

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Alltel Florida, Inc.'s Petition)
To Reduce Intrastate Switched Network)
Access Rates In A Revenue Neutral)
Manner Pursuant to Section 364.164,)
Florida Statutes)
_____)

DOCKET No.: 050693-72
FILED: Sept. 29, 2005

ALLTEL FLORIDA, INC.

Exhibits to Direct Testimony

of

David C. Blessing

Volume IV

DCB-31 to DCB-40

(public version)

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Dkt. No. _____
D. Blessing Ex. No. ____ (DCB-31)
Wyoming 2000 Telecom Report

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Exhibit DCB-31

Wyoming Public Service Commission "2000 ANNUAL TELECOMMUNICATIONS REPORT" prepared by the Commissioners and Staff of the Wyoming Public Service Commission; January 10, 2000.

2000 Telecom Report
2000 ANNUAL TELECOMMUNICATIONS REPORT

prepared by the Commissioners and Staff of the
Wyoming Public Service Commission
pursuant to W. S. § 37-15-407 of the
Wyoming Telecommunications Act of 1995
January 10, 2000
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Introduction by the Commissioners

Dear Reader:

This is our Report to you about some of the most important regulatory and other issues of 1999 in the Wyoming telecommunications industry. Many have developed from our implementation of the Wyoming Telecommunications Act of 1995. It continues to drive important and fundamental changes in the industry as Wyoming's competitive markets grow and develop. In the process, the Wyoming Act

requires us to consider competitive markets and affordable, universal service - two goals which are not always compatible. In working to implement the Act, we examine the various interests and work to strike the best balance we can for the people of Wyoming. We hope that this Report helps provide you with useful information about the telecommunications industry in Wyoming and an understanding of some of the challenges we have faced in 1999.

New services and new infrastructure are being deployed in Wyoming, although not as fast as some would like. Competition has increased, and some larger - and even smaller -- markets now have choices of local service providers. Even if competition is not universal yet and if not all of the people have local service choices, Wyoming's long distance markets show the price and service benefits which come from competition when it does develop.

The Act requires services to be priced to cover their own costs (measured by the total service long run incremental cost - TSLRIC -- of the service) and requires that long standing implicit subsidies be removed from service prices. As the Act thereby identifies more clearly the true costs of providing service in Wyoming, we have seen such good news as the decreases in U S WEST's business service, in-state long distance and access service prices which went into effect on October 1, 1999, as well as decreases for other services such as Extended Area Service charges. On the other hand, U S WEST's new prices also included increases in residential local service prices. These prices have been the result of a long series of cases beginning in 1995 through which U S WEST has come into compliance with the Act. Other local exchange companies have either complied with these pricing requirements; or, if not, several of the mostly smaller independent companies have sought TSLRIC compliance waivers from the Commission as provided for in the Act.

Because of its status as the largest local service provider in Wyoming, U S WEST's price changes have affected the great majority of telecommunications customers in the state, either directly or through the Wyoming Universal Service Fund. The inescapable conclusion is that Wyoming remains a state in which the cost of providing service is among the highest in the nation. The high costs are driven by a small population widely dispersed throughout a large geographical area.

These price developments make it more important that the Wyoming and federal universal service funds operate smoothly and fairly to maintain the affordability and availability of service throughout the state. Some of the Wyoming story is told in the Report and in our December 30, 1999, Petition to the FCC for reconsideration of its recent decision which would unfairly and substantially lower the amount of federal universal service support going to U S WEST - Wyoming's only "non-rural" carrier in FCC parlance.

The fate of federal universal service support for Wyoming's smaller independent ("rural") local exchange companies is yet to be decided by the FCC, but the current result shows us that there is much work left to do if the mandate of the federal Act - that urban and rural services must be comparably available and comparably priced - is to be fairly implemented. The Petition, which is an appendix to this Report, also describes the opening of Wyoming markets to competition and provides additional detail on the obligations of the FCC and some important facts about U S WEST's service in Wyoming.

The amount of support which the Wyoming Universal Service Fund is allowed to provide to customers in high-cost areas was affected by changes in the statewide weighted average basic business and residential prices. Because support is, by statute, based on thresholds of 130% of the respective averages, changes in U S WEST prices have raised the support threshold by over \$9 to \$34.81 per month for all basic service subscribers in the state. This has generated much consumer discontent and has sharpened the debate about changing the Wyoming Universal Service Fund to provide more predictable support.

Both the Wyoming telecommunications industry and the Wyoming Telecommunications

Act of 1995 remain works in progress because of the dynamic nature of the technology and the communications entities seeking to serve in the state. The Act is the State's policy statement on telecommunications, and we have worked to apply it conscientiously. If time and experience lead to a recognition that changes should be made and new policy directions taken, we are ready to work together with you to produce the best outcome for the people and economy of Wyoming.

Thank you for your interest in telecommunications and in the work of the Commission.

Sincerely,

STEVE ELLENBECKER
ChairmanSTEVE FURTNEY
Deputy ChairKRISTIN H. LEE
Commissioner

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Foreword

This report is prepared annually by the Wyoming Public Service Commission in response to the mandate of W.S. § 37-15-407 in the Wyoming Telecommunications Act of 1995, which states:

"(a) The commission shall with the input and participation of the telecommunications industry and other relevant state departments, boards and agencies prepare and issue an annual report on the status of the telecommunications industry and Wyoming regulation thereof on January 10 of each year beginning in 1996. Such report shall include:

"(i) A review of regulatory decisions and actions from the preceding year and a description of pending cases involving significant telecommunications companies or issues;

"(ii) A description of the telecommunications industry or trends therein, including the number, type and size of companies offering telecommunications services, telecommunications technologies in place and under development, variations in the geographic availability of services and in process for services, and penetration levels of subscriber access to local exchange service in each exchange and trends related thereto;

"(iii) The status of compliance by carriers and the commission with the requirements of this chapter;

"(iv) The effects, and likely effects of Wyoming regulatory policies and practices, including those described in this title, on telecommunications companies, services and customers;

"(v) Any recommendations for legislative change which are adopted by the commission and which the commission believes are in the interest of Wyoming telecommunications customers; and

"(vi) Any other information or analysis which the commission is required to provide by this title or deems necessary to provide.

"(b) The commission's report shall be filed with the legislature, the governor and the state telecommunications council."

Substantial amounts of up-to-date information about telecommunications regulation in Wyoming are available at the Public Service Commission's web site; and this has allowed the Report to be simplified and streamlined. Please visit our web site at:

<http://psc.state.wy.us/>

Our web site provides you with the complete texts of orders, notices and other papers and documents prepared by the Commission as well as copies of the

official minutes of the Commission's public actions, information about our Commission and staff and other matters. It is a searchable and up-to-date resource; and we invite you to use it. We also invite your suggestions for its improvement. Please contact our webmaster at dcrock@state.wy.us with your ideas.

SECTION 1:

REGULATORY MATTERS

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a. Chronology of Telecommunications Issues and Events: 1999

January 11 and 12, 1999 Chairman Ellenbecker participated in a State Telecommunications Policy Symposium at San Diego, California, sponsored by the Competition Policy Institute (CPI). CPI is a nonprofit organization established to develop and advocate policies designed to bring the benefits of competition to telecommunications consumers. Participants at the meeting included state commissioners, incumbent local exchange companies, and new competitive market entrants from across the nation.

January 14, 1999 The Commission held a hearing on U S WEST's application to have its intraLATA toll (in-state long distance) service declared to be subject to effective competition under the provisions of the Wyoming Telecommunications Act of 1995. Granting this application would remove this service from price regulation by the Commission. AT&T, McLeodUSA and MCI/WorldCom argued against this request, stating that a fair and competitive market could develop better if many continuing safeguards provided by the Commission were to be retained. The Commission later granted this application.

January 19, 1999 U S WEST and the Commission's Consumer Advocate Staff filed with the Commission a petition for reconsideration, the granting of which would re-open the U S WEST Phase III price plan case. The Commission rejected the Phase III price plan proposal in 1998 citing a number of deficiencies and insufficient attention to public interest concerns. The petitioners argued that it would be more efficient to salvage the record in the Phase III case rather than begin with a new proposal.

January 26, 1999. The Commission granted Tri-Tel, a subsidiary of TCT WEST, a concurrent certificate of public convenience and necessity to provide local exchange service as a facilities-based carrier competitively in the areas of the state served by U S WEST.

January 1999 Throughout the month of January, the Commission provided input and testified before legislative committees on House Bill 30, concerning Commission pricing authority and competition, House Bill 66, regarding changes to the Wyoming Universal Service Fund, and other bills not connected to the telecommunications industry. By the end of the 1999 Legislature in March, all telecommunications bills had died at some point in the legislative process.

February 4, 1999 The Consumer Advocate Staff discussed with representatives from Tri-County Telephone and TCT WEST possible solutions to the problems related to the unilateral price filing and the implementation of those prices by these companies for noncompetitive business and residential local exchange service, without Commission approval under the Wyoming Telecommunications Act of 1995. The issues include the interpretation of the interrelationships between a number of provisions of the Wyoming Telecommunications Act of 1995 and associated universal service fund impacts.

February 9, 1999 A Notice of Application was issued regarding the approval of a resale agreement between U S WEST and Topp Comm, Inc. No public statements or objections were filed, and the Commission approved the agreement after the notice period.

February 10, 1999 The Commission issued its Order Approving Partial Interconnection Agreement Between AT&T Communications of the Mountain States,

Inc., and U S WEST Communications, Inc., under which U S WEST would provide to AT&T certain local trunking facilities to allow AT&T to provide Outbound ADL, which is a new competitive local business service in Wyoming.

