evolve business models adapted to a radically altered terrain.

The logic behind a Time Warner-AOL merger is self-evident. Rooted in some of the world's most successful subscription-based businesses,

our operations are strongly complementary. AOL and its CompuServe subsidiary reach 23 million subscribers, by far the largest such community in cyberspace. Time Inc., the most admired, trusted and profitable publishing enterprise, has a worldwide base of 39 million magazine buyers (and a total readership more than five times that). Home Box Office's status as the leader in original award-winning television programming is underlined by its 35.7 million subscriptions. Time Warner Cable's strategically clustered systems, the nation's most technologically advanced, pass 20.6 million homes and serve 12.6 million subscribers. Road Runner, our high-speed Internet joint venture, is adding subscribers at a rate of more than 10,000 per week.

Beyond this core of over 100 million subscribers are the millions more who use services like AOL Instant Messenger and ICQ and are entertained by feature films from Warner Bros. and New Line, recorded music from Warner Music Group (and soon from our joint venture Warner EMI Music), and programming from TBS and TNT. The global standard bearer for independence and excellence in electronic journalism, CNN alone reaches one billion of the earth's people.

In essence, both Time Warner and AOL have created much of the communications landscape as it now exists. From *Time's* invention of the newsmagazine to CNN's creation of the 24-hour cable news network to Warner Home Video's pivotal part in the introduction of the DVD to AOL's development of online communities and instant messaging, we are each a company of pioneers and precedent setters.

The inventive genius that resides in our separate companies has allowed each to produce brands whose consistent quality and value have forged priceless bonds of trust with audiences, advertisers and marketers. The array of world-renowned brands that will be gathered in AOL Time Warner encompasses new digital destinations and vibrant franchises with solid customer relationships.

The breadth of these brands and their appeal to practically every demographic group—a lineup that includes *Time*, AOL, CNN, HBO, The WB, Netscape, *People*, *Sports Illustrated*, Digital City, Cinemax, AOL Moviephone, Cartoon Network, Spinner, AOL.COM, *Entertainment Weekly*, Winamp, Looney Tunes—will give us an unrivaled portfolio.

Like the reach of our audience base, the advertising platforms and direct-marketing reach of Time Warner are impressive. More than any other company, our diversity of brands offers advertisers the different audiences they seek: the broad audiences provided by our basic cable networks and mass-circulation magazines; the targeted demographics of ethnic and age-specific segments captured by our specialized publications and programming; and the individual customer reached through digital media.

The substantial presence Time Warner has built in the robust categories of print and cable-network advertising and the major advertising gains we are making with local cable, barter syndication and The WB will be joined with AOL's

booming Internet advertising business. Our ability to capitalize on this cross-media advertising reach and to deliver mass messages as well as pinpoint the demographics that marketers most desire will heighten the across-the-board momentum of AOL Time Warner's advertising and e-commerce growth.

As the competitive arena of the Web continues to explode, what will count most in marketing interactive brands that sustain consumer interest are two equally important assets. First, in addition to plentiful reserves of content, is the skill to develop, design and deliver new ideas, stories, music, and lifestyle information, constantly refreshing what's available. No company has a stronger creative and journalistic infra-

structure, with deeper reserves or greater skill in replenishing them, than Time Warner.

Second is the know-how to make technology that propels rather than impedes the growth of online communities, affording an interactive experience readily accessible, easy to use and replete with

engaging features for chat, e-mail and e-commerce.

Time Warner's content businesses have never been better positioned than they are today. In publishing, for example, we intend to launch five magazines in 2000 alone, including *Real Simple*, our latest edition to our women's category. In music, our agreement to combine Warner Music Group and EMI gives us an incomparable roster of talent and blend of genres. No matter the venue—retail, direct marketing, e-commerce or digital downloading—AOL Time Warner will have both the quality content and the cross-promotional prowess to keep demand on a strong upward trajectory.

The Internet is rapidly shedding the confines of narrowband and the migration to broadband continues to grow. Short term, thanks to the rebuild of our cable systems, which will be completed for existing systems this year, Time

NO COMPANY HAS A
STRONGER CREATIVE
 AND JOURNALISTIC
 INFRASTRUCTURE
 THAN TIME WARNER.

Warner has been able to expand digital capacity and provide high-speed access to the Internet. Going forward, whether providing e-mail, digital television or information and entertainment on demand, through whatever medium—cable, DSL, DBS or wireless—AOL Time Warner can dramatically enrich consumers' broadband selections. The best of all possible interactive worlds is one in which consumers have the greatest number of choices and the market, not the government, decides the winners. AOL Time Warner will be committed to this result.

Although our merger may have come as a surprise to many, the intensity and velocity of the digital revolution moving across every area of the global economy made our strategic combination a clear imperative. What we expect to achieve with AOL Time Warner is what neither company could have achieved on its own: a media savvy, Internet-intelligent, customer-focused company with multiple revenue streams from branded subscriptions, advertising and commerce, and content.

Building on a solid investment-grade balance sheet, substantial cash flow and financial capacity, we are confident that the symmetry and synergy of our operations will deliver on the promise of the Internet and produce a sustained acceleration of our growth.

As central as these considerations are, the rationale for our merger goes beyond a shared business strategy or a vision of where our networked world is headed. We are both companies driven and defined by the energetic, inventive, talented people who work at every level, in every operation.


It is these women and men whose openness to change and passion for innovation have given us the capacity to shape the future. We're particularly indebted to Beverly Sills Greenough and Merv Adelson, who are retiring from our board this year.

We are also companies that put a high value on social commitment. Throughout its history, Time Warner has had a distinguished tradition of public service initiatives and educational programs. Time to Read, for example, continues to be the country's largest, most effective corporate-sponsored literacy program. AOL has been a model of responsible corporate citizenship on the Internet. As the premier media company of the 21st century, AOL Time Warner intends to play a significant role in helping bridge the "digital divide" that perpetuates age-old inequalities which undermine our society's future.

The fact that our merger will be the first of real consequence in the 21st century is coincidental. But the goal we've set for ourselves—to be the formative leader in ensuring that the central medium of our age is a tool for expanding people's

freedom, empowering their minds and enhancing their enjoyment—is unequivocal.

Along with the whole AOL Time Warner team, I'm eager to get started on building the most successful and respected company in the world.



Gerald M. Levin
Chairman and Chief Executive Officer

For video remarks by the corporate executive team:

www.timewarner-2000.com/execs

.....

AOL Time Warner Inc., together with Time Warner Inc. and America Online, Inc., filed with the Securities and Exchange Commission a preliminary joint proxy statement/prospectus regarding the proposed business combination transaction referenced in the foregoing information. In addition, AOL Time Warner, Time Warner and America Online will prepare and file with the Commission a definitive joint proxy statement/prospectus and other documents regarding the proposed transaction. Investors and security holders are urged to read the definitive joint proxy statement/prospectus, when it becomes available, because it will contain important information. The definitive joint proxy statement/prospectus will be sent to stockholders of Time Warner and America Online seeking their approval of the proposed transaction. Investors and security holders may obtain a free copy of the definitive joint proxy statement/prospectus (when it is available) and other documents filed with the Commission by AOL Time Warner Inc. and Time Warner (as well as America Online) at the Commission's Web site at www.sec.gov. The definitive joint proxy statement/prospectus and other documents filed by Time Warner with the Commission may also be obtained for free from Time Warner by directing a request to Time Warner Inc., 75 Rockefeller Plaza, New York, New York 10019, Attention: Shareholder Relations, telephone: (212) 484-6971, e-mail: investrequest@twi.com.



photo by Timothy Greenfield-Sanders

AOL TIME WARNER: A NEW KIND OF ENTERPRISE

The planned merger of Time Warner and America Online is a development of global importance, universally recognized as the start of a new era in global media. AOL Time Warner will be the first company fully prepared to compete in the borderless world of digital interactivity.

On January 10, 2000, Time Warner and America Online announced agreement to bring their two companies together in a merger of equals. Hailing the creation of "the first major media and communications company of the Internet century," AOL Chairman and CEO Steve Case said that "AOL Time Warner will be a perfect fit as one company."

With a family of top Web brands, easy-to-use technologies and e-commerce services that reach almost 80 percent of all Internet users, AOL is the leader in serving consumers through interactivity. Its more than 21 million members now average more than an hour online each day, send more than 120 million e-mails and retrieve 200 million stock quotes. Six hundred and fifty million real-time messages are sent daily through its AOL Instant Messenger service.

CompuServe, with 2.5 million members, is AOL's other Internet service, providing a full range of content and features. Netscape Netcenter has

25 million registrants and is one of the most-visited portals on the Web. Netscape Navigator and Netscape Communicator are popular browsers. Currently available in 60 U.S. metropolitan areas, Digital City is the number-one local content network and community guide.

ICQ, which offers free real-time services like instant messaging and chat, is the world's fastest-growing communications portal. Two-thirds of its 50 million registrants live outside the U.S. MovieFone is the leading movie guide, ticketing and information service, used by one out of every five moviegoers. AOL's Internet music providers—Spinner.com, Winamp and Shoutcast—are pioneers in Webcasting and allow users to download all genres of music.

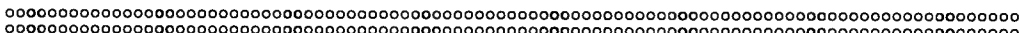
"By merging AOL's assets with our own," said Time Warner Chairman and CEO Jerry Levin, "Time Warner will extend its unmatched ability to create content in every form across the world's first limitless medium. AOL Time Warner is truly a new kind of enterprise: the 21st century's first fully integrated communications, media and entertainment company."

PICTURED FROM LEFT: Gerald M. Levin, Chairman and CEO, Time Warner Inc., and Steve Case, Chairman and CEO, America Online, Inc.

35.7

MILLION

U.S. PREMIUM TV SUBSCRIBERS



3^{OF}5

TOP-RATED
BASIC CABLE
NETWORKS

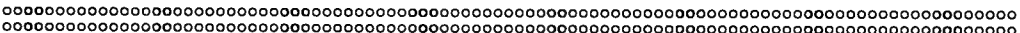
TEN

BRANDED PREMIUM
TV CHANNELS



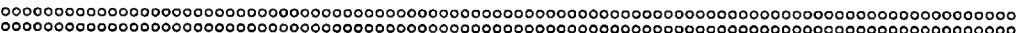
35

WORLDWIDE
NEWS BUREAUS



SIX HUNDRED PLUS

NEWS AFFILIATES IN THE U.S. AND CANADA



10

OF BASIC CABLE'S TOP

10

THEATRICAL
MOVIES AIRED
IN 1999

CABLE NETWORKS

Time Warner's Cable Networks group is home to many of the most valuable franchises in television news and entertainment, including CNN, the world's foremost news brand; HBO and Cinemax, the nation's two leading premium cable services; and some of the best-known brands in television entertainment, such as TBS Superstation, TNT, Cartoon Network and Turner Classic Movies.

Turner Entertainment Networks

Benefiting from a robust advertising environment while helping lead the migration of television viewers from broadcast networks to cable, Time Warner's basic cable entertainment networks continue to generate strong growth in subscription and advertising revenues.

Driven by superior original and special-event programming and the broadcast premieres of hit contemporary feature films, the Turner entertainment networks are among the most widely distributed basic cable networks and are ratings leaders in virtually all key demographic categories. In 1999, three Turner entertainment networks (TBS Superstation, TNT and Cartoon Network) were among the five highest-rated basic cable networks in total day. In 1999, the Turner entertainment networks and CNN together accounted for about 25 percent of U.S. basic cable viewing and nearly 30 percent of U.S. basic cable advertising revenue.

For the 22nd consecutive year, TBS Superstation was watched by more people than any other basic cable network. TBS Superstation is distributed to more than 78 million U.S. subscribers. During the inaugural season of TBS

Superstation's original movie franchise, the network's broadcast of *First Daughter* delivered the largest cable-movie audience of all time, excluding miniseries. The network will extend its original movie franchise in 2000 with the premiere of four exclusive new films, including a remake of the classic *High Noon*.

TNT, which is distributed to 77 million U.S. subscribers, further strengthened its TNT Originals film franchise with the 1999 premieres of such critical and popular successes as *Animal Farm*, *Pirates of Silicon Valley* and *Purgatory*. In 1999, TBS Superstation and TNT aired all 10 of the top 10 theatrical film presentations on basic cable and all five of the top five original movies. TNT will enter a new programming arena—original series—with the mid-2000 premiere of *Bull*, a Wall Street drama and the first of several new original series to premiere on the network in the next few years.

Cartoon Network passed the 60-million mark in U.S. subscribers in 1999, led by its highly rated lineup of original animated series. The debut of Cartoon Network's *Courage the Cowardly Dog* was the highest-rated original series premiere in network history. In the summer of 2000,

Cartoon Network will open Cartoon Network Studios, an independent production facility formed to develop and produce animated entertainment expressly for the network. In April 2000, Cartoon Network will launch Boomerang, a new 24-hour animation network featuring classic Hanna-Barbera cartoons from Time Warner's library.

The fast-growing Cartoon Network is also leading Turner's international expansion. In 1999, Cartoon Network was the highest-rated kids' cable and satellite network in the U.K., Taiwan, Argentina, Australia and Mexico. TNT Latin America grew its household distribution by 10 percent in 1999, to nearly 11 million.

The Turner entertainment networks are establishing a strong presence on the World Wide Web with original content exclusive to the Web, including Cartoon Network's Web Premiere Toons franchise of original animated series.

Turner Classic Movies (TCM) also emerged as a global brand with the launch of localized feeds for Polish-, Spanish-, and French-speaking audiences in Europe and regional feeds in Scandinavia, The Netherlands, Eastern Europe, Africa and the Middle East. In the U.S., TCM passed the 35-million-subscriber mark in 1999, just five years after its launch.

In October 1999, Turner launched its first regional entertainment network, Turner South, offering a mix of original programming, movies, sitcoms, regional news and sports to cable and satellite affiliates in six southern states.

Turner Sports continued to create value from strategic partnerships, including the acquisition of rights to NASCAR auto races for TBS Superstation beginning in July 2001. In October 1999, Turner's Atlanta Thrashers made their National Hockey League regular-season debut

in the new Philips Arena. In 1999, Major League Baseball's Atlanta Braves played in their fifth World Series and won their eighth consecutive division title.

CNN News Group

CNN continues to strengthen its role as the world's news leader, its growth propelled by unrivaled coverage of breaking news, new signature programming, an enhanced online presence, and an expanded base of international local-language networks, news bureaus and global affiliates.

CNN once again distinguished itself as cable television's leading news network among Americans in 1999. In addition to its top-rated

coverage of the year's major news stories, CNN scored nine of basic cable's 10 highest-rated regularly scheduled news programs of the year and all of the year's 10 most-watched news programs on basic cable.

CNN continues to pursue its strategy of creating regularly scheduled signature

programming, documentaries and news specials to drive appointment viewing and reach new audience segments. In 1999, CNN launched eight hours of both general and financial news programming, including the September launch of the network's flagship newscast, *The World Today*. CNN expanded its partnership with Time Warner's Time Inc. through branded news-magazine segments on *CNN NewsStand*, the relaunch of the *CNN & Time* newsmagazine program, and the 10-part *People Profiles* series. CNN also debuted four business and financial news programs, including *Street Sweep*, the first and only live newscast with a permanent set at the New York Stock Exchange.

Through its *CNN Perspectives* series, CNN continues to present provocative and acclaimed documentary programming, including



PICTURED ABOVE: Cartoon Network's original animated series *The Powerpuff Girls*. OPPOSITE: HBO comedy series *The Chris Rock Show*; photo by David Lee/HBO

the world premiere of the 10-part *Millennium*, a panoramic sweep over the past 1,000 years, and *Celebrate the Century*, a 10-part collection of the modern world's defining moments. From December 31, 1999, to January 4, 2000, CNN aired an unmatched 100 hours of global news coverage of millennium-related issues and events. Highlights from CNN's coverage of the world's millennium celebrations were compiled in a two-hour video from Time Warner's Warner Home Video that was available in video outlets in 25 countries within days of the turn of the century.

In 1999, CNN Headline News unveiled the most significant changes in its history, including a new, state-of-the-art newsroom, enhanced graphics and new features programming.

CNN Newsource, the world's most widely syndicated television news-feed service, expanded its network of domestic affiliates to more than 600 in the U.S. and Canada and more than 800 worldwide.

CNN continues to expand internationally by meeting the growing demand for local news programming. CNN International (CNNI), the world's only global, 24-hour news network, is seen in more than 151 million households in 212 countries and territories.

In 1999, CNNI launched two language-specific television news networks, CNN+ and CNN Turk. CNN+, distributed throughout Spain, is the first CNN-branded local language channel operated and controlled outside of CNN's world headquarters in Atlanta. CNN Turk, a joint venture with Turkey's Dogan Media Group, is available in seven million Turkish households. CNN also opened news bureaus in Istanbul, Turkey and Madrid, Spain, bringing its worldwide total to 35.

CNN en Español, the 24-hour Spanish language news network whose 1997 debut represented the largest cable network launch in Latin

American history, passed the eight-million mark in Latin American subscribers in 1999.

CNN's 11 World Wide Web sites are among the world's most visited online destinations for news and information. In 1999, traffic to the sites increased by nearly 60 percent over 1998, to more than six billion pages viewed. CNN Interactive entered into a number of key business alliances in 1999, including ventures with WebMD/Healthon, IDG.net, InterVU, Inc. and Leisureplanet.

Home Box Office

With award-winning and popular programming and a focus on taking advantage of new TV technologies, Home Box Office is America's

most successful premium television network, whether measured by operating performance, subscribers, awards, ratings or critical acclaim. Its two 24-hour services—HBO and Cinemax—grew to 35.7 million U.S. subscribers at the end of 1999. HBO's international joint ventures also reach nearly 12 million subscribers



in more than 45 countries in Latin America, Asia and Central Europe.

The network's strong programming, from the best Hollywood blockbuster movies to innovative original programs, is at the core of its continuing growth and its success in satisfying current subscribers and attracting new ones. HBO continues to be the highest-rated cable service during the day and in prime time. The all-movie service Cinemax remains the second-highest-rated channel after HBO, featuring more than 1,600 film titles per year—more than any other pay service.

HBO original programming continues to attract the best talent in front of and behind the camera. Under the new banner HBO Films, the network is producing a broad slate of original movies, from smaller-budget independents to big event pictures, to appeal to new and

TURNER BROADCASTING SYSTEM, INC.

Terence F. McGuirk
Chairman and CEO

Steven J. Heyer
President and COO

.....
TBS Superstation
Turner Network Television
Cartoon Network
Turner Classic Movies
Turner South
Boomerang*
TNT Europe
Cartoon Network Europe
TNT Latin America
Cartoon Network Latin America
TNT & Cartoon Network/Asia Pacific
Atlanta Braves
Atlanta Hawks
Atlanta Thrashers
World Championship Wrestling
Goodwill Games

*2000 Launch

Joint Ventures

Cartoon Network Japan
Court TV (TWE-owned)

CNN NEWS GROUP

W. Thomas Johnson
Chairman, President
and CEO

.....
CNN
CNN Headline News
CNN International
CNNfn
CNN/Sports Illustrated
CNN en Español
CNN Airport Network
CNNRadio
CNNRadio Noticias
CNN Interactive
CNN Newsource
CNN+
CNN Turk

HOME BOX OFFICE

Jeffrey L. Bewkes
Chairman and CEO

.....
HBO
HBO Plus
HBO Signature
HBO Family
HBO Comedy
HBO Zone
Cinemax
MoreMAX
ActionMAX
ThrillerMAX
HBO en Español

Joint Ventures

Comedy Central
HBO Ole
HBO Brasil
HBO Asia
HBO Hungary
HBO Czech
HBO Poland
HBO Romania

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different audiences. The 2000 slate includes: *If These Walls Could Talk 2*, starring Sharon Stone, Ellen DeGeneres and Vanessa Redgrave; *Cheaters*, starring Jeff Daniels; *The Last of the Blonde Bombshells*, starring Dame Judi Dench; *Disappearing Acts*, starring and executive produced by Wesley Snipes; and *Path to War*, executive produced and directed by Barry Levinson.

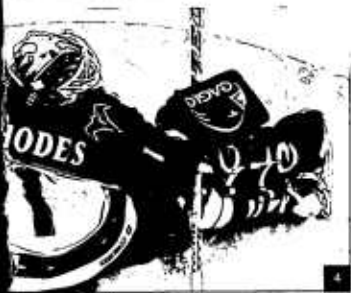
Other original programming highlights for 2000 include: the return of the hit series *The Sopranos*, widely acclaimed as one of the top TV shows of the past year, *Sex and the City* and *Oz*; late-night successes *Dennis Miller Live* and *The Chris Rock Show*; cable's longest running series, *Inside the NFL*; and a new six-part miniseries *The Corner*. The network's next miniseries project, *Band of Brothers*, will be executive produced by Tom Hanks and Steven Spielberg and is slated to air in 2001.

In 1999, HBO won 23 Primetime Emmys, more than any other network and a record for HBO, including best movie for the seventh year in a row (*A Lesson Before Dying*), best actor in a miniseries or movie (Stanley Tucci in *Winchell*),

best actress in a drama series (Edie Falco in *The Sopranos*), and best performance in a variety or music program (John Leguizamo in *Freak*). HBO also garnered one Academy Award and three George Foster Peabody Awards in 1999. In early 2000, the network received eight Golden Globe Awards, the most of any TV network.

On the cutting edge of TV technology, HBO was the first national network to offer a high-definition television (HDTV) feed, launching East and West Coast feeds of its main programming channel in 1999. Approximately 60 percent of the movies shown on these feeds are offered in high definition.

The first network to take advantage of digital technology to offer multiplex service, in 1999 HBO added two new channels, HBO Comedy and HBO Zone, to its multiplex package HBO The Works, bringing its total to six. Cinemax's multiplex package, MultiMAX, consists of four all-movie channels. More than 75 percent of HBO subscribers and 65 percent of Cinemax subscribers now receive some configuration of multiplex service.



CNN.com

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October 11, 1998 - Update

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- SPORTS
- TECHNOLOGY
- SPACE
- HEALTH
- ENTERTAINMENT
- MARKETS

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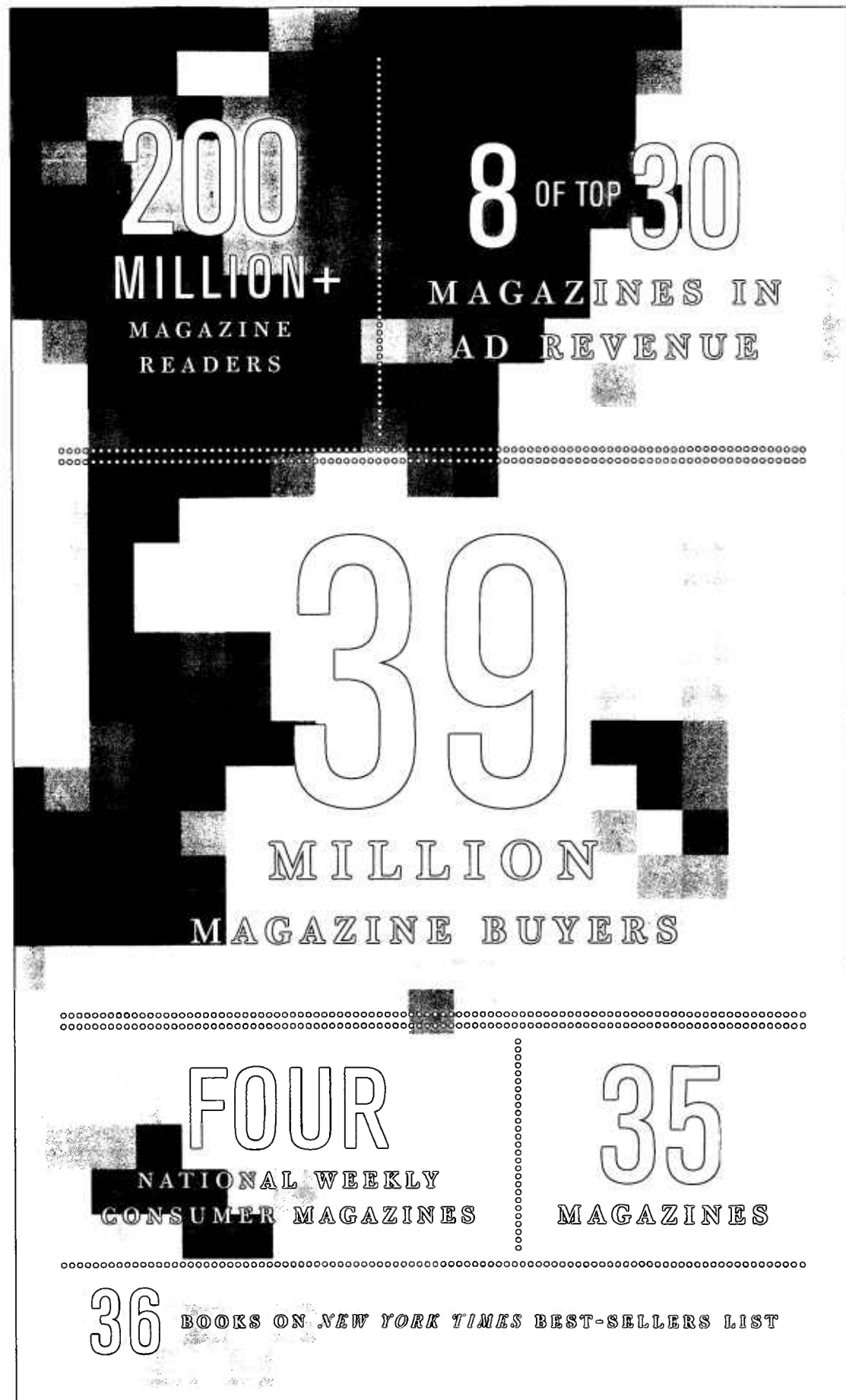


1> HBO series *The Sopranos* starring James Gandolfini; photo by Anthony Nestle/HBO. 2> HBO original movie *If These Walls Could Talk 2* starring Sharon Stone and Ellen DeGeneres; photo by Lucy Sebastian/HBO. 3> CNN and CNNW's business news program *Ahead of the Curve*. 4> Damien Rhodes of the National Hockey League's Atlanta Thrashers; photo by Mark Hill. 5> CNN's *Larry King Live*. 6> CNN's interactive news and information services, which include CNN.com. 7> TBS Superstation's original movie *First Daughter* starring Mairé Herringway; photo by Chris Cuffaro.



“BRANDS, IN ORDER
TO STAY SUCCESSFUL,
HAVE TO REINVENT
THEMSELVES. IT DEPENDS
ON HOW WELL YOU
EXECUTE IN KEEPING THE
BRAND VITAL AND
VIBRANT AND INTERESTING
TO PEOPLE.”

TED TURNER



To see and hear more about Cable Networks, go to:

www.timewarner-2000.com/networks

OL Keyword:

PUBLISHING

Time Inc. is the foremost creator of publishing and information brands, including many of America's most successful magazines, best-selling books and popular book clubs. It is also a leading direct marketer of books, music and video.

Time Inc.

Bolstered by a strong advertising market and driven by the success of its flagship brands and new magazine launches, Time Inc. continues to outperform the publishing industry. The company generates consistent growth through its strategy of investing in its core product lines, developing brand extensions and new products, and seeking opportunities to build its brands in an online environment.

In 1999, advertising revenue, as measured by the Publishers Information Bureau (PIB), grew more than 18 percent over the prior year at Time Inc.'s consumer magazines. This growth solidly outpaced the industry which grew more than 11 percent. Time Inc.'s share of the total advertising revenues generated by consumer magazines in the U.S. grew to more than 22 percent in 1999, as measured by PIB. Eight of Time Inc.'s titles ranked in the top 30 in advertising revenues, with *People*, *Time* and *Sports Illustrated* again taking the top three spots. *Fortune* had a strong year, taking the eighth position in PIB rankings, while *In Style* ranked 25th in 1999 just five years after its launch.

Circulation growth for Time Inc.'s magazine titles also beat the 1999 industry average, as

measured by the Audit Bureau of Circulation. In a year when four of the top 10 circulation titles announced decreases in their circulation rate bases, Time Inc. magazines raised theirs by six percent overall.

With its flagship magazine brands serving as the foundation of its strong growth—Time Inc. is the only company to publish four national weekly consumer magazines (*Time*, *People*, *Sports Illustrated* and *Entertainment Weekly*)—Time Inc. continues to achieve success through its strategy of extending its well-established brands to new audiences.

Teen People, for example, continues to experience record-breaking growth. Since *Teen People*'s launch in 1998, the magazine's rate base has tripled to 1.5 million in January 2000. *In Style*, which also evolved from the *People* franchise, increased its rate base with its January 2000 issue to 1.3 million and will launch four single-topic special issues in 2000. Since its inception as a monthly in February 1998, *People en Español* has firmly established itself as the best-selling Hispanic publication in the U.S.

Continuing its tradition of growing its most successful product lines, Time Inc. will launch five

TIME INC.**Don Logan**

Chairman and CEO

Norman Pearlstine

Editor-in-Chief

.....

Time

People

Sports Illustrated

Fortune

Life

Money

Parenting

Family Life

In Style

Entertainment Weekly

Cooking Light

Real Simple*

Baby Talk

Coastal Living

Health

People en Español

Progressive Farmer

Southern Accents

Southern Living

Sports Illustrated For Kids

Sports Illustrated For Women*

Sunset

Teen People

This Old House

Time Digital

Time for Kids

Mutual Funds

FSB/Fortune Small Business

eCompany Now*

Asiaweek

Dancyu

Bises

President

Wallpaper

Who Weekly

First Moments

Time Life Inc.

Book-of-the-Month Club

Warner Books

Little, Brown and Company

Oxmoor House

Leisure Arts

Sunset Books

Media Networks Inc.

Time Inc. Custom Publishing

Targeted Media Inc.

Time Inc. Home Entertainment

Time Inc. Interactive

Time Distribution Services

Warner Publisher Services

*2000 Launches

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new magazines in 2000: *Real Simple*, a new lifestyle magazine from Time Inc.'s *People* group about simplifying every aspect of your life; *eCompany Now*, a business magazine for the Internet economy developed by *Fortune*; *Sports Illustrated For Women*, aimed at young women sports enthusiasts; *Time Large Print*, a weekly *Time* magazine for the vision impaired; and *In Style Australia*, an Australian version of the popular fashion, beauty and celebrity lifestyle magazine. In 2000, Time Inc. will relaunch *Time Digital* and *President*, increasing their frequency.

In June 1999, Time Inc.'s Parenting Group acquired *Family Life* magazine, expanding the Group's editorial offerings to cover a greater proportion of families—from those expecting to those with older children.

Money experienced its most profitable year ever in 1999. A key driver for this performance was a highly successful redesign in late 1998, which has resonated with both advertisers and readers.

Time Inc.'s special projects and events continue to attract attention and serve to reinforce the company's rich tradition of journalistic excellence. In December 1999, *Time* concluded

its two-year, six-issue series *Time 100: People of the Century* by naming Albert Einstein the most influential Person of the Century.

Time Warner Trade Publishing placed 36 titles on *The New York Times* best-sellers list in 1999 from its Warner Books and Little, Brown imprints. Warner Books and Little, Brown also had three titles selected by Oprah Winfrey for her book club in 1999.

In response to weakness in the sweepstakes industry and fundamental changes in the economy driven by the Internet, Time Inc. is repositioning its direct marketing business to seek new ways of selling its magazines and other products electronically and through partnerships with a variety of companies. With its Internet sites and its wealth of expertise and resources in database management, customer service, fulfillment and warehouse operations, Time Inc. is well positioned to capitalize on electronic commerce opportunities. In addition, in early 2000, Book-of-the-Month Club (BOMC) formed a joint venture with Bertelsmann Inc.'s Doubleday Direct book club business that will jointly operate the U.S. book clubs of BOMC and Doubleday.

"IT'S ALL ABOUT INFORMATION
THAT PEOPLE CAN USE.
OUR JOURNALISTS ARE EXPERTS
AT IT. THEY KNOW HOW
TO ADD DEPTH AND INSIGHT.
THEY KNOW HOW TO
COMMUNICATE IN A WAY THAT
BENEFITS OUR READERS.
THAT ABILITY IS GOING TO
WORK VERY WELL IN
THE ELECTRONIC WORLD."

DON LOGAN

To see and hear more about Publishing, go to:
www.timewarner-2000.com/publishing

AOL Keyword:

32,000

TELEVISION
TITLES

165%

GROWTH IN
DVD REVENUE
IN 1999

5,700+

FEATURE FILMS

\$2.7 BILLION

WORLDWIDE BOX-OFFICE REVENUES

13,500

ANIMATED TITLES

8

FIRST-RUN DAILY
SYNDICATED
TV SERIES

Commemorative Issue

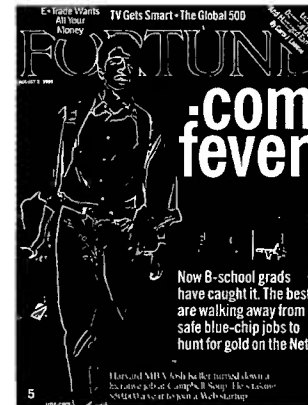
TIME

JANUARY 1, 2000

Welcome to a
New Century

Times Square
New York City

1 > Time 2 > Cooking Light 3 > Teen People 4 > Entertainment Weekly 5 > Fortune 6 > Real Simple 7 > In Style 8 > Sports Illustrated For Women 9 > (From left) The Tales of the Brothers Grimm, a Book-of-the-Month Club selection;



FILMED ENTERTAINMENT

Warner Bros. is a global leader in the creation, distribution, licensing and marketing of movies, television programming, video and related products.

New Line Cinema is a leading independent producer and distributor of theatrical motion pictures.

Warner Bros.

In an effort to prudently manage the rising costs of producing and marketing theatrical films, Warner Bros. has firmly established its strategy of offering a diverse slate of 20 to 25 movie releases per year, with a mix of fully financed, co-financed and distribution-only films and a variety of genres, talent and budgets.

Known worldwide as the creator of some of the most powerful franchises in movie and television history, Warner Bros. Pictures added *The Matrix*, which earned more than \$450 million at the worldwide box office in 1999 and became Warner Bros.' highest-grossing film ever. Two sequels of *The Matrix* are planned. Warner Bros. also participated in the worldwide *Pokémon* phenomenon with the 1999 release of *Pokémon: The First Movie* (with a sequel planned for July 2000), and the megahit *Pokémon* television series on the Kids' WB! In 1999, Warner Bros. also began development of what promises to be a potent franchise in all media based on the wildly popular *Harry Potter* series of children's books.

Warner Bros. had a record-breaking year in 1999 at both the domestic and international box office. The company generated gross domestic

box-office revenues of more than \$1 billion for the first time. Internationally, Warner Bros. had its best year since 1993, also grossing more than \$1 billion in 1999.

Along with *The Matrix* and *Pokémon*, contributing to the 1999 worldwide box-office success of Warner Bros. Pictures were *Analyze This*, *You've Got Mail*, *Wild Wild West*, *Eyes Wide Shut*, *Three Kings*, *Any Given Sunday* and *The Green Mile*. Warner Bros. Pictures' schedule of 2000 releases includes *The Perfect Storm*, *Red Planet*, *Space Cowboys*, *The Replacements*, *Pay It Forward*, *Proof of Life* and *Miss Congeniality*.

At Warner Bros. Television, *ER* continues at the top of the ratings, followed by other hit series such as *Friends*, *The Drew Carey Show*, *Whose Line Is It Anyway?* and the new series *The West Wing*. In addition to its strong off-network syndication pipeline, which provides a consistent foundation for the company's earnings, Warner Bros. offered an impressive eight first-run daily series for syndication in the 1999-2000 season, led by perennial favorites *The Rosie O'Donnell Show*, *Jenny Jones* and *EXTRA*.