February 17, 1999 Governor Geringer, Chairman Ellenbecker and industry representatives made presentations at the annual meeting of the Wyoming Telecommunications Association. Much of the discussion centered around the concepts of price rebalancing, competitive services, the high cost of providing service in rural areas of the state and the course of further deregulation.

February 26, 1999 The Federal Communications Commission released a Declaratory Ruling in Common Carrier (CC) Docket No. 96-98 and Notice of Proposed Rulemaking (NPRM) in CC Docket No. 99-68, in which it sought comment on the proper treatment of inter-carrier compensation for ISP (Internet Service Provider)-bound traffic. The Commission filed the Reply Comments of the Wyoming Public Service Commission in CC Docket No. 99-68 stressing that [i] compensation for ISP-bound traffic addresses a local function and therefore is appropriately treated as a state level issue; and [ii] that state-level negotiations should govern the determination of reciprocal compensation among concerned carriers.

March 9, 1999 The Commission issued its Order Removing Unlawful Price Sheets From Commission Records and Dismissing Associated Cases in the matter of the unilateral filing by TCT West and Tri County Telephone Association of rates for noncompetitive local exchange prices not supported by a price plan as required by the Wyoming Telecommunications Act of 1995. Some of the prices in the joint filing would have resulted in some individual residential monthly local basic exchange rates in the \$200 to \$500 range.

March 11, 1999 The Commission deliberated the U S WEST case wherein the company had applied to have its in-state long distance service declared competitive (and hence price deregulated) pursuant to W.S. § 37-15-202. AT&T, MCI, and McLeod continued to express their concerns about the level of U S WEST's access charges and their impact on toll competition. The Commission found by a 2-1 vote that the statutory test for effectively competitive service had been met.

March 12, 1999 In the "Phase III" stage of U S WEST's price plan applications, the Commission issued its Order Denying Joint Petition for Rehearing. U S WEST and the Consumer Advocate Staff filed the petition, and McLeodUSA and AT&T opposed it. Petitioners sought to keep the case open to remedy the deficiencies found by the Commission, but the Commission concluded that the most efficient way to proceed would be to begin anew, finding insufficient reason to grant the Joint Petition.

March 19, 1999 Chairman Ellenbecker met at Torrington with Goshen County Commissioners and legislators and mayors from the region to discuss their concerns about the Sprint/United Telephone local service price increases. Chairman Ellenbecker took the opportunity at the meeting to explain the Wyoming Telecommunications Act of 1995 and its impact on Sprint/United Telephone rates.

March 22, 1999 The Commission issued its final order on rehearing in the matter of its arbitration of the interconnection contract negotiations of U S WEST and AT&T under the federal Telecommunications Act of 1996. The Commission directed that a contract be prepared in accordance with the Order and furnished to the Commission for final review by a date certain.

March 23, 1999 The Commission issued an Order Denying Rehearing in the complaint of wyoming.com, LLC, against U S WEST relating generally to slow service provisioning, system instability and down time for Frame Relay Service and associated lines. U S WEST sought a rehearing regarding the interpretation of its tariffs and the charges which should (and should not) flow therefrom.

March 25, 1999 The Commission issued a remedial order to Luxor Communications, the provider of local exchange telecommunications services to the Mountainside Apartment complex at Cheyenne, finding it to be a local and interexchange telecommunications company, ordering it to become certificated and registered, respectively, as such, under the Wyoming Telecommunications Act of 1995, to

interconnect with U S WEST, and, among other things, to remedy a number of service and life safety problems posed by its less than adequate telecommunications service.

April 5, 1999 The Commission issued an order clarifying, revising and allowing the exchange of small portions of their certificated territories among U S WEST, Tri County Telephone Association, TCT West and RT Communications in Wyoming's Big Horn Basin. This order resolved a number of unrelated territorial matters and resulted in more efficient service for the affected rural customers.

April 5, 1999 The Commission hosted a visit by Japanese national telecommunications law and pricing policy makers, Professor Tsuruhiko Nambu, Professor of Economics, Gakushuin University, Tokyo; and Professor Makoto Kojo, Professor of Law, Sophia University, Tokyo. The participants exchanged views on Japanese and United States telecommunications pricing and regulation, with an emphasis on the shared experiences and similar challenges of bringing pricing and legal mechanisms into harmony with an emerging competitive telecommunications market.

April 7, 1999 The Commission deliberated proposed switched access rules in its General Order No. 74 proceeding. The proposed rules would have established a specific access pricing methodology and transition time frames for the use of that pricing. By a 2-1 vote, the Commission determined that it did not have the statutory authority to implement such rules. Instead of issuing rules, the Commission laid plans to prepare a report to the Legislature consistent with requirements of W.S. § 37-15-411, which directs the Commission to "... commence an investigation into the appropriate methodology for calculation of intrastate switched access charges for all Wyoming telephone utilities and the feasibility of implementing a procedure for phasing out intrastate telecommunication subsidies flowing between telephone companies in Wyoming by January 1, 2002."

April 8, 1999 The Commission held a formal collaborative meeting in its General Order No. 85 proceeding, asking for industry and public input on ways to assure that the Wyoming Universal Service Fund is administered and distributed in a "technologically and competitively neutral" manner. Comments were received from McLeodUSA, Western Wireless, CommNet Cellular, U S WEST, and wyoming.com. Further Commission consideration will follow the receipt of formal comments.

April 11 through 13, 1999 Commissioner Furtney and three staff members attended the semi-annual meeting of the U S WEST Regional Oversight Committee in Scottsdale, Arizona. Commissioner Furtney and State Senator Cale Case participated in discussions on quality of service issues and cost-based pricing with specific reference to Wyoming's progressive implementation of the 1995 Wyoming Telecommunications Act and our unique rural high-cost situation. The Regional Oversight Committee is composed of the regulatory agencies of the fourteen state jurisdictions in which U S WEST operates and is dedicated to the discussion of issues and the sharing of solutions to U S WEST-related regulatory challenges in the telecommunications industry.

April 13, 1999 The Commission issued its General Order No. 76, adopting rules on interconnection, compensation, network unbundling, resale of services and "1+" equal access by telecommunications companies in Wyoming under the Wyoming Telecommunications Act of 1995, with references to actions taken in harmony with the federal Telecommunications Act of 1996. Aspects of imputation, as a tool to ensure fairness in pricing between competitive companies, were contained in the rules.

April 14, 1999 The Commission deliberated proposed quality of service rules in its General Order No. 73 proceeding, for landline telecommunications companies. The Commission finished much of its work during these deliberations, but resolved to conduct separate rule makings on data speed requirements and cellular quality of service.

April 16, 1999 The Commission denied the petitions of Tri County Telephone

Association and TCT West for a rehearing of the Commission's rejection of their unilaterally filed price sheets which the Commission considered illegally filed under the Wyoming Telecommunications Act of 1995. The petition sought reversal of the Commission's March 9, 1999, Order Removing Unlawful Price Sheets From Commission Records and Dismissing Associated Cases.

April 16, 1999 The Commission opened an investigation into reciprocal compensation by local exchange companies with respect to telecommunications traffic bound for Internet Service Providers (ISPs), possibly leading to a rule making under the Wyoming Telecommunications Act of 1995.

April 19, 1999 In the wyoming.com complaint against U S WEST, the Commission issued an Order Granting Motion for Extension of Time, giving U S WEST until April 22, 1999, to carry out the required refunds to wyoming.com in the case (either by actual refunds of amounts paid by wyoming.com or by credits for refundable amounts billed but not paid) for all charges found in this proceeding not to be lawfully collectible by U S WEST.

April 20, 1999 The Commission granted the motion of the Consumer Advocate Staff to withdraw its price complaint against the April 1998 rates of TCT West and Tri County Telephone Association established in accordance with the Telecommunications Act. These rates were then the unchallenged and undisputed legally established rates for the respective companies.

April 20, 1999 The Commission held a hearing in Cheyenne on the application of Silver Star Communications to be designated as an Eligible Telecommunications Carrier status for the Afton, Wyoming, exchange. Such a designation would make Silver Star eligible to apply for federal high cost support for its local exchange service in Afton. The hearing also took up the subject of Silver Star's request for a study area waiver, which would allow it to receive federal high cost support funds as an incumbent provider rather than as a competitive provider (i.e., based on its own cost situation rather than U S WEST's). U S WEST intervened and raised questions regarding potentially anti-competitive results if the entire application were granted. The Commission directed that briefs be filed prior to its deliberation of a decision in the matter.

April 20, 1999 The Commission issued an Order granting, by majority vote, U S WEST's application for a finding that its Wyoming intraLATA interexchange (in-state long distance) telecommunications services are subject to effective competition under the Wyoming Telecommunications Act of 1995. This action removed pricing authority from the Commission and the possibility of price complaints by the general public or the Commission.

April 21, 1999 AT&T and U S WEST filed petitions for rehearing with respect to the March 22, 1999, final order on rehearing in the matter of the interconnection contract negotiations between AT&T and U S WEST under 47 U.S.C. § 252 in the federal Telecommunications Act of 1996. Under its Rules, the Commission must also review any responses to these petitions which would initiate a second round of rehearings in this much contested matter.

April 26, 1999 U S WEST filed its latest (fourth) application for approval of a price plan for intrastate services including some pricing which was quite similar in many ways to the prices proposed in earlier U S WEST price plan applications, but with considerably better supporting evidence and featuring fixed point pricing for basic service rather than open-ended "ceiling" pricing. The Commission set hearings for the week of June 21, 1999.

April 27, 1999 The Commission commented formally to the FCC on reciprocal compensation by local exchange companies for ISP-bound traffic, opposing the FCC's attempt to extend its jurisdiction by turning the subject into an interstate matter.

April 30, 1999 The Commission held a public hearing to determine the scope of the coverage afforded by the Wyoming Universal Service Fund. It inquired into the meaning and interpretation of the statutory language in the Wyoming Telecommunications Act of 1995 which could be interpreted to mean that only

"single line flat-rate or single line measured residence or business service" would qualify to receive support from the Wyoming Universal Service Fund.

May 3, 1999 The Commission deliberated the complaint of Bobby Guinn against U S WEST relating to a proposed \$15,000 service connection fee and required U S WEST to provide the necessary facilities and services without the addition of special construction charges as specified in the applicable tariffs, and to do so as soon as possible.

May 6, 1999 Commissioners Furtney and Lee conducted an open meeting in Torrington to answer questions from the public concerning the Sprint/United Telephone rate increase approved by the Commission under the provisions of the Wyoming Telecommunications Act of 1995. There were approximately 250 people at the meeting, and they presented the Commission with a signed resolution from many citizens, including elected state and local officials in eastern Wyoming, asking the Commission to rescind the rate increase. The Commission docketed this as a price complaint under the Act and the matter is now pending further consideration. Sprint/United serves Torrington and several small communities in eastern Wyoming.

May 6 and 7, 1999 At the request of the Governor, the Commission Chairman and the Chief Counsel participated on the Interagency Task Force on Telecommunications to assist the Governor and other members of the State Board of Land Commissioners in their right-of-way discussions with the Williams and Enron companies, two entities seeking to place high speed fiber optic cable facilities through Wyoming. The meetings and negotiations were productive.

May 13, 1999 The Chief Counsel, together with representatives of the Wyoming Business Council, and the Board of Land Commissioners, met and discussed local and state telecommunications issues with the County Commissioners at their Wyoming County Commissioners Association meeting in Laramie. Topics included high speed access, increasing the number of points of presence in Wyoming, the economic development potential of telecommunications and other subjects. On May 14, 1999, WCCA passed resolutions supporting the Governor's Interagency Task Force on Telecommunications, and urging the formation of a public-private consortium to work on telecommunications issues. A resolution on a fully interoperable public safety radio system for the state was also passed.

May 18, 1999 The Commission approved the petition of U S WEST to withdraw its application under Section 271 of the federal Telecommunications Act of 1996 which was then pending before the Commission for more than a year and had become out-dated. According to law, the application would require the approval of the Commission and the FCC; and, if it were granted, it would allow U S WEST to enter and compete in the interLATA (and interstate) long distance market. Section 271 links permission to enter these interstate markets to the further development of competitive local exchange markets or the offering by the local exchange company of a list of pro-competitive options in the absence of competition. U S WEST did not thereby drop its plans but indicated that it would seek to refile an application with new information in the future.

May 26, 1999 The Commission issued its Notice and Order Setting Public Hearing and Procedure, setting a public hearing for September 29, 1999, at the Big Horn County Fairgrounds in Basin, Wyoming, to consider the applications of Tri County Telephone Association, Inc., and TCT West, Inc., to revise their basic local exchange service rates. The companies, in their substantially similar applications, cited the need to prepare for competition, to closely align rates with costs, and to eliminate implicit subsidies from rates as reasons for making the filings.

May 27, 1999 The Commission attended a joint meeting of the Wyoming Telecommunications Council and the Wyoming Business Council. In his remarks, Chairman Ellenbecker urged the two groups to work together closely to formulate telecommunications policies for Wyoming.

June 1, 1999 The Commission issued an Order Denying Petition for Rehearing in

its General Order No. 76 proceeding relating to the promulgation of rules concerning interconnection, compensation, network unbundling, resale of services and "1+" equal access by telecommunications companies serving in Wyoming. The denied Petition for Rehearing was filed by U S WEST which, among other things, challenged the imputation requirements of these rules.

June 3, 1999 The Commission held deliberations in its General Order No. 85 proceeding concerning the administration of the Wyoming Universal Service Fund in a competitively and technologically neutral manner. As a result of its deliberations, the Commission asked industry for additional comments and proposals which might include changing the Commission's rules or Wyoming statutes.

June 10, 1999 The Consumer Advocate Staff met with representatives from Project Telephone, RT Communications, Range Telephone, Dubois Telephone, and Chugwater Telephone to discuss the companies' plans for beginning the elimination of subsidies from local telephone rates under the Wyoming Telecommunications Act of 1995 and to discuss total service long run incremental costs. The companies indicated their general preference to leave rates at current levels for as long as possible and to continue to request waivers of compliance with the Act's TSLRIC requirements as allowed in the Act itself.

June 21 through 23, 1999 The Commission held public hearings on U S WEST's latest ("Phase IV") price plan. Intervenor in the case included AT&T and McLeodUSA (who both ultimately withdrew after reaching settlements with U S WEST) and the Consumer Advocate Staff (which also reached a stipulation with U S WEST). After three days of hearing, the Commission approved the settlement stipulations of all of the parties, and ordered that the prices in the case become effective October 1, 1999. These prices finish the transition of U S WEST to complete compliance with the requirements of the Wyoming Telecommunications Act of 1995 that subsidies be eliminated and that individual service prices of companies providing noncompetitive services each must cover their own total service long run incremental cost. The approved plan thus raises local residential flat rate service prices inside base rate areas from \$18.75 to \$23.10; reduces local business base rate area service rates from \$30.56 to \$23.10; reduces toll charges from an average of more than 17¢ per minute to an average of 11¢ per minute; reduces switched access charges from 4.8¢ per minute to 1.5¢ per minute. Customers in the three rural zones outside of the base rate areas also experience additional charges (identical now for residential and business customers) reflecting the additional cost of serving customers farther from the local switch. Because of the relatively large number of customers affected by the increases and reductions (about 80% of Wyoming telephone access lines), the thresholds above which customers receive assistance from the Wyoming Universal Service Fund will, on October 1, 1999, become about \$35 and \$32 for residential and business services, respectively. For residential customers, this means that the threshold will rise and approximately none dollars per month in universal service fund support would no longer be available.

June 24-25, 1999 A Commission staff representative attended the Rural Task Force meetings in Washington, D. C., to tell the "Wyoming story" and to describe Wyoming's requirements for federal support to keep our local basic telephone rates affordable. The Rural Task Force is a group charged with advising the Federal Communications Commission on issues arising with respect to federal universal service funds for local service providers in rural areas.

June 25, 1999 The Commission issued a Request for Proposals regarding the management of the Wyoming Universal Service Fund. The Commission contracts with the National Exchange Carrier Association for fund management services. Because this contract is scheduled to expire on August 31, 1999, the Commission will review proposals for their cost and efficiency in serving the Fund.

June 30, 1999 The Commission held a hearing in Cheyenne on a specific Wyoming Universal Service Fund question of whether the required assessment which

provides monies for the Wyoming Universal Service Fund should be assessed against the local service rate before or after the support credit is applied to customer bills. Questions addressed included rate comparability, fairness, and company and customer accountability.

June 30, 1999 The Commission issued an order denying the Petitions for Rehearing filed by U S WEST and AT&T concerning issues in the arbitration by the Commission of the companies' disputes concerning an interconnection agreement between them under the federal Telecommunications Act of 1996. The Commission's order clarified points in earlier orders and brought them up-to-date with respect to recent legal developments, including decisions of the United States Supreme Court. In the order, the Commission directed the parties to file an agreement within 90 days of the date of the order.

July 1, 1999 The Commission held a hearing in Cheyenne to consider arguments by Western Wireless to be determined to be an eligible telecommunications carrier for purposes of receiving federal universal service fund support. Based on the evidence at the hearing, the Commission determined that it did not have jurisdiction in the matter and dismissed the application.

July 13, 1999 The Commission deliberated the evidence adduced at its April 30, 1999, public hearing concerning the appropriate number of lines (per customer or per premises) which should be supported by the Wyoming Universal Service Fund. At issue was the statutory language of W.S. § 37-15-103(a)(iv)(B) which describes the essential service eligible for support as ". . . [s]ingle line flat-rate or single line measured residence or business service;" The Commission concluded that no change to existing rules or practices were required at that time. The current policy is to support all lines, both business and residence.

July 13, 1999 The Commission issued orders dismissing the petitions of AT&T Communications of the Mountain States, Inc., and Sprint Communications Co., L.P., for Commission orders requiring the release of all intraLATA toll carrier "freezes" allegedly instituted without prior customer notice or authorization. The petitioners were concerned that certain unilaterally imposed long distance carrier "freezes" (preventing customers from switching carriers) imposed by U S WEST were anticompetitive and contrary to law. In asking for the dismissal, the petitioners stated that they had been able to resolve their disputes with U S WEST in this case.

July 14, 1999 The Commissioners and staff members met with telecommunications industry representatives to discuss issues related to the Commission's approval of the 1999 U S WEST price plan and, specifically, the impact of the new U S WEST rates on the statewide average price used to calculate disbursements from the Wyoming Universal Service Fund. Preliminary figures available at that time showed that the state-wide average price for residential local exchange service will increase by approximately \$10 dollars per month. This will reduce the Wyoming Universal Service Fund support payable to customers of those companies which have already implemented rates which are greater than the support threshold. The focus of this discussion was how to inform and educate the public prior to the scheduled October 1, 1999, implementation of the new U S WEST rates.

July 15, 1999 In open meeting action, the Commission approved the application of Sprint/United Telephone Company of the West to enter into a Master Interconnection and Resale Agreement with Dakota Services, Ltd. No public statements or objections were filed, and the Commission approved the agreement after the notice period had run.

July 19, 1999 Commissioner Lee chaired a public hearing to consider the formal complaint of Charles Hoelzen against U S WEST regarding service quality and billing issues. The final decision awaits receipt of hearing transcripts and their review by the other Commissioners.

August 4, 1999 Commissioners Ellenbecker and Lee and several staff members

attended the Wyoming Telecommunications Council meeting in Cheyenne to discuss proposed Commission quality of service rules, the Wyoming Education Network, law enforcement network needs, Internet services and other telecommunications issues.