With 36 percent of its revenues coming from outside of the U.S., Warner Bros. continues to

WARNER BROS.

Barry M. Meyer
Chairman and CEO

Alan Horn

President and COO
.....

Warner Bros. Pictures
Warner Bros. Television
Warner Bros. Animation
Looney Tunes
Hanna-Barbera
Castle Rock Entertainment

Telepictures Productions
The WB Television Network
Kids' WB!

Warner Home Video

Warner Bros. Consumer Products
Warner Bros. Worldwide
Licensing

Warner Bros. Studio Stores
Warner Bros. International
Theatres

Warner Bros. Online
DC Comics
MAD Magazine

NEW LINE CINEMA

Robert K. Shaye
Chairman and CEO

Michael Lynne

President and COO
.....

New Line Cinema
Fine Line Features
New Line Home Video
New Line International
New Line Television

.....

expand its international business. Warner Bros. International Television Distribution signed milestone multi-year television output deals with Channel 4 in the U.K., Kinowelt Median AG in Germany and TVN in Poland. Warner Bros. also made its first foray into foreign-language television production, forming an alliance with Germany's UFA to produce German-language series and television movies.

Warner Home Video has spearheaded the development of DVD, one of the fastest-growing home entertainment products in history. Launched in late 1997, DVD has significantly outsold the VCR and the CD at a comparable stage in their introduction. An estimated 8.5 million DVD players were in use worldwide at year-end 1999, compared to more than 2.4 million players at the end of 1998, a 254 percent increase. DVD continues to generate unprecedented growth, providing a new distribution outlet for the company's vast library of more than 5,700 feature films, 32,000 television titles and 13,500 animated titles. Warner Home Video's 1999 worldwide DVD revenues grew by 165 percent over 1998. DVD revenues accounted for more than 20 percent of Warner Home Video's total worldwide revenues in 1999.

In fall 1999, The WB Television Network, whose strong roster of hit shows appeals to the young audiences coveted by advertisers, successfully added such new series as *Popular* and *Angel* to established hits such as *Buffy the Vampire Slayer*, *Dawson's Creek*, *Charmed*, *Felicity* and *7th Heaven*.

The 1999 launch of *Entertainment*, Time Warner's vertical entertainment destination on the World Wide Web, is indicative of the company's ability to combine content, creativity and technology in exciting new digital formats.

New Line Cinema

After generating \$54.9 million at the box office in its first weekend, a record for comedy film openings, New Line Cinema's 1999 hit *Austin Powers: The Spy Who Shagged Me* went on to become the 27th-highest domestic-grossing motion picture in history, grossing more than \$300 million at the worldwide box office.

New Line's slate of 2000 releases includes *Little Nicky*, *15 Minutes*, *The Cell*, *Frequency*, *Town and Country*, *Unconditional Love*, *Lost Souls*, *The Price of Glory*, *Love and Basketball* and *13 Days*.

New Line also began production on its highly anticipated *Lord of the Rings* film trilogy, based on J.R.R. Tolkien's best-selling novel.

"WARNER BROS. IS ONE OF THE WORLD'S PREMIER CREATORS OF CONTENT. AN EXPANDED INTERNET PLATFORM OFFERS US VALUABLE OPPORTUNITIES FOR DISTRIBUTION, PRODUCT PROMOTION AND BRAND EXPANSION NOW AND IN THE FUTURE."

BARRY MEYER

To see and hear more about Filmed Entertainment, go to:
www.timewarner-2000.com/film

AOL Keyword:

25

ALBUMS IN 1999

WITH SALES OF

1 MILLION+

UNITS

WORLDWIDE

#1

MANUFACTURER
OF DVD'S

TWENTY
GRAMMYS

1,000,000+

MUSIC COPYRIGHTS

38

OF 1999'S
TOP 200
U.S. ALBUMS

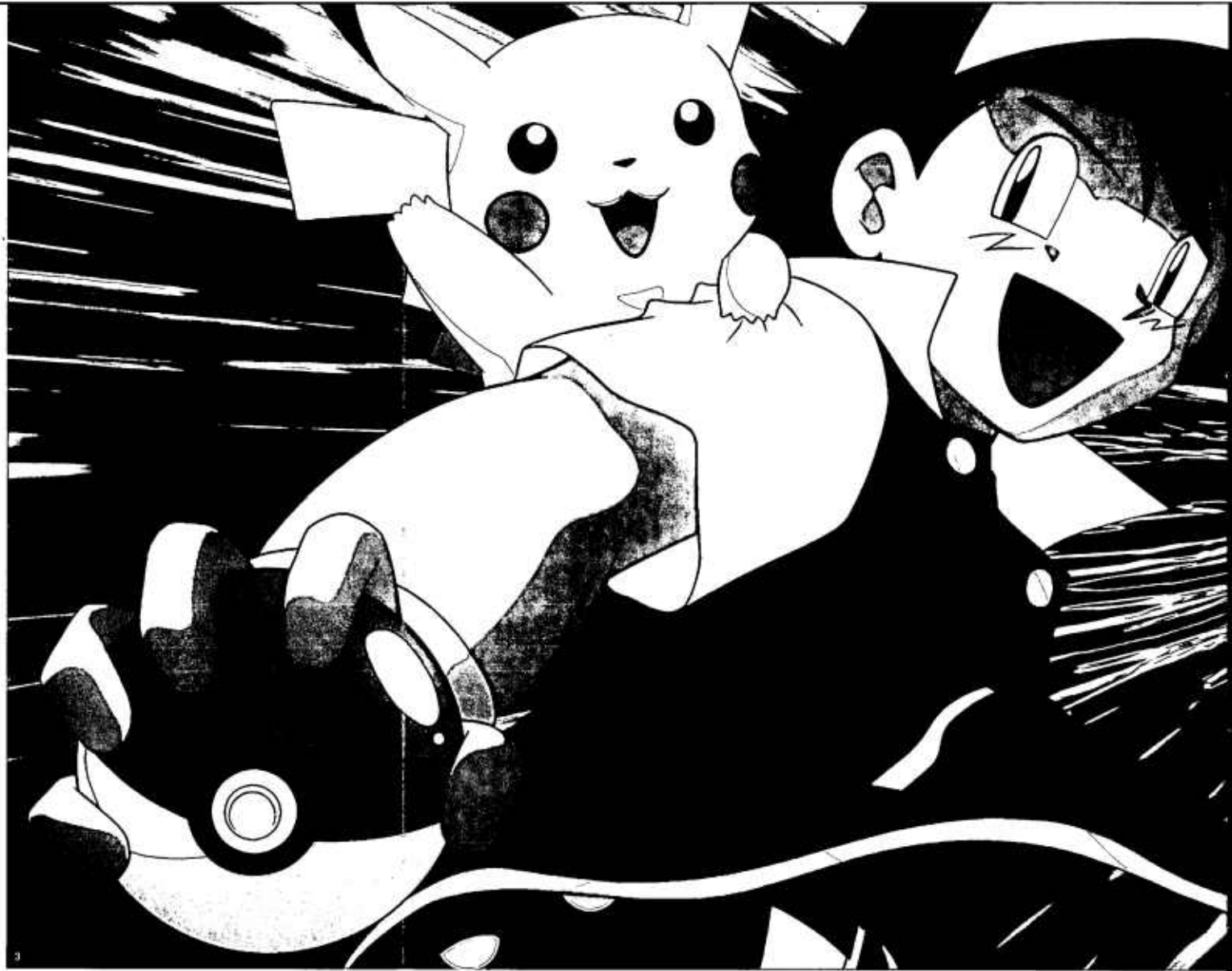
NINE HUNDRED

PLATINUM, SILVER AND
GOLD SALES AWARDS
IN 1999 OUTSIDE THE U.S.

THE WEST WING



1 > Warner Bros. Television's *The West Wing* 2 > Warner Bros. Pictures' *The Matrix* 3 > Warner Bros. Pictures' *Pokémon: The First Movie* 4 > New Line Cinema's *Magnolia* 5 > Castle Rock's *The Green Mile* 6 > Warner Home Video's DVD of New Line Cinema's *Austin Powers: The Spy Who Shagged Me*



MUSIC

Home to a worldwide roster of established stars and new artists, Warner Music Group is a major music entertainment company.

Warner Music Group

Warner Music Group (WMG) is focused on the further integration of its worldwide operations to take advantage of opportunities presented by the increasing globalization of the music business. The multinational, multicultural appeal of the music produced by WMG's record labels—Warner Music International (WMI), Atlantic, Elektra, Rhino, London-Sire, Warner Bros. Records and their affiliated labels—is at the core of its strategy for growth.

In January 2000, Time Warner and EMI Group plc announced an agreement to form the world's premier music group by combining their global music operations into two jointly owned ventures. The new company, Warner EMI Music, will have broad domestic and international holdings; an unsurpassed management team; a roster that includes many of the world's most popular artists; and complementary strengths in recorded music, A&R and talent management, content and copy-right origination and ownership, promotion and public relations, manufacturing, packaging, distribution and back catalogue.

As the demand for local repertoire has increased in many countries, WMG continues

to expand efforts to sign local artists. It is also devoting greater resources to marketing U.S. artists overseas and to creating greater global marketing opportunities for artists with worldwide appeal. WMI's efforts around the globe resulted in more than 900 platinum, silver and gold sales awards for U.S.-based and internationally signed artists in 1999. WMG had 25 albums that sold a million or more units around the world in 1999.

In 1999, WMG artists were responsible for 38 of the year's top 200 best-selling albums in the U.S. WMG's share of U.S. album sales in 1999 was nearly 18 percent, as measured by Sound Scan. Top domestic best-sellers included Kid Rock, Cher, Red Hot Chili Peppers, Tim McGraw, Sugar Ray, Everlast, Goo Goo Dolls, Faith Hill, Metallica, Brandy, the *Austin Powers: The Spy Who Shagged Me* soundtrack, Jewel, *The Matrix* soundtrack and Busta Rhymes. Internationally, top sellers included Cher, Red Hot Chili Peppers, Eric Clapton, The Corrs, Madonna, Luis Miguel, Phil Collins and Maná.

WMG labels have established a major presence on the Internet, which provides a new way to reach music consumers, and WMG is taking advantage of digital media opportunities

WARNER MUSIC GROUP**Roger Ames**

Chairman and CEO

.....

Atlantic Recording Corporation
 Elektra Entertainment Group Inc.
 Rhino Entertainment Company
 London-Sire Records Inc.
 Warner Bros. Records Inc.
 Warner Music International

Warner/Chappell Music, Inc.
 Warner Bros. Publications
 U.S. Inc.
 WEA Inc.
 Warner-Elektra-Atlantic
 Corporation
 WEA Manufacturing Inc.
 Ivy Hill Corporation
 Warner Special Products Inc.
 Giant Merchandising

Joint Ventures

Alternative Distribution Alliance
 The Columbia House Company
 Giant (Revolution) Records
 Maverick Recording Company
 143 Records
 Qwest Records
 Ruffnation Records LLC
 Tommy Boy Music

.....

that will benefit its long-term growth. Atlantic's cutting-edge www.atlantic-records.com won best record label Web site honors at the Midem 2000 music conference in Cannes, France. In 1999, WMG undertook initiatives to create a digital music archive, a company-wide architecture for promotional Web sites, a digital music authoring and distribution system and a worldwide repertoire management system.

WMG led the music industry in launching the first industry-wide effort to test the secure digital download of albums, the Madison Project. WMG joined with four other music companies and IBM to conduct the first market trial of a system that enables consumers to quickly download full-length, CD-quality albums via the Internet. The project was conducted with Road Runner, Time Warner Cable's jointly owned high-speed online service, on Time Warner Cable systems in San Diego and Portland, Maine. The company made investments in the Internet music companies Listen.com, ARTISTdirect and LAUNCH Media during 1999, and launched a new revenue stream by agreeing to the first licensing of WMG music videos on a non-exclusive basis for carriage on the Internet. The sites offering the streaming videos also provide promotional links to WMG Web sites featuring the company's artists.

In addition, WMG launched groundbreaking promotions on the Internet in 1999 designed to stimulate CD purchases through participating online retailers. The promotions featured some

two dozen artists from WMG labels and included extensive consumer research to allow the company to better utilize the opportunities presented by the digital age.

Working with the DVD Forum, WMG has led the music industry in developing DVD Audio specifications. The new format, expected to launch in the second half of 2000, is the music industry's next-generation optical disc-based packaged medium. DVD Audio offers dramatically improved stereo and multichannel audio quality as well as advanced copy-protection features not possible when the CD was launched in 1983.

WMG's WEA Corp. pioneered industry-leading music sales and distribution programs in 1999. WEA Manufacturing, one of the inventors of the DVD manufacturing process, solidified its position as the world's largest manufacturer of DVDs, producing 38 percent of the world's DVDs in 1999. WMG's Ivy Hill was the leading supplier of DVD packaging in the world during 1999 and is the patent holder for the popular "Snapper" DVD storage case, which now accounts for some 40 percent of such cases in use.

Warner/Chappell Music, Inc., WMG's music publishing company, has a catalogue of more than a million copyrights, from George and Ira Gershwin and Cole Porter to Eric Clapton, Smashmouth and Radiohead. In 1999, Warner/Chappell was named ASCAP Pop Publisher of the Year, BMI Country Publisher of the Year and *Billboard* Hot 100 Publisher of the Year.

"WHAT MAKES A RECORD
COMPANY GREAT
IS THE ABILITY TO FIND,
SIGN AND DEVELOP
TALENT, AND SEE IT THROUGH
ALL STAGES. DIGITAL
DISTRIBUTION ADDS A WHOLE
NEW DIMENSION.
IT WILL BOTH SIMPLIFY AND
EXPAND OUR BUSINESS."

ROGER AMES

To see and hear more about Music, go to:
www.timewarner-2000.com/music

AOL Keyword:

20.6

MILLION
HOMES PASSED

12.6 430,000

MILLION
CUSTOMERS

DIGITAL CABLE
CUSTOMERS

550,000 ROAD RUNNER VENTURE
HIGH-SPEED ONLINE CUSTOMERS

34

CABLE CLUSTERS
WITH 100,000+
SUBSCRIBERS

85%

OF CABLE
SYSTEMS
UPGRADED



1▷ The latest hit single from WBFR's Madonna is "American Pie"; photo by Eugene Adisbari 2▷ WM Mexico superstars Maná have career sales of 12 million-plus albums; photo by Adolfo Perez Butron 3▷ The latest CD from WBFR's Faith Hill debuted No. 1 on Pop charts in November 1998; photo by Rocco Laspata 4▷ Kid Rock's Atlantic multi-platinum debut album has sold 7 million units since its 1998 release; photo by Joseph Culicci 5▷ Clapton Chronicles by Derek Ross's Eric Clapton has reached 7 times platinum status in Japan and platinum in 8 other countries, selling more than 4 million albums worldwide since its 1999 release; photo by Kevin Mazar 6▷ Elton's Bula Rhymes will release his new album *Anarchy* in June 2000; photo by Dean Kerr 7▷ WMI has teamed with 143/Lars/Atlantic to make The Corrs international superstars; photo by Mike Owen



TIME WARNER CABLE

Joseph J. Collins
Chairman and CEO

Glenn A. Britt
President

Thomas M. Rutledge
Senior Executive Vice President

Clusters of more than 100,000 subscribers at December 31, 1999.

<i>Divisions/Clusters</i>	<i>Subscribers</i>	<i>Divisions/Clusters</i>	<i>Subscribers</i>
New York City	1,177	Albany	296
Tampa Bay	903	Austin	285
Central Florida	669	Suburban New York	256
Houston	665	Memphis	230
Raleigh/Fayetteville	441	Minneapolis	205
Milwaukee	426	San Diego	205
Western Ohio	415	Binghamton	166
Northeast Ohio	393	Green Bay	146
Charlotte	374	Wilmington	141
Los Angeles	360	Palm Springs	124
Greensboro	343	Indianapolis	121
Hawaii	340	El Paso	120
Syracuse	332	Jackson/Monroe	113
Cincinnati	328	Waco	110
San Antonio	327	Portland, Maine	102
Kansas City	313		
Columbia	305	<i>Joint Ventures</i>	
Columbus	305	Road Runner	
Rochester	304	Time Warner Telecom Inc.	

an interactive program guide, parental lockout features and expanded pay-per-view capability.

Using its digital cable launch as a springboard, Time Warner Cable began testing equipment in 1999 to provide video-on-demand in three of its divisions—Hawaii; Austin, Texas; and Tampa Bay, Florida. By adding digital servers and software to its existing digital television hardware, the company will be able to offer customers true video-on-demand, including virtual VCR functionality, with pause, rewind and fast-forward functions. The video-on-demand service was launched commercially on a limited basis in certain areas of Hawaii in mid-December and will launch in other areas during 2000.

The rollout of Road Runner, Time Warner's jointly owned high-speed online service, continues at a rapid pace. The Road Runner joint venture ended 1999 with approximately 550,000 customers, with 330,000 of them in

Time Warner Cable systems. By the end of the year, Time Warner Cable had begun to roll out the Road Runner service in 23 of its 39 divisions and expects to more than double its customer base in 2000. The Road Runner service, named after the famous Warner Bros. cartoon character, utilizes fiber-optic cable and a cable modem to connect customers to the Internet at speeds that are up to 50 times faster than with a conventional telephone modem. It also offers access to local information and unique content from a wide variety of leading sources.

In 1999, Time Warner Cable launched Austin, Texas's first local all-news cable channel. The Austin channel (News 8 Austin) is the fifth local 24-hour cable news channel for Time Warner Cable, which operates such channels in New York City (NY1 News); Tampa Bay, Florida (Bay News 9); Orlando, Florida (Central Florida News 13); and Rochester, New York (R/News).

CABLE SYSTEMS

Time Warner Cable owns and manages the most advanced, best-clustered cable television operations in the country, with 90 percent of its 12.6 million customers in systems serving 100,000 subscribers or more.

Time Warner Cable

Successfully executing its multi-year strategy of upgrading its cable systems, Time Warner Cable is leading the dynamic cable industry into the digital age, bringing a wide range of new information and entertainment services into America's homes. The upgraded systems provide the additional capacity needed to fuel Time Warner Cable's expansion into exciting new businesses and are the foundation for the company's continued growth.

Time Warner Cable's substantial investments in fiber-optic and digital technology enable customers to receive more and better programming, enhanced picture and sound quality, improved signal reliability and advanced communications products and services. These products and services include new cable networks, multiplexed premium channels, new digital program tiers and pay-per-view options, high-speed online service through cable modems, video-on-demand, cable telephony and more local programming.

By the end of 1999, Time Warner Cable fulfilled its commitment to upgrade approximately 85 percent of its existing cable plant. Completion of the upgrades for existing systems is targeted

for year-end 2000. The additional capacity created by the upgrades provides more than enough bandwidth to carry digital television (including high-definition television [HDTV]), high-speed data transmission, video-on-demand and telephone service.

Time Warner Cable's core cable television business continues to generate strong growth, led by increases in subscriptions to new programming tiers and services. The company is also benefiting from significant increases in advertising revenue, driven by higher ratings of cable programming, the proliferation of digital advertising insertion technology, greater clustering of cable systems, and more advertising opportunities created by the addition of local news channels and other new programming networks.

In 1999, Time Warner Cable completed testing of its digital cable technology and began to roll out its digital service in 27 of its 39 divisions, reaching 430,000 customers by the end of the year. The launch of digital service will continue in 2000 and is expected to reach the remainder of the company's major operations by year-end. The digital service offers customers new program tiers, more channels of multiplexed premium services,

"THIS YEAR WE'LL BEGIN TO
 REALIZE THE PROMISE OF
 OUR FIVE-YEAR FIBER UPGRADE.
 THIS ENABLES THE RAPID
 ROLLOUT OF DIGITAL CABLE,
 HIGH-SPEED ONLINE
 SERVICE, HIGH-DEFINITION TV,
 VIDEO-ON-DEMAND
 AND THE FIRST COMMERCIAL
 TEST OF INTERNET
 PROTOCOL TELEPHONY."

JOE COLLINS

To see and hear more about Cable Systems, go to:
www.timewarner-2000.com/cable

AOL Keyword:

FINANCIAL OVERVIEW

Time Warner's foremost business objective has been, and will continue to be, to create value for its shareholders.

Time Warner closed out the millennium with another record year of financial performance. This performance was driven by solid growth in most of our businesses and a disciplined financial focus on driving improved returns. Going forward, our fundamental financial objective remains the same. That is, we intend to continue to accelerate our return on capital in order to create incremental value for our shareholders. We expect to achieve this largely by delivering sustainable operating growth, while at the same time, investing our increasing free cash flow and financial capacity, primarily in our existing collection of core businesses and in new high-growth businesses and technologies.

Delivering Sustainable Operating Growth

Time Warner had an outstanding operating performance in 1999, whether measured by growth

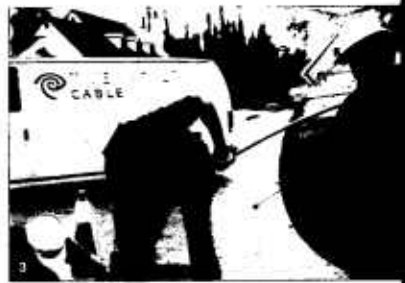
in normalized revenues, operating income before noncash amortization of intangible assets ("EBITA"), or bottom-line per share performance. We focus on "normalized" measures in order to communicate underlying operating trends. These normalized results exclude the effects of significant, nonrecurring items and transactions that occurred in each year, as well as start-up activities associated with our digital media businesses. All of these are described more fully in *Management's Discussion and Analysis* included in our accompanying separate report entitled *1999 Financials*.

Time Warner's revenues increased to approximately \$27.3 billion in 1999, representing a 6% growth rate on a normalized basis. This revenue growth contributed to an increase in EBITA to approximately \$7.3 billion in 1999, representing a 15% growth rate on a normalized basis.

experience life >> in the fast lane



1 Road Runner, Time Warner Cable's jointly owned high-speed online service 2 Time Warner Cable's pay-per-view service 3 By year-end 1999, Time Warner Cable had upgraded approximately 85 percent of its cable plant 4 Time Warner Cable's video-on-demand service was launched commercially in Hawaii in mid-December 1999



HBO HBO 5

Multiplicity
Tue 8:00 - 10:00 pm
 Scientifically created duplicates complicate a man's life. **58**

CHANNEL	TIME	PROGRAM
KWFT 03	8:30	Promised Land
KSBG 04		Friends Union Sq
HBO 05		Multiplicity
KNMP 06		Star Trek: Deep Space Nine
KPBO 07		Nothing Sacred

by TIME **Brow**



Welcome to Oceanic Cable **To EXIT**
 Movies on Demand

eXistenZ

Twin Dragons

Wishmaster

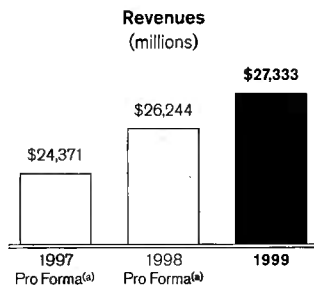
Action

This strong 15% EBITA growth rate, which was achieved despite a challenging year for our Music division, demonstrates one of the benefits provided by our collection of integrated businesses. While our Music business declined 8% during the year, all of our other established businesses delivered solid, double-digit EBITA growth. This growth was led by a 20% growth rate for Cable Networks, 16% for Filmed Entertainment (including The WB Network), 12% for Publishing and 11% for Cable.

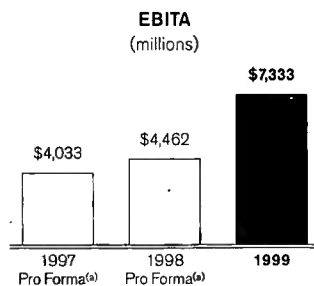
Fueling this strong operating performance was a healthy advertising environment. During 1999, our advertising revenues grew by 20% to over \$5 billion. This robust advertising growth was realized across all of our advertising-supported businesses. For example, our cable networks and publishing businesses, which together represent approximately 80% of our overall advertising revenues, had 17% growth in advertising revenues during 1999. In addition, advertising revenues from the combination of our broadcasting, local cable and television syndication businesses are growing at an even faster pace, registering over 30% growth in 1999. We believe this advertising growth results from the strength and breadth of our brands, which, given the ongoing fragmentation of media, will keep us well positioned to continue to outperform the industries in which we operate.

In addition to the growth in our businesses, Time Warner's 1999 operating performance was enhanced by the effects of the company-wide cost management program that began in 1997. The program's purpose is to provide continuous improvement in our cost base by identifying more efficient ways of conducting our businesses. In 1999, we realized approximately \$300 million of incremental cost savings, thereby increasing the aggregate cost reductions under this program to approximately \$900 million annually.

Our continuing focus on the bottom line, together with the fundamental operating growth of our businesses, resulted in a significant improvement in normalized per share results to income of \$.39 per common share in 1999, compared to a loss of \$.06 per common share in 1998.

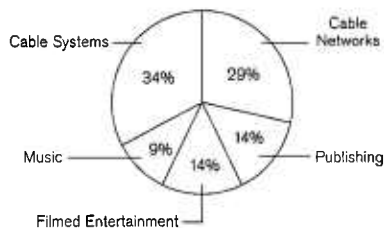


Time Warner achieved 6% growth in revenues in 1999 on a normalized basis.



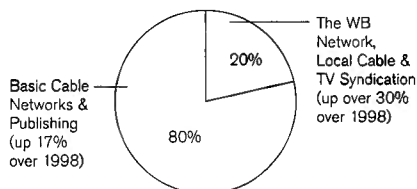
Time Warner achieved 15% growth in EBITA in 1999 on a normalized basis.

EBITA by Business Segment^(b)



Time Warner's collection of integrated businesses provides increased economic stability.

1999 Advertising Revenues

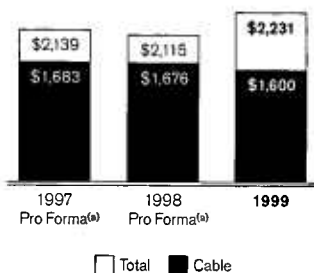


Advertising revenues grew by 20% to over \$5 billion in 1999, fueling Time Warner's operating performance.

(a) Reflects the consolidation of the Entertainment Group only and does not adjust for the effects of other significant transactions and nonrecurring items.

(b) Percentages are calculated before intercompany eliminations and are normalized to exclude the effects of certain significant transactions and nonrecurring items.

Capital Spending (millions)



Capital spending was held relatively flat over the past three years.

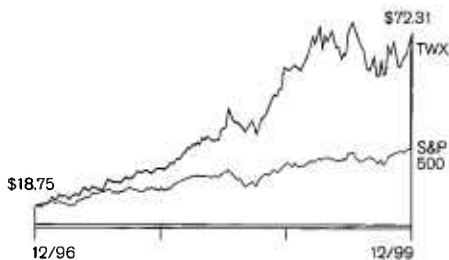
AOL Time Warner Revenue Streams

1999 Pro Forma Revenues—\$33.1 billion



AOL Time Warner will have three diverse revenue streams that will be used to maximize growth.

Time Warner Common Stock Price Performance vs. S&P 500 Index



Time Warner's stock price appreciation outpaced the S&P 500 over the past three years.

(a) Reflects the consolidation of the Entertainment Group only and does not adjust for the effects of other significant transactions and nonrecurring items.

Managing Capital Spending

During 1999, we held capital spending relatively flat at \$2.2 billion. Cable-related capital spending, the largest portion of our capital requirements, also was held flat in 1999 at \$1.6 billion, even though we continued to make significant progress towards completing the technological upgrade of our cable television systems.

As of the end of 1999, approximately 85% of our existing cable television systems had been technologically upgraded, thereby validating our position as the most technologically advanced cable operator in the world. With our remaining existing systems scheduled to be upgraded in 2000, we now intend to accelerate our spending on variable capital in order to optimize returns. This shift to variable spending is strategically important because it allows us to more precisely time capital spending with market demand for new services. As a result of increasing market demand for digital cable and high-speed online services, and because those services have higher incremental returns on capital, we expect to roll out digital cable and high-speed online services more aggressively in 2000 and beyond.

Using Free Cash Flow and Financial Capacity

Having achieved a solid investment-grade credit rating in 1998, last year was the first time that we were able to expand significantly our stock repurchase program. In fact, during 1999, we used nearly \$2 billion to repurchase 28.4 million shares of common stock. Through the end of 1999, cumulative shares purchased under our stock repurchase programs, which began in 1996, stood at 123.5 million shares with an aggregate cost of \$4.9 billion, or approximately \$40 per share. In connection with our pending merger with AOL, we currently have suspended our share repurchase program.

Going forward, while maintaining our investment-grade credit rating, we intend to continue to accelerate our return on capital. This will be done primarily by investing our increasing free cash flow and financial capacity in our existing collection of core businesses and in new high-growth businesses and technologies. We

intend to continue to benchmark our investments against the alternative of repurchasing stock.

Capitalizing on Digital Opportunities

Created by the AOL-Time Warner Merger

Historically, our company has been a leader in the development of digital technologies and services, with recent innovations that include the successful introduction of the DVD, digital cable services and Road Runner-branded, high-speed online services. However, with significant digital opportunities arising at an accelerated pace, we concluded it strategically was important for us to expand significantly our digital media and Internet-related activities. Our merger with AOL will accelerate the digital transformation of Time Warner. With AOL's extensive Internet franchises and technology, our information and entertainment capabilities, and our technologically advanced cable infrastructure, we believe that the combined company will be uniquely positioned to expand the use of the Internet in consumers' everyday lives. This, in turn, will provide our content businesses with increased access to consumers through a new and growing distribution medium. Moreover, with over 100 million paying subscribers for the combined company's services, we believe we can accelerate our operating growth by leveraging this subscriber base to capitalize on synergies and new business opportunities. These opportunities include accelerated growth in our subscription, advertising and commerce, and content revenue streams, as well as incremental cost savings and operating efficiencies. The result will be a company with the ability to generate significant annual free cash flow and even greater financial capacity that can be used opportunistically to invest in our continuing growth and the development of new businesses.

Creating Shareholder Value

Our foremost business objective has been, and will continue to be, to create value for our shareholders. Over the past three years, our shareholders have continued to see their value grow through appreciation in Time Warner's stock

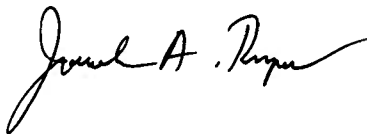
price. This performance has surpassed that of the Standard & Poor's 500-stock index. As we see it, this appreciation in value principally reflects our financial performance and the strategic positioning of our businesses for continued growth.

This value creation was a key consideration in agreeing to merge with AOL. With the strength and leadership positioning of our combined businesses and brands, and experienced management teams, we believe that, as we enter the new millennium, AOL Time Warner is perfectly positioned to realize its extraordinary growth potential and continue to deliver significant value to its shareholders.



Richard D. Parsons

President



Joseph A. Ripp

Executive Vice President
and Chief Financial Officer

CORPORATE MANAGEMENT GROUP

Gerald M. Levin
Chairman and CEO

R. E. Turner
Vice Chairman

Richard D. Parsons
President

Richard J. Bressler
Executive Vice President,
Time Warner Inc., and
Chairman and CEO,
Time Warner Digital Media

Christopher P. Bogart
Executive Vice President,
General Counsel and Secretary

Joseph A. Ripp
Executive Vice President
and Chief Financial Officer

Edward I. Adler
Senior Vice President,
Corporate Communications

Timothy A. Boggs
Senior Vice President,
Global Public Policy

Andrew J. Kaslow
Senior Vice President,
Human Resources

John A. LaBarca
Senior Vice President,
Financial Operations

Joan N. Sumner
Senior Vice President

BOARD OF DIRECTORS

Gerald M. Levin
Chairman and CEO,
Time Warner Inc.

R. E. Turner
Vice Chairman,
Time Warner Inc.

Richard D. Parsons
President,
Time Warner Inc.

Merv Adelson*
Chairman,
East-West Capital Associates

J. Carter Bacot
Retired Chairman
and CEO, and Director,
The Bank of New York Company, Inc.

Stephen F. Bollenbach
President and CEO,
Hilton Hotels Corporation

John C. Danforth
Former U.S. Senator,
and Partner,
Bryan Cave LLP

Beverly Sills Greenough*
Chairman,
Lincoln Center for the
Performing Arts

Gerald Greenwald
Chairman Emeritus,
UAL Corporation
and United Airlines

Ambassador Carla A. Hills
Chairman and CEO,
Hills & Company,
and former United States Trade
Representative

Reuben Mark
Chairman and CEO,
Colgate-Palmolive Company

Michael A. Miles
Former Chairman and CEO,
Philip Morris Companies Inc.

Francis T. Vincent Jr.
Chairman,
Vincent Enterprises

*Merv Adelson and Beverly Sills Greenough are retiring this year. We thank them each for their years of service and for their important contributions to the Company.

OPERATING OFFICERS

CABLE NETWORKS

HOME BOX OFFICE
Jeffrey L. Bewkes
Chairman and CEO

TURNER BROADCASTING
SYSTEM, INC.

Terence F. McGuirk
Chairman and CEO

Steven J. Heyer
President and COO

CNN NEWS GROUP
W. Thomas Johnson
Chairman, President and CEO

PUBLISHING

TIME INC.
Don Logan
Chairman and CEO

Norman Pearlstine
Editor-In-Chief

FILMED ENTERTAINMENT

WARNER BROS.
Barry M. Meyer
Chairman and CEO

Alan Horn
President and COO

NEW LINE CINEMA
Robert K. Shaye
Chairman and CEO

Michael Lynne
President and COO

MUSIC

WARNER MUSIC GROUP

Roger Ames
Chairman and CEO

CABLE SYSTEMS

TIME WARNER CABLE
Joseph J. Collins
Chairman and CEO

Glenn A. Britt
President

Thomas M. Rutledge
Senior Executive Vice President

INVESTOR INFORMATION

Common Stock

Time Warner common stock is listed on the New York Stock Exchange under the ticker symbol "TWX."

As of December 31, 1999, there were approximately 1.3 billion shares of common stock outstanding (including a special class of common stock).

1999 Stock Price

High: \$78.625

Low: \$57.1875

Close (12/31/99): \$72.3125

Dividend payments on Time Warner common stock are currently made quarterly following declaration by the Board of Directors.

Shareholder Inquiries

Shareholder inquiries regarding stock transfers, dividend payments, account changes, lost stock certificates or other account services should be directed to the Transfer Agent at the address or telephone number listed below:

ChaseMellon
Shareholder Services
85 Challenger Road
Ridgefield Park, NJ 07660
(800) 279-1238

Annual Meeting of Shareholders

The Annual Meeting of Shareholders will be held on Thursday, May 18, 2000, at 10:00 a.m. at The Apollo Theatre, New York, New York.

Time Warner's Internet Home Page

Corporate news releases, recent publications, access to Time Warner's content sites, and other company information can be found on Time Warner's Internet site: www.timewarner.com

In addition, please visit Time Warner's Investor Relations Web site, at www.timewarner.com/investor, which contains important investor information, including earnings presentations, financial spreadsheets, current and historical stock prices, information about our Stock Transfer Agent and investor FAQs.

Fixed Income Inquiries

For information regarding the fixed income securities of Time Warner, Time Warner Companies or Turner Broadcasting System, please contact the Trustee, The Chase Manhattan Bank, c/o Chase Bank of Texas, at (800) 275-2048.

For more information regarding the 8.875% Preferred Trust Securities of Time Warner Capital, please contact the Trustee, First National Bank of Chicago, at (800) 524-9472.

For information regarding the fixed income securities of Time Warner Entertainment Company, L.P., please contact the Trustee, The Bank of New York, at (800) 507-9357.

Independent Auditors

Ernst & Young LLP

Number of Employees: 69,700

Corporate Publications

Copies of Time Warner's annual report on Form 10-K, quarterly reports on Form 10-Q, Annual Report to Shareholders, other SEC filings and Community Responsibility Report are available for viewing and downloading on Time Warner's corporate Web site, www.timewarner.com

In addition, these publications are available free of charge by contacting:

Shareholder Relations
Time Warner Inc.
75 Rockefeller Plaza
New York, NY 10019
(212) 484-6971
e-mail: investrequest@twi.com

Community Responsibility Report

Time Warner issues a special biennial report on the extensive array of community programs and volunteer efforts it supports. In 1999, for example, Time to Read, the company's award-winning volunteer literacy program, involved 28,000 tutors and learners at 375 sites across the country. Copies of the Community Responsibility Report and/or information on specific programs can be obtained by phoning (212) 484-6404 or by visiting the Social Responsibility section of Time Warner's Internet site, www.timewarner.com/socialresp

Corporate Communications

Time Warner Inc.
75 Rockefeller Plaza
New York, NY 10019
(212) 484-7820

Corporate Headquarters

Time Warner Inc.
75 Rockefeller Plaza
New York, NY 10019
(212) 484-8000

SELECTED BRANDS AND PRODUCTS

CABLE NETWORKS**TURNER ENTERTAINMENT****2000 Highlights****TBS Superstation Originals**

Nowhere to Land
On Hostile Ground
High Noon
Ripley's Believe It or Not!

TBS Superstation Franchises

Atlanta Braves Baseball
TBS NBA Monday
Movies For Guys Who Like Movies
Dinner & a Movie
WCW Thunder
NASCAR on TBS

TNT Original Films

Freedom Song
Don Quixote
Nuremberg
Washington Slept Here
Baby
David Copperfield

TNT Specials

Whatever Happened to
Michael Ray?
Sports Illustrated Swimsuit 2000
Faces of Evil
Justice Denied

TNT Franchises

Monstervision
New Classics
The NBA on TNT
WCW Monday Nitro Live!

Cartoon Network**Original Series**

The Powerpuff Girls
Ed, Edd 'n' Eddy
Mike, Lu & Og
Courage the Cowardly Dog
I Am Weasel
Johnny Bravo
Dexter's Laboratory
Cow & Chicken
Space Ghost Coast to Coast

Cartoon Network Franchises

Toonami
Cartoon Cartoon Fridays
What a Cartoon! Show
Cartoon Theatre
ACME Hour
Super Chunk
The Tex Avery Show
Small World
O Canada
ToonHeads

Turner Classic Movies Originals

A Personal Journey with Martin
Scorsese Through American
Movies
Private Screenings: Rod Steiger
Howard Hughes: His Movies
and His Women
Private Screenings: Maureen
O'Hara
Lon Chaney: Man of a
Thousand Faces

Turner Classic Movies Franchises

Star of the Month
Affairs to Remember
Lone Star Cinema
Syncopation Station
Darkness After Dawn
Silent Sunday Nights
TCM Imports

Turner South Original Series

Southern Living Presents
Live from the Bluebird Cafe
Whole World Comedy

Turner South Franchises

Kudzu Theater
Southern Roadtrip Theater
True Grits
Thriller Theater
Elvis Time

Turner Sports Programming

The Goodwill Games
PGA Grand Slam
NASCAR Coca-Cola 600
NBA Playoffs

CABLE NETWORKS**CNN NEWS GROUP****CNN/U.S.:**

Ahead of the Curve
Both Sides with Jesse Jackson
Burden of Proof
Business Unusual
Capital Gang
CNN & Time
CNN NewsStand
CNNdotCom
CNN Travel Now
CNN Perspectives
Crossfire
Evans, Novak, Hunt & Shields
Inside Politics
In the Money
Larry King Live
Late Edition
Moneyline
Movers
Reliable Sources
Style With Elsa Klensch
Street Sweep
TalkBack Live
The World Today

CNN/n:

Ahead of the Curve
Before Hours
Biz Buzz
Capital Ideas
Digital Jam
Entrepreneurs Only
In Play
In The Game
In the Money
Movers
Take It Personally
Trading Places
Street Sweep

CABLE NETWORKS**HOME BOX OFFICE****2000 Highlights****Original Movies**

Cheaters

Disappearing Acts
If These Walls Could Talk 2
Last of the Blonde Bombshells
Path to War

Series

Arli\$\$
The Chris Rock Show
Dennis Miller Live
Oz
Sex and the City
The Sopranos

Events

The Corner
Marc Anthony: The Concert
from Madison Square Garden

Documentaries

Americanos: Latino Life
in the United States
Cancer: Evolution to Revolution
Children in War
The Last Days
Paradise Lost 2: Revelations

Family

A Little Curious
The Artists' Specials
Crashbox
Dear America
Happily Ever After:
Fairy Tales for Every Child
30 by 30: Kid Flicks
The Worst Witch

Sports

Bill Russell: My Life, My Way
Boxing After Dark
Inside the NFL
KO Nation
Real Sports with Bryant Gumbel
World Championship Boxing

PUBLISHING**TIME INC.**

Time
People
Sports Illustrated
Fortune
Life
Money
Parenting
Family Life
In Style
Entertainment Weekly
Cooking Light
Real Simple*
Baby Talk
Coastal Living
Health
People en Español
Progressive Farmer
Southern Accents
Southern Living
Sports Illustrated For Kids
Sports Illustrated For Women*
Sunset
Teen People
This Old House
Time Digital
Time for Kids
Mutual Funds
FSB/Fortune Small Business

eCompany Now*

Asiaweek
Dancyu
Bises
President
Wallpaper
Who Weekly

First Moments
Time Life Inc.
Book-of-the-Month Club
Warner Books
Little, Brown and Company
Oxmoor House
Leisure Arts
Sunset Books
Media Networks Inc.
Time Inc. Custom Publishing
Targeted Media Inc.
Time Inc. Home Entertainment
Time Inc. Interactive
Time Distribution Services
Warner Publisher Services

*2000 Launches

2000 Book Releases**Book-of-the-Month Club**

Fortune's Rocks by Anita Shreve
The Greatest Generation
Speaks by Tom Brokaw
John Glenn: A Memoir by
John Glenn
Gertrude & Claudius by
John Updike
City of God by E. L. Doctorow

Little, Brown

The Tipping Point by Malcolm
Gladwell
The Fig Eater by Jody Shields
Roses Are Red by James Patterson
Great American Tax Dodge by
Donald L. Barlett and James
B. Steele

Warner Books

*The Ten Things I Wish I'd Known—
Before I Went Out Into the
Real World* by Maria Shriver
Standoff by Sandra Brown
The Rescue by Nicholas Sparks
Angel on My Shoulder by
Natalie Cole

Time Life

*The Taste for Living World
Cookbook: More of Mike
Milken's Favorite Recipes for
Fighting Cancer and Heart
Disease* by Beth Ginsberg and
Mike Milken
*Time-Life Garden Factfiles—a series
of four reference guides for
new and intermediate gardeners*

Time Life Music

Classic Rhythm and Blues
(cassette and CD)

Sunset Books

Sunset Quick Cooking For Two
Sunset Recipe Annual 2001
Sunset Western Garden Annual

Oxmoor House

*Southern Living Annual
Recipes 2000*

Cooking Light Annual Recipes 1999

Bounty of Biltmore
Southern Living Landscape Book
*Southern Living 30 Years
of our Best Recipes*
*The Complete Cooking Light
Cookbook*
*Christmas with Southern
Living 2000*
*Martha Stewart 10th
Anniversary Cookbook*

Leisure Arts

Trash to Treasure Vol. 5
Spirit of Christmas Vol. 14
*Family Circle Big Book of
Christmas*
Gooseberry Patch Christmas Vol. 2

FILMED ENTERTAINMENT**WARNER BROS.****2000 Major Releases***Bait*

Dir: Antoine Fuqua
Jamie Foxx, David Morse

Chain Of Fools

Dir: Traktor
Steve Zahn, Salma Hayek

Miss Congeniality

Dir: Hugh Wilson
Sandra Bullock

Pay It Forward

Dir: Mimi Leder
Kevin Spacey, Helen Hunt, Haley
Joel Osment

The Perfect Storm

Dir: Wolfgang Peterson
George Clooney, Mark Wahlberg

Pokémon The Movie 2000

Dir: Michael Haigney (U.S.),
Kunihiko Yuyama (Japan)

Proof of Life

Dir: Taylor Hackford
Meg Ryan, Russell Crowe

Ready to Rumble

Dir: Brian Robbins
David Arquette, Oliver Platt

Red Planet

Dir: Antony Hoffman
Val Kilmer, Carrie-Anne Moss

The Replacements

Dir: Howard Deutch
Keanu Reeves, Gene Hackman

Romeo Must Die

Dir: Andrzej Bartkowiak
Jet Li

Space Cowboys

Dir: Clint Eastwood
Clint Eastwood, Tommy Lee Jones,
James Garner

Sweet November

Dir: Pat O'Connor
Keanu Reeves

The Whole Nine Yards

Dir: Jonathan Lynn
Bruce Willis, Matthew Perry

1999-2000 Television Series**Warner Bros. Television**

The Drew Carey Show
ER
For Your Love
Friends
Jack & Jill
The Jamie Foxx Show
Jesse
La Femme Nikita
Norm
Odd Man Out
Suddenly Susan
Third Watch
Veronica's Closet
The West Wing
Whose Line Is It Anyway?
Zoe

Telepictures Productions

Change of Heart
EXTRA
Jenny Jones
Judge Mathis
Queen Latifah
The Rosie O'Donnell Show

Warner Bros. Animation

Batman Beyond
The Big Cartoonie Show
Bugs 'n' Daffy
Bugs/Tweety I & II
Detention
New Batman/Superman Adventures
Pokémon
Road Rovers
Steven Spielberg Presents
Animaniacs
Steven Spielberg Presents
Freakazoid!
Steven Spielberg Presents
Pinky & The Brain
Steven Spielberg Presents
Pinky, Elmyra & The Brain
Steven Spielberg Presents
Tiny Toon Adventures
Sylvester & Tweety Mysteries
Taz-Mania
Warner Bros.' Hysteria!
Waynehead

Hanna-Barbera

Cartoon Cartoon!
Cow & Chicken
Dexter's Laboratory
I Am Weasel
Johnny Bravo
The Powerpuff Girls
Real Adventures of Jonny Quest

The WB 1999-2000

7th Heaven
Angel
Buffy the Vampire Slayer
Charmed
Dawson's Creek
Felicity
For Your Love
Jack & Jill
The Jamie Foxx Show
Popular
Roswell
Steve Harvey
Zoe

SELECTED BRANDS AND PRODUCTS (CONT.)

Kids' WB! 1999-2000

Batman Beyond
 Big Cartoonie Show
 Detention
 Max Steel
 Men in Black
 New Batman/Superman
 Adventures
 Pokémon
 Sylvester & Tweety Mysteries
 Warner Bros. Histeria!

FILMED ENTERTAINMENT

NEW LINE CINEMA
 AND FINE LINE FEATURES

2000 Highlights

Next Friday

Dir: Steve Carr

Ice Cube

Boiler Room

Dir: Ben Younger

Giovanni Ribisi, Ben Affleck

Frequency

Dir: Greg Hoblit

Dennis Quaid, Jim Caviezel

Little Nicky

Dir: Steve Brill

Adam Sandler, Patricia Arquette

Fifteen Minutes

Dir: John Herzfeld

Robert De Niro, Edward Burns

The Cell

Dir: Tarsem

Jennifer Lopez, Vince Vaughn

13 Days

Dir: Roger Donaldson

Kevin Costner

Unconditional Love

Dir: P.J. Hogan

Rupert Everett, Kathy Bates

Saving Grace (Fine Line)

Dir: Nigel Cole

Brenda Blethyn, Craig Ferguson

State & Main (Fine Line)

Dir: David Mamet

Alec Baldwin, Sarah Jessica

Parker, William H. Macy

MUSIC

WARNER MUSIC GROUP

Atlantic Recording Corporation

Atlantic artists include:

Tori Amos

Brandy

Buena Vista Social Club

Collective Soul

Phil Collins

The Corrs

Michael Crawford

Hootie & The Blowfish

Jewel

Kid Rock

Tracy Lawrence

matchbox20

Edwin McCain

Tim McGraw

John Michael Montgomery

Sinead O'Connor

Jimmy Page & Robert Plant/Led

Zeppelin

LeAnn Rimes

Stone Temple Pilots

Sugar Ray

Elektra Entertainment Group Inc.

Elektra artists include:

AC/DC

Björk

Jackson Browne

Tracy Chapman

Natalie Cole

Missy Elliott

En Vogue

Gerald Levert

Natalie Merchant

Metallica

Phish

Busta Rhymes

Linda Rondstadt

Keith Sweat

Third Eye Blind

London-Sire Records Inc.

London-Sire artists include:

All Saints

Aphex Twin

Asian Dub Foundation

Elan Atlas

Mandy Barnett

Everything

Gay Dad

Goldie

Great Big Sea

Guster

The Infidels

Morcheeba

Paul Oakenfold

Orbital

Pet Shop Boys

Shiner Massive

Clem Snide

Taxiride

The Tragically Hip

Warner Bros. Records Inc.

Warner Bros. Records

artists include:

Eric Benet

Cher

Eric Clapton

Enya

Filter

Goo Goo Dolls

Green Day

Don Henley

Faith Hill

Madonna

Pat Metheny

Joni Mitchell

Alanis Morissette

Orgy

R.E.M.

Red Hot Chili Peppers

Seal

Paul Simon

Static-X

Steely Dan

Neil Young

Warner Music International

WMI artists include:

All Saints

Asian Dub Foundation

Catania

Sammi Cheng

Cher

Phil Collins

Enya

Gay Dad

Goldie

Andreas Johnson

Maná

Loreena McKennitt

Luis Miguel

Nek

Orbital

Laura Pausini

Alejandro Sanz

Sasha

Simply Red

Mariya Takeuchi

Westernhagen

CABLE SYSTEMS

TIME WARNER CABLE

Clusters of more than 100,000 subscribers at December 31, 1999.

Division/Cluster

New York City

Tampa Bay

Central Florida

Houston

Raleigh/Fayetteville

Milwaukee

Western Ohio

Northeast Ohio

Charlotte

Los Angeles

Greensboro

Hawaii

Syracuse

Cincinnati

San Antonio

Kansas City

Columbia

Columbus

Rochester

Albany

Austin

Suburban New York

Memphis

Minneapolis

San Diego

Binghamton

Green Bay

Wilmington

Palm Springs

Indianapolis

El Paso

Jackson/Monroe

Waco

Portland, Maine

Local News Channels:

News 8 Austin, Austin, Tex.

Bay News 9, Tampa, Fla.

Central Florida News 13,

Orlando, Fla.

NY1 News, New York, N.Y.

R/News, Rochester, N.Y.

Selected Time Warner Internet Sites

Time Warner is one of the largest content providers on the Web, with over 50 significant Web sites and more than 800 distinct URLs, including:

CORPORATE

www.timewarner.com

CABLE NETWORKS

Turner Entertainment

www.turner.com
www.cartoonnetwork.com
www.tcm.turner.com
www.wcw.com

CNN News Group

www.CNN.com
www.CNNfn.com
www.CNNsl.com
www.allpolitics.com

HBO

www.hbo.com
www.hbo4kids.com
www.cinemax.com

PUBLISHING

www.time.com
www.fortuneinvestor.com
www.money.com
www.people.aol.com
www.sikids.com
www.ew.com
www.teenpeople.aol.com
www.timedigital.com

ENTERTAINMENT

Warner Bros.

www.warnerbros.com
www.dccomics.com
www.entertainment.com
www.rosieo.com
www.TheWB.com
www.KidsWB.com

New Line Cinema

www.newline.com

MUSIC

www.atlantic-records.com
www.elektra.com
www.wbr.com
www.repriserec.com
www.sirerecords.com
www.rhino.com
www.columbiahouse.com
www.warnerchappell.com
www.previewtunes.com
www.musicinformation.com
www.digitalarena.com

CABLE SYSTEMS

www.roadrunner.com
www.ny1.com
www.baynews9.com
www.RNews.com
www.news8austin.com

Keywords for selected Time Warner content available on AOL:

Time Warner
Cartoon Network
Atlanta Braves
Atlanta Hawks
Goodwill Games
CNN
CNNfn
CNNsl
HBO
Time
Fortune
Sports Illustrated
Money
People
Sports Illustrated for Kids
Entertainment Weekly
Teen People
Fortune Small Business
eCompany Now
Warner Bros.
Batman
DC Comics
Drew Carey
ER
Friends
Jenny Jones
Mad Magazine
Rosie
Superman
Austin Powers
Jewel
Madonna
Phish

AOL Keywords for Time Warner 2000 Web enhancements:

Timewarner2000
TW Networks
TW Publishing
TW Film
TW Music
TW Cable
TW Financials

This Time Warner 2000 cover is one of seven. The complete set includes images from Cable Networks (Scooby-Doo); CNN (the CNN Newsroom); HBO (*The Chris Rock Show*); Publishing (*Time's* Millennium issue); Filmed Entertainment (*The Matrix*); Music (Madonna); and Cable Systems (an original illustration).

©2000 Time Warner Inc.
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Executive Portrait Photography,
page 2: Darryl Estrine
Printing: The Hennegan Company

Substantially all of the assets of Home Box Office and Warner Bros. and most of the cable systems are held in Time Warner Entertainment Company, L.P. Time Warner owns 74.49% of the residual equity and certain priority interests of TWE. A portion of the cable systems are held in a partnership of which approximately two-thirds is owned by TWE.

TIME WARNER INC.

1999 FINANCIALS

ADTV. *SEARCH

Keyword:

TIME WARNER

**TIME WARNER INC.
1999 FINANCIALS
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TIME WARNER INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Description of Business

Time Warner Inc. ("Time Warner" or the "Company") is the world's leading media and entertainment company. Time Warner's principal business objective is to create and distribute branded information and entertainment copyrights throughout the world. Time Warner classifies its business interests into six fundamental areas: *Cable Networks*, consisting principally of interests in cable television programming; *Publishing*, consisting principally of interests in magazine publishing, book publishing and direct marketing; *Music*, consisting principally of interests in recorded music and music publishing; *Filmed Entertainment*, consisting principally of interests in filmed entertainment, television production and television broadcasting; *Cable*, consisting principally of interests in cable television systems; and *Digital Media*, consisting principally of interests in Internet-related and digital media businesses.

Strategic Overview

Time Warner had a strong financial performance in 1999, as measured by the operating performance of its businesses and the improved strength of its financial condition, as more fully described herein. This performance was driven primarily by solid business fundamentals at most of its businesses and a disciplined financial focus on cost management and controlled capital spending. This financial performance enabled Time Warner to use its increasing free cash flow and financial capacity to repurchase close to \$2 billion of common stock in 1999, while continuing to invest in the growth of its businesses.

Moreover, in early 2000, consistent with its ongoing strategy to focus on growth opportunities across its businesses, Time Warner announced two transactions of high strategic importance. These transactions consist of:

- A proposed merger with America Online, Inc. ("America Online"), the world's leader in interactive services, web brands, Internet technologies and electronic commerce services; and
- A proposed merger of the global operations of Time Warner's Music division and EMI Group plc ("EMI"), a leading recorded music company and music publisher.

Each of these transactions is discussed separately below.

America Online-Time Warner Merger

In January 2000, Time Warner and America Online announced that they had entered into an agreement to merge (the "Merger") by forming a new holding company named AOL Time Warner Inc. ("AOL Time Warner"). The Merger will create a leading, fully integrated media and communications company that will combine Time Warner's collection of media, entertainment and news brands and its technologically advanced cable infrastructure with America Online's extensive Internet franchises and technology. Management believes that the combined company will be well positioned to expand the use of the Internet in consumers' everyday lives and, accordingly, provide Time Warner's content businesses with increased access to consumers through a new and growing distribution medium. Management further believes that the Merger will result in significant new business and other value-creation opportunities, including additional opportunities for e-commerce, growth in subscribers for each company's products and services, and cost and operating efficiencies from cross-promotional and other opportunities.

As part of the Merger, each issued and outstanding share of each class of common stock of Time Warner will be converted into 1.5 shares of an identical series of common stock of AOL Time Warner. In addition, each issued and outstanding share of each class of preferred stock of Time Warner will be converted into one share of preferred stock of AOL Time Warner, which will have substantially identical terms except that such shares will be convertible into approximately 6.25 shares of AOL Time Warner common stock. Lastly, each issued and outstanding share of common stock of America Online will be converted into one share of common stock of AOL Time Warner.

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

As a result of the Merger, the former shareholders of America Online will have an approximate 55% interest in AOL Time Warner and the former shareholders of Time Warner will have an approximate 45% interest in the combined entity, expressed on a fully diluted basis. The Merger is expected to be accounted for by AOL Time Warner as an acquisition of Time Warner under the purchase method of accounting for business combinations.

The Merger is expected to close in the fall of 2000 and is subject to customary closing conditions, including the approval of the shareholders of each of America Online and Time Warner and all necessary regulatory approvals. There can be no assurance that such approvals will be obtained.

Warner-EMI Music Merger

In January 2000, Time Warner and EMI announced they had entered into an agreement to combine their global music operations into two jointly owned ventures, to be referred to collectively as Warner EMI Music. Time Warner will control the joint ventures through majority board representation, among other factors, and is expected to account for the transaction under the purchase method of accounting.

The joint ventures will combine the domestic strength of Time Warner's Music division with the international strength of EMI's music operations. Management believes that this complementary strategic fit will better position the combined company to capitalize on incremental growth opportunities relating to online sales of music product, the digital distribution of music and the continuing globalization of the music industry. In addition, management believes that the combination will result in significant cost savings and operating efficiencies, including economies of scale in manufacturing and distribution, consolidation of duplicative functions and shared investment costs in new media and technology. Management expects these synergies to approximate \$400 million annually by the end of the third year following the closing of the transaction. In order to realize these synergies, management expects that the joint ventures will incur up to \$700 million of one-time costs.

As part of the transaction, each company will contribute its music operations to the joint ventures, subject to a comparable amount of debt. As of December 31, 1999, EMI had approximately \$1.5 billion of net debt. EMI shareholders also will receive an aggregate, special cash dividend of approximately \$1.3 billion. This dividend is expected to be financed through a combination of proceeds from debt incurred or assumed by the joint ventures and consideration to be paid by Time Warner directly to EMI for a new class of EMI equity securities. The new class of EMI equity securities to be held by Time Warner will convert automatically into an 8% common equity interest in EMI, on a fully diluted basis, if EMI's share price reaches £9 for a short period of time within the first three-and-a-half years after closing.

The transaction is expected to close by the end of 2000, subject to customary closing conditions, including regulatory approvals and the approval of EMI's shareholders. There can be no assurance that such approvals will be obtained.

Other Investments and Transactions

Investment in TWE

A majority of Time Warner's interests in filmed entertainment, television production, television broadcasting and cable television systems, and a portion of its interests in cable television programming and digital media, are held through Time Warner Entertainment Company, L.P. ("TWE"). Time Warner owns general and limited partnership interests in TWE consisting of 74.49% of the pro rata priority capital ("Series A Capital") and residual equity capital ("Residual Capital"), and 100% of the junior priority capital. The remaining 25.51% limited partnership interests in the Series A Capital and Residual Capital of TWE are held by a subsidiary of MediaOne Group, Inc. ("MediaOne").

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

Since 1993, Time Warner historically had not consolidated TWE and certain related companies (the "Entertainment Group") for financial reporting purposes because MediaOne had rights that allowed it to participate in the management of TWE's businesses. However, in August 1999, TWE received a notice from MediaOne concerning the termination of its covenant not to compete with TWE. The termination of that covenant is necessary for MediaOne to complete its proposed merger with AT&T Corp. ("AT&T"). As a result of the termination notice and the operation of the TWE partnership agreement, MediaOne's rights to participate in the management of TWE's businesses terminated immediately and irrevocably. MediaOne retains only certain protective governance rights pertaining to certain limited matters affecting TWE as a whole. Because of this significant reduction in MediaOne's rights, Time Warner has consolidated the Entertainment Group, which substantially consists of TWE, in its 1999 financial statements, retroactive to the beginning of 1999.

Book-of-the-Month Club-Doubleday Merger

In the first quarter of 2000, Time Warner formed a jointly owned book club venture with Bertelsmann AG ("Bertelsmann"). The venture combined the domestic operations of Time Warner's Book-of-the-Month Club with the domestic book club operations of Doubleday Direct, Inc. ("Doubleday"), a leading consumer book club group owned by Bertelsmann. The venture does not include Time Warner's book club operations in the United Kingdom and Canada, which were sold directly to Bertelsmann. In connection with this transaction, Time Warner will deconsolidate its domestic book club operations in 2000 and account for its interest in the joint venture under the equity method of accounting.

The transaction combines two of the largest direct-marketing book club operators in the United States. Management believes that the combination will result in considerable cost savings and operating efficiencies, including cross-promotional opportunities, consolidation of duplicative functions and cost advantages through economies of scale. Moreover, management believes that the use of the joint venture's eight million-plus existing club members will foster the development of new incremental growth opportunities relating to online sales of books.

Columbia House-CDNOW Merger

In July 1999, Time Warner announced an agreement with Sony Corporation of America ("Sony") to merge their jointly owned music and video club operations of Columbia House Company Partnerships ("Columbia House") with CDnow, Inc. ("CDNOW"), a music and video e-commerce company. Since that time, the parties had been pursuing the receipt of regulatory approvals. While awaiting these approvals, the March 13th termination date in the merger agreement was reached, and the parties recently terminated the agreement. Accordingly, the merger will not occur.

In lieu of the merger, Time Warner and Sony each committed \$25.5 million of funding to CDNOW to help support the future growth of its business. Each company's funding will be in the form of a \$10.5 million equity investment and a \$15 million long-term convertible debt interest.

Time Warner will continue to evaluate strategic alternatives for Columbia House's operations. Those alternatives are focused primarily on ways to improve Columbia House's declining operating performance, including online initiatives, joint ventures and other strategic actions. In connection with some of these alternatives, Time Warner may be required to record a significant, noncash charge to reduce the carrying value of its interest in Columbia House.

Digital Media Investment Fund

In late 1999, Time Warner announced the formation of a \$500 million venture capital fund (the "Digital Media Fund") to identify and invest in new Internet-related and digital media businesses. The Digital Media

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

Fund is comprised of \$250 million of cash and \$250 million of advertising and promotion across Time Warner's various content offerings. Digital Media Fund investments are expected to focus on non-controlling equity stakes in companies engaged in e-commerce, vertical and interactive content, technology, infrastructure and other digital media-related activities.

Use of EBITA

Time Warner evaluates operating performance based on several factors, including its primary financial measure of operating income before noncash amortization of intangible assets ("EBITA"). Consistent with management's financial focus on controlling capital spending, EBITA measures operating performance after charges for depreciation. In addition, EBITA eliminates the uneven effect across all business segments of considerable amounts of noncash amortization of intangible assets recognized in business combinations accounted for by the purchase method. These business combinations include the \$14 billion acquisition of Warner Communications Inc. in 1989, the \$6.2 billion acquisition of Turner Broadcasting System, Inc. ("TBS") in 1996 and the \$2.3 billion of cable acquisitions in 1996 and 1995, which created over \$25 billion of intangible assets that generally are being amortized over a twenty to forty year period. The exclusion of noncash amortization charges is also consistent with management's belief that Time Warner's intangible assets, such as cable television and sports franchises, music catalogues and copyrights, film and television libraries and the goodwill associated with its brands, generally are increasing in value and importance to Time Warner's business objective of creating, extending and distributing recognizable brands and copyrights throughout the world. As such, the following comparative discussion of the results of operations of Time Warner includes, among other factors, an analysis of changes in business segment EBITA. However, EBITA should be considered in addition to, not as a substitute for, operating income, net income and other measures of financial performance reported in accordance with generally accepted accounting principles.

Cost Savings

Since 1997, Time Warner has been engaged in a company-wide cost management program. The program's purpose is to control costs by identifying more efficient ways of conducting its businesses. During 1999, Time Warner realized approximately \$300 million of incremental cost savings, thereby increasing the aggregate cost reductions under this program to approximately \$900 million annually.

As part of these cost savings initiatives, Time Warner implemented some changes to its pension plans in 1999. As a result of these changes, and when taken together with other changes in actuarial assumptions that include a 100 basis point increase in pension discount rates, Time Warner expects to reduce its pension expense by approximately \$60 million in 2000.

Transactions Affecting Comparability of Results of Operations and Financial Condition

Consolidation of the Entertainment Group

As previously described, Time Warner's 1999 operating results and financial condition reflect the consolidation of the Entertainment Group, which substantially consists of TWE, retroactive to the beginning of 1999. Time Warner's 1998 and 1997 historical operating results and financial condition have not been changed, but are no longer comparable to 1999 because the Entertainment Group was reflected on an unconsolidated basis using the equity method of accounting. Accordingly, in order to enhance comparability and make an analysis of 1999 more meaningful, the following discussion of results of operations and changes in financial condition and liquidity is based upon pro forma financial information for 1998 as if the consolidation of the Entertainment Group had occurred at the beginning of that period.

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

Other Significant Transactions and Nonrecurring Items

As more fully described herein, the comparability of Time Warner's operating results has been affected by certain other significant transactions and nonrecurring items in each period.

For 1999, the significant, nonrecurring items included (i) net pretax gains of approximately \$2.247 billion relating to the sale or exchange of cable television systems and investments, (ii) an approximate \$115 million pretax gain recognized in connection with the initial public offering of a 20% interest in Time Warner Telecom Inc. (the "Time Warner Telecom IPO"), an integrated communications provider that provides telephony services to businesses, (iii) an approximate \$215 million net pretax gain recognized in connection with the early termination and settlement of a long-term home video distribution agreement, (iv) an approximate \$97 million pretax gain recognized in connection with the sale of an interest in CanalSatellite, a satellite television platform servicing France and Monaco, (v) a one-time, noncash pretax charge of approximately \$106 million relating to Warner Bros.'s retail stores and (vi) an extraordinary loss of \$12 million relating to the retirement of debt.

For 1998, the significant, nonrecurring items included (i) net pretax gains of approximately \$108 million recognized by Time Warner and TWE relating to the sale or exchange of various cable television systems and investments, (ii) a pretax charge of approximately \$210 million principally to reduce TWE's carrying value of its investment in Primestar, Inc. ("Primestar") and (iii) an increase of \$234 million in Time Warner's 1998 preferred dividend requirements relating to the premium paid in connection with its redemption of Series M exchangeable preferred stock ("Series M Preferred Stock").

For 1997, the significant, nonrecurring items included (i) net pretax gains of approximately \$212 million recognized by Time Warner and TWE relating to the sale or exchange of various cable television systems, (ii) a pretax gain of approximately \$250 million relating to TWE's sale of its interest in E! Entertainment Television, Inc. ("E! Entertainment"), (iii) a pretax gain of \$200 million relating to Time Warner's disposal of its interest in Hasbro, Inc. ("Hasbro") and (iv) an extraordinary loss of \$55 million on the retirement of debt.

In order to meaningfully assess underlying operating trends, management believes that the results of operations for each period should be analyzed after excluding the effects of these significant nonrecurring items. As such, the following discussion and analysis focuses on amounts and trends adjusted to exclude the impact of these unusual items. However, unusual items may occur in any period. Accordingly, investors and other financial statement users individually should consider the types of events and transactions for which adjustments have been made.

In addition to the above significant and nonrecurring items, the comparability of Time Warner's Cable division results has been affected further by certain 1998 cable-related transactions, as described more fully in Note 2 to the accompanying consolidated financial statements. While these transactions had a significant effect on the comparability of the Cable division's EBITA and operating income, principally due to the deconsolidation of the related operations, they did not have a significant effect on the comparability of Time Warner's net income and per share results.

1998 Stock Split

Per common share and average common share amounts give effect to a two-for-one common stock split that occurred on December 15, 1998.

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

RESULTS OF OPERATIONS

1999 vs. 1998

As a result of the consolidation of the Entertainment Group in 1999, and in accordance with Financial Accounting Standards Board Statement No. 131, "Disclosures About Segments of an Enterprise and Related Information" ("FAS 131"), Time Warner restated its 1998 historical segment presentation to reflect the combination of Time Warner's and the Entertainment Group's business segments. EBITA and operating income are as follows:

	Years Ended December 31,			
	EBITA		Operating Income	
	1999	1998	1999	1998
	(millions)			
Cable Networks	\$1,397	\$1,160	\$1,192	\$ 960
Publishing	679	607	627	569
Music	452	493	179	213
Filmed Entertainment ^(a)	997	695	796	479
Broadcasting—The WB Network	(92)	(93)	(96)	(96)
Cable ^(b)	3,927	1,694	3,364	1,101
Digital Media	(17)	—	(17)	—
Intersegment elimination	(10)	(94)	(10)	(94)
Total	<u>\$7,333</u>	<u>\$4,462</u>	<u>\$6,035</u>	<u>\$3,132</u>
Entertainment Group EBITA and operating income reported on an unconsolidated basis ^(c)	—	(2,166)	—	(1,636)
Total reported consolidated EBITA and operating income	<u>\$7,333</u>	<u>\$2,296</u>	<u>\$6,035</u>	<u>\$1,496</u>

(a) 1999 results include a net pretax gain of approximately \$215 million recognized in connection with the early termination and settlement of a long-term, home video distribution agreement and a pretax gain of \$97 million relating to the sale of an interest in CanalSatellite, offset in part by a one-time, noncash pretax charge of \$106 million relating to Warner Bros.'s retail stores.

(b) The comparability of the Cable division's operating results has been affected by certain 1998 cable-related transactions in addition to net pretax gains related to the sale or exchange of certain cable television systems and investments of approximately \$2.247 billion in 1999 and \$108 million in 1998.

(c) Represents amounts previously reported for the Entertainment Group, adjusted by intercompany eliminations and other consolidating adjustments necessary for Time Warner to reflect the Entertainment Group on a consolidated basis.

Consolidated Results

Time Warner had revenues of \$27.333 billion, income of \$1.960 billion before an extraordinary loss on the retirement of debt and net income of \$1.948 billion in 1999, compared to revenues of \$26.244 billion on a pro forma basis (\$14.582 billion on a historical basis) and net income of \$168 million in 1998. After preferred dividend requirements, Time Warner had basic income per common share before the extraordinary item of \$1.51 in 1999, and \$1.50 after, compared to a net loss of \$.31 per common share in 1998. On a diluted basis, income per common share before the extraordinary item was \$1.43 in 1999, and \$1.42 after, compared to a net loss of \$.31 per common share in 1998.

As previously described, in addition to the consolidation of the Entertainment Group retroactive to the beginning of 1999, the comparability of Time Warner's operating results for 1999 and 1998 has been further affected by certain significant, nonrecurring items recognized in each period. These nonrecurring items consisted of approximately \$2.568 billion of net pretax gains in 1999, compared to \$102 million of net pretax losses in 1998. In addition, net income in 1999 included an extraordinary loss on the retirement of debt of \$12 million.

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

Preferred dividend requirements in 1998 also included a \$234 million one-time increase relating to the premium paid in connection with Time Warner's redemption of its Series M Preferred Stock. The aggregate net effect of these items was an increase in basic net income per common share of \$1.11 in 1999, compared to a decrease of \$.25 per common share in 1998. On a diluted basis, the aggregate net effect of these items was an increase in basic net income per common share of \$1.03 in 1999, compared to a decrease of \$.25 per common share in 1998.

Time Warner's net income increased to \$1.948 billion in 1999, compared to \$168 million in 1998. However, excluding the significant effect of the nonrecurring items referred to earlier, net income increased by \$312 million to \$548 million in 1999 from \$236 million in 1998. As discussed more fully below, this improvement principally resulted from an overall increase in Time Warner's business segment operating income, offset in part by higher losses from certain investments accounted for under the equity method of accounting, higher interest expense principally in connection with borrowings used to redeem Time Warner's Series M Preferred Stock in December 1998 and higher income taxes due to the increase in Time Warner's income. Similarly, normalized basic and diluted net income per common share, excluding the effect of significant nonrecurring items, increased to \$.39, compared to a normalized net loss of \$.06 per common share in 1998. In addition to the factors discussed above, the improvement in 1999 normalized per share results reflects a \$254 million reduction in preferred dividend requirements principally relating to the redemption of Series M Preferred Stock in late 1998.