August 5, 1999 Commissioners Ellenbecker and Lee and several staff members attended the Wyoming Business Alliance meeting in Casper which focused on telecommunications and competition issues in the state. Chairman Ellenbecker made a presentation on quality of service matters and the implementation of the Wyoming Telecommunications Act of 1995.

August 9, 1999 The Commission issued an Order for Public Notice regarding the request of U S WEST and NOW Communications, Inc., for approval of a Phase Two Resale Agreement between them. No public statements or objections were filed, and the Commission approved the agreement after the notice period had run.

August 9, 1999 The Commission issued its Order Allowing Withdrawal of Price Plan Filings granting the similar motions of Tri County Telephone Association, Inc., and TCT West, Inc., to withdraw their substantially identical applications to revise their basic local exchange service rates which they filed on May 11, 1999.

August 11 and 12, 1999 A representative of the Commission staff attended the Tri-State Telephone Association meeting at Park City, Utah, to discuss issues common to local telecommunications providers in Wyoming, Utah and Idaho. Our staff made a presentation on recent Wyoming activities concerning the repricing of services, state and federal universal service fund issues and the development of competitive markets.

August 13, 1999 The Commission issued an order denying Silver Star Telecommunications' petition for an order nunc pro tunc effectively amending its concurrent certificate of public convenience and necessity to serve the Afton, Wyoming, exchange, which would declare its Afton service subject to effective competition. At the same time, the Commission established a proceeding under W. S. § 37-15-202 to go forward with its determination of the request.

August 17, 1999 The Commission issued a Notice of Application that U S WEST Communications, Inc., and U S WEST Wireless, LLC, have applied for approval of a Type 2 Wireless Interconnection Agreement, set to terminate on October 16, 2001. Finding it to be an extended version of previously approved interconnection agreements, the Commission, in the absence of objection, approved it.

August 17, 1999 United Telephone Company of the West d/b/a Sprint received authority from the Commission to revise its access and local exchange tariffs to limit liability for service failures resulting from year 2000 incompatibility. The Commission acted by Notice and Order.

August 23, 1999 The Commission attended a presentation by McLeod USA to Governor Geringer, the Wyoming Business Council and the Wyoming Telecommunications Council regarding its presence in Wyoming.

August 30, 1999 The Commission shared with Congress certain concerns with a possible federal legislative mandate for the conversion of accounting by telecommunications companies from the FCC-mandated USOA (Uniform System of Accounts) to GAAP (Generally Accepted Accounting Principles). Despite the possibility that it could streamline telecommunications accounting and render it somewhat less costly in a more competitive environment, the Commission was very concerned about the implications that the changeover could have on the Federal Universal Service Fund (FUSF) and the calculation of support thereunder. Wyoming's high cost telecommunications environment makes it particularly vulnerable to changes in federal funding support levels.

August 31, 1999 The National Exchange Carrier Association's primary (NECA) contract for management assistance to the Commission with respect to the Wyoming Universal Service Fund expired on this date. As statutory administrator of the Fund pursuant to the Wyoming Telecommunications Act of 1995, the Commission initiated a competitive bidding process seeking proposals for Fund management

services. The Commission selected James Dinneen, Esq., to become the new Wyoming Universal Service Fund Manager. Mr. Dinneen is an attorney with the Cheyenne law firm Lathrop & Rutledge, P.C.; and he is also a Certified Public Accountant with extensive experience in taxation, bankruptcy trusteeship, trusts and estate administration. NECA will continue to provide transitional Fund management services for a period of two months to allow the orderly transfer of records to Mr. Dinneen and to ensure the continued orderly and accurate working of the Fund.

September 3, 1999 Chairman Ellenbecker and Chief Counsel Steve Oxley attended a meeting of the Joint Corporations, Elections and Political Subdivisions Interim Committee in Saratoga. The purpose of the meeting, among other things, was to examine the continuing implementation of the Wyoming Telecommunications Act of 1995 and specifically the actions taken to date by the Commission in the form of rate case and rule making decisions. Along with other material, the Commission presented information regarding the potential impact of the Commission's decision in the latest U S WEST price plan case on the preservation of affordable essential local exchange service and the functioning of the Wyoming Universal Service Fund. Much information was exchanged about legislator and constituent concerns with the Fund and rising local exchange service prices. The Committee decided to make a further review of the possibility of improving the Fund and its operation. It decided to begin with an examination of 1999's House Bill 66, which addressed a number of universal service fund concerns but which died in conference committee.

September 8, 1999 The Commission conducted a public hearing in Cheyenne to determine whether or not to revoke the registrations of approximately 20 inter-exchange carriers for non-compliance with various provisions of applicable telecommunications law and the Commission's rules, particularly those regarding the utility assessment and the filing of annual reports. The Commission deliberated the case on September 9, 1999, and revoked the certificates of all those companies which had not made the required filings.

September 13, 1999 The Commission held a pre-hearing conference on Silver Star Telecommunication's request for a TSLRIC waiver pursuant to the Wyoming Telecommunications Act of 1995. Silver Star also filed price sheets for competitive service offerings in the Afton exchange and made a request pursuant to W.S. § 37-15-202 that its Afton service offering be found by the Commission to be subject to effective competition. The Commission set the TSLRIC waiver for hearing on February 14, 2000. The Commission approved the Silver Star request that its Afton local exchange service be found subject to effective competition under the Wyoming Telecommunications Act of 1995 and did so utilizing the expedited notice and order format for the first time in such a case. It was applied successfully and without objection.

September 16, 1999 In the "Phase IV" price plan filing of U S WEST to implement changes in its prices for essential and noncompetitive services, the Commission issued its Order Approving Price Plan. Included in the Order was approval of the agreements reached by McLeodUSA and the Consumer Advocate Staff which settled the issues they raised in the case. The rates were ordered into effect on October 1, 1999.

September 17, 1999 A Notice of Application and Order Setting Prehearing Conference was issued in the U S WEST/Qwest merger application, along with newspaper and radio announcements.

September 25 - 28, 1999 Commissioners Furtney and Lee and two staff members attended the semi-annual meeting of the U S WEST Regional Oversight Committee (ROC) in Denver. The ROC is a cooperative effort among regulators to exchange information and solve common problems on a regional basis in the fourteen states where U S WEST operates. The meeting agenda also included a tour of the advanced communications technology deployed at the AT&T (formerly TCI) Cable Learning Center in Lakewood, Colorado.

September 28, 1999 In the arbitration by the Commission of the interconnection agreement between AT&T and U S WEST for the purpose of competition in the provision of local exchange service in Wyoming, the Commission issued its Order on Joint Motion Requesting Waiver of Commission Order and Request to be Heard. The companies received a waiver of a portion of the Commission's latest order in the proceeding which had set that day as the deadline for the filing of a complete interconnection agreement in accordance with previous orders of the Commission. The parties decided between themselves to try to negotiate a "14-state" agreement applicable throughout U S WEST's territories. Suspension of the filing requirement is contingent upon successful progress toward such an agreement and will run on a month to month basis until June 30, 2000, when a final interconnection agreement is due to be filed with the Commission for approval under the federal Telecommunications Act of 1996.

September 30, 1999 U S WEST filed revisions to its toll tariffs (to be effective October 1, 1999) which the Commission had previously found to be competitive in nature, and thus free from price regulation under the Wyoming Telecommunications Act of 1995. The price changes in the tariffs were consistent with the proposed toll tariffs proposed by U S WEST as part of its most recent price plan filing (and before the Commission found the service to be competitive).

October 1, 1999, and thereafter The new U S WEST Phase IV prices went into effect after having been approved by the Commission after public hearing in June 1999. They directly affect about 80% of Wyoming telecommunications customers and indirectly affect many additional Wyoming customers of other companies (by changing the statewide average rates and thus, the universal service fund disbursements to them). The new prices meet the TSLRIC and competitive mandates of the Wyoming Telecommunications Act of 1995. Unfortunately, U S WEST's billing system was not fully prepared to implement the new rates on October 1; and substantial billing errors became evident for about 40,000 or more Wyoming customers. The Wyoming Universal Service Fund credit was not applied to the bills of customers in the rural zones; and, when many customers called U S WEST for information and assistance, they reportedly received uninformed and sometimes discourteous treatment. It was also learned that other errors had occurred which, coupled with the implementation of new rates, caused considerable problems for customers.

October 11, 1999 In response to the U S WEST prices which went into effect on October 1, 1999, the Commission prepared and sent to the members of the 55th Wyoming Legislature and to other interested persons a package of information to assist with constituent inquiries about prices and other issues, including billing error complaints, other bill line items and universal service fund questions.

October 11, 1999 The Commission issued its Notice and Order Approving Petition of Silver Star with respect to its petition to have its facilities-based local exchange telecommunications service in the Afton, Wyoming, exchange found to be subject to effective competition (by U S WEST, the incumbent provider) under the Wyoming Telecommunications Act of 1995. This action would remove the pricing jurisdiction of the Commission over this service. The notice and order format is an example of the Commission's use of innovative methods of disposition to reach an efficient result with the minimum of procedure but consistent with due process.