The relationship between income before income taxes and income tax expense of Time Warner is principally affected by the amortization of goodwill and certain other financial statement expenses that are not deductible for income tax purposes. Income tax expense of Time Warner includes all income taxes related to its allocable share of partnership income and its equity in the income tax expense of corporate subsidiaries of the Entertainment Group.

Business Segment Results

Cable Networks. Revenues increased to \$6.111 billion in 1999, compared to \$5.377 billion in 1998. EBITA increased to \$1.397 billion in 1999 from \$1.160 billion in 1998. Operating income increased to \$1.192 billion in 1999 from \$960 million in 1998. Revenues grew due to increases at the Turner cable networks group and HBO. For the Turner cable networks group, revenues benefited from increases in advertising and subscription revenues, offset in part by the absence of revenues from the Goodwill Games sponsored in the summer of 1998. The increase in advertising revenues was principally due to a strong overall advertising market for most of the group's networks, including CNN, TBS Superstation, TNT and Cartoon Network. The increase in subscription revenues was principally due to an increase in subscriptions and higher rates, primarily led by revenue increases at CNN, TBS Superstation, TNT and Turner Classic Movies. For HBO, revenues benefited primarily from an increase in subscriptions to 35.7 million from 34.6 million at the end of 1998.

Likewise, EBITA and operating income were higher due to increases at the Turner cable networks group and HBO. For the Turner cable networks group, the increase in EBITA and operating income was principally due to the revenue gains, offset in part by higher programming costs and start-up costs for two new entertainment networks. For HBO, the increase in EBITA and operating income was principally due to the revenue gains, increased cost savings, and higher income from Comedy Central, a 50%-owned equity investee.

Publishing. Revenues increased to \$4.663 billion in 1999, compared to \$4.496 billion in 1998. EBITA increased to \$679 million in 1999 from \$607 million in 1998. Operating income increased to \$627 million in 1999 from \$569 million in 1998. Revenues in 1999 were affected negatively by the deconsolidation of a direct-marketing operation, which is now being accounted for under the equity method of accounting. Notwithstanding this change, revenues increased primarily from significant, across-the-board growth in magazine advertising revenues, primarily led by *In Style*, *People*, *Fortune* and *Time*. Magazine circulation revenues also increased

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principally as a result of higher subscription and newsstand revenues, led by *Time* and *Teen People*, offset in part by higher commissions paid on subscriptions sold by third-party agencies. EBITA and operating income increased principally as a result of the revenue gains and increased cost savings. These increases were offset in part by start-up costs for new magazine launches and lower results from direct-marketing activities, including Book-of-the-Month Club and American Family Enterprises, a 50%-owned equity investee. In addition, EBITA and operating income for each period included some small one-time gains on the sale of assets that, in the aggregate, were comparable in amount and, therefore, did not have any significant effect on operating trends.

Music. Revenues decreased to \$3.834 billion in 1999, compared to \$4.025 billion in 1998. EBITA decreased to \$452 million in 1999 from \$493 million in 1998. Operating income decreased to \$179 million in 1999 from \$213 million in 1998. Revenues decreased primarily due to lower domestic and international recorded music sales, as well as declines in music publishing operations. The worldwide revenue decline principally related to less popular releases in comparison to the prior year, as well as industry-wide softness in various international markets, such as Brazil and Japan. EBITA and operating income decreased principally as a result of the decline in worldwide revenues and lower results from Columbia House, a 50%-owned equity investee, offset in part by increased cost savings, lower artist royalty costs and higher income from DVD manufacturing operations. Management expects that the revenue decline relating to lower worldwide sales levels will continue into the first quarter of 2000, which could continue to affect operating results negatively.

Filmed Entertainment. Revenues increased to \$8.075 billion in 1999, compared to \$7.978 billion in 1998. EBITA increased to \$997 million in 1999 from \$695 million in 1998. Operating income increased to \$796 million in 1999 from \$479 million in 1998. Revenues grew due to increases at Warner Bros., offset in part by revenue declines at the Turner filmed entertainment businesses, which include New Line Cinema, Castle Rock Entertainment and certain film and television libraries managed by Warner Bros. For Warner Bros., revenues benefited from increases in worldwide theatrical, home video and television distribution operations, offset in part by lower revenues from consumer products operations. The increase in worldwide home video revenues primarily resulted from increased sales of DVDs. For the Turner filmed entertainment businesses, revenues decreased principally as a result of the absence in 1999 of significant syndication revenues from the sale of second-cycle broadcasting rights for *Seinfeld* in 1998, and fewer theatrical releases in 1999.

EBITA and operating income were higher due to increases at Warner Bros. and the Turner filmed entertainment businesses. For Warner Bros., the operating results in 1999 were affected by various significant, nonrecurring items, including an approximate \$215 million net pretax gain recognized in connection with the early termination and settlement of a long-term, home video distribution agreement, a pretax gain of \$97 million recognized in connection with the sale of an interest in CanalSatellite and a one-time, noncash pretax charge of \$106 million relating to Warner Bros.'s retail stores. Excluding the effect of these significant nonrecurring items, Warner Bros.'s EBITA and operating income increased principally as a result of improved results from worldwide theatrical, home video and domestic television syndication operations. These improvements were offset in part by lower results from consumer products operations and lower net gains on the sale of other assets. For the Turner filmed entertainment businesses, EBITA and operating income increased principally due to the absence of film write-offs relating to disappointing results for theatrical releases of Castle Rock Entertainment in 1998, offset in part by lower results from television distribution operations relating to the absence in 1999 of significant syndication sales of broadcasting rights for *Seinfeld* in 1998.

The decline in Warner Bros.'s consumer products operations relates, in part, to its retail stores. In the fourth quarter of 1999, Warner Bros. adopted a plan designed to improve the performance of its retail stores. The plan is expected to be executed largely over a three-year period and involves closing certain underperforming stores, transforming other stores into smaller and more efficient stores and exploiting potential e-commerce opportunities. As a result of this plan, Warner Bros. recorded a noncash, pretax charge of \$106 million to reduce the carrying value of certain fixed assets and leasehold improvements used in its retail stores. The charge

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represented the excess of the carrying value of those assets over the discounted future operating cash flows, adjusted to reflect a shorter recovery period due to planned store closures.

Broadcasting-The WB Network. Revenues increased to \$384 million in 1999, compared to \$260 million in 1998. EBITA improved to a loss of \$92 million in 1999 from a loss of \$93 million in 1998. Operating losses of \$96 million were the same in both 1999 and in 1998. Revenues increased principally as a result of one additional night of weekly prime-time programming in comparison to the prior year and advertising rate increases, offset in part by lower prime-time television ratings. Prime-time television ratings were, and are expected to continue to be, negatively affected by lower household delivery associated with the WGN Superstation discontinuing its carriage of The WB Network's programming beginning in the fall of 1999. The marginal EBITA loss improvement and flat operating losses principally resulted from the fact that significant revenue increases were offset by the combination of higher programming costs associated with the expanded programming schedule and higher start-up costs associated with The WB Network 100+ station group, a distribution alliance for The WB Network in smaller markets.

Cable. Revenues increased to \$5.374 billion in 1999, compared to \$5.342 billion in 1998. EBITA increased to \$3.927 billion in 1999 from \$1.694 billion in 1998. Operating income increased to \$3.364 billion in 1999 from \$1.101 billion in 1998. These operating results were affected by certain cable-related transactions that occurred in 1998 (the "1998 Cable Transactions") and by net pretax gains of \$2.247 billion recognized in 1999 and \$108 million in 1998 related to the sale or exchange of various cable television systems and investments. The 1998 Cable Transactions principally resulted in the deconsolidation of certain operations and are described more fully in Note 2 to the accompanying consolidated financial statements. Excluding the effect of the 1998 Cable Transactions, revenues increased due to growth in basic cable subscribers, increases in basic cable rates, increases in advertising and pay-per-view revenues and an increase in revenues from providing Road Runner-branded, high-speed online services. Similarly, excluding the effect of the 1998 Cable Transactions and the one-time gains, EBITA and operating income increased principally as a result of the revenue increases, offset in part by higher programming costs.

As of December 31, 1999 and 1998, there were 12.6 million subscribers under the management of Time Warner's Cable division.

Digital Media. Digital Media operating results reflect start-up costs associated with Time Warner's digital media businesses, including the November 1999 launch of Entertaimdom, Time Warner's entertainment Web destination. Digital Media had \$17 million of operating losses on \$1 million of revenues during 1999. Due to the start-up nature of these businesses, losses are expected to continue.

Interest and Other, Net. Interest and other, net, decreased to \$1.897 billion of expense in 1999, compared to \$2.050 billion of expense on a pro forma basis in 1998. Interest expense increased to \$1.519 billion in 1999, compared to \$1.451 billion on a pro forma basis in 1998. Interest expense increased principally because of higher interest costs incurred in connection with the \$2.1 billion of borrowings used to redeem the Company's Series M Preferred Stock in December 1998, offset in part by interest savings associated with the Company's 1998 debt reduction efforts. Other expense, net, decreased to \$378 million in 1999, compared to \$599 million on a pro forma basis in 1998. The decrease principally related to the recognition of an approximate \$115 million pretax gain in 1999 in connection with the Time Warner Telecom IPO and the absence of an approximate \$210 million pretax charge recorded in 1998 to reduce the carrying value of an interest in Primestar, offset in part by higher losses in 1999 from certain investments accounted for under the equity method of accounting.

Minority Interest. Minority interest expense increased to \$475 million in 1999, compared to \$338 million on a pro forma basis in 1998. Minority interest expense increased primarily due to the allocation of a portion of the higher net pretax gains in 1999 relating to the sale or exchange of various cable television systems and investments owned by the TWE-Advance/Newhouse Partnership ("TWE-A/N") to the minority owners of that partnership. Excluding the significant effect of the gains recognized in each period, minority interest expense

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decreased slightly in 1999 principally due to a higher allocation of losses to a minority partner in The WB Network.

1998 vs. 1997

As a result of the consolidation of the Entertainment Group in 1999, and in accordance with FAS 131, Time Warner restated its historical segment presentation to reflect the combination of Time Warner's and the Entertainment Group's business segments. EBITA and operating income are as follows:

	Years Ended December 31,			
	EBITA		Operating Income	
	1998	1997	1998	1997
	(millions)			
Cable Networks	\$1,160	\$ 964	\$ 960	\$ 765
Publishing	607	529	569	481
Music	493	467	213	166
Filmed Entertainment	695	604	479	389
Broadcasting-The WB Network	(93)	(88)	(96)	(88)
Cable ^(a)	1,694	1,611	1,101	1,011
Intersegment elimination	(94)	(54)	(94)	(54)
Total	<u>\$4,462</u>	<u>\$4,033</u>	<u>\$3,132</u>	<u>\$2,670</u>
Entertainment Group EBITA and operating income reported on an unconsolidated basis ^(b)	<u>(2,166)</u>	<u>(1,850)</u>	<u>(1,636)</u>	<u>(1,399)</u>
Total reported consolidated EBITA and operating income	<u>\$2,296</u>	<u>\$2,183</u>	<u>\$1,496</u>	<u>\$1,271</u>

(a) The comparability of the Cable division's operating results has been affected by certain 1998 cable-related transactions in addition to net pretax gains of approximately \$108 million in 1998 and \$212 million in 1997 related to the sale or exchange of certain cable television systems.

(b) Represents amounts previously reported for the Entertainment Group, adjusted by intercompany eliminations and other consolidating adjustments necessary for Time Warner to reflect the Entertainment Group on a consolidated basis.

Consolidated Results

Time Warner had revenues of \$14.582 billion and net income of \$168 million in 1998, compared to revenues of \$13.294 billion, income of \$301 million before an extraordinary loss on the retirement of debt and net income of \$246 million in 1997. Time Warner's equity in the pretax income of the Entertainment Group was \$356 million in 1998, compared to \$686 million in 1997. After preferred dividend requirements, Time Warner had basic and diluted loss per common share of \$.31 in 1998, compared to a loss of \$.01 per common share before the extraordinary item in 1997, and \$.06 per common share after.

As previously described, the comparability of Time Warner's and the Entertainment Group's operating results for 1998 and 1997 has been affected by certain significant, nonrecurring items recognized in each period. These nonrecurring items amounted to \$102 million of net pretax losses in 1998, compared to approximately \$660 million of net pretax gains in 1997. In addition, preferred dividend requirements for 1998 included a \$234 million one-time increase relating to the premium paid in connection with Time Warner's redemption of its Series M Preferred Stock. Lastly, 1997 included a \$55 million extraordinary loss on the retirement of debt. The aggregate net effect of these significant, nonrecurring items was a decrease in income per common share of \$.25 in 1998, compared to an increase in income per common share of \$.27 in 1997.

Time Warner's net income decreased to \$168 million in 1998, compared to net income of \$246 million in 1997. However, excluding the significant effect of the nonrecurring items referred to above, net income

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increased by \$300 million to \$236 million in 1998, compared to a net loss of \$64 million in 1997. As discussed more fully below, this improvement principally resulted from an overall increase in Time Warner's business segment operating income, an increase in income from its equity in the pretax income of the Entertainment Group and lower interest expense associated with Time Warner's debt reduction efforts and certain cable system transfers in 1998 (the "TWE-A/N Transfers"), offset in part by higher losses from certain investments accounted for under the equity method of accounting and lower gains on foreign exchange contracts. The TWE-A/N Transfers are described more fully in Note 2 to the accompanying financial statements. Similarly, normalized net loss per common share, excluding the effect of significant nonrecurring items, was \$.06 in 1998, compared to a normalized net loss per common share of \$.33 in 1997.

The Entertainment Group had revenues of \$12.256 billion and net income of \$331 million in 1998, compared to revenues of \$11.328 billion, income of \$642 million before an extraordinary loss on the retirement of debt and net income of \$619 million in 1997. Similarly, excluding the portion of the nonrecurring items referred to above that was recognized by the Entertainment Group, net income increased by \$229 million to \$465 million in 1998, compared to \$236 million in 1997. As discussed more fully below, this improvement principally resulted from an overall increase in the Entertainment Group's business segment operating income (including the positive effect of the TWE-A/N Transfers), offset in part by an increase in interest expense associated with the TWE-A/N Transfers and higher losses from certain investments accounted for under the equity method of accounting.

The relationship between income before income taxes and income tax expense of Time Warner is principally affected by the amortization of goodwill and certain other financial statement expenses that are not deductible for income tax purposes. Income tax expense of Time Warner includes all income taxes related to its allocable share of partnership income and its equity in the income tax expense of corporate subsidiaries of the Entertainment Group.

Business Segment Results

Cable Networks. Revenues increased to \$5.377 billion in 1998, compared to \$4.823 billion in 1997. EBITA increased to \$1.160 billion in 1998 from \$964 million in 1997. Operating income increased to \$960 million in 1998 from \$765 million in 1997. Revenues grew due to increases at the Turner cable networks group and HBO. For the Turner cable networks group, revenues benefited from an increase in subscription and advertising revenues. The increase in subscription revenues principally related to the conversion of TBS Superstation from an advertiser-supported broadcast superstation to a copyright-paid, cable television service, which allows TBS Superstation to charge cable operators for the right to carry its cable television programming. Subscription revenues also increased as a result of an increase in subscriptions, primarily at CNN, CNN International, TNT/Cartoon Europe and Turner Classic Movies, and higher rates. The increase in advertising revenues was principally due to a strong overall advertising market for most of the division's networks, including TNT, Cartoon Network, TNT/Cartoon Europe, CNN and CNN Headline News. For HBO, revenues benefited primarily from an increase in subscriptions to 34.6 million from 33.6 million at the end of 1997.

Likewise, EBITA and operating income were higher due to increases at the Turner cable networks group and HBO. For the Turner cable networks group, the increase in EBITA and operating income was principally due to the revenue gains and lower programming costs at TNT, offset in part by higher programming costs at CNN and losses associated with the Goodwill Games. For HBO, EBITA and operating income improved principally as a result of the revenue gains and, to a lesser extent, cost savings and higher income from Comedy Central.

Publishing. Revenues increased to \$4.496 billion in 1998, compared to \$4.290 billion in 1997. EBITA increased to \$607 million in 1998 from \$529 million in 1997. Operating income increased to \$569 million in 1998 from \$481 million in 1997. Revenues benefited primarily from significant increases in magazine

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advertising revenues, as well as increases in magazine circulation revenues. The increase in advertising revenues was principally due to a strong overall advertising market for most of the division's magazines, primarily led by *People*, *Time*, *Entertainment Weekly*, *Fortune* and *In Style*. The increase in circulation revenues was principally due to higher subscription and newsstand revenues, primarily led by the same magazines. EBITA and operating income increased principally as a result of the revenue gains, cost savings and one-time gains on the sale of certain assets, offset in part by lower results from direct-marketing operations.

Music. Revenues increased to \$4.025 billion in 1998, compared to \$3.691 billion in 1997. EBITA increased to \$493 million in 1998 from \$467 million in 1997. Operating income increased to \$213 million in 1998 from \$166 million in 1997. Revenues benefited from an increase in domestic and international recorded music sales principally relating to higher compact disc sales of a broad range of popular releases from new and established artists and movie soundtracks, as well as lower returns of product. EBITA and operating income increased principally as a result of the revenue gains and cost savings, offset in part by lower results from direct-marketing operations, higher artist costs and the absence of certain one-time gains recognized in 1997.

Filmed Entertainment. Revenues increased to \$7.978 billion in 1998, compared to \$7.003 billion in 1997. EBITA increased to \$695 million in 1998 from \$604 million in 1997. Operating income increased to \$479 million in 1998 from \$389 million in 1997. Revenues grew due to increases at Warner Bros. and the Turner filmed entertainment business. For Warner Bros., revenues benefited from a significant increase in licensing fees from television production and distribution operations, principally relating to the initial off-network domestic syndication availability of *Friends* and the initial off-network basic cable availability of *ER*, as well as an increase in revenues from consumer products licensing operations. For the Turner filmed entertainment businesses, revenues benefited from a significant increase in syndication sales resulting from the renewal by existing television station customers of second-cycle broadcasting rights for *Seinfeld*, as well as an increase in worldwide theatrical and home video revenues at New Line Cinema.

Likewise, EBITA and operating income increased due to increases at Warner Bros., offset in part by decreases at the Turner filmed entertainment businesses, principally as a result of film write-offs relating to disappointing results for theatrical releases of Castle Rock Entertainment in the first half of 1998. For Warner Bros., EBITA and operating income benefited principally from the revenue gains and cost savings, offset in part by lower international syndication sales of library product and lower results from theatrical releases. In addition, EBITA and operating income for each period included certain one-time gains on the sale of assets that were comparable in amount and therefore, did not have any significant effect on operating trends.

Broadcasting-The WB Network. Revenues increased to \$260 million in 1998, compared to \$136 million in 1997. EBITA decreased to a loss of \$93 million in 1998 from a loss of \$88 million in 1997. Operating losses increased to \$96 million in 1998 from \$88 million in 1997. Revenues increased as a result of higher advertising sales relating to improved television ratings and the addition of a fourth night of prime-time programming in January 1998 and a fifth night in September 1998. Despite the revenue increase, operating losses increased because of a lower allocation of losses to a minority partner in the network. However, excluding this minority interest effect, operating losses improved principally as a result of the revenue gains, which outweighed higher programming costs associated with the expanded programming schedule.

Cable. Revenues increased to \$5.342 billion in 1998, compared to \$5.240 billion in 1997. EBITA increased to \$1.694 billion in 1998 from \$1.611 billion in 1997. Operating income increased to \$1.101 billion in 1998 from \$1.011 billion in 1997. These operating results were affected by the 1998 Cable Transactions and by net pretax gains of \$108 million recognized in 1998 and \$212 million in 1997 related to the sale or exchange of various cable television systems and investments. Excluding the effect of the 1998 Cable Transactions, revenues increased principally as a result of an increase in basic cable subscribers, increases in regulated cable rates and an increase in advertising revenues. Similarly, excluding the effect of the 1998 Cable Transactions and the one-time gains, EBITA and operating income increased principally as a result of the revenue gains, offset in part by higher depreciation related to capital spending.

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Interest and Other, Net. The following is a discussion of interest and other, net, included in the consolidated results of Time Warner and the unconsolidated results of the Entertainment Group.

Interest and other, net, at Time Warner increased to \$1.128 billion of expense in 1998, compared to \$973 million of expense in 1997. Interest expense decreased to \$891 million in 1998, compared to \$1.049 billion in 1997, principally due to lower average debt levels associated with the Company's debt reduction efforts and the TWE-A/N Transfers. There was other expense, net, of \$237 million in 1998 compared to other income, net of \$76 million in 1997, primarily due to lower investment-related income, as well as lower gains on foreign exchange contracts and higher losses associated with the Company's asset securitization program. The significant decrease in investment-related income principally resulted from the absence of a \$200 million pretax gain recognized in 1997 in connection with the disposal of Time Warner's interest in Hasbro and higher losses in 1998 from certain investments accounted for under the equity method of accounting.

Interest and other, net, at the Entertainment Group increased to \$945 million of expense in 1998, compared to \$338 million of expense in 1997. Interest expense increased to \$566 million in 1998, compared to \$494 million in 1997, principally due to higher average debt levels associated with the TWE-A/N Transfers. There was other expense, net, of \$379 million in 1998, compared to other income, net, of \$156 million in 1997, primarily due to lower investment-related income, as well as higher losses associated with TWE's asset securitization program. The significant decrease in investment-related income principally resulted from the absence of an approximate \$250 million pretax gain recognized in 1997 in connection with the sale of an interest in E! Entertainment, the inclusion of an approximate \$210 million charge recorded in 1998 principally to reduce the carrying value of an interest in Primestar and higher losses in 1998 from certain investments accounted for under the equity method of accounting.

Minority Interest. Minority interest, recognized by the Entertainment Group on an unconsolidated basis, decreased to \$284 million in 1998, compared to \$324 million in 1997. Minority interest expense decreased primarily due to the allocation of a portion of the higher net pretax gains in 1997 relating to the sale or exchange of various cable television systems owned by TWE-A/N to the minority owners of that partnership. Excluding the effect of the gains recognized in each period, minority interest expense for 1998 and 1997 was comparable in amount and did not have any significant effect on operating trends.

FINANCIAL CONDITION AND LIQUIDITY

December 31, 1999

1999 Financial Condition

At December 31, 1999, Time Warner had \$18.1 billion of debt, \$1.3 billion of available cash and equivalents (net debt of \$16.8 billion), \$1.2 billion of borrowings against future stock option proceeds, \$575 million of mandatorily redeemable preferred securities of a subsidiary and \$9.7 billion of shareholders' equity, compared to \$17.5 billion of debt, \$529 million of available cash and equivalents (net debt of \$17.0 billion), \$895 million of borrowings against future stock option proceeds, \$792 million of mandatorily redeemable preferred securities of subsidiaries, and \$8.9 billion of shareholders' equity on a pro forma basis at December 31, 1998.

Debt Refinancings

In 1999, Time Warner Companies, Inc., a wholly owned subsidiary of Time Warner, redeemed all of its \$600 million principal amount of Floating Rate Reset Notes due July 29, 2009. The aggregate redemption cost of approximately \$620 million was funded with borrowings under Time Warner's bank credit agreement. In connection with this redemption, an extraordinary loss of \$12 million was recognized in the third quarter of 1999.

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Redemption of REIT Preferred Stock

In March 1999, a subsidiary of TWE (the "REIT") redeemed all of its shares of preferred stock ("REIT Preferred Stock") at an aggregate cost of \$217 million, which approximated net book value. The redemption was funded with borrowings under TWE's bank credit agreement.

Preferred Stock Conversions

During 1999 and January 2000, Time Warner issued approximately 71.4 million shares of common stock in connection with the conversion of approximately 17.2 million shares of convertible preferred stock. Because holders of preferred stock are entitled to cash dividends at a preferential rate prior to conversion, Time Warner's 1999 cash dividend requirements will be reduced in 2000 by approximately \$26 million. After giving effect to those conversions, there were approximately 5.4 million shares of preferred stock outstanding that are convertible into approximately 22.7 million shares of Time Warner common stock.

Common Stock Repurchase Program

In January 1999, Time Warner's Board of Directors authorized a new common stock repurchase program that allows the Company to repurchase, from time to time, up to \$5 billion of common stock. This program was expected to be completed over a three-year period. However, in connection with Time Warner's agreement to merge with America Online, Time Warner currently has suspended its stock repurchase program.

During 1999, Time Warner acquired 28.4 million shares of its common stock at an aggregate cost of \$1.896 billion. These repurchases increased the cumulative shares purchased under this and its previous common stock repurchase program begun in 1996 to approximately 123.5 million shares at an aggregate cost of \$4.936 billion, or approximately \$40 per share.

Cash Flows

During 1999, Time Warner's cash provided by operations amounted to \$3.953 billion and reflected \$7.333 billion of business segment EBITA, \$1.231 billion of noncash depreciation expense, \$213 million of proceeds from Time Warner's asset securitization program, less \$2.247 billion of net pretax gains on the sale or exchange of cable television systems and investments, \$1.406 billion of interest payments, \$377 million of income taxes, \$163 million of corporate expenses and \$631 million related to an increase in working capital requirements, other balance sheet accounts and noncash items. Cash provided by operations on a pro forma basis in 1998 of \$3.408 billion reflected \$4.462 billion of business segment EBITA, \$1.305 billion of noncash depreciation expense, \$183 million of proceeds from Time Warner's asset securitization program, less \$108 million of net pretax gains on the sale or exchange of cable television systems, \$1.343 billion of interest payments, \$300 million of income taxes, \$158 million of corporate expenses and \$633 million related to an increase in working capital requirements, other balance sheet accounts and noncash items.

Cash used by investing activities was \$1.930 billion in 1999, compared to \$908 million on a pro forma basis in 1998, principally as a result of higher capital expenditures, an increase in cash used for investment and acquisitions and a decrease in investment proceeds. Investment proceeds decreased largely relating to the 1998 sale of TWE's remaining interest in Six Flags Entertainment Corporation and the receipt of approximately \$650 million of proceeds in 1998 upon the formation of a cable joint venture in Texas, offset in part by the receipt of approximately \$280 million of net proceeds in 1999 in connection with an exchange of cable television systems. Capital expenditures increased to \$2.231 billion in 1999, compared to \$2.115 billion on a pro forma basis in 1998.

Cash used by financing activities was \$1.181 billion in 1999, compared to \$2.938 billion on a pro forma basis in 1998. The use of cash in 1999 principally resulted from the repurchase of approximately 28.4 million

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shares of Time Warner common stock at an aggregate cost of \$1.896 billion, the redemption of REIT Preferred Stock at an aggregate cost of \$217 million and the payment of \$289 million of dividends, offset in part by a \$583 million increase in net borrowings, \$421 million of proceeds received from the exercise of employee stock options and \$348 million of borrowings against future stock option proceeds. During 1998, Time Warner issued approximately \$2.1 billion of debt and used the proceeds therefrom to redeem its Series M Preferred Stock. Dividends paid in 1999 were \$235 million lower than in 1998, reflecting the effect of Time Warner's redemption of its Series M Preferred Stock in December 1998.

The assets and cash flows of TWE are restricted by certain borrowing and partnership agreements and are unavailable to Time Warner except through the payment of certain fees, reimbursements, cash distributions and loans, which are subject to limitations. Under its bank credit agreement, TWE is permitted to incur additional indebtedness to make loans, advances, distributions and other cash payments to Time Warner, subject to its individual compliance with the cash flow coverage and leverage ratio covenants contained therein.

Management believes that Time Warner's operating cash flow, cash and equivalents and additional borrowing capacity are sufficient to fund its capital and liquidity needs for the foreseeable future without distributions and loans from TWE above those permitted by existing agreements.

Cable Capital Spending

Time Warner Cable has been engaged in a plan to upgrade the technological capability and reliability of its cable television systems and develop new services, which it believes will position the business for sustained, long-term growth. Capital spending by Time Warner Cable amounted to \$1.600 billion in 1999, compared to \$1.676 billion in 1998. Cable capital spending for 2000 is budgeted to be approximately \$2 billion, reflecting higher spending on variable capital to facilitate a more aggressive roll-out of Time Warner Cable's popular digital cable and Road Runner-branded high-speed online service. Capital spending by Time Warner Cable is expected to continue to be funded by cable operating cash flow. In exchange for certain flexibility in establishing cable rate pricing structures for regulated services and consistent with Time Warner Cable's long-term strategic plan, Time Warner Cable agreed with the Federal Communications Commission (the "FCC") in 1996 to invest a total of \$4 billion in capital costs in connection with the upgrade of its cable infrastructure. The agreement with the FCC covers all of the cable operations of Time Warner Cable, including the owned or managed cable television systems of TWE, TWE-A/N and Time Warner. As of December 31, 1999, Time Warner Cable had approximately \$250 million remaining under this commitment. Management expects to satisfy this commitment by December 31, 2000 when Time Warner Cable's technological upgrade of its cable television systems is scheduled to be completed.

Off-Balance Sheet Assets

As discussed below, Time Warner believes that the value of certain off-balance sheet assets should be considered, along with other factors discussed elsewhere herein, in evaluating the Company's financial condition and prospects for future results of operations, including its ability to fund its capital and liquidity needs.

Intangible Assets

As a creator and distributor of branded information and entertainment copyrights, Time Warner has a significant amount of internally generated intangible assets whose value is not fully reflected in the consolidated balance sheet. Such intangible assets extend across Time Warner's principal business interests, but are best exemplified by Time Warner's collection of copyrighted music product, its libraries of copyrighted film and television product and the creation or extension of brands. Generally accepted accounting principles do not recognize the value of such assets, except at the time they may be acquired in a business combination accounted for by the purchase method of accounting.

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

Because Time Warner normally owns the copyrights to such creative material, it continually generates revenue through the sale of such products across different media and in new and existing markets. The value of film and television-related copyrighted product and trademarks is continually realized by the licensing of films and television series to secondary markets and the licensing of trademarks, such as the *Looney Tunes* characters and *Batman*, to the retail industry and other markets. In addition, technological advances, such as the introduction of the compact disc and home videocassette in the 1980's and the current exploitation of DVDs, have historically generated significant revenue opportunities through the repackaging and sale of such copyrighted products in the new technological format. Accordingly, such intangible assets have significant off-balance sheet asset value that is not fully reflected in the consolidated balance sheet of Time Warner.

Filmed Entertainment 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 for all of Time Warner's filmed entertainment companies amounted to \$3.595 billion at December 31, 1999, compared to \$2.934 billion on a pro forma basis at December 31, 1998 (including amounts relating to the licensing of film product to Time Warner's cable television networks of \$1.176 billion at December 31, 1999 and \$995 million at December 31, 1998).

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 only 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 on an accelerated basis using a \$500 million securitization facility. The portion of backlog for which cash has not already been received has significant off-balance sheet asset value as a source of future funding. As of December 31, 1999, including cash received under the securitization facility and other advanced payments, approximately \$700 million of cash licensing fees had been collected against the backlog. The backlog excludes advertising barter contracts, which are also expected to result in the future realization of revenues and cash through the sale of advertising spots received under such contracts.

Interest Rate and Foreign Currency Risk Management

Interest Rate Swap Contracts

Time Warner uses interest rate swap contracts to adjust the proportion of total debt that is subject to variable and fixed interest rates. At December 31, 1999, Time Warner had interest rate swap contracts to pay floating-rates of interest (average six-month LIBOR rate of 5.8%) and receive fixed-rates of interest (average rate of 5.5%) on \$400 million notional amount of indebtedness, which resulted in approximately 34% of Time Warner's underlying debt being subject to variable interest rates. At December 31, 1998, Time Warner had interest rate swap contracts on \$1.6 billion notional amount of indebtedness.

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

Based on Time Warner's variable-rate obligations and related interest rate swap contracts outstanding at December 31, 1999, each 25 basis point increase or decrease in the level of interest rates would, respectively, increase or decrease Time Warner's annual interest expense and related cash payments by approximately \$19 million, including \$1 million related to interest rate swap contracts. Such potential increases or decreases are based on certain simplifying assumptions, including a constant level of variable-rate debt and related interest rate swap contracts during the period and, for all maturities, an immediate, across-the-board increase or decrease in the level of interest rates with no other subsequent changes for the remainder of the period.

Foreign Exchange Contracts

Time Warner uses foreign exchange contracts primarily to hedge the risk that unremitted or future royalties and license fees owed to Time Warner domestic companies for the sale or anticipated sale of U.S. copyrighted products abroad may be adversely affected by changes in foreign currency exchange rates. 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 the ensuing twelve month period. At December 31, 1999, Time Warner had effectively hedged approximately half of the estimated foreign currency exposures that principally relate to anticipated cash flows to be remitted to the U.S. over the ensuing twelve month period. To hedge this exposure, Time Warner used foreign exchange contracts that generally have maturities of three months or less, which generally will be rolled over to provide continuing coverage throughout the year. Time Warner often closes foreign exchange sale contracts by purchasing an offsetting purchase contract. At December 31, 1999, Time Warner had contracts for the sale of \$843 million and the purchase of \$468 million of foreign currencies at fixed rates, compared to contracts for the sale of \$755 million and the purchase of \$259 million of foreign currencies at December 31, 1998.

Based on the foreign exchange contracts outstanding at December 31, 1999, each 5% devaluation of the U.S. dollar as compared to the level of foreign exchange rates for currencies under contract at December 31, 1999 would result in approximately \$42 million of unrealized losses and \$23 million of unrealized gains on foreign exchange contracts involving foreign currency sales and purchases, respectively. Conversely, a 5% appreciation of the U.S. dollar would result in \$42 million of unrealized gains and \$23 million of unrealized losses, respectively. Consistent with the nature of the economic hedge provided by such foreign exchange contracts, such unrealized gains or losses largely would be offset by corresponding decreases or increases, respectively, in the dollar value of future foreign currency royalty and license fee payments that would be received in cash within the ensuing twelve month period from the sale of U.S. copyrighted products abroad.

Euro Conversion

Effective January 1, 1999, the "euro" was established as a single currency valid in more than two-thirds of the member countries of the European Union. These member countries have a three-year transitional period to physically convert their sovereign currencies to the euro. By July 1, 2002, all participating member countries must eliminate their currencies and replace their legal tender with euro-denominated bills and coins. Notwithstanding this transitional period, many commercial transactions are expected to become euro-denominated well before the July 2002 deadline. Accordingly, Time Warner continues to evaluate the short-term and long-term effects of the euro conversion on its European operations, principally publishing, music, cable networks and filmed entertainment.

Time Warner believes that the most significant short-term impact of the euro conversion is the need to modify its accounting and information systems to handle an increasing volume of transactions during the transitional period in both the euro and sovereign currencies of the participating member countries. Time Warner has identified its accounting and information systems in need of modification and an action plan has been formulated to address the nature and timing of remediation efforts. Remediation efforts have begun and the plan is expected to be substantially completed well before the end of the transitional period. This timetable will be

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

adjusted, if necessary, to meet the anticipated needs of Time Warner's vendors and customers. Based on preliminary information, costs to modify its accounting and information systems have not been, and are not expected to be, material.

Time Warner believes that the most significant long-term business risk of the euro conversion may be increased pricing pressures for its products and services brought about by heightened consumer awareness of possible cross-border price differences. However, Time Warner believes that these business risks may be offset to some extent by lower material costs, other cost savings and marketing opportunities. Notwithstanding such risks, management does not believe that the euro conversion will have a material effect on Time Warner's financial position, results of operations or cash flows in future periods.

Year 2000 Technology Preparedness

Time Warner, like most large companies, depends on many different computer systems and other chip-based devices for the continuing conduct of its business. The Company took various precautions related to the fact that many older computer programs, computer hardware and chip-based devices might have failed to recognize dates beginning on January 1, 2000 as being valid dates, and as a result might have failed to operate or might have operated improperly as such dates were introduced.

During 1999, the Company completed its efforts to minimize the risk of disruption related to Year 2000 issues. This program was described in the Company reports filed with the Securities and Exchange Commission (the "SEC"). To date, the Company has experienced few problems related to Year 2000 compliance, and the problems that have been identified have been addressed. The Company is not aware of any remaining significant problems related to Year 2000 issues but is continuing to monitor the status of suppliers, vendors and other entities with which it does business.

Through the end of 1999, the Company, as a whole, incurred approximately \$150 million related to its Year 2000 remediation program, which started in 1996. These expenditures were funded from the Company's operating cash flow. The Company anticipates that its remediation program, and related expenditures, may continue into 2001 as temporary solutions to Year 2000 problems are replaced with upgraded equipment. Future expenditures are not expected to be significant.

Caution Concerning Forward-Looking Statements

The SEC encourages companies to disclose forward-looking information so that investors can better understand a company's future prospects and make informed investment decisions. This document, together with management's public commentary related thereto, contains such "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, particularly statements anticipating future growth in revenues, EBITA and cash flow. Words such as "anticipate," "estimate," "expects," "projects," "intends," "plans," "believes" and words and terms of similar substance used in connection with any discussion of future operating or financial performance identify such forward-looking statements. Those forward-looking statements are management's present expectations of future events. As with any projection or forecast, they are inherently susceptible to uncertainty and changes in circumstances, and the Company is under no obligation to (and expressly disclaims any such obligation to) update or alter its forward-looking statements whether as a result of such changes, new information, future events or otherwise.

Time Warner operates in highly competitive, consumer driven and rapidly changing media and entertainment businesses that are dependent on government regulation and economic, political and social conditions in the countries in which they operate, consumer demand for their products and services, technological developments and (particularly in view of technological changes) protection of their intellectual property rights. Time Warner's actual results could differ materially from management's expectations because of changes in such factors. Some of the other factors that also could cause actual results to differ from those

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

contained in the forward-looking statements include those identified in Time Warner's other filings with the SEC and:

- For Time Warner's cable business, more aggressive than expected competition from new technologies and other types of video programming distributors, including DBS and DSL; increases in government regulation of basic cable or equipment rates or other terms of service (such as "digital must-carry" or common carrier requirements); increased difficulty in obtaining franchise renewals; the failure of new equipment (such as digital set-top boxes) or services (such as digital cable and high-speed on-line services or telephony over cable or video on demand) to function properly, to appeal to enough consumers or to be available at reasonable prices and to be delivered in a timely fashion; and greater than expected increases in programming or other costs.
- For Time Warner's cable programming and television businesses, greater than expected programming or production costs; public and cable operator resistance to price increases (and the negative impact on premium programmers of increases in basic cable rates); increased regulation of distribution agreements; the sensitivity of advertising to economic cyclicalities; and greater than expected fragmentation of consumer viewership due to an increased number of programming services or the increased popularity of alternatives to television.
- For Time Warner's film and television businesses, their ability to continue to attract and select desirable talent and scripts at manageable costs; increases in production costs generally; fragmentation of consumer leisure and entertainment time (and its possible negative effects on the broadcast and cable networks, which are significant customers of these businesses); continued popularity of merchandising; and the uncertain impact of technological developments such as DVD and the Internet.
- For Time Warner's music business, its ability to continue to attract and select desirable talent at manageable costs; the timely completion of albums by major artists; the popular demand for particular artists and albums; its ability to continue to enforce and capitalize on its intellectual property rights in digital environments; its ability to complete its proposed transaction with EMI and integrate the businesses successfully; and the overall strength of global music sales.
- For Time Warner's print media and publishing businesses, increases in paper, postal and distribution costs; the introduction and increased popularity of alternative technologies for the provision of news and information, such as the Internet; and fluctuations in advertiser and consumer spending.
- For Time Warner's digital media businesses, their ability to locate and invest in profitable businesses, to develop products and services that are attractive, accessible and commercially viable in terms of content, technology and cost; their ability to manage costs and generate revenues; aggressive competition from existing and developing technologies and products; the resolution of issues concerning commercial activities via the Internet, including security, reliability, cost, ease of use and access; and the possibility of increased government regulation of new media services.
- The risks related to the Company's merger with America Online, including the failure of the Time Warner or America Online shareholders to approve the Merger; the risk that the Time Warner and America Online businesses will not be integrated successfully; the costs related to the Merger; the inability to obtain, or meet conditions imposed for, governmental approvals for the Merger; and other factors generally affecting the businesses of the combined company.

In addition, Time Warner's overall financial strategy, including growth in operations, maintaining its financial ratios and strengthened balance sheet, could be adversely affected by increased interest rates, failure to meet earnings expectations, significant acquisitions or other transactions, consequences of the euro conversion and changes in Time Warner's plans, strategies and intentions.

TIME WARNER INC.
CONSOLIDATED BALANCE SHEET
December 31,
(millions, except per share amounts)

	<u>1999</u> <u>Historical^(a)</u>	<u>1998</u> <u>Pro Forma^(a)</u>	<u>1998</u> <u>Historical^(a)</u>
ASSETS			
Current assets			
Cash and equivalents	\$ 1,284	\$ 529	\$ 442
Receivables, less allowances of \$1.682, \$1.513 and \$1.007 billion	4,931	4,640	2,885
Inventories	2,182	2,258	946
Prepaid expenses	1,464	1,342	1,176
Total current assets	<u>9,861</u>	<u>8,769</u>	<u>5,449</u>
Noncurrent inventories	4,201	4,219	1,900
Investments in and amounts due to and from Entertainment Group	—	—	4,980
Other investments	2,096	1,665	794
Property, plant and equipment	8,728	8,037	1,991
Music catalogues, contracts and copyrights	782	876	876
Cable television and sports franchises	8,472	6,943	2,868
Goodwill	15,458	15,830	11,919
Other assets	1,641	1,612	863
Total assets	<u>\$51,239</u>	<u>\$47,951</u>	<u>\$31,640</u>
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable	\$ 1,923	\$ 1,966	\$ 996
Participations, royalties and programming costs payable	2,967	2,714	1,199
Debt due within one year	22	25	19
Other current liabilities	4,758	4,365	2,404
Total current liabilities	<u>9,670</u>	<u>9,070</u>	<u>4,618</u>
Long-term debt	18,083	17,503	10,925
Borrowings against future stock option proceeds	1,243	895	895
Deferred income taxes	4,234	3,491	3,491
Unearned portion of paid subscriptions	762	741	741
Other liabilities	3,773	3,580	1,543
Minority interests	3,186	3,027	—
Mandatorily redeemable preferred securities of subsidiaries holding solely notes and debentures of subsidiaries of the Company	575	792	575
Shareholders' equity			
Preferred stock, \$.10 par value, 8.4, 22.6 and 22.6 million shares outstanding, \$.840, \$2.260 and \$2.260 billion liquidation preference	1	2	2
Series LMCN-V common stock, \$.01 par value, 114.1 million shares outstanding	1	1	1
Common stock, \$.01 par value, 1.173, 1.118 and 1.118 billion shares outstanding	12	11	11
Paid-in capital	12,998	13,134	13,134
Accumulated deficit	(3,299)	(4,296)	(4,296)
Total shareholders' equity	<u>9,713</u>	<u>8,852</u>	<u>8,852</u>
Total liabilities and shareholders' equity	<u>\$51,239</u>	<u>\$47,951</u>	<u>\$31,640</u>

(a) The 1999 financial statements reflect the consolidation of the Entertainment Group, which substantially consists of TWE, retroactive to the beginning of 1999. Time Warner's historical financial statements for 1998 have not been changed; however, in order to enhance comparability, pro forma financial statements for 1998 reflecting the consolidation of the Entertainment Group are presented supplementally (Note 1).

See accompanying notes.

TIME WARNER INC.
CONSOLIDATED STATEMENT OF OPERATIONS
Years Ended December 31,
(millions, except per share amounts)

	1999 <u>Historical^(a)</u>	1998 <u>Pro Forma^(a)</u>	1998 <u>Historical^(a)</u>	1997 <u>Historical^(a)</u>
Revenues ^(b)	\$ 27,333	\$ 26,244	\$14,582	\$13,294
Cost of revenues ^{(b)(c)}	(14,940)	(14,820)	(7,502)	(6,723)
Selling, general and administrative ^{(b)(c)}	(7,513)	(7,070)	(4,802)	(4,400)
Amortization of goodwill and other intangible assets	(1,298)	(1,330)	(800)	(912)
Gain on sale or exchange of cable systems and investments ^(b)	2,247	108	18	12
Gain on early termination of video distribution agreement	215	—	—	—
Gain on sale of interest in CanalSatellite	97	—	—	—
Write-down of retail store assets	(106)	—	—	—
Business segment operating income	6,035	3,132	1,496	1,271
Equity in pretax income of Entertainment Group ^(b)	—	—	356	686
Interest and other, net ^{(b)(d)}	(1,897)	(2,050)	(1,128)	(973)
Corporate expenses ^(b)	(163)	(158)	(86)	(81)
Minority interest	(475)	(338)	(52)	(71)
Income before income taxes	3,500	586	586	832
Income taxes	(1,540)	(418)	(418)	(531)
Income before extraordinary item	1,960	168	168	301
Extraordinary loss on retirement of debt, net of \$9 and \$37 million income tax benefit in 1999 and 1997, respectively	(12)	—	—	(55)
Net income	1,948	168	168	246
Preferred dividend requirements ^(e)	(52)	(540)	(540)	(319)
Net income (loss) applicable to common shares	<u>\$ 1,896</u>	<u>\$ (372)</u>	<u>\$ (372)</u>	<u>\$ (73)</u>
Income (loss) per common share before extraordinary item:				
Basic	<u>\$ 1.51</u>	<u>\$ (.31)</u>	<u>\$ (.31)</u>	<u>\$ (.01)</u>
Diluted	<u>\$ 1.43</u>	<u>\$ (.31)</u>	<u>\$ (.31)</u>	<u>\$ (.01)</u>
Net income (loss) per common share:				
Basic	<u>\$ 1.50</u>	<u>\$ (.31)</u>	<u>\$ (.31)</u>	<u>\$ (.06)</u>
Diluted	<u>\$ 1.42</u>	<u>\$ (.31)</u>	<u>\$ (.31)</u>	<u>\$ (.06)</u>
Average common shares:				
Basic	<u>1,267.0</u>	<u>1,194.7</u>	<u>1,194.7</u>	<u>1,135.4</u>
Diluted	<u>1,398.3</u>	<u>1,194.7</u>	<u>1,194.7</u>	<u>1,135.4</u>

(a) The 1999 financial statements reflect the consolidation of the Entertainment Group, which substantially consists of TWE, retroactive to the beginning of 1999. Time Warner's historical financial statements for prior periods have not been changed; however, in order to enhance comparability, pro forma financial statements for 1998 reflecting the consolidation of the Entertainment Group are presented supplementally (Note 1).

(b) Includes the following income (expenses) resulting from transactions with related companies and, on a historical basis for 1998 and 1997, the Entertainment Group:

Revenues	\$ 506	\$ 511	\$ 487	\$ 384
Cost of revenues	(207)	(154)	(318)	(245)
Selling, general and administrative	(29)	(23)	(40)	(53)
Gain (loss) on sale or exchange of cable systems and investments	427	(4)	(4)	—
Equity in pretax income of Entertainment Group	—	—	105	5
Interest and other, net	12	1	(9)	(36)
Corporate expenses	—	—	72	72

(c) Includes depreciation expense of:

	<u>\$ 1,231</u>	<u>\$ 1,305</u>	<u>\$ 378</u>	<u>\$ 382</u>
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(d) Includes an approximate \$115 million pretax gain recognized in the second quarter of 1999 in connection with the initial public offering of a 20% interest in Time Warner Telecom Inc.

(e) Preferred dividend requirements for 1998 include a one-time effect of \$234 million relating to the premium paid in connection with the redemption of the Company's 10¼% Series M exchangeable preferred stock ("Series M Preferred Stock"). See Note 11.

See accompanying notes.

TIME WARNER INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
Years Ended December 31,
(millions)

	<u>1999</u> <u>Historical^(a)</u>	<u>1998</u> <u>Pro Forma^(a)</u>	<u>1998</u> <u>Historical^(a)</u>	<u>1997</u> <u>Historical^(a)</u>
OPERATIONS				
Net income	\$ 1,948	\$ 168	\$ 168	\$ 246
Adjustments for noncash and nonoperating items:				
Extraordinary loss on retirement of debt	12	—	—	55
Depreciation and amortization	2,529	2,635	1,178	1,294
Amortization of film costs	2,294	2,478	542	379
Noncash interest expense	4	30	30	98
Gain on sale or exchange of cable systems and investments	(2,247)	(108)	(18)	(12)
Excess (deficiency) of distributions over equity in pretax income of Entertainment Group	—	—	342	(207)
Equity in losses of other investee companies after distributions	344	267	147	36
Changes in operating assets and liabilities:				
Receivables	(349)	(940)	(597)	(167)
Inventories	(2,321)	(2,962)	(854)	(463)
Accounts payable and other liabilities	1,690	1,500	810	501
Other balance sheet changes	49	340	97	(352)
Cash provided by operations	<u>3,953</u>	<u>3,408</u>	<u>1,845</u>	<u>1,408</u>
INVESTING ACTIVITIES				
Consolidation of the Entertainment Group's cash and equivalents	87	—	—	—
Investments and acquisitions	(870)	(548)	(159)	(113)
Capital expenditures	(2,231)	(2,115)	(512)	(574)
Investment proceeds	1,084	1,755	569	187
Proceeds received from distribution of TWE Senior Capital	—	—	455	455
Cash provided (used) by investing activities	<u>(1,930)</u>	<u>(908)</u>	<u>353</u>	<u>(45)</u>
FINANCING ACTIVITIES				
Borrowings	4,332	5,257	3,743	5,413
Debt repayments	(3,749)	(4,215)	(2,317)	(6,394)
Borrowings against future stock option proceeds	348	1,015	1,015	230
Repayments of borrowings against future stock option proceeds	—	(653)	(653)	(185)
Redemption of mandatorily redeemable preferred securities of subsidiary	(217)	—	—	—
Repurchases of Time Warner common stock	(1,896)	(2,240)	(2,240)	(344)
Redemption of Series M Preferred Stock	—	(2,093)	(2,093)	—
Dividends paid	(289)	(524)	(524)	(338)
Proceeds received from stock option and dividend reinvestment plans ..	421	740	740	454
Other	(131)	(225)	(72)	(68)
Cash used by financing activities	<u>(1,181)</u>	<u>(2,938)</u>	<u>(2,401)</u>	<u>(1,232)</u>
INCREASE (DECREASE) IN CASH AND EQUIVALENTS	842	(438)	(203)	131
CASH AND EQUIVALENTS AT BEGINNING OF PERIOD	442	967	645	514
CASH AND EQUIVALENTS AT END OF PERIOD	<u>\$ 1,284</u>	<u>\$ 529</u>	<u>\$ 442</u>	<u>\$ 645</u>

(a) The 1999 financial statements reflect the consolidation of the Entertainment Group, which substantially consists of TWE, retroactive to the beginning of 1999. Time Warner's historical financial statements for prior periods have not been changed; however, in order to enhance comparability, pro forma financial statements for 1998 reflecting the consolidation of the Entertainment Group are presented supplementally (Note 1).

See accompanying notes.

TIME WARNER INC.
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
(millions)

	<u>Preferred Stock</u>	<u>Common Stock</u>	<u>Paid-In Capital</u>	<u>Accumulated Deficit</u>	<u>Total</u>
BALANCE AT DECEMBER 31, 1996	\$ 4	\$11	\$12,245	\$(2,758)	\$9,502
Net income				246	246
Foreign currency translation adjustments				(76)	(76)
Unrealized losses on securities, net of \$89 million tax benefit ^(a)				(128)	(128)
Comprehensive income				42	42
Common stock dividends				(204)	(204)
Preferred stock dividends				(319)	(319)
Issuance of common stock in connection with the TBS acquisition			67		67
Repurchases of Time Warner common stock			(344)		(344)
Shares issued pursuant to stock option, dividend reinvestment and benefit plans			711	(98)	613
Other			(4)	3	(1)
BALANCE AT DECEMBER 31, 1997	4	11	12,675	(3,334)	9,356
Net income				168	168
Foreign currency translation adjustments				4	4
Realized and unrealized losses on derivative financial instruments, net of \$13 million tax benefit				(20)	(20)
Cumulative effect of change in accounting for derivative financial instruments, net of \$3 million tax benefit				(18)	(18)
Comprehensive income				134	134
Common stock dividends				(216)	(216)
Preferred stock dividends				(540)	(540)
Issuance of common stock in connection with the conversion of zero- coupon convertible notes due 2013			1,150		1,150
Issuance of common stock in connection with the conversion of convertible preferred stock	(2)	1	151	(150)	—
Repurchases of Time Warner common stock		(1)	(2,239)		(2,240)
Shares issued pursuant to stock option, dividend reinvestment and benefit plans		1	1,397	(190)	1,208
BALANCE AT DECEMBER 31, 1998	2	12	13,134	(4,296)	8,852
Net income				1,948	1,948
Foreign currency translation adjustments				(63)	(63)
Unrealized gains on securities, net of \$147 million tax provision				221	221
Realized and unrealized gains on derivative financial instruments, net of \$6 million tax provision				9	9
Comprehensive income				2,115	2,115
Common stock dividends				(228)	(228)
Preferred stock dividends				(52)	(52)
Issuance of common stock in connection with the conversion of convertible preferred stock	(1)	1	23	(23)	—
Repurchases of Time Warner common stock			(1,896)		(1,896)
Shares issued pursuant to stock option, dividend reinvestment and benefit plans			1,737	(815)	922
BALANCE AT DECEMBER 31, 1999	<u>\$ 1</u>	<u>\$13</u>	<u>\$12,998</u>	<u>\$(3,299)</u>	<u>\$9,713</u>

(a) Includes a \$13 million reduction (net of a \$9 million tax effect) related to realized gains on the sale of securities in 1997.

See accompanying notes.

TIME WARNER INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Business

Time Warner Inc. ("Time Warner" or the "Company") is the world's leading media and entertainment company. Time Warner's principal business objective is to create and distribute branded information and entertainment copyrights throughout the world. Time Warner classifies its business interests into six fundamental areas: *Cable Networks*, consisting principally of interests in cable television programming; *Publishing*, consisting principally of interests in magazine publishing, book publishing and direct marketing; *Music*, consisting principally of interests in recorded music and music publishing; *Filmed Entertainment*, consisting principally of interests in filmed entertainment, television production and television broadcasting; *Cable*, consisting principally of interests in cable television systems; and *Digital Media*, consisting principally of interests in Internet-related and digital media businesses.

Each of the business interests within Cable Networks, Publishing, Music, Filmed Entertainment, Cable and Digital Media is important to management's objective of increasing shareholder value through the creation, extension and distribution of recognizable brands and copyrights throughout the world. Such brands and copyrights include (1) leading cable television networks, such as HBO, Cinemax, CNN, TNT and TBS Superstation, (2) magazine franchises, such as *Time*, *People* and *Sports Illustrated* and direct marketing brands such as Time Life Inc. and Book-of-the-Month Club, (3) copyrighted music from many of the world's leading recording artists that is produced and distributed by a family of established record labels such as Warner Bros. Records, Atlantic Records, Elektra Entertainment and Warner Music International, (4) the unique and extensive film, television and animation libraries owned or managed by Warner Bros. and New Line Cinema, and trademarks such as the *Looney Tunes* characters, *Batman* and *The Flintstones*, (5) The WB Network, a national broadcasting network launched in 1995 as an extension of the Warner Bros. brand and as an additional distribution outlet for the Company's collection of children's cartoons and television programming, (6) Time Warner Cable, currently the largest operator of cable television systems in the U.S. and (7) Internet websites, such as CNN.com and Entertaimdom.com.

Financial information for Time Warner's various business segments is presented herein as an indication of financial performance (Note 16). Except for start-up losses incurred in connection with The WB Network and Digital Media, Time Warner's principal business segments generate significant operating income and cash flow from operations. The cash flow from operations generated by such business segments is considerably greater than their operating income due to significant amounts of noncash amortization of intangible assets recognized in various acquisitions accounted for by the purchase method of accounting. Noncash amortization of intangible assets recorded by Time Warner's business segments amounted to \$1.298 billion in 1999, \$800 million in 1998 (\$1.330 billion on a pro forma basis) and \$912 million in 1997.

Basis of Presentation

Consolidation of TWE

A majority of Time Warner's interests in filmed entertainment, television production, television broadcasting and cable television systems, and a portion of its interests in cable television programming and digital media are held through Time Warner Entertainment Company, L.P. ("TWE"). Time Warner owns general and limited partnership interests in TWE consisting of 74.49% of the pro rata priority capital ("Series A Capital") and residual equity capital ("Residual Capital"), and 100% of the junior priority capital ("Series B Capital"). The remaining 25.51% limited partnership interests in the Series A Capital and Residual Capital of TWE are held by a subsidiary of MediaOne Group, Inc. ("MediaOne").

Since 1993, Time Warner historically had not consolidated TWE and certain related companies (the "Entertainment Group") for financial reporting purposes because MediaOne had rights that allowed it to

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

participate in the management of TWE's businesses. However, in August 1999, TWE received a notice from MediaOne concerning the termination of its covenant not to compete with TWE. The termination of that covenant is necessary for MediaOne to complete its proposed merger with AT&T Corp. ("AT&T"). As a result of the termination notice and the operation of the TWE partnership agreement, MediaOne's rights to participate in the management of TWE's businesses terminated immediately and irrevocably. MediaOne retains only certain protective governance rights pertaining to certain limited matters affecting TWE as a whole.

Because of this significant reduction in MediaOne's rights, Time Warner's 1999 financial statements reflect the consolidation of the Entertainment Group, which substantially consists of TWE, retroactive to the beginning of 1999. Time Warner's historical financial statements for prior periods have not been changed, but are no longer comparable to 1999 because the Entertainment Group was reflected on an unconsolidated basis using the equity method of accounting. Accordingly, in order to enhance comparability, pro forma financial statements for 1998 reflecting the consolidation of the Entertainment Group are presented supplementally.

1998 Stock Split

Common stock, paid-in-capital, stock options, per common share and average common share amounts give effect to a two-for-one common stock split that occurred on December 15, 1998.

Reclassifications

Certain reclassifications have been made to the prior years' financial statements to conform to the 1999 presentation.

Basis of Consolidation and Accounting for Investments

The consolidated financial statements include 100% of the assets, liabilities, revenues, expenses, income, loss and cash flows of Time Warner and all companies in which Time Warner has a controlling voting interest ("subsidiaries"), as if Time Warner and its subsidiaries were a single company. Significant intercompany accounts and transactions between the consolidated companies have been eliminated.

Investments in companies in which Time Warner has significant influence, but less than a controlling voting interest, are accounted for using the equity method. Under the equity method, only Time Warner's investment in and amounts due to and from the equity investee are included in the consolidated balance sheet; only Time Warner's share of the investee's earnings is included in the consolidated operating results; and only the dividends, cash distributions, loans or other cash received from the investee, less any additional cash investments, loan repayments or other cash paid to the investee, are included in the consolidated cash flows.

Investments in companies in which Time Warner does not have a controlling interest, or an ownership and voting interest so large as to exert significant influence, are accounted for at market value if the investments are publicly traded and there are no resale restrictions greater than one year. If there are resale restrictions greater than one year, or if the investment is not publicly traded, then the investment is accounted for at cost. Unrealized gains and losses on investments accounted for at market value are reported net-of-tax as a component of accumulated other comprehensive income (loss) in accumulated deficit until the investment is sold, at which time the realized gain or loss is included in income. Dividends and other distributions of earnings from both market-value and cost-method investments are included in income when declared.

The effect of any changes in Time Warner's ownership interests resulting from the issuance of equity capital by consolidated subsidiaries or equity investees to unaffiliated parties is included in income.

Foreign Currency Translation

The financial position and operating results of substantially all foreign operations are consolidated using the local currency as the functional currency. Local currency assets and liabilities are translated at the rates of

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exchange on the balance sheet date, and local currency revenues and expenses are translated at average rates of exchange during the period. Resulting translation gains or losses, which have not been material, are included as a component of accumulated other comprehensive income (loss) in accumulated deficit.

Use of Estimates

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

Significant estimates inherent in the preparation of the accompanying consolidated financial statements include management's forecast of anticipated revenues and cash flows from investments and the sale of future and existing music and publishing-related products, as well as from the distribution of theatrical and television product, in order to evaluate the ultimate recoverability of accounts receivable, film inventory, artist and author advances and investments, recorded as assets in the consolidated balance sheet. Accounts receivable and sales of product in the music and publishing industries, as well as sales of home video product in the filmed entertainment industry, are subject to customers' rights to return unsold items. Management periodically reviews such estimates and it is reasonably possible that management's assessment of recoverability of accounts receivable, individual films and television product, individual artist and author advances, and investments may change based on actual results and other factors.

Revenues and Costs

Publishing and Music

The unearned portion of paid magazine subscriptions is deferred until magazines are delivered to subscribers. Upon each delivery, a proportionate share of the gross subscription price is included in revenues. Magazine advertising revenues are recognized when the advertisements are published.

In accordance with industry practice, certain products (such as magazines, books, home videocassettes, compact discs, DVDs and cassettes) are sold to customers with the right to return unsold items. Revenues from such sales are recognized when the products are shipped based on gross sales less a provision for future returns.

Inventories of magazines, books, cassettes and compact discs are stated at the lower of cost or estimated realizable value. Cost is determined using first-in, first-out; last-in, first-out; and average cost methods. Returned goods included in inventory are valued at estimated realizable value, but not in excess of cost.

Cable and Cable Networks

A significant portion of cable system and cable network programming revenues are derived from subscriber fees and advertising. Subscriber fees are recorded as revenue in the period the service is provided and advertising revenues are recognized in the period that the advertisements are exhibited. The costs of rights to exhibit feature films and other programming on the cable networks during one or more availability periods ("programming costs") generally are recorded when the programming is initially available for exhibition, and are allocated to the appropriate availability periods and amortized as the programming is exhibited.

Digital Media

Digital media revenues primarily are derived from advertising and e-commerce activities. Advertising revenues are recognized in the period that the advertisements are exhibited. Revenues from e-commerce activities are recognized when the products are sold.

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Filmed Entertainment

Feature films are produced or acquired for initial exhibition in theaters followed by distribution in the home video, pay cable, basic cable, broadcast network and syndicated television markets. Generally, distribution to the theatrical, home video and pay cable markets (the primary markets) is completed principally within eighteen months of initial release. Thereafter, feature films are distributed to the basic cable, broadcast network and syndicated television markets (the secondary markets). Theatrical revenues are recognized as the films are exhibited. Home video revenues, less a provision for returns, are recognized when the home videos are sold. Revenues from the distribution of theatrical product to cable, broadcast network and syndicated television markets are recognized when the films are available to telecast.

Television films and series are initially produced for the networks or first-run television syndication (the primary markets) and may be subsequently licensed to foreign or domestic cable and syndicated television markets (the secondary markets). Revenues from the distribution of television product are recognized when the films or series are available to telecast, except for barter agreements where the recognition of revenue is deferred until the related advertisements are exhibited.

License agreements for the telecast of theatrical and television product in the cable, broadcast network and syndicated television markets are routinely entered into well in advance of their available date for telecast, which is generally determined by the telecast privileges granted under previous license agreements. Accordingly, there are significant contractual rights to receive cash and barter under these licensing agreements. For cash contracts, the related revenues will not be recognized until such product is available for telecast under the contractual terms of the related license agreement. For barter contracts, the related revenues will not be recognized until the product is available for telecast and the advertising spots received under such contracts are either used or sold to third parties. All of these contractual rights for which revenue is not yet recognizable is referred to as "backlog."

Inventories of theatrical and television product are stated at the lower of unamortized cost or net realizable value. Cost principally consists of direct production costs and production overhead. A portion of the cost to acquire TBS in 1996 was allocated to its theatrical and television product, including an allocation to purchased program rights (such as the animation library of Hanna-Barbera Inc. and the former film and television libraries of Metro-Goldwyn-Mayer, Inc. and RKO Pictures, Inc.) and product that had been exhibited at least once in all markets ("Library"). Library product is amortized on a straight-line basis over twenty years. Individual films and series are amortized, and the related participations and residuals are accrued, based on the proportion that current revenues from the film or series bear to an estimate of total revenues anticipated from all markets. These estimates are revised periodically and losses, if any, are provided in full. Current film inventories generally include the unamortized cost of completed feature films allocated to the primary markets, television films and series in production pursuant to a contract of sale, film rights acquired for the home video market and advances pursuant to agreements to distribute third-party films in the primary markets. Noncurrent film inventories generally include the unamortized cost of completed theatrical and television films allocated to the secondary markets, theatrical films in production and the Library.

Proposed Changes to Film Accounting Standards

In October 1998, the Accounting Standards Executive Committee of the American Institute of Certified Public Accountants ("AcSEC") issued an exposure draft of a proposed Statement of Position, "Accounting by Producers and Distributors of Films" (the "SOP"). The proposed rules would establish new accounting standards for producers and distributors of films, including changes in revenue recognition and accounting for advertising, development and overhead costs.

AcSEC currently is in the process of finalizing these proposed rules. Based on AcSEC's conclusions reached as of the end of 1999, the SOP would require that advertising costs for theatrical and television product

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be expensed as incurred. This compares to Time Warner's existing policy of capitalizing and then expensing advertising costs for theatrical product over the related revenue streams. In addition, the SOP would require development costs for abandoned projects and certain indirect overhead costs to be charged directly to expense, instead of those costs being capitalized to film costs, which currently is required under the existing accounting model. The SOP would also require all film costs to be classified in the balance sheet as a noncurrent asset. The proposed SOP's provisions in other areas, such as revenue recognition, generally are consistent with Time Warner's existing accounting policies.

At the time that Time Warner adopts the final provisions of the SOP, it expects to record a one-time, noncash, after-tax charge of approximately \$400 to \$425 million primarily to reduce the carrying value of its film inventory. This charge will be reflected as a cumulative effect of a change in accounting principle.

The provisions of the SOP are still being deliberated by AcSEC and could change prior to the issuance of a final standard, which is expected to occur by the end of the second quarter of 2000. The SOP is expected to be effective for calendar-year companies on January 1, 2001, with early application encouraged. Time Warner expects to adopt the provisions of the SOP upon issuance.

Revenue Classification Changes

In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements" ("SAB 101"), which will be effective for Time Warner in the second quarter of 2000. SAB 101 clarifies certain existing accounting principles for the recognition and classification of revenues in financial statements. While Time Warner's existing revenue recognition policies are consistent with the provisions of SAB 101, the new rules are expected to result in some changes as to how the filmed entertainment industry classifies its revenues, particularly relating to distribution arrangements for third-party and co-financed joint venture product. As a result, Time Warner is in the process of evaluating the overall impact of SAB 101 on its consolidated financial statements. It is expected that both annual revenues and costs in Time Warner's filmed entertainment businesses will be reduced by an equal amount of approximately \$1.5 to \$2 billion as a result of these classification changes. However, other aspects of SAB 101 are not expected to have a significant effect on Time Warner's consolidated financial statements.

Advertising

Through 1999, in accordance with Financial Accounting Standards Board ("FASB") Statement No. 53, "Financial Reporting by Producers and Distributors of Motion Picture Films," advertising costs for theatrical and television product have been capitalized and amortized over the related revenue streams in each market that such costs are intended to benefit, which generally does not exceed three months. Other advertising costs are expensed upon the first exhibition of the advertisement, except for certain direct-response advertising, for which the costs are capitalized and amortized over the expected period of future benefits. Direct-response advertising principally consists of product promotional mailings, broadcast advertising, catalogs and other promotional costs incurred in the Company's direct-marketing businesses. Deferred advertising costs generally are amortized over periods of up to three years subsequent to the promotional event using straight-line or accelerated methods, with a significant portion of such costs amortized in twelve months or less. Deferred advertising costs for Time Warner amounted to \$250 million at the end of 1999 and \$282 million at the end of 1998 (\$282 million on a pro forma basis), respectively. Advertising expense, excluding theatrical and television product, amounted to \$1.511 billion in 1999, \$1.154 billion in 1998 (\$1.438 billion on a pro forma basis) and \$1.080 billion in 1997.

Cash and Equivalents

Cash equivalents consist of commercial paper and other investments that are readily convertible into cash and have original maturities of three months or less.

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Financial Instruments

Effective July 1, 1998, Time Warner adopted FASB Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("FAS 133"). FAS 133 requires that all derivative financial instruments that qualify for hedge accounting, such as interest rate swap contracts and foreign exchange contracts, be recognized in the financial statements and measured at fair value regardless of the purpose or intent for holding them. Changes in the fair value of derivative financial instruments are either recognized periodically in income or shareholders' equity (as a component of comprehensive income), depending on whether the derivative is being used to hedge changes in fair value or cash flows. The adoption of FAS 133 did not have a material effect on Time Warner's primary financial statements, but did reduce comprehensive income in 1998 by \$18 million in the accompanying consolidated statement of shareholders' equity.

The carrying value of Time Warner's financial instruments approximates fair value, except for differences with respect to long-term, fixed-rate debt (Note 7) and certain differences relating to cost method investments and other financial instruments that are not significant. The fair value of financial instruments is generally determined by reference to market values resulting from trading on a national securities exchange or in an over-the-counter market. In cases where quoted market prices are not available, fair value is based on estimates using present value or other valuation techniques.

Property, Plant and Equipment

Property, plant and equipment are stated at cost. Additions to cable property, plant and equipment generally include material, labor, overhead and interest. Depreciation is provided generally on the straight-line method over useful lives ranging up to thirty years for buildings and improvements and up to sixteen years for furniture, fixtures, cable television and other equipment. Property, plant and equipment consists of:

	December 31,		
	1999 Historical	1998 Pro Forma (millions)	1998 Historical
Land and buildings.....	\$ 1,606	\$ 1,764	\$ 963
Cable television equipment	8,671	7,648	1,035
Furniture, fixtures and other equipment	4,048	3,714	1,400
	14,325	13,126	3,398
Less accumulated depreciation	(5,597)	(5,089)	(1,407)
Total	\$ 8,728	\$ 8,037	\$ 1,991

Intangible Assets

As a creator and distributor of branded information and entertainment copyrights, Time Warner has a significant and growing number of intangible assets, including goodwill, cable television and sports franchises, film and television libraries, music catalogues, contracts and copyrights, and other copyrighted products and trademarks. In accordance with generally accepted accounting principles, Time Warner does not recognize the fair value of internally generated intangible assets. Costs incurred to create and produce copyrighted product, such as feature films, television series and compact discs, generally are either expensed as incurred, or capitalized as tangible assets as in the case of cash advances and inventoriable product costs. However, accounting recognition is not given to any increasing asset value that may be associated with the collection of the underlying copyrighted material. Additionally, costs incurred to create or extend brands, such as magazine titles and new television networks, generally result in losses over an extended development period and are recognized as a reduction of income as incurred, while any corresponding brand value created is not recognized

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as an intangible asset in the consolidated balance sheet. On the other hand, intangible assets acquired in business combinations accounted for by the purchase method of accounting are capitalized and amortized over their expected useful life as a noncash charge against future results of operations. Accordingly, the intangible assets reported in the consolidated balance sheet do not reflect the fair value of Time Warner's internally generated intangible assets, but rather are limited to intangible assets resulting from certain acquisitions in which the cost of the acquired companies exceeded the fair value of their tangible assets at the time of acquisition.