October 18, 1999 The Wyoming Supreme Court issued its opinion in U S WEST Communications, Inc., v. Wyoming Public Service Commission; et al. and AT&T Communications of the Mountain States; MCI Telecommunications Corporation; and McLeod Telemanagement, Inc. n/k/a McLeod USA, No. 97-146 (Oct. 18, 1999). After U S WEST unilaterally decided to cease offering Centrex Plus service to new customers and to place the service into its "obsolete" tariff, the Commission, after a 1996 hearing, decided that Centrex Plus was an "essential telecommunications service" which could not be discontinued without the

permission of the Commission. At the time, McLeodUSA was utilizing Centrex Plus via resale to provide local exchange service in several Wyoming cities in direct competition with U S WEST. In this opinion, the Court decided that U S WEST's Centrex Plus was not a "noncompetitive service" and that it could be withdrawn by U S WEST, even though it found U S WEST's method of "grandfathering" to be unreasonably discriminatory. U S WEST has sought reconsideration from the Court of that latter part of the decision, and McLeodUSA sought reconsideration of the decision regarding the status of Centrex Plus. Further information can be found in the November 2 and December 13, 1999, entries below.

October 22, 1999 The Wyoming Supreme Court issued its opinion in U S WEST v. Wyoming Public Service Commission, No. 98-82 (Oct. 22, 1999), concerning U S WEST's Integrated Services Digital Network (ISDN). The Commission had concluded in December 1997 that ISDN was a noncompetitive, essential telecommunications service and was therefore subject to regulation (including price regulation) by the Commission. The Supreme Court disagreed, saying that ISDN was not "necessary" within the meaning of the Wyoming Telecommunications Act of 1995. October 22, 1999 The Commission issued its Order on Billing Errors and Related Problems to U S WEST regarding the problems surrounding its implementation of the October 1, 1999, price changes, requiring that the number and type of billing errors be identified, a curative plan established and that the results be verified by an independent audit. The Order further stated that U S WEST may have Wyoming Universal Service Fund support withheld pending accurate resolution of the problems. As part of its remedial efforts, U S WEST created a task force of specially educated customer account representatives to work on Wyoming complaint issues. Other Service Center employees were instructed to refer Wyoming questions to this task force.

October 28, 1999 The Commission held a pre-hearing conference in the U S WEST/Qwest merger case in its hearing room in Cheyenne, Wyoming. U S WEST, Qwest, AT&T, Tri County Telephone, TCT West, Tri-Tel, McLeodUSA, the Association of U S WEST Retirees of Colorado and Wyoming, wyoming.com, and the Commission's Consumer Advocate Staff participated.

October 29, 1999 The Commission issued a Notice and Order Setting Public Hearing and Procedure, scheduling a public hearing for April 11, 2000, at Cheyenne, Wyoming, and continuing as needed through April 14, 2000, in the case of the joint application of Qwest Communications Corporation, with subsidiaries (Phoenix Network, Inc., USLD Communications, Inc., and LCI International Telecom Corp., d/b/a Qwest Communications Services) and U S WEST Communications, Inc., (also considering U S WEST Long Distance, Inc.) for approval of the merger of their parent corporations, U S WEST, Inc., and Qwest, Inc., to form Qwest Communications International, Inc.

November 1, 1999 As required by the Commission's Order of October 22, 1999, representatives of U S WEST filed a written report with the Commission identifying and discussing its recent local basic telephone service billing errors which have affected some 50,000 customers. In the report, U S WEST outlined its plan to give credits to affected customers and otherwise to remedy the situation. This report and the refund plan remain subject to a special audit ordered by the Commission.

November 1, 1999 The Commission deliberated proposed telecommunications quality of service rules in its General Order No. 73 proceeding. These comprehensive rules, which have been in preparation for several years, are nearing completion and should be ready for final Commission order near the end of the year. Among other things, the rules establish construction standards.

November 2, 1999 The FCC released its Ninth Report and Order and Eighteenth Order on Reconsideration in Common Carrier Docket No. 96-45, In the matter of Federal-State Joint Board on Universal Service, making a written decision regarding high cost (universal service) support for non-rural telecommunications companies which, in Wyoming, only affects U S WEST. U S WEST's federal universal

service support would be frozen at the current level of about \$4.4 million per year under a "hold harmless" provision of the Order. After a period of time yet to be determined by the FCC, this support would drop to about \$3.2 million. November 2, 1999 The Commissioners, Johnnie Burton, Department of Revenue Director, and members of both agencies' staffs met to discuss a number of utility issues. Among other things, the Commission and the Department of Revenue are working together to determine whether telecommunications resellers are paying appropriate property taxes in conjunction with leasing arrangements many of them have with facility-based telecommunications service providers. November 2, 1999 U S WEST filed a Petition for Rehearing before the Wyoming Supreme Court in U S WEST Communications, Inc., v. Wyoming Public Service Commission; et al. and AT&T Communications of the Mountain States; MCI Telecommunications Corporation; and McLeod Telemanagement, Inc. n/k/a McLeod USA, No. 97-146 (Oct. 18, 1999). It asked the Supreme Court to reconsider the part of its decision which upheld the Commission's determination that the method of withdrawing Centrex Plus service was discriminatory. McLeod and AT&T Communications of the Mountain States, Inc., also filed their joint Petition for Rehearing, asking the Court to reconsider its decision that Centrex Plus does not constitute essential telecommunications service under the Wyoming Telecommunications Act of 1995.

November 3, 1999 Members of the Commission's Complaint Section traveled to Denver, Colorado, to help train U S WEST service representatives in the resolution of problems arising with respect to the implementation of U S WEST's October 1, 1999, price changes. The training was well received and may lead to annual coordination between U S WEST and Commission complaint personnel.

November 16, 1999 The Commission held public deliberations on possible telecommunications data speed requirements which were considered in the context of the General Order No. 86 proceeding.

November 30, 1999 The Commission issued an Order to Show Cause and Setting Public Hearing for December 16, 1999, at Cheyenne in the Commission's investigation into the service deficiencies and safety problems with the telecommunications services provided by Luxor Communications to the Mountainside Apartments in Cheyenne. Luxor was ordered to show the Commission why it should not [i] comply fully with the Commission's Order of March 25, 1999, and the applicable provisions of the Wyoming Telecommunications Act of 1995 (including becoming a certificated competitive local exchange carrier under W.S. § 37-15-201(b)); [ii] cease charging any unlawful fees or charges of any sort (i.e., charges not filed with the Commission according to law and by a noncertificated utility); [iii] comply with U S WEST's Resale/Sharing of Services tariff; and [iv] pay a fine of up to \$1,000 per day of noncompliance with the relevant orders of the Commission.

December 2, 1999 Commissioner Furtney was confirmed by the Federal Communications Commission as one of five state public utility commissioners from throughout the nation to serve as members of the Federal-State Joint Conference on Advanced Telecommunications Services, commonly referred to as the "706 Joint Conference." The 706 Joint Conference brings together state regulators and the FCC to "examine how best to accelerate the deployment of affordable advanced services to rural, low-income, disabled, and other under-served telecommunications users." Since all five FCC commissioners are also members of the 706 Joint Conference, this provides Wyoming with a substantially increased ability to draw meaningful attention to the problems faced by rural and high-cost states in meeting the challenges of deploying advanced telecommunications services. One of the 706 Joint Conference forums for gathering data and information on advanced telecommunications service deployment may be a series of three or four public hearings around the nation. Wyoming has joined with Montana and South Dakota in proposing to hold one of these hearings in Billings in the March through May 2000 time frame. It will take the concerted

efforts of a coalition of western states by their Congressional delegations, Governors, State Legislators, businesses, citizens, regulators, and others to convince the FCC of the unacceptable degree to which broadband deployment is lagging in rural high cost areas.

December 7, 1999 The Commission made a presentation to the meeting of the Joint Corporations, Elections and Political Subdivisions Interim Committee on 1999 House Bill 66 and on certain Commission-suggested enhancements to it. The Committee decided to bring forward two bills in the 2000 Legislature addressing the Telephone Assistance Program and the Wyoming Universal Service Fund -- the two major topics of 1999 House Bill 66.

December 8, 1999 The Commission entered its Order Dismissing Petition and Closing Docket, ending its formal consideration of the request by certain customers for extended area service encompassing the Sundance, Hulett and Gillette areas. The companies involved are RT Communications, Inc., Range Telephone Cooperative, Inc., and U S WEST Communications, Inc. The order was based upon the Wyoming Supreme Court decisions in U S WEST Communications, Inc. v. Wyoming PSC, 958 P.2d 371 (Wyo. 1998), and U S WEST Communications, Inc. v. Wyoming PSC, 958 P.2d 376 (Wyo. 1998), which held, among other things, that, under the Wyoming Telecommunications Act of 1995, the Commission did not have pricing jurisdiction over customer-initiated EAS applications. Any petition to establish an EAS service area would therefore have to be filed by the utility or utilities potentially affected. (Within an EAS area, all calls are local in nature and no long distance charges apply, although there is an EAS additive charge on local telephone bills established to cover the cost of the service.) December 8, 1999 The Commission entered an Order Dismissing Petition and Closing Docket concerning a similar EAS-like petition by customers in Weston County requesting that RT Communications create one countywide telephone exchange in Weston County, thus eliminating long distance toll calling in the County (essentially establishing a countywide EAS). The same Supreme Court decisions discussed directly above also applied in this case, preventing Commission action on the petition.

December 9, 1999 The Commission gave public notice of the proposed U S WEST sale of five Wyoming telephone exchanges to Citizens Telecommunications Company of Wyoming, a subsidiary of Citizens Utilities Company. The exchanges proposed for sale include Lusk, Afton, Mammoth, Lake and Old Faithful. In all, they include about 7,000 Wyoming access lines. Protests, interventions and hearing requests are due by January 10, 2000.