Time Warner amortizes goodwill and sports franchises over periods up to forty years using the straight-line method. Cable television franchises, film and television libraries, music catalogues, contracts and copyrights, and other intangible assets are amortized over periods up to twenty years using the straight-line method. Amortization of intangible assets amounted to \$1.298 billion in 1999, \$800 million in 1998 (\$1.330 billion on a pro forma basis) and \$912 million in 1997. Accumulated amortization of intangible assets at December 31, 1999 and 1998 amounted to \$8.3 billion and \$3.9 billion (\$7.4 billion on a pro forma basis), respectively.

Time Warner periodically reviews the carrying value of acquired intangible assets for each acquired entity to determine whether an impairment may exist. Time Warner considers relevant cash flow and profitability information, including estimated future operating results, trends and other available information, in assessing whether the carrying value of intangible assets can be recovered. If it is determined that the carrying value of intangible assets will not be recovered from the undiscounted future cash flows of the acquired business, the carrying value of such intangible assets would be considered impaired and reduced by a charge to operations in the amount of the impairment. An impairment charge is measured as any deficiency in the amount of estimated undiscounted future cash flows of the acquired business available to recover the carrying value related to the intangible assets.

Income Taxes

Income taxes are provided using the liability method prescribed by FASB Statement No. 109, "Accounting for Income Taxes." Under the liability method, deferred income taxes reflect tax 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. 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 investment tax credit carryforwards acquired in acquisitions is accounted for as a reduction of goodwill.

The principal operations of the Entertainment Group are conducted by partnerships. Time Warner's income tax expense for all periods includes all income taxes related to its allocable share of partnership income and its equity in the income tax expense of corporate subsidiaries of the Entertainment Group.

Stock Options

In accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25"), compensation cost for stock options is recognized in income based on the excess, if any, of the quoted market price of the stock at the grant date of the award or other measurement date over the amount an employee must pay to acquire the stock. Generally, the exercise price for stock options granted to employees equals or exceeds the fair market value of Time Warner common stock at the date of grant, thereby resulting in no recognition of compensation expense by Time Warner.

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 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

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share for the effects of convertible securities, stock options and other potentially dilutive financial instruments, only in the periods in which such effect is dilutive.

Comprehensive Income

In accordance with FASB Statement No. 130, "Reporting Comprehensive Income," Time Warner reports comprehensive income and its components in financial statements. Comprehensive income consists of net income and other gains and losses affecting shareholders' equity that, under generally accepted accounting principles, are excluded from net income. For Time Warner, such items consist primarily of unrealized gains and losses on marketable equity investments, gains and losses on certain derivative financial instruments and foreign currency translation gains and losses.

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

	Foreign Currency Translation Losses	Unrealized Gains on Securities	Derivative Financial Instrument Gains (Losses)	Accumulated Other Comprehensive Income (Loss)
	(millions)			
Balance at December 31, 1998	\$ (83)	\$ 5	\$(38)	\$(116)
1999 activity	<u>(63)</u>	<u>221</u>	<u>9</u>	<u>167</u>
Balance at December 31, 1999	<u>\$(146)</u>	<u>\$226</u>	<u>\$(29)</u>	<u>\$ 51</u>

2. CABLE TRANSACTIONS

Time Warner, TWE and the TWE-Advance/Newhouse Partnership ("TWE-A/N") completed a series of significant transactions in 1999 and 1998. These transactions, which related to the cable television business and related ancillary businesses, enhanced Time Warner Cable's geographic clustering of cable television properties or reduced existing debt and/or Time Warner Cable's share of future funding requirements for such businesses. These transactions are discussed more fully below.

Gain on Sale or Exchange of Cable Television Systems and Investments

During the past three years, largely in an effort to enhance their geographic clustering of cable television properties, Time Warner and TWE sold or exchanged various cable television systems and investments. The 1999 transactions included a number of transactions generally involving large exchanges of cable television systems. In these transactions, Time Warner Cable exchanged cable television systems serving approximately (i) 575,000 subscribers for other cable television systems of comparable size owned by TCI Communications, Inc. ("TCI"), a subsidiary of AT&T (the "TCI Cable Trades") and (ii) 314,000 subscribers for other cable television systems of comparable size owned by MediaOne. In addition, in 1999, Time Warner Cable obtained sole control of certain partnerships previously held with Fanch Communications, retaining cable television systems serving approximately 158,000 subscribers and approximately \$280 million of net cash proceeds, in exchange for its interests in other cable television systems formerly owned by such partnerships. The systems acquired by Time Warner Cable were accounted for under the purchase method of accounting for business combinations. As such, the net assets received were recorded at fair value based on the negotiated terms of the transactions. In connection with these and other transactions, the operating results of Time Warner include net pretax gains of \$2.247 billion in 1999, \$108 million in 1998 and \$212 million in 1997.

Because a substantial portion of these pretax gains was recognized by TWE, and TWE was reported on an unconsolidated basis for all periods prior to 1999, these gains were either classified in Time Warner's operating

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income or Time Warner's equity in the pretax income of the Entertainment Group in the accompanying consolidated statement of operations. In particular, Time Warner's operating income includes pretax gains of \$2.247 billion in 1999, \$18 million in 1998 (\$108 million on a pro forma basis) and \$12 million in 1997. In 1998 and 1997, Time Warner's equity in the pretax income of the Entertainment Group included pretax gains of \$90 million and \$200 million, respectively.

Time Warner Telecom

Time Warner Telecom Inc. ("Time Warner Telecom"), an integrated communications provider that provides a wide range of telephony and data services to businesses, was formed in July 1998 when Time Warner, TWE and TWE-A/N completed a reorganization of their business telephony operations (the "Time Warner Telecom Reorganization"). As part of that reorganization, (i) the business telephony operations conducted by Time Warner, TWE and TWE-A/N were each contributed to Time Warner Telecom and (ii) TWE's and TWE-A/N's interests in Time Warner Telecom were distributed to their partners, Time Warner, MediaOne and the Advance/Newhouse Partnership ("Advance/Newhouse"), a limited partner in TWE-A/N. No gain or loss was recognized on the transaction. Time Warner's initial interest in Time Warner Telecom was recorded based on the historical cost basis of the contributed net assets.

In May 1999, Time Warner Telecom completed an initial public offering of 20% of its common stock (the "Time Warner Telecom IPO"). Time Warner Telecom issued approximately 21 million shares of common stock at a price of \$14 per share and raised net proceeds of approximately \$270 million. Approximately \$180 million of these proceeds were used to pay obligations owed to Time Warner and TWE. In turn, Time Warner and TWE used those proceeds principally to reduce bank debt. In connection with the Time Warner Telecom IPO and certain related transactions, Time Warner's ownership interest in Time Warner Telecom was diluted from 62% to 48%. As a result, Time Warner recognized a gain of approximately \$115 million before providing for deferred taxes. This gain has been included in interest and other, net, in Time Warner's 1999 consolidated statement of operations.

As of December 31, 1999, Time Warner Telecom is owned 48% by Time Warner, 15% by MediaOne, 15% by Advance/Newhouse and 22% by other third parties. Time Warner's interest in Time Warner Telecom is being accounted for under the equity method of accounting.

Primestar

In April 1998, TWE and Advance/Newhouse transferred the direct broadcast satellite operations conducted by TWE and TWE-A/N (the "DBS Operations") and the 31% partnership interest in Primestar Partners, L.P. held by TWE-A/N ("Primestar Partners" and collectively, the "Primestar Assets") to Primestar, Inc. ("Primestar"), a separate holding company. As a result of that transfer and similar transfers by the other previously existing partners of Primestar Partners, Primestar Partners became an indirect wholly owned subsidiary of Primestar. In exchange for contributing its interests in the Primestar Assets, TWE received approximately 48 million shares of Primestar common stock (representing an approximate 24% equity interest) and realized approximately \$240 million of debt reduction. As a result of this transaction, effective as of April 1, 1998, TWE deconsolidated the DBS Operations and the 24% equity interest in Primestar received in the transaction is being accounted for under the equity method of accounting. This transaction is referred to as the "Primestar Roll-up Transaction."

In the fourth quarter of 1998, TWE recorded a charge of approximately \$210 million principally to reduce the carrying value of its interest in Primestar. This charge reflected a significant decline in the fair value of Primestar during that quarter. The decline in Primestar's value was confirmed by the sale of its operations and assets to DirecTV, a competitor of Primestar owned by Hughes Electronics Corp., which occurred during the first half of 1999.

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As a result of the sale to DirecTV, Primestar began to wind down its operations during 1999. Time Warner recognized its share of Primestar's 1999 losses under the equity method of accounting. Such losses are included in interest and other, net in Time Warner's 1999 consolidated statement of operations. As of December 31, 1999, Primestar has substantially completed the wind down of its operations. As such, future wind-down losses are not expected to be material to Time Warner's operating results.

On a historical basis, the 1998 charge has been included in Time Warner's equity in the pretax income of the Entertainment Group and, on a pro forma basis for 1998, in Time Warner's interest and other, net in the accompanying consolidated statement of operations.

TCI Cable Transactions

During 1999 and 1998, Time Warner, TWE, TWE-A/N and TCI completed a number of significant cable-related transactions. These transactions consisted of (i) the formation in December 1998 of a cable television joint venture in Texas (the "Texas Cable Joint Venture") that is managed by Time Warner Cable, (ii) the expansion in August 1998 of an existing joint venture in Kansas City, which is managed by Time Warner Cable, through the contribution by TCI of a contiguous cable television system serving approximately 95,000 subscribers, subject to approximately \$200 million of debt and (iii) the TCI Cable Trades in 1999, as previously discussed above. The Kansas City joint venture is being accounted for under the equity method of accounting.

The Texas Cable Joint Venture is a 50-50 cable television joint venture between TWE-A/N and TCI. TWE-A/N contributed cable television systems serving approximately 545,000 subscribers, subject to approximately \$650 million of debt. TCI contributed cable television systems serving approximately 565,000 subscribers, subject to approximately \$650 million of debt. TWE-A/N did not recognize a gain or loss on the transaction and the initial investment in the Texas Cable Joint Venture was recorded based on the historical cost basis of the contributed net assets. The Texas Cable Joint Venture is being accounted for under the equity method of accounting.

As a result of the formation of the Texas Cable Joint Venture, the combined debt of Time Warner and TWE was reduced by approximately \$650 million. Also, as a result of the Texas and Kansas City transactions, Time Warner and TWE benefited from the geographic clustering of cable television systems and the number of subscribers under the management of Time Warner Cable was increased by approximately 660,000 subscribers.

Road Runner Joint Venture

In June 1998, Time Warner, TWE, TWE-A/N, MediaOne, Microsoft Corp. ("Microsoft") and Compaq Computer Corp. ("Compaq") formed a joint venture to operate and expand Time Warner Cable's and MediaOne's existing high-speed online businesses (the "Road Runner Joint Venture"). In exchange for contributing these operations, Time Warner received a common equity interest in the Road Runner Joint Venture of 10.7%, TWE received a 25% interest, TWE-A/N received a 32.9% interest and MediaOne received a 31.4% interest. In exchange for Microsoft and Compaq contributing \$425 million of cash to the Road Runner Joint Venture, Microsoft and Compaq each received a preferred equity interest therein that is convertible into a 10% common equity interest (the "Preferred Equity Interests"). Accordingly, on a fully diluted basis, the Road Runner Joint Venture is owned 8.6% by Time Warner, 20% by TWE, 26.3% by TWE-A/N, 25.1% by MediaOne, 10% by Microsoft and 10% by Compaq. No gain or loss was recognized on the transaction. As such, each of Time Warner's, TWE's and TWE-A/N's initial interest in the Road Runner Joint Venture was recorded based on the historical cost basis of the contributed net assets. In addition, each of Time Warner's, TWE's and TWE-A/N's interest in the Road Runner Joint Venture is being accounted for under the equity method of accounting because of certain approval rights held by MediaOne.

If the Road Runner Joint Venture does not successfully complete a public offering of its common stock by December 31, 2001, Microsoft and Compaq may put their Preferred Equity Interests back to the venture at an

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independently determined fair value, plus any accrued and unpaid dividends at a rate of 6% per annum. Microsoft and Compaq also have the right to put their Preferred Equity Interests back to the venture upon the occurrence of certain early termination events, as set forth in the partnership agreement. If these termination rights are triggered and exercised, the put price paid to Microsoft and Compaq will equal the amount of their original investment plus a cumulative annual preferred return of 15%.

The aggregate \$425 million of capital contributed by Microsoft and Compaq is being used by the Road Runner Joint Venture to continue to expand the roll out of high-speed online services. Time Warner Cable has entered into an affiliation agreement with the Road Runner Joint Venture, pursuant to which Time Warner Cable provides Road Runner's high-speed online services to customers in its cable franchise areas through its technologically advanced, high-capacity cable architecture. In exchange, Time Warner Cable initially retains 70% of the subscription revenues and 30% of the national advertising and transactional revenues generated from the delivery of these online services to its cable subscribers. Time Warner Cable's share of these subscription revenues will change periodically to 75% by 2006.

TWE-A/N Transfers

As of December 31, 1999, TWE-A/N owned cable television systems (or interests therein) serving approximately 6.7 million subscribers, of which 5.5 million subscribers were served by consolidated, wholly owned cable television systems and 1.2 million subscribers were served by unconsolidated, partially owned cable television systems. TWE-A/N had approximately \$1.4 billion of debt at December 31, 1999.

TWE-A/N is owned approximately 64.8% by TWE, the managing partner, 33.3% by Advance/Newhouse and 1.9% indirectly by Time Warner. On a historical basis for 1999 and on a pro forma basis for 1998, the financial position and operating results of TWE-A/N have been consolidated by Time Warner and the partnership interest owned by Advance/Newhouse is reflected in Time Warner's consolidated financial statements as minority interest. On a historical basis for all periods prior to 1999, the financial position and operating results of TWE-A/N have been consolidated by TWE and reflected by Time Warner under the equity method of accounting. In accordance with the partnership agreement, Advance/Newhouse can require TWE to purchase its equity interest for fair market value at specified intervals following the death of both of its principal shareholders. In addition, TWE or Advance/Newhouse can initiate a restructuring of the partnership, in which Advance/Newhouse would withdraw from the partnership and receive one-third of the partnership's net assets.

In early 1998, Time Warner (through a wholly owned subsidiary) contributed cable television systems (or interests therein) serving approximately 650,000 subscribers to TWE-A/N, subject to approximately \$1 billion of debt, in exchange for common and preferred partnership interests in TWE-A/N, and completed certain transactions relating to Paragon Communications ("Paragon" and collectively, the "TWE-A/N Transfers"). The cable television systems transferred to TWE-A/N were formerly owned by TWI Cable Inc. ("TWI Cable"), a wholly owned subsidiary of Time Warner, and Paragon. Prior to this transaction, the economic ownership of Paragon was held 50% by subsidiaries of Time Warner, 25% beneficially by TWE and 25% beneficially by TWE-A/N. The debt assumed by TWE-A/N has been guaranteed by TWI Cable and certain of its subsidiaries, including Paragon. The TWE-A/N Transfers were accounted for effective as of January 1, 1998. Time Warner and TWE-A/N accounted for this transaction at fair value. However, because the fair value of the consideration received approximated Time Warner's carrying value of the net assets transferred, Time Warner did not recognize a gain or loss on the transaction.

Paragon was a partnership formerly owning cable television systems serving approximately 1 million subscribers. As part of the TWE-A/N Transfers, TWE and TWE-A/N exchanged substantially all of their aggregate 50% beneficial interests in Paragon for an equivalent share of Paragon's cable television systems (or interests therein) serving approximately 500,000 subscribers, resulting in wholly owned subsidiaries of Time Warner owning 100% of the restructured Paragon entity, with less than 1% beneficially held for TWE.

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Accordingly, effective as of January 1, 1998, Time Warner has consolidated Paragon, which it formerly accounted for under the equity method of accounting. Because this transaction represented an exchange of TWE's and TWE-A/N's beneficial interests in Paragon for an equivalent amount of its cable television systems, it did not have a significant economic impact on Time Warner, TWE or TWE-A/N.

On a pro forma basis, giving effect to the TWE-A/N Transfers as if they had occurred at the beginning of 1997, Time Warner would have reported for the year ended December 31, 1997, revenues of \$13.233 billion, depreciation expense of \$375 million, operating income before noncash amortization of intangible assets of \$2.068 billion, operating income of \$1.219 billion, equity in the pretax income of the Entertainment Group of \$679 million, income before extraordinary item of \$307 million (\$.01 loss per common share) and net income of \$252 million (\$.06 loss per common share).

3. FILMED ENTERTAINMENT TRANSACTIONS

1999 Gain on Termination of Video Distribution Agreement

In March 1999, Warner Bros. and Metro-Goldwyn-Mayer, Inc. ("MGM") terminated a long-term distribution agreement under which Warner Bros. had exclusive worldwide distribution rights for MGM/United Artists home video product. In connection with the early termination and settlement of this distribution agreement, Warner Bros. recognized a net pretax gain of approximately \$215 million, which has been included in operating income in the accompanying consolidated statement of operations.

1999 Gain on Sale of Interest in CanalSatellite

In December 1999, Warner Bros. sold its 10% interest in CanalSatellite, a satellite television distribution service in France and Monaco, to Canal+, a large French media and entertainment company. In connection with the sale, Warner Bros. recognized a pretax gain of \$97 million, which has been included in operating income in the accompanying consolidated statement of operations.

1999 Warner Bros. Retail Stores Write-Down

In the fourth quarter of 1999, Warner Bros. recorded a one-time, noncash pretax charge of \$106 million to reduce the carrying value of certain fixed assets and leasehold improvements used in its retail stores. This charge resulted from a plan adopted in December 1999 that is designed to improve the performance of Warner Bros.'s retail store operations. The plan is expected to be executed largely over a three-year period and involves closing certain underperforming stores, transforming other stores into smaller and more efficient stores, and exploiting potential e-commerce opportunities.

The charge represents the excess of the carrying value of the assets used in Warner Bros.'s retail stores over the discounted future operating cash flows, adjusted to reflect a shorter recovery period due to planned store closures. The charge has been included in operating income in the accompanying consolidated statement of operations.

1998 Sale of Six Flags

In April 1998, TWE sold its remaining 49% interest in Six Flags Entertainment Corporation ("Six Flags") to Premier Parks Inc. ("Premier"), a regional theme park operator, for approximately \$475 million of cash. TWE used the net, after-tax proceeds from this transaction to reduce debt by approximately \$300 million. As part of the transaction, TWE will continue to license its animated cartoon and comic book characters to Six Flags's theme parks and will similarly license such rights to Premier's theme parks in the United States and Canada under a long-term agreement covering an aggregate of twenty-five existing and all future locations. As of

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December 31, 1999, approximately \$330 million of the original \$400 million gain on the sale of TWE's interest had been deferred, principally as a result of uncertainties surrounding its realization. Those uncertainties relate to ongoing litigation as described in Note 17 and TWE's continuing guarantees of Premier's long-term obligations to make minimum payments to the limited partners of the Six Flags Over Texas and Six Flags Over Georgia theme parks. If current trends continue, Time Warner expects the deferred gain to be recognized over the next several years, subject to the resolution of the Six Flags litigation. That is, the deferred gain will not fall below the estimated exposure relating to the Six Flags litigation. In addition, upon closing of the America Online-Time Warner merger, any portion of the deferred gain not attributable to the Six Flags litigation is likely to be eliminated in purchase accounting.

4. INVESTMENT IN ENTERTAINMENT GROUP

Partnership Structure

Time Warner's investment in the Entertainment Group consists substantially of its investment in TWE, as well as certain related companies. TWE is a Delaware limited partnership that was capitalized in 1992 to own and operate substantially all of the Filmed Entertainment-Warner Bros., Cable Networks-HBO and Cable businesses previously owned by subsidiaries of Time Warner. Time Warner, through its wholly owned subsidiaries, collectively owns general and limited partnership interests in TWE consisting of 74.49% of the Series A Capital and Residual Capital and 100% of the Series B Capital. The remaining 25.51% limited partnership interests in the Series A Capital and Residual Capital of TWE are held by MediaOne. Certain Time Warner subsidiaries are the general partners of TWE ("Time Warner General Partners").

Partnership Capital and Allocation of Income

Each partner's interest in TWE generally consists of the undistributed priority capital and residual equity amounts that were initially assigned to that partner or its predecessor based on the estimated fair value of the net assets each contributed to TWE ("Undistributed Contributed Capital"), plus, with respect to the priority capital interests only, any undistributed priority capital return. The priority capital return consists of net partnership income allocated to date in accordance with the provisions of the TWE partnership agreement and the right to be allocated additional partnership income which, together, provides for the various priority capital rates of return as specified in the following table. The sum of Undistributed Contributed Capital and the undistributed priority capital return is referred to herein as "Cumulative Priority Capital". Cumulative Priority Capital is not necessarily indicative of the fair value of the underlying priority capital interests principally due to above-market rates of return on certain priority capital interests as compared to securities of comparable credit risk and maturity, such as the 13.25% rate of return on the Series B Capital interest owned 100% by the Time Warner General Partners. Furthermore, the ultimate realization of Cumulative Priority Capital could be affected by the fair value of TWE, which is subject to fluctuation.

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A summary of the priority of Undistributed Contributed Capital, Time Warner's ownership of Undistributed Contributed Capital and Cumulative Priority Capital at December 31, 1999 and priority capital rates of return thereon is as set forth below:

<u>Priority of Undistributed Contributed Capital</u>	<u>Undistributed Contributed Capital^(a)</u>	<u>Cumulative Priority Capital</u>	<u>Priority Capital Rates of Return^(b)</u>	<u>% Owned by Time Warner</u>
	(billions)			
Series A Capital	\$5.6	\$14.5	13.00%	74.49%
Series B Capital	2.9 ^(d)	7.7	13.25%	100.00%
Residual Capital	3.3 ^(d)	3.3 ^(c)	— ^(c)	74.49%

(a) Excludes partnership income or loss allocated thereto.

(b) To the extent income allocations are concurrently distributed, the priority capital rates of return on the Series A Capital and Series B Capital are 11% and 11.25%, respectively.

(c) Residual Capital is not entitled to stated priority rates of return and, as such, its Cumulative Priority Capital is equal to its Undistributed Contributed Capital. However, in the case of certain events such as the liquidation or dissolution of TWE, Residual Capital is entitled to any excess of the then fair value of the net assets of TWE over the aggregate amount of Cumulative Priority Capital and special tax allocations.

(d) The Undistributed Contributed Capital relating to the Series B Capital has priority over the priority returns on the Series A Capital. The Undistributed Contributed Capital relating to the Residual Capital has priority over the priority returns on the Series B Capital and the Series A Capital.

Because Undistributed Contributed Capital generally is based on the fair value of the net assets that each partner initially contributed to the partnership, the aggregate of such amounts is significantly higher than TWE's partners' capital as reflected in its consolidated financial statements, which is based on the historical cost of the contributed net assets. For purposes of allocating partnership income or loss to the partners, partnership income or loss is based on the fair value of the net assets contributed to the partnership and results in significantly less partnership income, or results in partnership losses, in contrast to the net income reported by TWE for financial statement purposes, which also is based on the historical cost of contributed net assets.

Under the TWE partnership agreement, partnership income, to the extent earned, is first allocated to the partners' capital accounts so that the economic burden of the income tax consequences of partnership operations is borne as though the partnership were taxed as a corporation ("special tax allocations"). After any special tax allocations, partnership income is allocated to the Series A Capital and Series B Capital, in order of priority, at rates of 13.00% and 13.25% per annum, respectively, and finally to the Residual Capital. Partnership losses generally are allocated first to eliminate prior allocations of partnership income to, and then to reduce the Undistributed Contributed Capital of, the Residual Capital, Series B Capital and Series A Capital, in that order, and then to reduce any special tax allocations. To the extent partnership income is insufficient to satisfy all special allocations in a particular accounting period, the right to receive additional partnership income necessary to provide for the various priority capital rates of return is carried forward until satisfied out of future partnership income, including any partnership income that may result from any liquidation, sale or dissolution of TWE. TWE reported net income of \$2.759 billion, \$326 million and \$614 million in 1999, 1998 and 1997, respectively, no portion of which was allocated to the limited partners.

The Series B Capital owned by the Time Warner General Partners may be increased if certain operating performance targets are achieved over a ten-year period ending on December 31, 2001, although it does not appear likely at this time that such targets will be achieved. In addition, MediaOne has an option to obtain up to an additional 6.33% of Series A Capital and Residual Capital interests. The determination of the amount of additional interests that MediaOne is eligible to acquire is based on the compounded annual growth rate of TWE's adjusted cable EBITDA, as defined in the option agreement, over the life of the option. The option is exercisable at any time through May 2005. The option exercise price is dependent upon the year of exercise and

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ranges from an exercise price of approximately \$1.3 billion in 2000 to \$1.8 billion in 2005. Either MediaOne or TWE may elect that the exercise price be paid with partnership interests rather than cash.

Summarized Financial Information of the Entertainment Group

As previously described in Note 1, Time Warner's historical financial statements for 1999 and pro forma financial statements for 1998 reflect the consolidation of the Entertainment Group, effective as of the beginning of each year. However, in order to facilitate an analysis of Time Warner's results of operations and financial condition for all historical periods in which the Entertainment Group was not consolidated, set forth below is summarized financial information of the Entertainment Group. The summarized financial information reflects the TWE-A/N Transfers effective as of January 1, 1998, the Primestar Roll-up Transaction effective as of April 1, 1998, the formation of the Road Runner Joint Venture effective as of June 30, 1998, the Time Warner Telecom Reorganization effective as of July 1, 1998 and the formation of the Texas Cable Joint Venture effective as of December 31, 1998.

	<u>Years Ended December 31,</u>		
	<u>1999</u>	<u>1998</u>	<u>1997</u>
Operating Statement Information		(millions)	
Revenues	\$13,164	\$12,256	\$11,328
Depreciation and amortization	(1,364)	(1,436)	(1,386)
Business segment operating income ^(a)	4,227	1,724	1,461
Interest and other, net ^(b)	(818)	(945)	(338)
Minority interest	(427)	(284)	(324)
Income before income taxes	2,909	423	727
Income before extraordinary item	2,759	331	642
Net income	2,759	331	619

(a) Includes a net pretax gain of approximately \$215 million in 1999 in connection with the early termination and settlement of a long-term, home video distribution agreement, a pretax gain of approximately \$97 million in 1999 relating to the sale of an interest in CanalSatellite, a one-time, noncash pretax charge of approximately \$106 million in 1999 relating to certain Warner Bros.'s retail stores and net pretax gains of approximately \$2.119 billion in 1999, \$90 million in 1998 and \$200 million in 1997 related to the sale or exchange of certain cable television systems and investments.

(b) 1998 includes a pretax charge of approximately \$210 million principally to reduce the carrying value of an interest in Primestar. 1997 includes a pretax gain of approximately \$250 million related to the sale of an interest in E! Entertainment Television, Inc.

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	<u>Years Ended December 31,</u>		
	<u>1999</u>	<u>1998</u>	<u>1997</u>
Cash Flow Information	(millions)		
Cash provided by operations	\$2,713	\$2,288	\$1,799
Capital expenditures	(1,475)	(1,603)	(1,565)
Investments and acquisitions	(478)	(388)	(172)
Investment proceeds	948	1,246	520
Collection of loan to Time Warner	400	—	—
Borrowings	2,658	1,514	3,400
Debt repayments	(2,764)	(1,898)	(3,085)
Issuance of preferred stock of subsidiary	—	—	243
Redemption of preferred stock of subsidiary	(217)	—	—
Capital distributions	(1,200)	(1,153)	(934)
Other financing activities, net	(155)	(241)	(100)
Increase (decrease) in cash and equivalents	430	(235)	106
	<u>December 31,</u>		
	<u>1999</u>	<u>1998</u>	
	(millions)		
Balance Sheet Information			
Cash and equivalents	\$ 517	\$	87
Total current assets	5,311		4,187
Total assets	24,843		22,241
Total current liabilities	5,723		4,940
Long-term debt	6,655		6,578
Minority interests	1,815		1,522
Preferred stock of subsidiary	—		217
Time Warner General Partners' Senior Capital	—		603
Partners' capital	7,149		5,210

Capital Distributions

The assets and cash flows of TWE are restricted by the TWE partnership and credit agreements and are unavailable for use by the partners except through the payment of certain fees, reimbursements, cash distributions and loans, which are subject to limitations.

Through July 1999, the Time Warner General Partners held senior priority capital interests ("Senior Capital") in TWE. At that time, the Time Warner General Partners received a \$627 million distribution from TWE in full redemption of the remaining portion of their Senior Capital interests plus related priority capital return. This distribution increased the cumulative cash distributions received from TWE relating to the Time Warner General Partners' Senior Capital interests to \$2.1 billion. A portion of the proceeds received from the July 1999 distribution was used to repay all \$400 million of outstanding borrowings under Time Warner's credit agreement with TWE.

At December 31, 1999 and 1998, the Time Warner General Partners had recorded \$1.292 billion and \$1.130 billion, respectively, of stock option related distributions due from TWE, based on closing prices of Time Warner common stock of \$72.31 and \$62.06, respectively. Time Warner is paid when the options are exercised. The Time Warner General Partners also receive tax-related distributions from TWE on a current basis. During 1999, the Time Warner General Partners received distributions from TWE in the amount of \$1.2 billion, consisting of \$627 million of Senior Capital distributions (representing the return of \$454 million of contributed capital and the distribution of \$173 million of priority capital return), \$347 million of tax-related distributions and \$226 million of stock option related distributions. During 1998, the Time Warner General Partners received

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distributions from TWE in the amount of \$1.153 billion, consisting of \$579 million of Senior Capital distributions (representing the return of \$455 million of contributed capital and the distribution of \$124 million of priority capital return), \$314 million of tax-related distributions and \$260 million of stock option related distributions. During 1997, the Time Warner General Partners received distributions from TWE in the amount of \$934 million, consisting of \$535 million of Senior Capital distributions (representing the return of \$455 million of contributed capital and the distribution of \$80 million of priority capital return), \$324 million of tax-related distributions and \$75 million of stock option related distributions. In addition to the tax, stock option and Time Warner General Partners' Senior Capital distributions, TWE may make other capital distributions to its partners that are also subject to certain limitations contained in the TWE partnership and credit agreements.

In addition, in connection with the Time Warner Telecom Reorganization in 1998, TWE made a \$191 million noncash distribution to its partners, of which certain wholly owned subsidiaries of Time Warner received an interest in Time Warner Telecom recorded at \$143 million based on TWE's historical cost of the net assets (Note 2).

5. OTHER INVESTMENTS

Time Warner's other investments consist of:

	December 31,		
	1999 Historical	1998 Pro Forma (millions)	1998 Historical
Equity-method investments	\$1,012	\$1,042	\$483
Cost-method investments	73	177	12
Fair-value investments ^(a)	1,011	446	299
Total	\$2,096	\$1,665	\$794

(a) Principally includes investments in Internet-related and digital media businesses and investments relating to Time Warner's deferred compensation plans.

The following discussion presents information on Time Warner's equity investees and separately highlights some of the more significant and strategic investments held by Time Warner.

Equity-Method Investments

At December 31, 1999, companies accounted for using the equity method include: Time Warner Telecom (48% owned), the Road Runner Joint Venture (55% owned on a fully diluted basis), certain cable television system joint ventures (generally 50% owned), Courtroom Television Network (50% owned), the Columbia House Company partnerships (50% owned), other music joint ventures (generally 50% owned), American Family Enterprises (50% owned), Comedy Partners, L.P. (50% owned) and Primestar (24% owned). A summary of combined financial information as reported by the equity investees of Time Warner is set forth below:

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	Years Ended December 31,			
	1999 Historical	1998 Pro Forma	1998 Historical	1997 Historical
	(millions)			
Revenues	\$3,064	\$3,604	\$1,275	\$1,336
Depreciation and amortization	(418)	(749)	(43)	(13)
Operating income (loss)	64	(266)	(1)	80
Net loss	(346)	(461)	(109)	(36)
Current assets	1,570	1,848	1,183	792
Total assets	5,214	7,293	2,065	1,132
Current liabilities	1,294	1,215	587	418
Long-term debt	3,367	4,724	1,807	1,303
Total liabilities	4,807	6,163	2,464	1,791
Total shareholders' (deficit) or partners' capital	407	1,130	(399)	(659)

Time Warner Telecom

As discussed more fully under Note 2, Time Warner has a 48% interest in Time Warner Telecom. Time Warner Telecom is an integrated communications provider that provides a wide range of telephony and data services to businesses in a number of metropolitan areas across the United States. As of December 31, 1999, based on Time Warner's ownership of 50.4 million shares of Class B common stock and the \$49.9375 market price of Time Warner Telecom's publicly traded Class A common stock, the market value of Time Warner's interest in Time Warner Telecom was \$2.5 billion.

Road Runner Joint Venture

As discussed more fully under Note 2, Time Warner, TWE and TWE-A/N have a collective 55% interest in the Road Runner Joint Venture on a fully diluted basis. The Road Runner Joint Venture operates a high-speed online service that connects customers to the Internet at speeds significantly faster than telephone dial-up services. As of December 31, 1999, the Road Runner Joint Venture had approximately 550,000 subscribers in 37 markets that pass more than 13 million homes.

Cable Television System Joint Ventures

Time Warner Cable has an approximate 50% weighted-average interest in a number of unconsolidated cable television systems that served an aggregate 1.7 million subscribers as of December 31, 1999. For 1999, these cable television systems reported combined operating income of \$231 million and combined depreciation and amortization of \$267 million. In addition, at the end of 1999, these cable television systems had debt of approximately \$1.9 billion.

Other Investments

Time Warner has a number of other fair value method investments, including interests in Internet-related and digital media businesses. These interests generally consist of common equity and common equity equivalents. As of December 31, 1999, Internet-related and digital media investments included 2,252,252 of common share equivalents in OpenTV Corp., a designer and marketer of digital interactive television software and components; 349,612 of common share equivalents in Intervu Inc., a service provider for Internet audio and video delivery solutions; 2,486,742 of common share equivalents in Healthcon/WebMD Corp., an end-to-end Internet healthcare company connecting physicians and consumers to the entire healthcare industry; 5,170,509 of common share equivalents in Fortune City, an international online community; and 2,627,080 of common share

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equivalents in Hoover's Inc., an Internet provider of news, financial and other information on various companies and industries.

Time Warner's ownership and voting interests in these companies are generally less than 20%, which is not large enough to exert significant influence. As such, these publicly traded investments are accounted for at market value. As of December 31, 1999, the aggregate market value of these publicly traded investments approximated \$450 million, resulting in unrealized pretax gains of approximately \$350 million included as a component of other comprehensive income in shareholders' equity.

6. INVENTORIES

Inventories consist of:

	December 31, 1999		December 31, 1998		December 31, 1998	
	Historical		Pro Forma		Historical	
	Current	Noncurrent	Current	Noncurrent	Current	Noncurrent
			(millions)			
Film costs:						
Released, less amortization	\$ 777	\$ 966	\$ 665	\$1,052	\$ 51	\$ 308
Completed and not released	73	17	199	76	20	—
In process and other	8	864	25	811	2	240
Library, less amortization	—	1,554	—	1,668	—	1,007
Programming costs, less amortization	820	800	883	612	457	345
Magazines, books, recorded music and other merchandise	504	—	486	—	416	—
Total	<u>\$2,182</u>	<u>\$4,201</u>	<u>\$2,258</u>	<u>\$4,219</u>	<u>\$946</u>	<u>\$1,900</u>

Excluding the Library, the unamortized cost of completed films at December 31, 1999 amounted to \$1.8 billion, over 90% of which is expected to be amortized within three years after release.