December 13, 1999 The Wyoming Supreme Court issued its opinion in U S WEST v. Wyoming Public Service Commission, AT&T Communications of the Mountain States, et al., No. 98-12 (Dec. 13, 1999). In its decision, the Court ruled that two sections of the Commission's local imputation rules, Sections 547 and 548, were promulgated without proper authority; and it struck them down. Section 547 required a telephone company which offered intrastate toll as well as local exchange service to impute to itself the same rate for the use of its facilities (and the other costs which it incurred in the provision of the toll service) that it charged to companies which interconnected with them. Section 548 mandated that incumbent local exchange telephone companies had to "charge" or impute to themselves the same wholesale costs that they charged a competitor who wanted to resell or to interconnect with the incumbent's network in the provision of local telephone service. The Commission adopted these rules to promote a level (i.e., procompetitive) playing field among competitors and incumbents for intrastate toll and local service. The Court suggested the mechanism of a price complaint under the Wyoming Telecommunications Act of 1995 as an alternative remedy for anticompetitive behavior of the type sought to be addressed in the Rules.

December 13, 1999 In U S WEST Communications, Inc., v. Wyoming Public Service Commission; et al. and AT&T Communications of the Mountain States; MCI

Telecommunications Corporation; and McLeod Telemanagement, Inc. n/k/a McLeod USA, No. 97-146, the Wyoming Supreme Court granted the petitions for rehearing of U S WEST and McLeodUSA, stating that "there is a reasonable probability that the Court may have arrived at an erroneous conclusion or overlooked some important question or matter necessary to a correct decision." The Court directed the parties to brief to discuss the proper interpretation of W.S. § 37-15-103(a)(iv) in light of its language and "the underlying purposes of the Wyoming Telecommunications Act of 1995." Parties were asked to discuss how that interpretation relates to telecommunications technologies such as basic local exchange service and Centrex.

December 13 and 14, 1999 Commissioners Ellenbecker, Furtney, and two Commission staff members met in Washington, D. C., with Federal Communications Commissioners Harold Furchtgott-Roth and Susan Ness, and several of their staff who are responsible for developing the non-rural (applicable in Wyoming only to U S WEST) high cost universal service support model. The Commission expressed concern over the model. Although this model affects only U S WEST in Wyoming, the new provisions of the model would significantly reduce federal universal service support for Wyoming citizens. Wyoming is seeking the assistance of other rural states, congressional officials, and the Governor's office to more adequately protect high cost rural telecommunications customers in Wyoming, and the Commission received supportive comments from the FCC Commissioners with which it spoke. The Wyoming initiative builds upon the still unfulfilled mandate of the federal Telecommunications Act of 1996 which requires available services and rates to be reasonably comparable in urban and rural areas throughout the nation. It has been suggested that Wyoming's best opportunity for further progress lies with our Congressional delegation. Other governmental and industry groups in Wyoming and the West have indicated interest in this initiative.

December 16, 1999 The Commission held a public hearing on its order to Luxor Communications (which provides local exchange service to the Mountainside Apartment complex in Cheyenne) to show cause why it should not have to comply with the Wyoming Telecommunications Act of 1995 by becoming a concurrently certificated local exchange company in competition with U S WEST, by allowing interconnection on a competitive basis with U S WEST, by ceasing to collect unlawful charges, by complying with U S WEST's Resale/Sharing tariff, by correcting numerous service outages and other problems, and by perhaps paying a fine of up to \$1000 per day for violation of the Commission's March 25, 1999, order to it to comply with the law and remedy its service deficiencies. In deliberation, the Commission decided on Luxor's assurances to accept progress reports for the time being and not to levy a fine against Luxor.

December 29, 1999 The Wyoming Supreme Court issued its mandate to the Public Service Commission in its Docket No. 98-12, formally striking down Sections 547 and 548 of the Commission's TSLRIC rules concerning imputation. See also, December 13, 1999.

December 30, 1999 The Commission filed with the Federal Communications Commission a Petition for Reconsideration of the Ninth Report and Order and Eighteenth Order on Reconsideration entered by the FCC in CC Docket No. 96-45, In the Matter of Federal-State Joint Board on Universal Service. This decision will sharply reduce the federal universal service funding available to Wyoming (and remove all funding from the other western states) on the basis of cost modeling which does not take into account the actual circumstances of Wyoming and its local exchange service providers. Although this decision only affects U S WEST (as the only local carrier in Wyoming classified as non-rural) there is also great concern that such a result could also be in store for the smaller local telephone service providers when they become subject to a later and similar FCC proceeding.

December 31, 1999 - January 1, 2000 The work of Wyoming's utilities and the Commission produced an uneventful New Year not affected by Y2K computer

problems.

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b. Selected Telecommunications Regulatory Matters Now Pending

Resolution of pending court appeals involving TCT West, Inc., Tri County Telephone Association and U S WEST.

Disposition of TSLRIC compliance waivers requested by certain independent telephone companies.

The final interconnection agreement between AT&T and U S WEST regarding the provision by AT&T of competitive local exchange service in Wyoming, now expected to be in the form of a 14-state comprehensive agreement.

The application of U S WEST and Citizens Telecommunications Company of Wyoming to allow Citizens to purchase 5 local telephone exchanges from U S WEST (Lusk, Afton, Old Faithful, Mammoth and Lake).

The joint application of U S WEST Communications, Inc., and Qwest Communications Corporation for authority to merge.

The joint application of MCI WorldCom, Inc., and Sprint Corporation for authority to transfer control of Sprint to MCI WorldCom.

Numerous applications by smaller telecommunications companies to provide competitive local exchange or interexchange service in Wyoming; and numerous applications for approval of interconnection agreements.

Pending quality of service, data speed and other rules.

These are not all of the telecommunications cases now pending before the Commission. If you want more information about any case or utility described above or information on any telecommunications regulatory matter, please visit our data base at our Web Site at <http://psc.state.wy.us/>

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c. The Wyoming Universal Service Fund

The Wyoming Universal Service Fund (WUSF) carries out the mandates of the Wyoming Telecommunications Act of 1995, found at W.S. § 37-15-102, that Wyoming must "ensure essential telecommunications services are universally available to the citizens of this state while encouraging the development of new infrastructure, facilities, products and services" and "maintain affordable essential telecommunications services through the transition" to competitive markets. The fund was established on July 1, 1997, under W.S. § 37-15-501 of the Act. The fund was designed to ensure that no subscriber to basic telecommunications services in Wyoming would have to pay more than 130% of the statewide average rate for essential residential or business telecommunications services. It began with an assessment level of 1% of gross intrastate retail revenues for both business and residential telecommunications services with the assessment being listed as a line item on customers' bills.

The Commission adjusted the assessment level several times in open public hearings to more closely match the assessment level with the disbursement needs of the fund. The table below illustrates the assessment levels in effect during 1999:

Assessment Level	Docket Number	Effective Date	Order Issue Date
6%	90072-XO-98-410	1/988/31/98	
3%	90072-XO-99-63	1/991/26/99	
2%	90072-XO-99-107	1/995/18/99	
3%	90072-XO--99-1110	1/998/13/99	

The 6% assessment level was based on a general rate case implemented by Union

Telephone Company and the effects of the filed price increase cases of U S WEST and United Telephone Company of the West d/b/a Sprint.

On June 25, 1999, the Commission approved the "Phase IV" price plan application filed by U S WEST and which constituted the last phase of its efforts to revise its local exchange service rates and other rates to cover their costs accurately as required in the Wyoming Telecommunications Act of 1995. U S WEST also requested a mid-period adjustment to its WUSF receipts. The approved price plan, which went into effect on October 1, 1999, increased the WUSF's projected annualized funding requirement from approximately \$3,605,547 to \$8,528,091, which was taken into account by the Commission in revising the assessment level to 3% effective October 1, 1999.

Because fund disbursements are based on a support threshold of 130% of the statewide average business or residential rate, the U S WEST price plan had a general effect on Wyoming telecommunications customers when it was implemented on October 1, 1999. The weighted statewide average price for residential service rose from \$19.61 to \$26.78. The support threshold also rose - from \$25.49 to \$34.81 per month. Persons who had received support for bills higher than \$25.49 now will not receive support until their bills for residential basic local service are higher than \$34.81. Conversely, the weighted statewide average for business service decreased because of the effect of U S WEST's new pricing. Business customers will start receiving subsidies if they pay more than \$31.81 for a business basic service line. (U S WEST's business and residential basic service rates are now the same reflecting the fact that the costs of providing the two services are approximately identical.)

During the year, U S WEST opted to target the approximately \$4.4 million that it expects to receive in Federal Universal Service Funds (FUSF) in 1999 exclusively to its high cost customers in the rural zones. This reduces the burden of the fund on all Wyoming telecommunications subscribers and directs the maximum assistance directly to the customers experiencing the largest price increases. The Commission approved the targeting of FUSF funds to the highest cost customers in the "Phase IV" case, even though federal high cost support is distributed to companies based on average study area costs.

In July 1999, the Commission issued a Request for Proposals for a Fund Manager and received three bids. At the end of the process, the Commission chose James Dinneen of Lathrop & Rutledge in Cheyenne, Wyoming, as the new Fund Manager effective November 1, 1999. Mr. Dinneen, an attorney, also brings important financial and trusteeship skills to the position and replaces the National Exchange Carrier Association, which provided management services during the first two years of the Fund's operation.

The Wyoming Universal Service Fund must remain flexible and capable of meeting Wyoming's changing needs. Below are examples of Commission decisions refining the working of the Universal Service Fund:

- Not subjecting Internet Service Providers to assessment for the Fund
- Keeping the number of lines per customer eligible for Fund support unrestricted
- Specifying which services' revenues are subject to the WUSF assessment
- Confirming that 911 emergency service lines are eligible for support
- Including the local rates and line counts of competitive local exchange carriers in the computation of statewide averages
- Reaffirming that companies may request mid-period true-up adjustments based on changes in revenues or line counts
- Revision of the Universal Service Fund rules to allow monthly distribution and collection of funds (rather than retaining the previous quarterly interval)
- Deliberation by the Commission in the General Order No. 85 proceeding on how to distribute the fund on a competitively and technologically neutral basis (this may become the subject of suggested legislative changes)
- Decision by a majority vote that Fund assessments should be calculated on the

gross rather than net customer bills

At reporting time, certain topics still pending before the Commission are:

Whether paging companies should have to contribute to the Fund

Payphone providers as to their contributions into the Fund

Upcoming Fund activities include:

Possible inquiry into contributions into the Fund to be made by data-only local exchange carriers

A thorough audit of the Fund early in 2000

Additional streamlining of reporting and paperwork requirements of the Fund

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d. Federal Universal Service Issues

In 1999, the Commission continued to treat the adequacy of federal high-cost service support as one of its highest priorities. In the early part of the year, the Commission awaited FCC decisions which would clarify federal attitudes toward the rural, high-cost problems faced by Wyoming. In 1998, we, with governmental, legislative and industry support, presented the Wyoming Story and our need for federal universal service funds to federal regulators. In November, 1998, the Federal-State Joint Board on Universal Service made recommendations to the FCC that appeared favorable to Wyoming. However, the recommendation was not binding on the FCC, and several items regarding the specific mechanism to be used for supporting high-cost telephone service were absent from this recommendation.

After a series of interim or partial decisions by the FCC in 1999, it released a final decision on support for non-rural high cost carriers on November 2, 1999. In Wyoming, this decision only impacts the federal support to be provided to U S WEST and its customers under the new explicit federal universal service fund and not the long-term support for the rural, independent local service providers. The decision diminished the federal support available for U S WEST and was therefore disappointing. In the Commission's view, the FCC's action does not appear to be consistent with the federal Telecommunications Act of 1996's requirement that support be sufficient to make both available services and the rates for those services reasonably comparable between rural and urban areas of the nation.

In its November 2, 1999, decision, the FCC finalized its computer model which generates long-run, forward looking costs for determining the support to be provided to each non-rural carrier. The FCC then compares each company's modeled cost (which is unfortunately looked at on a statewide basis rather than a deaveraged basis) to 135% of the national average cost. Support is then provided for areas exceeding the 135% average. The result of this decision and modeling effort is that the federal support for U S WEST's Wyoming operations decreases. After the end of an imprecisely defined "hold-harmless" period, the amount of annual federal high-cost support for U S WEST will decrease from about \$4.4 million to \$3.2 million per year.

The Commission does not view this outcome as being acceptable for Wyoming and also understands that it may be a warning that the smaller companies in Wyoming may fare no better. In response, the Commission visited the FCC in Washington, D. C., to discuss options for maintaining an adequate level of support for Wyoming local exchange service subscribers. During this mid-December visit, the Commission and staff visited with Commissioners Ness and Furchtgott-Roth and several key FCC staff members. As a result, the Commission gained a better understanding of the steps taken by the FCC to model the costs as well as some of the logic employed in their modeling effort. This exchange of views will, we believe, help to continue a positive working relationship on this project. While the Commission continues to study the specifics of the decision, it is

clear that we must disagree with some of the key inputs into the FCC's model costs (e.g., loop lengths that might not allow for advanced services to be provided throughout much of Wyoming).

We also disagree that the FCC's decision either satisfies the spirit or carries out the letter of the federal Act regarding rate comparability, comparable service availability or sufficiency of funds. Thus, on December 30, 1999, the Commission filed a Petition for Reconsideration of this decision with the FCC. We have also, on December 15, 1999, filed reply comments requesting that the "hold harmless" period for the current level of federal support be continued for at least 36 months or longer in order at least to help maintain existing rates in Wyoming for as long as possible. A copy of the Petition for Reconsideration is attached to this Report as Appendix E. It presents a concise summary of important problems facing universal service support in Wyoming.

The FCC has set no deadlines for its decision on Wyoming's Petition for Reconsideration. During the interim, the Commission intends to remain actively engaged with the FCC at every proper opportunity concerning these events and their effect on Wyoming.

In addition to working on the problems of high-cost support for non-rural carriers, the Commission has also been involved in the examination of possible changes in high-cost, universal service fund support to the smaller rural, independent carriers. Most of this work is currently being done through our participation with the Rural Task Force (RTF), a group of federal regulators, state regulators, and industry participants charged with making recommendations in 2000 on the federal support mechanism for rural carriers. We have attended all three meetings of the RTF in 1999, and are preparing to attend the meeting in January 2000. We have shared technical and statistical information for some of the RTF's white papers and modeling discussions. The Commission will continue to be proactive in this process, understanding that the financial consequences of not doing so could present serious problems to rural companies and rural customers.

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e. The status of compliance with the Act

The great majority of telecommunications companies in Wyoming have accepted and are in general compliance with the Wyoming Telecommunications Act of 1995. For example, W.S. § 37-15-402(a) requires companies providing noncompetitive services to price their services so that each service covers its own total service long run incremental costs; and W.S. § 37-15-403 requires the elimination of cross-subsidies between and among the competitive and noncompetitive services of telecommunications service providers in Wyoming. Companies now in compliance, which have priced local service above cost, include Century Telecommunications of Wyoming, TCT West, Inc., Tri-County Telephone Association, Union Telephone Company, United Telephone Company of the West d/b/a Sprint and U S WEST Communications, Inc. Dubois Telephone Exchange has made a substantial TSLRIC transition. Golden West Telephone has been given a waiver, through the statutory limit of January 1, 2005, of the TSLRIC pricing requirement available to smaller local telephone companies under W.S. § 37-15-402(c). All West Communications, Chugwater Telephone Company, Project Telephone, Range Telephone Cooperative, RT Communications, Silver Star Communications and Teton Telephone have received interim waivers in the past and have requested additional waivers which the Commission is expected to consider in 2000.

The goal of pricing services to meet the Act's requirements for the elimination of cross-subsidies has been met generally by the companies which have to date come into compliance with the TSLRIC mandate of the Act. There is an ongoing

question as to whether the differences in the cost to serve individual customers in the larger and more urban exchanges as opposed to customers in the more rural exchanges would constitute a subsidy.

Luxor Communications, Inc., which provides service to the Mountainside Apartment complex in Cheyenne has been substantially out of compliance with the Act and was the subject of a recent show cause hearing regarding the numerous service and other problems experienced by the Mountainside subscribers. More information is available in the March 25 and December 16 chronology entries and at our web site.

Although Tri County and TCT West came into compliance with the TSLRIC mandates of the Wyoming Telecommunications Act of 1995 in April 1998, the two companies unilaterally filed highly disaggregated local exchange service rates ostensibly to be effective at the first of this year, some of which priced individual basic local exchange service at over \$500 per month per line (and which lowered prices in larger and potentially more attractive markets). The actions of these companies were not supported by or provided for in an approved price plan under the Act, and the services in question are not subject to competition. The Commission ordered the removal of the prices from its files; and the matter is now before the Wyoming Supreme Court for determination in its Docket No. 99-248. During 1999, the Commission conducted two sets of show cause hearings relating to issues of noncompliance with Wyoming law by certain interexchange carriers authorized to provide long distance service in Wyoming. As a result of these two proceedings, the Commission revoked the registrations and canceled the authority of 30 interexchange carriers to provide interexchange service in Wyoming. Most commonly, these smaller companies failed to comply with uniform assessment and annual reporting requirements. Also during 1999, 20 of the smaller interexchange carriers previously registered to provide long distance service in Wyoming voluntarily requested that the Commission cancel their authority to provide service. These requests were most often initiated because of changes in business plans and financial considerations.

On July 1, 1999, U S WEST appealed the Commission's newly promulgated interconnection rules in both United States District Court and Laramie County District Court. The state proceeding (Civil No. 154-229) was certified to the Wyoming Supreme Court which, on November 17, 1999, dismissed that certification without prejudice, allowing the Laramie County District Court to stay its proceedings in favor of the similar federal suit in U S WEST Communications, Inc. v. Public Service Commission, Docket No. 99-CV-136-D, which is now the only active appeal of the Commission's interconnection rules. The matter remains undecided.

During the reporting year, the Commission was determined by the Wyoming Supreme Court in three instances to be out of compliance with the Wyoming Telecommunications Act of 1995. These situations dealt with [i] Commission decisions from previous years concerning the competitive status of U S WEST's Centrex Plus and ISDN services and [ii] the Commission's promulgation of imputation rules governing the interconnection of carriers in the state. Further discussion of these decisions can be found above in the chronology entries for October 18 (Centrex Plus), October 22 (ISDN) and December 13 (imputation rules and the granting of a rehearing in the Centrex Plus case). On December 29, 1999, the Wyoming Supreme Court issued its mandate to the Commission striking down sections 547 and 548 of the Commission's Rules on TSLRIC.

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f. Competitive Provision of Local Exchange Service.

Both the Wyoming Telecommunications Act of 1995 and the federal Telecommunications Act of 1996 seek to foster the development of competition in

local exchange service markets. Both Acts, for example, require the incumbent local exchange carriers to open their networks to competitors to provide equitable interconnectivity with their networks and to offer retail services at wholesale prices suitable for resale.

By the end of the reporting period, the Commission had approved a total of 27 applications for concurrent certificates of public convenience and necessity to provide competitive local exchange service in Wyoming. These companies are authorized to provide competitive local exchange service in those Wyoming exchanges served by U S WEST under W.S. § 37-1-201(b), the exception being Sprint which was also originally authorized to serve in the Wyoming exchanges of United Telephone.