7. LONG-TERM DEBT

Long-term debt consists of:

	Weighted Average Interest Rate at December 31, 1999	Maturities	December 31,		
			1999 Historical	1998 Pro Forma	1998 Historical
			(millions)		
Bank credit agreement borrowings	6.85%	2002	\$ 4,846	\$ 3,945	\$ 1,234
Commercial paper	6.46%	2000	360	62	—
Fixed-rate senior notes and debentures	8.03%	2000-2036	12,277	12,296	8,491
Variable-rate senior notes	5.93%	2031	600	1,200	1,200
Total			<u>\$18,083</u>	<u>\$17,503</u>	<u>\$10,925</u>

Bank Credit Agreement

Time Warner has a revolving credit facility (the "Bank Credit Agreement") that permits borrowings in an aggregate amount of up to \$7.5 billion, with no scheduled reduction in credit availability prior to maturity in

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November 2002. The borrowers under the Bank Credit Agreement are Time Warner and a number of its consolidated subsidiaries, consisting of Time Warner Companies, Inc. ("TW Companies"), Turner Broadcasting System, Inc. ("TBS"), TWI Cable, TWE and TWE-A/N. Borrowings under the Bank Credit Agreement are limited to (i) \$6 billion in the aggregate for Time Warner, TW Companies, TBS and TWI Cable, (ii) \$7.5 billion in the case of TWE and (iii) \$2 billion in the case of TWE-A/N, subject in each case to an aggregate borrowing limit of \$7.5 billion and certain other limitations and adjustments. Such borrowings bear interest at specific rates for each of the borrowers (generally equal to LIBOR plus a margin of 35 basis points) and each borrower is required to pay a commitment fee of .125% per annum on the unused portion of its commitment, which margin and fee vary based on the credit rating or financial leverage of the applicable borrower. Borrowings may be used for general business purposes and unused credit is available to support commercial paper borrowings. The Bank Credit Agreement contains certain covenants generally for each borrower relating to, among other things, additional indebtedness; liens on assets; cash flow coverage and leverage ratios; and dividends, distributions and other restricted cash payments or transfers of assets from the borrowers to their respective shareholders, partners or affiliates.

Variable-Rate Senior Notes

In 1999, TW Companies redeemed all of its \$600 million principal amount of Floating Rate Reset Notes due July 29, 2009. The aggregate redemption cost of approximately \$620 million was funded with borrowings under the Bank Credit Agreement.

The only variable-rate senior notes outstanding at the end of 1999 were \$600 million principal amount of Floating Rate Reset Notes due December 30, 2031 that are redeemable at the election of the holders on December 30, 2001 (the "Five-Year Floating Rate Notes"). The Five-Year Floating Rate Notes bear interest at a floating rate equal to LIBOR less 25 basis points until December 30, 2001, at which time, if not redeemed, the interest rate will be reset at a fixed rate equal to 6.59% plus a margin based upon the credit risk of TW Companies at such time.

Zero-Coupon Convertible Notes

During 1998, approximately \$1.15 billion accreted amount of zero-coupon convertible notes due 2013 (the "Zero-Coupon Convertible Notes") were converted into an aggregate 37.4 million shares of Time Warner common stock. To partially offset the dilution resulting from this conversion, Time Warner incurred a corresponding \$1.15 billion of debt and used the proceeds therefrom to repurchase common stock.

Interest Expense and Maturities

Time Warner periodically refinances its debt in an effort to lower its overall cost of borrowings and to stagger debt maturities. In connection with such refinancings, Time Warner recognized an extraordinary loss on the retirement of debt of \$12 million in 1999 and \$55 million in 1997.

At December 31, 1999, Time Warner had interest rate swap contracts to pay floating-rates of interest and receive fixed-rates of interest on \$400 million notional amount of indebtedness, which resulted in approximately 34% of Time Warner's underlying debt being subject to variable interest rates (Note 15).

Interest expense amounted to \$1.519 billion in 1999, \$891 million in 1998 (\$1.451 billion on a pro forma basis) and \$1.049 billion in 1997. The weighted average interest rate on Time Warner's total debt, including TWE's debt and the effect of interest rate swap contracts, was 7.6% and 7.3% at December 31, 1999 and 1998, respectively.

Annual repayments of long-term debt for the five years subsequent to December 31, 1999 consist of \$500 million due in 2000, \$5.8 billion due in 2002, \$48 million due in 2003 and \$523 million due in 2004. Such

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

repayments exclude the aggregate redemption price of \$600 million in 2001 relating to the Five-Year Floating Rate Notes, the year in which the holders thereof may first exercise their redemption options. Time Warner has the intent and ability under the Bank Credit Agreement to continue to refinance its borrowings on a long-term basis.

Fair Value of Debt

Based on the level of interest rates prevailing at December 31, 1999, the fair value of Time Warner's fixed rate debt approximated its carrying value. Based on the level of interest rates prevailing at December 31, 1998, the fair value of Time Warner's fixed-rate debt exceeded its carrying value by \$1.098 billion (\$1.862 billion on a pro forma basis). 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.

8. BORROWINGS AGAINST FUTURE STOCK OPTION PROCEEDS

In connection with Time Warner's common stock repurchase program (Note 12), Time Warner has a \$1.3 billion revolving credit facility that provides for borrowings against future stock option proceeds (the "Stock Option Proceeds Credit Facility"). Borrowings under the Stock Option Proceeds Credit Facility are principally used to fund stock repurchases. At December 31, 1999 and 1998, Time Warner had outstanding borrowings against future stock option proceeds of \$1.243 billion and \$895 million, respectively.

As of December 31, 1999, the Stock Option Proceeds Credit Facility provided for borrowings of up to \$1.3 billion, of which up to \$125 million was reserved solely for the payment of interest and fees thereunder. Borrowings under the Stock Option Proceeds Credit Facility generally bear interest at LIBOR plus a margin equal to 75 basis points and are principally expected to be repaid from the cash proceeds received from the exercise of designated employee stock options. The receipt of such stock option proceeds in excess of \$1.3 billion through March 2000, and thereafter in full on a cumulative basis, must be used to permanently reduce the borrowing availability under the facility. At December 31, 1999, based on a closing market price of Time Warner common stock of \$72.31, the aggregate value of potential proceeds to Time Warner from the exercise of outstanding vested, "in the money" stock options covered under the facility was approximately \$1.8 billion, representing a 1.4 to 1 coverage ratio over the related \$1.3 billion borrowing availability. To the extent that such stock option proceeds are not sufficient to satisfy Time Warner's obligations under the Stock Option Proceeds Credit Facility, Time Warner is generally required to repay such borrowings using proceeds from the sale of shares of its common stock held in escrow under the Stock Option Proceeds Credit Facility or, at Time Warner's election, using available cash on hand. Time Warner had placed 76 million shares in escrow at December 31, 1999, which shares are not considered to be issued and outstanding capital stock of the Company. Time Warner may be required, from time to time, to have up to 210 million shares held in escrow.

Because borrowings under the Stock Option Proceeds Credit Facility are expected to be principally repaid by Time Warner from the cash proceeds related to the exercise of employee stock options, Time Warner's principal credit rating agencies have concluded that such borrowings and related financing costs are credit neutral and are excludable from debt and interest expense for purposes of evaluating the Company's leverage and coverage ratios.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

9. INCOME TAXES

Domestic and foreign pretax income are as follows:

	Years Ended December 31,		
	1999	1998	1997
		(millions)	
Domestic	\$3,184	\$486	\$728
Foreign	316	100	104
Total	<u>\$3,500</u>	<u>\$586</u>	<u>\$832</u>

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

	Years Ended December 31,		
	1999	1998	1997
		(millions)	
Federal:			
Current ^(a)	\$ 470	\$ 436	\$191
Deferred	556	(259)	49
Foreign:			
Current ^(b)	240	260	205
Deferred	9	(49)	(3)
State and Local:			
Current ^(a)	179	166	88
Deferred	86	(136)	1
Total	<u>\$1,540</u>	<u>\$ 418</u>	<u>\$531</u>

(a) Includes utilization of tax carryforwards of \$198 million in 1999, \$126 million in 1998 and \$109 million in 1997. Excludes federal and state and local tax benefits of \$486 million in 1999, \$478 million in 1998 and \$165 million in 1997 resulting from the exercise of stock options and vesting of restricted stock awards, which were credited directly to paid-in-capital. Excludes current tax benefits of \$9 million in 1999 and \$37 million in 1997 resulting from the retirement of debt, which reduced the extraordinary losses in such years.

(b) Includes foreign withholding taxes of \$120 million in 1999, \$113 million in 1998 and \$114 million in 1997.

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. The relationship between income before income taxes and income tax expense is most affected by the amortization of goodwill and certain other financial statement expenses that are not deductible for income tax purposes.

	Years Ended December 31,		
	1999	1998	1997
		(millions)	
Taxes on income at U.S. federal statutory rate	\$1,225	\$205	\$291
State and local taxes, net of federal tax benefits	172	20	58
Nondeductible goodwill amortization	173	170	170
Other nondeductible expenses	9	13	11
Foreign income taxed at different rates, net of U.S. foreign tax credits	(37)	—	9
Other	(2)	10	(8)
Total	<u>\$1,540</u>	<u>\$418</u>	<u>\$531</u>

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

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

	December 31,	
	1999	1998
	(millions)	
Assets acquired in business combinations	\$2,635	\$3,158
Depreciation and amortization	2,240	1,112
Unrealized appreciation of certain marketable securities	155	4
Other	<u>422</u>	<u>452</u>
Deferred tax liabilities	<u>5,452</u>	<u>4,726</u>
Tax carryforwards	231	304
Accrued liabilities	572	513
Receivable allowances and return reserves	223	217
Other	<u>192</u>	<u>201</u>
Deferred tax assets	<u>1,218</u>	<u>1,235</u>
Net deferred tax liabilities	<u>\$4,234</u>	<u>\$3,491</u>

U.S. income and foreign withholding taxes have not been recorded on permanently reinvested earnings of foreign subsidiaries aggregating approximately \$1.1 billion at December 31, 1999. Determination of the amount of unrecognized deferred U.S. income tax liability with respect to such earnings is not practicable. If such earnings are repatriated, additional U.S. income and foreign withholding taxes are substantially expected to be offset by the accompanying foreign tax credits.

U.S. federal tax carryforwards at December 31, 1999 consisted of \$93 million of net operating losses, \$123 million of investment tax credits and \$76 million of alternative minimum tax credits. The utilization of certain carryforwards is subject to limitations under U.S. federal income tax laws. Except for the alternative minimum tax credits which do not expire, the other U.S. federal tax carryforwards expire in varying amounts as follows for income tax reporting purposes:

	Carryforwards	
	Net Operating Losses	Investment Tax Credits
	(millions)	
2000	\$ 1	\$ 25
2001	1	36
2002	—	32
2003	—	13
Thereafter up to 2012	<u>91</u>	<u>17</u>
	<u>\$93</u>	<u>\$123</u>

10. MANDATORILY REDEEMABLE PREFERRED SECURITIES

Redemption of REIT Preferred Stock

In 1997, a newly formed, substantially owned subsidiary of TWE (the "REIT") issued 250,000 shares of preferred stock ("REIT Preferred Stock"). The REIT was intended to qualify as a real estate investment trust under the Internal Revenue Code of 1986, as amended.

In March 1999, the REIT redeemed all of its shares of REIT Preferred Stock at an aggregate cost of \$217 million, which approximated net book value. The redemption was funded with borrowings under TWE's bank credit agreement.

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

Redemption of Hasbro-Related Preferred Trust Securities

In 1995, Time Warner, through TW Companies, issued approximately 12.1 million Company-obligated mandatorily redeemable preferred securities of a wholly owned subsidiary ("PERCS") for aggregate gross proceeds of \$374 million. The PERCS were mandatorily redeemable in December 1997 for an amount per PERCS equal to the lesser of \$54.41, and the market value of 1.5 shares of common stock of Hasbro, Inc. ("Hasbro") on December 17, 1997, payable in cash or, at Time Warner's option, Hasbro common stock. Pursuant to these terms, Time Warner redeemed the PERCS in December 1997 for all of its 18.1 million shares of Hasbro common stock. In connection with this redemption and the related disposal of its interest in Hasbro, Time Warner recognized a \$200 million pretax gain in 1997, which has been classified in interest and other, net, in the accompanying consolidated statement of operations.

Preferred Trust Securities

In 1995, Time Warner, through TW Companies, issued approximately 23 million Company-obligated mandatorily redeemable preferred securities of a wholly owned subsidiary ("Preferred Trust Securities") for aggregate gross proceeds of \$575 million. The sole assets of the subsidiary that is the obligor on the Preferred Trust Securities are \$592 million principal amount of 8 $\frac{7}{8}$ % subordinated debentures of TW Companies due December 31, 2025. Cumulative cash distributions are payable on the Preferred Trust Securities at an annual rate of 8 $\frac{7}{8}$ %. The Preferred Trust Securities are mandatorily redeemable for cash on December 31, 2025, and TW Companies has the right to redeem the Preferred Trust Securities, in whole or in part, on or after December 31, 2000, or in other certain circumstances. If TW Companies elects to redeem these securities, the redemption amount would be in each case at an amount per Preferred Trust Security equal to \$25 per security, plus accrued and unpaid distributions thereon.

Time Warner has certain obligations relating to the Preferred Trust Securities which amount to a full and unconditional guaranty (on a subordinated basis) of its subsidiary's obligations with respect thereto.

11. REDEMPTION OF SERIES M PREFERRED STOCK

In December 1998, Time Warner redeemed all of its outstanding shares of 10 $\frac{1}{4}$ % Series M Preferred Stock. The aggregate redemption cost of approximately \$2.1 billion was funded with proceeds from the issuance of lower-cost debt. As a result of this redemption, preferred dividend requirements in Time Warner's 1998 consolidated statement of operations include a one-time effect of \$234 million relating to the redemption premium paid in connection therewith.

Because the weighted-average interest rate of the debt is approximately 400 basis points lower than the dividend rate of the Series M Preferred Stock and the interest on the debt is tax deductible (whereas dividends are not), Time Warner has realized over \$100 million of annual cash savings as a result of this redemption.

12. SHAREHOLDERS' EQUITY

At December 31, 1999, shareholders' equity of Time Warner included 8.4 million shares of convertible preferred stock, 114.1 million shares of Series LMCN-V common stock and 1.173 billion shares of common stock (net of 22.1 million shares of common stock in treasury). Time Warner currently is authorized to issue up to 250 million shares of preferred stock, up to 5 billion shares of common stock and up to 600 million shares of additional classes of common stock, including Series LMCN-V common stock. Shares of Series LMCN-V common stock have substantially identical rights as shares of Time Warner's common stock, except shares of Series LMCN-V common stock have limited voting rights and are non-redeemable.

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

Convertible Preferred Stock

Over the past two years, Time Warner issued approximately 112.6 million shares of common stock in connection with the conversion of 27 million shares of convertible preferred stock. After those conversions, and the conversion in January 2000 of substantially all outstanding shares of Series F preferred stock into 12.3 million shares of common stock, Time Warner has approximately 5.4 million shares of convertible preferred stock outstanding. Such shares are convertible into approximately 22.7 million shares of Time Warner common stock.

The principal terms of each outstanding series of convertible preferred stock (collectively, the "Convertible Preferred Stock") are similar in nature, unless otherwise noted below. Each share of Convertible Preferred Stock: (1) is entitled to a liquidation preference of \$100 per share, (2) is immediately convertible into 4.16528 shares of Time Warner common stock at a conversion price of \$24 per share (based on its liquidation value) and (3) entitles the holder thereof to vote with the common stockholders on all matters on which the common stockholders are entitled to vote, and each share of such Convertible Preferred Stock is entitled to four votes on any such matter.

Holders of Series E preferred stock and Series J preferred stock will receive a \$3.75 annual dividend per share through January 4, 2001 and May 2, 2000, respectively. Thereafter, holders of Series E preferred stock and Series J preferred stock will receive dividends equal to the dividends paid on shares of Time Warner common stock multiplied by the number of shares into which their shares of preferred stock are convertible (the "Common Equivalent Dividend Rate"). Holders of Series F preferred stock and Series I preferred stock will continue to receive dividends based on the Common Equivalent Dividend Rate.

Time Warner has the right at any time to redeem for cash or exchange for Time Warner common stock, shares of Series I preferred stock at their liquidation value or stated conversion price. Time Warner also has the right at any time to exchange for Time Warner common stock, shares of Series F preferred stock and to redeem such shares for cash at any time on or after January 4, 2001. These rights also are exercisable at any time on or after May 2, 2000 for shares of Series J preferred stock and January 4, 2001 for shares of Series E preferred stock.

Common Stock Repurchase Program

In January 1999, Time Warner's Board of Directors authorized a new common stock repurchase program that allows the Company to repurchase, from time to time, up to \$5 billion of common stock. This program was expected to be completed over a three-year period. However, in connection with Time Warner's agreement to merge with America Online, Time Warner currently has suspended its stock repurchase program.

During 1999, Time Warner acquired 28.4 million shares of its common stock at an aggregate cost of \$1.896 billion. These repurchases increased the cumulative shares purchased under this and its previous common stock repurchase program begun in 1996 to approximately 123.5 million shares at an aggregate cost of \$4.936 billion, or approximately \$40 per share.

1998 Stock Split

In December 1998, a two-for-one common stock split was effectuated by the payment of a 100% stock dividend in the amount of 558.2 million shares of common stock (the "1998 Stock Split"). The 1998 Stock Split did not affect the number of shares of Series LMCN-V common stock outstanding in 1998. In May 1999, Time Warner amended the terms of its Series LMCN-V common stock, which effectively resulted in a two-for-one stock split and the issuance of approximately 57 million shares of Series LMCN-V common stock (the "LMCN-V Stock Split"). As a result, each share of Series LMCN-V common stock now is equivalent effectively to one share of common stock instead of two. Because the equivalent number of shares of common

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stock did not change, the LMCN-V Stock Split did not have any effect on Time Warner's consolidated financial statements.

Dilutive Securities and Holders of Record

At December 31, 1999, Time Warner had convertible securities and outstanding stock options that were convertible or exercisable into approximately 158.6 million shares of common stock (as adjusted for the January 2000 conversion of Series F preferred stock). Similarly, those securities were convertible or exercisable into approximately 242.2 million shares of common stock at December 31, 1998 and 363.6 million shares at December 31, 1997. In addition, Time Warner has placed a number of shares of common stock in escrow under its Stock Option Proceeds Credit Facility (see Note 8).

At February 29, 2000, there were approximately 25,000 holders of record of Time Warner common stock. This total does not include the large number of investors who hold such shares through banks, brokers or other fiduciaries.

Shareholder Rights Plan

Pursuant to Time Warner's shareholder rights plan, as amended, each share of Time Warner common stock has attached to it one right, which becomes exercisable in certain events involving the acquisition of 15% or more of the then outstanding common stock of Time Warner on a fully diluted basis. Upon the occurrence of such an event, each right entitles its holder to purchase for \$75 the economic equivalent of common stock of Time Warner, or in certain circumstances, of the acquiror, worth twice as much. In connection with the plan, 8 million shares of preferred stock were reserved. The rights expire on January 20, 2004.

In connection with Time Warner's agreement to merge with America Online, Inc. ('America Online') entered into in January 2000, Time Warner amended the rights plan to provide that the consummation of the merger and the other transactions contemplated by the merger agreement with America Online would not trigger the exercise of rights under the rights plan. See Note 20 for a summary of the terms of the America Online-Time Warner merger.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Income (Loss) Per Common Share Before Extraordinary Item

Set forth below is a reconciliation of basic and diluted income (loss) per common share before extraordinary item for each period.

	Years Ended December 31,			
	1999 <u>Historical</u>	1998 <u>Pro Forma^(a)</u>	1998 <u>Historical^(a)</u>	1997 <u>Historical^(a)</u>
	(millions, except per share amounts)			
Income (loss) applicable to common shares before extraordinary item—basic	\$1,908	\$ (372)	\$ (372)	\$ (18)
Interest savings, net of tax ^(b)	43	—	—	—
Preferred dividends	<u>52</u>	<u>—</u>	<u>—</u>	<u>—</u>
Income (loss) applicable to common shares before extraordinary item—diluted	<u>\$2,003</u>	<u>\$ (372)</u>	<u>\$ (372)</u>	<u>\$ (18)</u>
Average number of common shares outstanding—basic	1,267.0	1,194.7	1,194.7	1,135.4
Dilutive effect of stock options	72.6	—	—	—
Dilutive effect of convertible preferred shares	<u>58.7</u>	<u>—</u>	<u>—</u>	<u>—</u>
Average number of common shares outstanding—diluted	<u>1,398.3</u>	<u>1,194.7</u>	<u>1,194.7</u>	<u>1,135.4</u>
Income (loss) per common share before extraordinary item:				
Basic	<u>\$ 1.51</u>	<u>\$ (.31)</u>	<u>\$ (.31)</u>	<u>\$ (.01)</u>
Diluted	<u>\$ 1.43</u>	<u>\$ (.31)</u>	<u>\$ (.31)</u>	<u>\$ (.01)</u>

(a) 1998 and 1997 basic and diluted loss per common share before extraordinary item are the same because the effect of Time Warner's stock options and convertible preferred stock was antidilutive.

(b) Reflects the required use of a portion of the proceeds from the future exercise of employee stock options to repay all outstanding borrowings under Time Warner's stock option proceeds credit facility.

13. STOCK-BASED COMPENSATION PLANS

Stock Option Plans

Time Warner has various stock option plans under which Time Warner may grant options to purchase Time Warner common stock to employees of Time Warner and TWE. Such options have been granted to employees of Time Warner and TWE 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 its stock option plans. Generally, the options become exercisable over a three-year vesting period and expire ten years from the date of grant. Had compensation cost for Time Warner's stock option plans been determined based on the fair value method set forth in FASB Statement No. 123, "Accounting for Stock-Based Compensation" ("FAS 123"), Time Warner's net income and basic and diluted net income (loss) per common share would have been changed to the pro forma amounts indicated below:

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	<u>Years Ended December 31,</u>		
	<u>1999</u>	<u>1998</u>	<u>1997</u>
	(millions, except per share amounts)		
Net income:			
As reported.....	\$1,948	\$168	\$246
Pro forma	<u>\$1,852</u>	<u>\$106</u>	<u>\$200</u>
Net income (loss) per basic common share:			
As reported.....	\$ 1.50	\$(.31)	\$(.06)
Pro forma	<u>\$ 1.42</u>	<u>\$(.36)</u>	<u>\$(.10)</u>
Net income (loss) per diluted common share:			
As reported.....	\$ 1.42	\$(.31)	\$(.06)
Pro forma	<u>\$ 1.36</u>	<u>\$(.36)</u>	<u>\$(.10)</u>

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 1999, 1998 and 1997: dividend yields of 0.3%, 0.5% and 1%, respectively; expected volatility of 23.4%, 21.6% and 21.9%, respectively; risk-free interest rates of 5.3%, 5.5% and 6.4%, respectively; and expected lives of 5 years in all periods. The weighted average fair value of an option granted during the year was \$21.18 (\$12.50, net of taxes), \$11.13 (\$6.57, net of taxes) and \$6.58 (\$3.88, net of taxes) for the years ended December 31, 1999, 1998 and 1997, respectively. In each period, Time Warner granted options to certain executives at exercise prices exceeding the market price of Time Warner common stock on the date of grant. These above-market options had a weighted average exercise price and fair value of \$95.10 and \$19.49 (\$11.50, net of taxes), respectively, in 1999; \$49.54 and \$9.45 (\$5.58, net of taxes), respectively, in 1998; and \$32.45 and \$6.29 (\$3.71, net of taxes), respectively, in 1997.

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

	<u>Thousands of Shares</u>	<u>Weighted- Average Exercise Price</u>
Balance at January 1, 1997	195,734	\$15.98
Granted	16,544	22.41
Exercised	(32,632)	13.66
Cancelled	(942)	18.89
Balance at December 31, 1997.....	178,704	\$16.99
Granted	18,100	37.71
Exercised	(48,323)	15.01
Cancelled	(417)	28.01
Balance at December 31, 1998.....	148,064	\$20.14
Granted	12,954	68.50
Exercised	(24,257)	16.49
Cancelled	(893)	46.17
Balance at December 31, 1999.....	<u>135,868</u>	\$25.23

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	December 31,		
	1999	1998	1997
	(thousands)		
Exercisable	106,728	112,471	145,616
Available for future grants	21,635	11,207	12,771

The following table summarizes information about stock options outstanding at December 31, 1999:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding at 12/31/99 (thousands)	Weighted- Average Remaining Contractual Life	Weighted- Average Exercise Price	Number Exercisable at 12/31/99 (thousands)	Weighted- Average Exercise Price
Under \$10	6,104	0.6 years	\$ 9.08	6,104	\$ 9.08
\$10.00 to \$15.00	18,760	2.6 years	\$12.11	18,760	\$12.11
\$15.01 to \$20.00	46,331	3.9 years	\$18.28	44,974	\$18.27
\$20.01 to \$30.00	33,265	5.4 years	\$22.06	29,547	\$21.94
\$30.01 to \$45.00	15,874	7.9 years	\$35.08	6,403	\$34.68
\$45.01 to \$65.00	5,070	8.5 years	\$54.35	928	\$48.67
\$65.01 to \$103.74	10,464	9.0 years	\$69.96	12	\$69.16
Total	135,868	5.0 years	\$25.23	106,728	\$18.93

For options exercised by employees of TWE, Time Warner is reimbursed by TWE for the amount by which the market value of Time Warner common stock on the exercise date exceeds the exercise price, or the greater of the exercise price or \$13.88 for options granted prior to the TWE capitalization on June 30, 1992. There were 44.8 million options held by employees of TWE at December 31, 1999, 34.7 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 between three to five years. In accordance with APB 25 and related interpretations, Time Warner recognizes compensation cost for restricted stock awards ratably over the vesting period based on the fair market value of the shares on the date of grant.

At December 31, 1999, Time Warner had approximately 190,000 shares of restricted stock outstanding. During 1999, Time Warner issued 99,400 shares of restricted stock at a weighted-average fair value of \$64.24. Grants of restricted stock in prior years were not significant. In addition, compensation cost recognized in connection with restricted stock grants was not material in any period.

Effect of America Online-Time Warner Merger on Stock-Based Compensation Plans

In connection with Time Warner's agreement to merge with America Online entered into in January 2000, all Time Warner stock options and restricted stock outstanding at that time became fully vested, pursuant to the terms of Time Warner's stock option and restricted stock plans. See Note 20 for a summary of the terms of the America Online-Time Warner merger.

14. BENEFIT PLANS

Time Warner and its subsidiaries have defined benefit pension plans covering most domestic employees. Pension benefits are based on formulas that reflect the employees' years of service and compensation levels

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during their employment period. Time Warner's common stock represents approximately 13% and 12% of plan assets at December 31, 1999 and 1998, respectively. A summary of activity for Time Warner's defined benefit pension plans is as follows:

	Years Ended December 31,			
	1999 Historical	1998 Pro Forma	1998 Historical	1997 Historical
	(millions)			
Components of Pension Expense				
Service cost	\$ 107	\$ 95	\$ 53	\$ 45
Interest cost	118	110	74	68
Expected return on plan assets	(132)	(108)	(73)	(62)
Net amortization and deferral	(3)	2	2	1
Total	<u>\$ 90</u>	<u>\$ 99</u>	<u>\$ 56</u>	<u>\$ 52</u>

	December 31,		
	1999 Historical	1998 Pro Forma	1998 Historical
	(millions)		
Change in Projected Benefit Obligation			
Projected benefit obligation at beginning of year	\$1,749	\$1,451	\$ 990
Service cost	107	95	53
Interest cost	118	110	74
Actuarial (gain) loss ^(a)	(427)	159	98
Benefits paid	(70)	(66)	(52)
Projected benefit obligation at end of year	<u>1,477</u>	<u>1,749</u>	<u>1,163</u>
Change in Plan Assets			
Fair value of plan assets at beginning of year	1,480	1,203	839
Actual return on plan assets	266	303	191
Employer contribution	21	34	16
Benefits paid	(64)	(60)	(46)
Fair value of plan assets at end of year	<u>1,703</u>	<u>1,480</u>	<u>1,000</u>
Overfunded (unfunded) projected benefit obligation	226	(269)	(163)
Additional minimum liability ^(b)	(40)	(37)	(33)
Unrecognized actuarial gain ^(a)	(589)	(26)	(16)
Unrecognized prior service cost	26	21	16
Accrued pension expense	<u>\$ (377)</u>	<u>\$ (311)</u>	<u>\$ (196)</u>

(a) Reflects certain changes in actuarial assumptions made during 1999, including a shortening of the expected service period and an increase in the discount rate.

(b) The additional minimum liability is offset fully by a corresponding intangible asset recognized in the consolidated balance sheet.

	December 31,		
	1999	1998	1997
Weighted-Average Pension Assumptions			
Discount rate	7.75%	6.75%	7.25%
Expected return on plan assets	9%	9%	9%
Rate of compensation increase	6%	6%	6%

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Included above are projected benefit obligations and accumulated benefit obligations for unfunded defined benefit pension plans of \$174 million and \$145 million as of December 31, 1999, respectively; and \$118 million and \$97 million as of December 31, 1998, respectively (\$157 million and \$124 million on a pro forma basis).

Employees of Time Warner's operations in foreign countries participate to varying degrees in local pension plans, which in the aggregate are not significant.

Time Warner also has certain defined contribution plans, including savings and profit sharing plans, as to which the expense amounted to \$100 million in 1999, \$84 million in 1998 (\$119 million on a pro forma basis) and \$83 million in 1997. Contributions to the savings plans are based upon a percentage of the employees' elected contributions. Contributions to the profit sharing plans generally are determined by management and approved by the boards of directors of the participating companies.

15. DERIVATIVE FINANCIAL INSTRUMENTS

Time Warner uses derivative financial instruments principally to manage the risk that changes in interest rates will affect either the fair value of its debt obligations or the amount of its future interest payments and, with regard to foreign currency exchange rates, to manage the risk that changes in exchange rates will affect the amount of unremitted or future royalties and license fees to be received from the sale of U.S. copyrighted products abroad. 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.

Interest Rate Risk Management

Interest Rate Swap Contracts

Interest rate swap contracts are used to adjust the proportion of total debt that is subject to variable and fixed interest rates. Under an interest rate swap contract, Time Warner either agrees to pay an amount equal to a specified variable-rate of interest times a notional principal amount, and to receive in return an amount equal to a specified fixed-rate of interest times the same notional principal amount or, vice versa, to receive a variable-rate amount and to pay a fixed-rate amount. The notional amounts of the contract are not exchanged. No other cash payments are made unless the contract is terminated prior to maturity, in which case the amount paid or received in settlement is established by agreement at the time of termination, and usually represents the net present value, at current rates of interest, of the remaining obligations to exchange payments under the terms of the contract. Interest rate swap contracts are entered into with a number of major financial institutions in order to minimize counterparty credit risk.

Time Warner accounts for its interest rate swap contracts differently based on whether it has agreed to pay an amount based on a variable-rate or fixed-rate of interest. For interest rate swap contracts under which Time Warner agrees to pay variable-rates of interest, these contracts are considered to be a hedge against changes in the fair value of Time Warner's fixed-rate debt obligations. Accordingly, the interest rate swap contracts are reflected at fair value in Time Warner's consolidated balance sheet and the related portion of fixed-rate debt being hedged is reflected at an amount equal to the sum of its carrying value plus an adjustment representing the change in fair value of the debt obligations attributable to the interest rate risk being hedged. In addition, changes during any accounting period in the fair value of these interest rate swap contracts, as well as offsetting changes in the adjusted carrying value of the related portion of fixed-rate debt being hedged, are recognized as adjustments to interest expense in Time Warner's consolidated statement of operations. The net effect of this accounting on Time Warner's operating results is that interest expense on the portion of fixed-rate debt being hedged is generally recorded based on variable interest rates.

For interest rate swap contracts under which Time Warner agrees to pay fixed-rates of interest, these contracts are considered to be a hedge against changes in the amount of future cash flows associated with Time

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Warner's interest payments of Time Warner's variable-rate debt obligations. Accordingly, the interest rate swap contracts are reflected at fair value in Time Warner's consolidated balance sheet and the related gains or losses on these contracts are deferred in shareholders' equity (as a component of comprehensive income). These deferred gains and losses are then amortized as an adjustment to interest expense over the same period in which the related interest payments being hedged are recognized in income. 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 interest payments being hedged, any changes in fair value relating to the ineffective portion of these contracts are immediately recognized in income. The net effect of this accounting on Time Warner's operating results is that interest expense on the portion of variable-rate debt being hedged is generally recorded based on fixed interest rates.

At December 31, 1999, Time Warner had interest rate swap contracts to pay variable-rates of interest (average six-month LIBOR rate of 5.8%) and receive fixed-rates of interest (average rate of 5.5%) on \$400 million notional amount of indebtedness. This resulted in approximately 34% of Time Warner's underlying debt being subject to variable interest rates. The \$400 million notional amount of outstanding contracts will mature during 2000. At December 31, 1998, Time Warner had interest rate swap contracts on \$1.6 billion notional amount of indebtedness. The net gain or loss on the ineffective portion of these interest rate swap contracts was not material in any period.

Interest Rate Lock Agreements

In the past, Time Warner infrequently used interest rate lock agreements to hedge the risk that the cost of a future issuance of fixed-rate debt may be adversely affected by changes in interest rates. Under an interest rate lock agreement, Time Warner agrees to pay or receive an amount equal to the difference between the net present value of the cash flows for a notional principal amount of indebtedness based on the existing yield of a U.S. treasury bond at the date when the agreement is established and at the date when the agreement is settled, typically when Time Warner issues new debt. The notional amounts of the agreement are not exchanged. Interest rate lock agreements are entered into with a number of major financial institutions in order to minimize counterparty credit risk.

Interest rate lock agreements are reflected at fair value in Time Warner's consolidated balance sheet and the related gains or losses on these agreements are deferred in shareholders' equity (as a component of comprehensive income). These deferred gains and losses are then amortized as an adjustment to interest expense over the same period in which the related interest costs on the new debt issuances are recognized in income.

At December 31, 1998, Time Warner had outstanding interest rate lock agreements for an aggregate \$650 million notional principal amount of indebtedness, which were settled in January 1999. Since that time, Time Warner has not entered into any interest rate lock agreements to hedge the cost of future issuances of fixed-rate debt. At December 31, 1999, Time Warner had deferred approximately \$30 million of net losses on interest rate lock agreements, of which less than \$1 million is expected to be recognized in income over the next twelve months.

Foreign Currency Risk Management

Foreign exchange contracts are used primarily by Time Warner to hedge the risk that unremitted or future royalties and license fees owed to Time Warner domestic companies for the sale or anticipated sale of U.S. copyrighted products abroad may be adversely affected by changes in foreign currency exchange rates. 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 the ensuing twelve-month period. At December 31, 1999, Time Warner had effectively hedged approximately half of the estimated foreign currency exposures that principally relate to anticipated cash flows to be remitted to the U.S. over the ensuing

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twelve-month period. To hedge this exposure, Time Warner used foreign exchange contracts that generally have maturities of three months or less, which generally will be rolled over to provide continuing coverage throughout the year. Time Warner often closes foreign exchange sale contracts by purchasing an offsetting purchase contract. Foreign exchange contracts are placed with a number of major financial institutions in order to minimize credit risk.

Time Warner records these foreign exchange contracts at fair value in its consolidated balance sheet and the related gains or losses on these contracts are deferred in shareholders' equity (as a component of comprehensive income). These deferred gains and losses are recognized in income in the period in which the related royalties and license fees being hedged are received and recognized in income. 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 royalties and license fees being hedged, any changes in fair value relating to the ineffective portion of these contracts are immediately recognized in income. Gains and losses on foreign exchange contracts generally are included as a component of interest and other, net, in Time Warner's consolidated statement of operations.

At December 31, 1999, Time Warner had contracts for the sale of \$843 million and the purchase of \$468 million of foreign currencies at fixed rates. Contracts in a net sale position primarily consisted of Japanese yen (62% of net contract value), European currency (46%), Canadian dollars (15%) and English pounds (2%), offset in part by contracts in a net purchase position, primarily consisting of New Zealand dollars (34%).

Time Warner had contracts for the sale of \$755 million and the purchase of \$259 million of foreign currencies at December 31, 1998. Time Warner had deferred approximately \$1 million of net gains on foreign exchange contracts at December 31, 1999, which is substantially expected to be recognized in income over the next twelve months. Time Warner recognized \$8 million in losses in 1999, \$8 million in losses in 1998 (\$10 million on a pro forma basis) and \$27 million in gains in 1997, on foreign exchange contracts. These amounts were or are expected to be largely offset by corresponding decreases and increases, respectively, in the dollar value of foreign currency royalties and license fee payments that have been or are anticipated to be received in cash from the sale of U.S. copyrighted products abroad.

16. SEGMENT INFORMATION

Time Warner classifies its business interests into six fundamental areas: *Cable Networks*, consisting principally of interests in cable television programming; *Publishing*, consisting principally of interests in magazine publishing, book publishing and direct marketing; *Music*, consisting principally of interests in recorded music and music publishing; *Filmed Entertainment*, consisting principally of interests in filmed entertainment, television production and television broadcasting; *Cable*, consisting principally of interests in cable television systems; and *Digital Media*, consisting principally of interests in Internet-related and digital media businesses. Time Warner's Digital Media segment commenced operations in 1999.

Information as to the operations of Time Warner in different 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 business segment operating income before noncash amortization of intangible assets ("EBITA"). As a result of the consolidation of the Entertainment Group in 1999, Time Warner's and the Entertainment Group's business segments have been combined. Accordingly, segment information for 1998 and 1997 has been restated in order to conform to the new presentation. The accounting policies of the business segments are the same as those described in the summary of significant accounting policies (Note 1). Intersegment sales are accounted for at fair value as if the sales were to third parties.

The operating results of Time Warner's Cable segment reflect (i) the TWE-A/N Transfers effective as of January 1, 1998, (ii) the Primestar Roll-up Transaction, effective as of April 1, 1998, (iii) the formation of the Road Runner Joint Venture, effective as of June 30, 1998, (iv) the Time Warner Telecom Reorganization,

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effective as of July 1, 1998 and (v) the formation of the Texas Cable Joint Venture, effective as of December 31, 1998.

	<u>Years Ended December 31,</u>		
	<u>1999</u>	<u>1998</u>	<u>1997</u>
	(millions)		
Revenues			
Cable Networks	\$ 6,111	\$ 5,377	\$ 4,823
Publishing	4,663	4,496	4,290
Music	3,834	4,025	3,691
Filmed Entertainment	8,075	7,978	7,003
Broadcasting-The WB Network	384	260	136
Cable	5,374	5,342	5,240
Digital Media	1	—	—
Intersegment elimination	<u>(1,109)</u>	<u>(1,234)</u>	<u>(812)</u>
Total business segment revenues	\$27,333	\$26,244	\$24,371
Entertainment Group revenues reported on an unconsolidated basis ^(a)	<u>—</u>	<u>(11,662)</u>	<u>(11,077)</u>
Total consolidated revenues	<u>\$27,333</u>	<u>\$14,582</u>	<u>\$13,294</u>

(a) Represents amounts previously reported for the Entertainment Group, adjusted by intercompany eliminations and other consolidating adjustments necessary for Time Warner to reflect the Entertainment Group on a consolidated basis.

	<u>Years Ended December 31,</u>		
	<u>1999</u>	<u>1998</u>	<u>1997</u>
	(millions)		
EBITA^(a)			
Cable Networks	\$1,397	\$1,160	\$ 964
Publishing	679	607	529
Music	452	493	467
Filmed Entertainment ^(b)	997	695	604
Broadcasting-The WB Network	(92)	(93)	(88)
Cable ^(c)	3,927	1,694	1,611
Digital Media	(17)	—	—
Intersegment elimination	<u>(10)</u>	<u>(94)</u>	<u>(54)</u>
Total business segment EBITA	\$7,333	\$4,462	\$4,033
Entertainment Group EBITA reported on an unconsolidated basis ^(d) ...	<u>—</u>	<u>(2,166)</u>	<u>(1,850)</u>
Total consolidated EBITA	<u>\$7,333</u>	<u>\$2,296</u>	<u>\$2,183</u>

(a) EBITA represents business segment operating income before noncash amortization of intangible assets. After deducting amortization of intangible assets, Time Warner's business segment operating income was \$6.035 billion in 1999, \$1.496 billion in 1998 and \$1.271 billion in 1997.

(b) 1999 results include a net pretax gain of \$215 million recognized in connection with the early termination and settlement of a long-term, home video distribution agreement and a pretax gain of \$97 million relating to the sale of an interest in CanalSatellite, offset in part by a one-time, noncash pretax charge of \$106 million relating to Warner Bros.' retail stores.

(c) Includes net pretax gains relating to the sale or exchange of certain cable television systems and investments of approximately \$2.247 billion in 1999, \$108 million in 1998 and \$212 million in 1997.

(d) Represents amounts previously reported for the Entertainment Group, adjusted by intercompany eliminations and other consolidating adjustments necessary for Time Warner to reflect the Entertainment Group on a consolidated basis.

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	<u>Years Ended December 31,</u>		
	<u>1999</u>	<u>1998</u>	<u>1997</u>
	(millions)		
Depreciation of Property, Plant and Equipment			
Cable Networks	\$ 132	\$ 116	\$ 109
Publishing	81	80	79
Music	74	72	83
Filmed Entertainment	156	172	204
Broadcasting-The WB Network.....	1	1	1
Cable.....	786	864	862
Digital Media	1	—	—
Total business segment depreciation.....	<u>\$1,231</u>	<u>\$1,305</u>	<u>\$1,338</u>
Entertainment Group depreciation reported on an unconsolidated basis ^(a)	<u>—</u>	<u>(927)</u>	<u>(956)</u>
Total consolidated depreciation	<u>\$1,231</u>	<u>\$ 378</u>	<u>\$ 382</u>

(a) Represents amounts previously reported for the Entertainment Group, adjusted by intercompany eliminations and other consolidating adjustments necessary for Time Warner to reflect the Entertainment Group on a consolidated basis.

	<u>Years Ended December 31,</u>		
	<u>1999</u>	<u>1998</u>	<u>1997</u>
	(millions)		
Amortization of Intangible Assets^(a)			
Cable Networks	\$ 205	\$ 200	\$ 199
Publishing	52	38	48
Music	273	280	301
Filmed Entertainment	201	216	215
Broadcasting-The WB Network.....	4	3	—
Cable.....	563	593	600
Digital Media	—	—	—
Total business segment amortization	<u>\$1,298</u>	<u>\$1,330</u>	<u>\$1,363</u>
Entertainment Group amortization reported on an unconsolidated basis ^(b)	<u>—</u>	<u>(530)</u>	<u>(451)</u>
Total consolidated amortization	<u>\$1,298</u>	<u>\$ 800</u>	<u>\$ 912</u>

(a) Includes amortization relating to all business combinations accounted for by the purchase method, including the \$14 billion acquisition of Warner Communications Inc. in 1989, the \$6.2 billion acquisition of TBS in 1996 and the \$2.3 billion of cable acquisitions in 1996 and 1995.

(b) Represents amounts previously reported for the Entertainment Group, adjusted by intercompany eliminations and other consolidating adjustments necessary for Time Warner to reflect the Entertainment Group on a consolidated basis.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Information as to the assets and capital expenditures is as follows:

	December 31,		
	1999	1998	1997
	(millions)		
Assets			
Cable Networks.....	\$ 9,940	\$ 9,499	\$ 9,441
Publishing.....	2,870	2,726	2,490
Music.....	7,483	7,354	6,797
Filmed Entertainment.....	10,393	10,841	10,658
Broadcasting-The WB Network.....	284	244	113
Cable.....	18,380	16,094	17,766
Digital Media.....	28	—	—
Corporate ^(a)	1,861	1,193	1,334
Total business segment assets.....	\$51,239	\$47,951	\$48,599
Entertainment Group assets reported on an unconsolidated basis ^(b)	—	(16,311)	(14,436)
Total consolidated assets.....	<u>\$51,239</u>	<u>\$31,640</u>	<u>\$34,163</u>

(a) Consists principally of cash, cash equivalents and other investments.

(b) Represents amounts previously reported for the Entertainment Group, adjusted by intercompany eliminations and other consolidating adjustments necessary for Time Warner to reflect the Entertainment Group on a consolidated basis.

	Years Ended December 31,		
	1999	1998	1997
	(millions)		
Capital Expenditures			
Cable Networks.....	\$ 229	\$ 143	\$ 132
Publishing.....	106	58	77
Music.....	134	92	87
Filmed Entertainment.....	136	125	147
Broadcasting-The WB Network.....	2	1	1
Cable.....	1,600	1,676	1,683
Digital Media.....	2	—	—
Corporate.....	22	20	12
Total business segment capital expenditures.....	\$2,231	\$ 2,115	\$ 2,139
Entertainment Group capital expenditures reported on an unconsolidated basis ^(a)	—	(1,603)	(1,565)
Total consolidated capital expenditures.....	<u>\$2,231</u>	<u>\$ 512</u>	<u>\$ 574</u>

(a) Represents amounts previously reported for the Entertainment Group, adjusted by intercompany eliminations and other consolidating adjustments necessary for Time Warner to reflect the Entertainment Group on a consolidated basis.

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Information as to operations in different geographical areas is as follows:

	Years Ended December 31,		
	1999	1998	1997
		(millions)	
Revenues^(a)			
United States.....	\$21,654	\$ 20,803	\$ 19,004
United Kingdom.....	1,000	1,001	937
Germany.....	724	695	704
Japan.....	629	567	589
Canada.....	420	429	399
France.....	418	390	347
Other international.....	<u>2,488</u>	<u>2,359</u>	<u>2,391</u>
Total revenues by geographic area.....	\$27,333	\$ 26,244	\$ 24,371
Entertainment Group revenues reported on an unconsolidated basis ^(b)	<u>—</u>	<u>(11,662)</u>	<u>(11,077)</u>
Total.....	<u><u>\$27,333</u></u>	<u><u>\$ 14,582</u></u>	<u><u>\$ 13,294</u></u>

(a) Revenues are attributed to countries based on location of customer.

(b) Represents amounts previously reported for the Entertainment Group, adjusted by intercompany eliminations and other consolidating adjustments necessary for Time Warner to reflect the Entertainment Group on a consolidated basis.

Because a substantial portion of international revenues is derived from the sale of U.S. copyrighted products abroad, assets located outside the United States are not material.

17. COMMITMENTS AND CONTINGENCIES

Time Warner's total rent expense amounted to \$521 million in 1999, \$286 million in 1998 (\$504 million on a pro forma basis) and \$237 million in 1997. The minimum rental commitments under noncancellable long-term operating leases are: 2000-\$450 million; 2001-\$442 million; 2002-\$416 million; 2003-\$385 million; 2004-\$362 million; and after 2004-\$2.809 billion.

Time Warner's minimum commitments and guarantees under certain programming, licensing, artists, athletes, franchise and other agreements aggregated approximately \$14.5 billion at December 31, 1999, which are payable principally over a ten-year period.

Time Warner is subject to a class action lawsuit alleging collusive pricing practices by the major record companies in their capacity as distributors of compact discs to CD wholesalers and retailers. The trial presently is scheduled for the fall of 2000. Although management believes the case is without merit, an adverse jury verdict could result in a material loss to Time Warner. Due to the lack of specificity to plaintiffs' claims, a range of loss is not determinable at this time.

TWE also is subject to certain litigation relating to Six Flags. In December 1998, a jury returned an adverse verdict in the Six Flags matter in the amount of \$454 million. TWE and its former 51% partner in Six Flags are financially responsible for this judgment. Management believes that there were numerous legal errors in the case and has appealed the verdict. In management's opinion and considering the gain deferred on the sale of Six Flags described in Note 3 to cover this potential exposure, the resolution of this matter is not expected to have a material effect on Time Warner's financial statements.

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Time Warner is subject to numerous other legal proceedings. In management's opinion and considering established reserves, the resolution of these matters will not have a material effect, individually and in the aggregate, on Time Warner's financial statements.

18. RELATED PARTY TRANSACTIONS

In the normal course of conducting their businesses, Time Warner and its subsidiaries and affiliates have had various transactions with TWE and other Entertainment Group companies, generally on terms resulting from a negotiation between the affected units that in management's view results in reasonable allocations. For all periods prior to the consolidation of the Entertainment Group in 1999, these transactions were included in Time Warner's operating results and reported as related party transactions. However, on a historical basis for 1999 and on a pro forma basis for 1998, these transactions have been eliminated in Time Warner's consolidated financial statements. Nevertheless, in order to facilitate an understanding of the effects of these transactions on Time Warner's historical financial statements for 1998 and 1997, a summary of significant transactions between Time Warner and TWE is provided below.

TWE's employees participate in various Time Warner medical, stock option and other benefit plans for which Time Warner charges TWE its allocable share of plan expenses, including administrative costs.

Time Warner's Cable Networks-TBS division has license agreements with TWE, pursuant to which the cable networks have acquired broadcast rights to certain film and television product. In addition, Time Warner's Music division provides home videocassette distribution services to certain TWE operations, and certain TWE units place advertising in magazines published by Time Warner's Publishing division.

Time Warner's Filmed Entertainment-TBS division has various service agreements with TWE's Filmed Entertainment-Warner Bros. division, pursuant to which TWE's Filmed Entertainment-Warner Bros. division provides certain management and distribution services for Time Warner's theatrical, television and animated product, as well as certain services for administrative and technical support.

Time Warner's cable businesses have management services agreements with TWE, pursuant to which TWE manages, or provides services to, the cable television systems owned by Time Warner. Such cable television systems also pay TWE for the right to carry cable television programming provided by TWE's cable networks. Similarly, Time Warner receives fees from TWE's cable television systems for the right to carry cable television programming provided by Time Warner's cable networks.

Time Warner's and TWE's cable businesses have sold or exchanged various cable television systems to MediaOne in an effort to strengthen their geographic clustering of cable television properties. See Note 2 for further information.

Time Warner had a credit agreement with TWE that allowed it to borrow up to \$400 million from TWE. Time Warner paid interest to TWE on outstanding borrowings at a rate equal to LIBOR plus 1% per annum. In 1999, Time Warner repaid all outstanding borrowings under this credit agreement.

Time Warner provides TWE with certain corporate support services, including accounting, tax, legal and administration, for which it received a fee in the amount of \$73 million in 1999 and \$72 million in both 1998 and 1997.

TWE was required to pay a \$130 million advisory fee to MediaOne over a five-year period that ended September 15, 1998 for MediaOne's expertise in telecommunications, telephony and information technology, and its participation in the management and technological upgrade of TWE's cable systems.

In addition to transactions with TWE and other Entertainment Group companies, Time Warner has had transactions with the Columbia House Company partnerships, Comedy Partners, L.P., Time Warner Telecom, the

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Road Runner Joint Venture and other equity investees of Time Warner and the Entertainment Group, generally with respect to sales of products and services in the ordinary course of business.

19. ADDITIONAL FINANCIAL INFORMATION

Cash Flows

As of December 31, 1999, Time Warner had certain asset securitization facilities, which provide for the accelerated receipt of up to approximately \$1 billion of cash on available receivables. In connection with each of these securitization facilities, Time Warner sells, on a revolving and nonrecourse basis, certain of its accounts receivables ("Pooled Receivables") to a wholly owned, special purpose entity which, in turn, sells a percentage ownership interest in the Pooled Receivables to a third-party, commercial paper conduit sponsored by a financial institution. These securitization transactions have been accounted for as a sale in accordance with FASB Statement No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." Accordingly, accounts receivable sold under this securitization program have been reflected as a reduction in receivables in the accompanying consolidated balance sheet. Net proceeds received under this securitization program were \$228 million in 1999, \$17 million in 1998 and \$108 million in 1997.

Time Warner, through TWE, also has an asset securitization facility, which effectively provides for the accelerated receipt of up to \$500 million of cash through the year 2000 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 and nonrecourse basis, certain of its Backlog Contracts ("Pooled Backlog Contracts") to a wholly owned, special purpose entity which, in turn, sells a percentage ownership interest in the Pooled Backlog Contracts to a third-party, commercial paper conduit sponsored by a financial institution.

Because the Backlog Contracts securitized under this facility consist of cash contracts for the licensing of theatrical and television product that have already been produced, the recognition of revenue for such completed product is only 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 revenues in long-term liabilities in the accompanying consolidated balance sheet. In 1999, approximately \$15 million of proceeds were repaid under this securitization program. This compares to net proceeds received of approximately \$166 million in 1998 on a pro forma basis.

Additional financial information with respect to cash flows is as follows:

	Year Ended December 31,			
	1999 Historical	1998 Pro Forma	1998 Historical	1997 Historical
	(millions)			
Cash payments made for interest	\$1,406	\$1,343	\$812	\$929
Cash payments made for income taxes	424	356	261	305
Tax-related distributions received from TWE	—	—	314	324
Income tax refunds received	47	56	52	52

Noncash investing activities in 1999 included the exchange of certain cable television systems (Note 2). Noncash investing activities in 1998 included the exchange of certain cable television systems, the Time Warner Telecom Reorganization, the formation of the Road Runner Joint Venture and the TWE-A/N Transfers (Note 2). Noncash financing activities in 1999 included the conversion of 14.2 million shares of convertible preferred stock into approximately 59.1 million shares of common stock. Noncash financing activities in 1998 included the conversion of \$1.15 billion of Zero-Coupon Convertible Notes into 37.4 million shares of common stock

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(Note 7) and the conversion of 12.8 million shares of convertible preferred stock into approximately 53.5 million shares of common stock (Note 12). Noncash financing activities in 1997 included the redemption of the PERCS in exchange for Time Warner's interest in Hasbro (Note 10) and the payment of \$185 million of noncash dividends on the Series M Preferred Stock.

Interest and Other, Net

Interest and other, net, consists of:

	Years Ended December 31,			
	1999 Historical	1998 Pro Forma	1998 Historical	1997 Historical
	(millions)			
Interest expense	\$(1,519)	\$(1,451)	\$ (891)	\$(1,049)
Gain on Time Warner Telecom IPO	115	—	—	—
Gain on sale of investment in Hasbro	—	—	—	200
Write-down of investment in Primestar	—	(210)	—	—
Other investment-related activity, principally net losses of corporate-related equity investees	(250)	(208)	(91)	(76)
Corporate finance-related activity, principally losses on asset securitization programs	(145)	(101)	(76)	(16)
Miscellaneous	(98)	(80)	(70)	(32)
Total interest and other, net	<u>\$(1,897)</u>	<u>\$(2,050)</u>	<u>\$(1,128)</u>	<u>\$ (973)</u>

Other Current Liabilities

Other current liabilities consist of:

	December 31,		
	1999 Historical	1998 Pro Forma	1998 Historical
	(millions)		
Accrued expenses	\$3,030	\$2,924	\$1,542
Accrued compensation	1,026	835	538
Accrued income taxes	105	125	93
Deferred revenues	597	481	231
Total	<u>\$4,758</u>	<u>\$4,365</u>	<u>\$2,404</u>

20. SUBSEQUENT EVENTS (unaudited)

America Online-Time Warner Merger

In January 2000, Time Warner and America Online announced that they had entered into an agreement to merge (the "Merger") by forming a new holding company named AOL Time Warner Inc. ("AOL Time Warner"). As part of the Merger, each issued and outstanding share of each class of common stock of Time Warner will be converted into 1.5 shares of an identical series of common stock of AOL Time Warner. In addition, each issued and outstanding share of each class of preferred stock of Time Warner will be converted into one share of preferred stock of AOL Time Warner, which will have substantially identical terms except that such shares will be convertible into approximately 6.25 shares of AOL Time Warner common stock. Lastly, each issued and outstanding share of common stock of America Online will be converted into one share of common stock of AOL Time Warner.

As a result of the Merger, the former shareholders of America Online will have an approximate 55% interest in AOL Time Warner and the former shareholders of Time Warner will have an approximate 45% interest in the combined entity, expressed on a fully diluted basis. The Merger is expected to be accounted for by

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AOL Time Warner as an acquisition of Time Warner under the purchase method of accounting for business combinations.

The Merger is expected to close in the fall of 2000 and is subject to customary closing conditions, including the approval of the shareholders of each of America Online and Time Warner and all necessary regulatory approvals. There can be no assurance that such approvals will be obtained.

Warner-EMI Music Merger

In January 2000, Time Warner and EMI Group plc ("EMI") announced they had entered into an agreement to combine their global music operations into two jointly owned ventures, to be referred to collectively as Warner EMI Music. Time Warner will control the joint ventures through majority board representation, among other factors, and will account for the transaction under the purchase method of accounting.

As part of the transaction, each company will contribute its music operations to the joint ventures, subject to a comparable amount of debt. As of December 31, 1999, EMI had approximately \$1.5 billion of net debt. EMI shareholders also will receive an aggregate special cash dividend of approximately \$1.3 billion. This dividend is expected to be financed through a combination of proceeds from debt incurred or assumed by the joint ventures and consideration to be paid by Time Warner directly to EMI for a new class of EMI equity securities. The new class of EMI equity securities to be held by Time Warner will convert automatically into an 8% common equity interest in EMI, on a fully diluted basis, if EMI's share price reaches £9 for a short period of time within the first three-and-a-half years after closing.

The transaction is expected to close by the end of 2000, subject to customary closing conditions, including regulatory approvals and the approval of EMI's shareholders. There can be no assurance that such approvals will be obtained.

REPORT OF MANAGEMENT

The accompanying consolidated financial statements have been prepared by management in conformity with generally accepted accounting principles, and necessarily include some amounts that are based on management's best estimates and judgments.

Time Warner maintains a system of internal accounting controls designed to provide management with reasonable assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly. The concept of reasonable assurance is based on the recognition that the cost of a system of internal control should not exceed the benefits derived and that the evaluation of those factors requires estimates and judgments by management. Further, because of inherent limitations in any system of internal accounting control, errors or irregularities may occur and not be detected. Nevertheless, management believes that a high level of internal control is maintained by Time Warner through the selection and training of qualified personnel, the establishment and communication of accounting and business policies, and its internal audit program.

The Audit Committee of the Board of Directors, composed solely of directors who are not employees of Time Warner, meets periodically with management and with Time Warner's internal auditors and independent auditors to review matters relating to the quality of financial reporting and internal accounting control, and the nature, extent and results of their audits. Time Warner's internal auditors and independent auditors have free access to the Audit Committee.

Joseph A. Ripp
*Executive Vice President and
Chief Financial Officer*

James W. Barge
*Vice President and
Controller*

REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Shareholders Time Warner Inc.

We have audited the accompanying consolidated balance sheet of Time Warner Inc. ("Time Warner") as of December 31, 1999 and 1998, and the related consolidated statements of operations, cash flows and shareholders' equity for each of the three years in the period ended December 31, 1999. These financial statements are the responsibility of Time Warner's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Time Warner at December 31, 1999 and 1998, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1999, in conformity with accounting principles generally accepted in the United States.

Ernst + Young LLP

New York, New York
February 2, 2000

TIME WARNER INC.
SELECTED FINANCIAL INFORMATION

The selected financial information for each of the five years in the period ended December 31, 1999 set forth below has been derived from and should be read in conjunction with the financial statements and other financial information presented elsewhere herein. Capitalized terms are as defined and described in such consolidated financial statements, or elsewhere herein. Certain reclassifications have been made to conform to the 1999 presentation.

The selected historical financial information for 1999 reflects the consolidation of the Entertainment Group, which substantially consists of TWE, retroactive to the beginning of 1999. The selected historical financial information for all prior periods has not been changed. However, in order to enhance comparability, pro forma financial statements for 1998 reflecting the consolidation of the Entertainment Group are presented supplementally.

The selected historical financial information for 1998 reflects (i) the TWE-A/N Transfers and (ii) the redemption of Time Warner's Series M Preferred Stock at an aggregate cost of approximately \$2.1 billion using proceeds from the issuance of lower-cost debt.

The selected historical financial information for 1996 reflects (i) the use of approximately \$1.55 billion of net proceeds from the issuance of Series M Preferred Stock to reduce outstanding indebtedness and (ii) the acquisitions of TBS and Cablevision Industries Corporation and related companies, resulting in (a) the issuance of an aggregate 6.3 million shares of Time Warner preferred stock having a total liquidation preference of \$633 million and 365.4 million shares of Time Warner common stock and (b) the assumption or incurrence of approximately \$4.8 billion of indebtedness.

The selected historical financial information for 1995 reflects (i) the acquisitions of KBLCOM Incorporated and Summit Communications Group, Inc. and (ii) the exchange by Toshiba Corporation and ITOCHU Corporation of their direct and indirect interests in TWE, resulting in (a) the issuance of an aggregate 29.3 million shares of Time Warner preferred stock having a total liquidation preference of \$2.926 billion and 5.2 million shares of Time Warner common stock and (b) the assumption or incurrence of approximately \$1.3 billion of indebtedness.

Per common share amounts and average common shares have been restated to give effect to the two-for-one common stock split that occurred on December 15, 1998.

TIME WARNER INC.
SELECTED FINANCIAL INFORMATION — (Continued)

Selected Operating Statement Information	Years Ended December 31,					
	1999	1998	1998	1997	1996	1995
	Historical	Pro Forma	Historical	Historical	Historical	Historical
	(millions, except per share amounts)					
Revenues	\$27,333	\$26,244	\$14,582	\$13,294	\$10,064	\$8,067
Depreciation and amortization.....	(2,529)	(2,635)	(1,178)	(1,294)	(988)	(559)
Business segment operating income ^{(a)(b)(c)}	6,035	3,132	1,496	1,271	966	697
Equity in pretax income of Entertainment Group ^(d)	—	—	356	686	290	256
Interest and other, net ^{(e)(f)}	(1,897)	(2,050)	(1,128)	(973)	(1,102)	(866)
Income (loss) before extraordinary item	1,960	168	168	301	(156)	(124)
Net income (loss) ^(g)	1,948	168	168	246	(191)	(166)
Net income (loss) applicable to common shares (after preferred dividends) ^{(g)(h)}	1,896	(372)	(372)	(73)	(448)	(218)
Per share of common stock: ^(h)						
Basic net income (loss)	\$ 1.50	\$ (0.31)	\$ (0.31)	\$ (0.06)	\$ (0.52)	\$ (0.28)
Diluted net income (loss).....	\$ 1.42	\$ (0.31)	\$ (0.31)	\$ (0.06)	\$ (0.52)	\$ (0.28)
Dividends	\$ 0.18	\$ 0.18	\$ 0.18	\$ 0.18	\$ 0.18	\$ 0.18
Average common shares:						
Basic	1,267.0	1,194.7	1,194.7	1,135.4	862.4	767.6
Diluted.....	1,398.3	1,194.7	1,194.7	1,135.4	862.4	767.6

(a) 1999 Business segment operating income includes a net pretax gain of approximately \$215 million relating to early termination and settlement of a long-term, home video distribution agreement, a pretax gain of \$97 million relating to the sale of an interest in CanalSatellite and a one-time and noncash pretax charge of \$106 million relating to Warner Bros.'s retail stores.

(b) Business segment operating income includes net pretax gains related to the sale or exchange of certain cable television systems and investments of approximately \$2.247 billion in 1999, \$18 million in 1998 (\$108 million on a pro forma basis) and \$12 million in 1997.

(c) Business segment operating income in 1995 includes \$85 million in losses relating to certain businesses and joint ventures owned by the Music division which were restructured or closed.

(d) Time Warner's equity in the pretax income of the Entertainment Group includes approximately \$120 million of net losses in 1998 and \$450 million of gains in 1997 relating to the sale or exchange of various cable television systems and other investment-related activity.

(e) Interest and other, net includes an approximate \$115 million pretax gain in 1999 recognized in connection with the initial public offering of a 20% interest in Time Warner Telecom, Inc. and a net pretax charge of \$210 million on a pro forma basis in 1998 relating to the write-down of TWE's carrying value of Primestar.

(f) 1997 Interest and other, net includes a \$200 million pretax gain relating to the disposal of Time Warner's interest in Hasbro and the related redemption of certain mandatorily redeemable preferred securities of a subsidiary.

(g) Net income (loss) includes an extraordinary loss on the retirement of debt of \$12 million in 1999, \$55 million in 1997, \$35 million in 1996 and \$42 million in 1995.

(h) 1998 preferred dividend requirements include a one-time effect of \$234 million relating to the premium paid in connection with the redemption of Time Warner's Series M Preferred Stock.

TIME WARNER INC.
SELECTED FINANCIAL INFORMATION — (Continued)

Selected Balance Sheet Information	December 31,					
	1999 Historical	1998 Pro Forma	1998 Historical	1997 Historical	1996 Historical	1995 Historical
	(millions)					
Cash and equivalents	\$ 1,284	\$ 529	\$ 442	\$ 645	\$ 514	\$ 1,185
Total assets	51,239	47,951	31,640	34,163	35,064	22,132
Debt due within one year	22	25	19	8	11	34
Long-term debt	18,083	17,503	10,925	11,833	12,713	9,907
Borrowings against future stock option proceeds	1,243	895	895	533	488	—
Company-obligated mandatorily redeemable preferred securities of subsidiaries	575	792	575	575	949	949
Series M exchangeable preferred stock...	—	—	—	1,857	1,672	—
Shareholders' equity:						
Preferred stock liquidation preference..	840	2,260	2,260	3,539	3,559	2,994
Equity applicable to common stock ...	8,873	6,592	6,592	5,817	5,943	673
Total shareholders' equity	9,713	8,852	8,852	9,356	9,502	3,667
Total capitalization	29,636	28,067	21,266	24,162	25,335	14,557

TIME WARNER INC.
QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

Quarter	Revenues	Operating Income of Business Segments	Equity in Pretax Income (Loss) of Entertainment Group	Net Income (Loss)	Net Income (Loss) Applicable to Common Shares ^(c)	Basic Net Income (Loss) Per Common Share ^{(e)(f)(g)}	Diluted Net Income (Loss) Per Common Share ^{(e)(f)(g)}	Dividends Per Common Share ^{(f)(g)}	Basic Average Common Shares ^(g)	Diluted Average Common Shares ^(g)	Common Stock ^(g)	
											High	Low
(millions, except per share amounts)												
1999^(a)												
1st ^(b)	\$ 6,091	\$ 943	\$ —	\$ 138	\$ 120	\$.10	\$.10	\$.045	1,243.1	1,243.1	\$72.44	\$58.88
2nd ^(b)	6,531	1,701	—	593	575	.46	.43	.045	1,249.3	1,403.7	78.25	62.00
3rd ^(b)	6,723	1,287	—	369	360	.28	.27	.045	1,288.9	1,397.8	77.31	58.50
4th ^(b)	7,988	2,104	—	848	841	.65	.62	.045	1,286.5	1,391.8	72.31	59.63
Year ^(b)	27,333	6,035	—	1,948	1,896	1.50	1.42	.18	1,267.0	1,398.3	78.25	58.50
1998^(a)												
1st	\$ 3,137	\$ 170	\$107	\$ (62)	\$(144)	\$ (.12)	\$ (.12)	\$.045	1,156.6	1,156.6	\$37.75	\$29.06
2nd ^{(c)(d)}	3,672	384	166	101	23	.02	.02	.045	1,192.6	1,192.6	44.44	36.06
3rd	3,578	315	164	39	(37)	(.03)	(.03)	.045	1,202.6	1,202.6	50.00	39.00
4th ^{(c)(d)}	4,195	627	(81)	90	(214)	(.17)	(.17)	.045	1,227.2	1,227.2	63.13	37.56
Year ^{(c)(d)}	14,582	1,496	356	168	(372)	(.31)	(.31)	.18	1,194.7	1,194.7	63.13	29.06

- (a) The 1999 quarterly financial information reflects the consolidation of the Entertainment Group, which substantially consists of TWE, retroactive to the beginning of 1999. Time Warner's 1998 historical quarterly financial information has not been changed.
- (b) Time Warner's income per common share in 1999 has been affected by certain significant nonrecurring items. These items consisted of (i) a net pretax gain of approximately \$215 million in the first quarter relating to the early termination and settlement of a long-term, home video distribution agreement, (ii) a net pretax gain of approximately \$97 million in the fourth quarter in connection with the sale of an interest in CanalSatellite, (iii) a noncash pretax charge of approximately \$106 million in the fourth quarter relating to Warner Bros.'s retail stores, (iv) an approximate \$115 million pretax gain in the second quarter in connection with the initial public offering of a 20% interest in Time Warner Telecom Inc., (v) gains relating to the sale and exchange of various cable television systems and investments of \$771 million in the second quarter, \$477 million in the third quarter and \$999 million in the fourth quarter, thereby aggregating to \$2.247 billion for the year and (vi) an extraordinary loss of \$12 million in the third quarter relating to the retirement of debt. The aggregate net effect of these items in 1999 was to increase income per common share by \$.10 in the first quarter, \$.34 in the second quarter, \$.20 in the third quarter and \$.45 in the fourth quarter, thereby aggregating to \$1.11 per common share for the year.
- (c) Time Warner's income (loss) per common share in 1998 has been affected by certain significant nonrecurring items. These items consisted of gains and losses relating to the sale or exchange of various cable television systems and other investment-related activity and the effect of redeeming Time Warner's Series M Preferred Stock. The aggregate net effect of these items in 1998 was to increase (decrease) income per common share by \$.03 in the second quarter of 1998, and \$(.28) in the fourth quarter of 1998, thereby aggregating to \$(.25) per common share for the year.
- (d) Time Warner's equity in the pretax income (loss) of the Entertainment Group for 1998 includes net gains of approximately \$90 million for the year relating to the sale or exchange of certain cable television systems and investments, of which approximately \$70 million was recorded in the second quarter of 1998. In addition, Time Warner's equity in the pretax income (loss) of the Entertainment Group for the fourth quarter of 1998 includes a charge of approximately \$210 million principally to reduce the carrying value of an interest in Primestar.
- (e) After preferred dividend requirements. Preferred dividend requirements for the fourth quarter of 1998 include a one-time increase of \$234 million (\$.19 loss per common share) relating to the premium paid in connection with the redemption of Time Warner's Series M Preferred Stock.
- (f) Per common share amounts for the quarters and full years have each been calculated separately. Accordingly, quarterly amounts may not add to the annual amounts because of differences in the average common shares outstanding during each period and, with regard to diluted per common share amounts only, because of the inclusion of the effect of potentially dilutive securities only in the periods in which such effect would have been dilutive.
- (g) Previously reported amounts give effect to the two-for-one common stock split that occurred on December 15, 1998.

TIME WARNER INC.
75 ROCKEFELLER PLAZA
NEW YORK, NY 10019
www.timewarner.com

Time Warner Cable is the cable management division of Time Warner Entertainment Company, L.P., which is the Managing General Partner of Time Warner Entertainment-Advance/Newhouse Partnership. Time Warner Cable and its affiliates own or manage cable systems serving a total of approximately 12.6 million cable subscribers, geographically concentrated in 35 groupings of more than 100,000 subscribers each.

Through a network of coaxial and fiber-optic cables, Time Warner's cable television system subscribers generally receive 36 or more channels of video programming, including local broadcast television signals, locally produced or originated video programming, distant broadcast television signals, advertiser-supported video, programming (such as ESPN and CNN) and premium programming services (such as HBO, Cinemax, Showtime and The Movie Channel). In some systems, Time Warner also offers audio and other entertainment information services.

Time Warner's record in developing technology to expand the entertainment, information and communications options available on its cable systems is unsurpassed in the industry. The significant achievements of Time Warner's highly regarded staff in areas of technical quality and innovation have been widely recognized and have been the basis for numerous awards.

Time Warner is committed to giving its customers not only an array of entertainment and information choices but also high quality customer service. Time Warner representatives helped to develop the National Cable Television Association's customer service standards and strive to meet and exceed those standards.

Though all Time Warner cable systems may draw on the expertise of the Corporate staff, we recognize that providing a quality product and good customer service must be accomplished locally. The subject system will continue to be managed by the experienced and qualified personnel at all levels. The staff who are now responsible for the management and operations of the franchise will continue to operate as heretofore.