NameCertificate Date

AT&T Communications of the Mountain States, Inc.August 16, 1996

Sprint Communications CompanyAugust 28, 1996

Excel TelecommunicationsNovember 25, 1996

FirstTelMarch 17, 1997

McLeodUSA Telecommunications ServicesApril 14, 1997

WyoCom (wyoming.com d/b/a)April 24, 1997

MCIMETRO Access Transmission Services/MCIMETROApril 29, 1997

Tel-Save d/b/a The Phone CompanyJuly 1, 1997

Preferred Carrier ServicesAugust 20, 1997

Atlas CommunicationsSeptember 2, 1997

LCI International TelecomNovember 13, 1997

Group Long DistanceFebruary 20, 1998

Sterling International Funding d/b/a Reconex a/k/a AmertelMarch 17, 1998

Silver Star Communications (Afton exchange only)March 17, 1998

LDM SystemsMarch 19, 1998

Dial and Save of WyomingApril 16, 1998

WorldCom TechnologiesMay 7, 1998

Eclipse CommunicationsJanuary 21, 1999

Level 3 CommunicationsMarch 16, 1999

NET-telApril 7, 1999

InTTecAugust 17, 1999

DSLnet CommunicationsAugust 17, 1999

JATO Operating Two Corp.August 23, 1999

Tri-TelSeptember 30, 1999

New Edge NetworksNovember 30, 1999

All-West/WyomingDecember 20, 1999

MVX.com CommunicationsDecember 22, 1999

Among these companies, McLeodUSA is active in the Cheyenne, Casper, Laramie, Lander, Riverton, Rock Springs, Gillette and Sheridan local exchange service markets. Silver Star offers direct facilities-based competitive local service in Afton, and All-West is far advanced in its planning for local exchange competition in the western part of the state. AT&T, under a partial interconnection agreement with U S WEST approved by the Commission, offers competitive Outbound ADL business services. Other companies are in various stages of advertising and otherwise preparing to serve.

You may obtain more information about these competitive local exchange service providers by contacting them at the addresses listed in Appendix B to this Report.

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g. Interconnection and Resale of Local Exchange Service.

In the Wyoming Telecommunications Act of 1995, W.S. § 37-15-404(d) requires telecommunications companies to "disclose in a timely and uniform manner information necessary for the design of equipment and services that will meet the specifications of interconnection;" Subsection (e) of this statute gives the Commission the power to promulgate rules, among other things, for interconnection of networks at nondiscriminatory and reasonable rates, terms and conditions; for the unbundling of services into reasonable basic network features; and for the resale and sharing of services and functions at reasonable and nondiscriminatory rates. These provisions are mirrored by the federal Telecommunications Act of 1996 which, at §251(a)(1), imposes a duty on telecommunications providers to interconnect with the facilities and equipment of other telecommunications carriers; and which, at § 251(c)(1), imposes a duty on incumbent local exchange carriers to negotiate interconnection agreements with a competitive carrier requesting one. If they cannot reach agreement, § 252 of the federal Act provides for the arbitration by state commissions of disputes regarding interconnection negotiations.

By December 31, 1999, the Commission had approved the following negotiated interconnection agreements for use in providing service in Wyoming under Section 252 of the federal Telecommunications Act of 1996, including 14 agreements approved during the reporting period. Approved agreements with U S WEST Communications, Inc., include agreements with MetaComm Cellular, CommNet Cellular, AirTouch Cellular, FirstTel, Western Wireless, Nextel West, Sprint Communications, Knight Communications, Comm South Companies, Dakota Services, Silver Star Communications, 3 Rivers PCS, RT Communications, Sterling International Funding d/b/a Reconex a/k/a Ameritel, Preferred Carrier Services, NET-tel Corporation, Advanced Communications Group, Tel West Communications, WYOCOM (wyoming.com), Topp Comm, Covad Communications, CCCWY d/b/a/ Connect!, Computer Business Sciences, AT&T Communications of the Mountain States, Inc. (partial, as noted), NOW Communications, U S WEST Wireless, DSLnet Communications, and New Edge Networks.

Approved interconnection agreements with United Telephone Company of the West include agreements with Dakota Services, U.S. Telco, Tin Can Communications, EZ Talk Communications, and dPI-Teleconnect.

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h. "1+" IntraLATA Equal Access

Under W.S. § 37-15-410, local exchange companies must provide intraLATA "1+" equal access by January 1, 1998, where technically and economically feasible. This dialing parity promotes competition in the instate long distance market by allowing a customer to preselect a carrier for instate long distance calls which can be reached by dialing "1" plus the telephone number without the need to use "dial around" or other multidigit alternatives to reach the chosen carrier. "1+" equal access also applies to pay telephone providers. Under § 276 of the federal Act, the selection of a carrier for pay telephone service must be made by the payphone location owner; and payphone service providers may negotiate a contract with the location owner regarding service.

The list of carriers available in various exchanges varies, but the list of carriers initially seeking business in Cheyenne illustrates the vigorous nature of the market, which included established and new firms of varying sizes. All but two of these companies offered both residential and business "1+" service.

Cable & Wireless, Inc. Phoenix Network

Amerivision/Lifeline AT&T

Sprint Dial ":1" Service LCI International

Frontier Dial & Save

ITC Networks/NEXTLINKTeltrust Communications Services

Wiltel/WorldcomNTC Long Distance
Cincinnati Bell Long DistanceWorking Assets Long Distance
WCS Dial OneExcel telecommunications
MIDCOM CommunicationsVartec Telecom, Inc.
American TelecomAthena International, LLC
Telecom USA [residential service only]Teleconnect [business service only]
Union Telephone CompanyTelephone Express
The Furst GroupInter-Tel NetSolutions
U S WEST CommunicationsGTE Long Distance
Qwest CommunicationsMCI Telecommunications

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i. The Effects of Wyoming Regulatory Policies and Practices on Telecommunications Companies, Services and Customers
The Wyoming Telecommunications Act of 1995 and the federal Telecommunications Act of 1996 continue to have a profound impact on the telecommunications industry in Wyoming. Competition has sharpened in the reporting year for the business of Wyoming customers in interstate, intrastate and local service markets, with increasing emphasis on the competitive entry into the local exchange service markets, led by Silver Star Communications, McLeodUSA and, with respect to certain larger volume business services, AT&T.

In Section 2 of this report is a discussion of the proliferation of local and long distance telecommunications service suppliers and the increasing number of interconnection agreements allowing for (but not always guaranteeing the provision of) competitive local exchange service.

Perhaps the most visible effect of the implementation of the Wyoming Telecommunications Act of 1995 has come with the final steps taken by U S WEST to comply with the TSLRIC and elimination of cross-subsidy provisions of the Wyoming Telecommunications Act of 1995. This has caused residential prices to rise and most business prices, along with in-state long distance and access prices, to drop. Because U S WEST serves approximately 80% of the access lines in Wyoming, this has changed the weighted statewide average business and residential basic local service prices and therefore has decreased by over \$9 the amount of support available from the Wyoming Universal Service Fund to individual residential customers of all telephone companies. Formerly, the fund supported basic local service prices to the extent they exceeded \$25.33. Now, this support is available only for that portion of the basic local service price which exceeds \$34.81. The Legislature is examining alternatives to an average-driven support mechanism.

The rise in prices for local exchange service has caused some migration of customers from traditional land line telephones to cellular service as their main source of telecommunications service. We do not know the extent to which that trend will continue in the future.

Another effect of regulatory policy is seen in the Commission's effort to streamline the approval process for certification of local exchange competitors, for interconnection agreements and for the disposition of other applications. The Commission has, for example, approved Silver Star Communications' application to have its Afton local exchange service found subject to effective competition on a notice and order basis, making the process simpler, quicker and less costly than would have been the case in the past. The development of information packages for potential competitors have helped them through the

registration or certification process, as applicable, more quickly and at a lower cost. The Commission is continuing an effort to simplify the disposition of cases.

Although we do not regulate the service offerings of cellular providers (except for quality of service and the arbitration of certain controversies), we understand that Wyoming cellular markets continue to experience vigorous growth and that more cellular service offerings are now routinely and widely available to and accepted by the general public. Cellular competition appears to remain vigorous and is beginning to see additional competition through PCS digital wireless service.

Finally, long haul fiber optic companies have begun to take seriously Wyoming's need for additional bandwidth as a tool for economic development, and they are joined by local service providers anxious to apply this high speed resource to the state's telecommunications needs. Access to fiber optic connectivity is increasing and technology has allowed smaller points of presence to become economically feasible, but there is still much development to be accomplished in this area.

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j. Telecommunications Slamming, Complaints, and Related Matters

i. Slamming. The practice of changing a telephone customer's long distance carrier without knowledge or authorization is called slamming. Slamming accounts for approximately 11% of the complaints received by the Commission; and it is a consumer problem generated by the competitive telecommunications environment. Since most slamming occurs with interstate long distance service, jurisdiction, in most cases, lies with the FCC. Wyoming's slamming and cramming law, W.S. § 37-15-412, gives the Commission jurisdiction over intrastate offenses and has acted, we believe, as a deterrent to the growth of in-state slamming. Our emphasis has been on the rapid correction of consumer problems and in discussing emerging slamming problems with companies which experience more than isolated slamming complaints.

The Commission and its complaint section will help Wyoming customers experiencing either state or federal level problems to obtain information and to resolve slamming problems effectively in the proper forum. The Commission's brochure on the subject, Telephone Slamming: You don't have to be a victim!, is available free of charge. This and other steps taken by the Commission and its complaint section to educate the public in dealing with slamming and cramming problems has helped to reduce the volume of filed complaints.

A further reduction in filed slamming complaints can also be attributed in part to the FCC's tougher slamming rules issued in April 1999. The FCC rules exempt slamming victims from paying long-distance phone charges to the offending company for 30 days and anticipates that consumers would be switched back to their long-distance carrier of choice during that 30 day interval. However, if the subscriber continued to be wrongfully billed after 30 days, the person would not have to pay the offending company anything. Victims would instead pay their designated carrier at that carrier's normal rate. It is interesting to note that, when the Wyoming Legislature passed the 1998 slamming bill in 1998, it specifically outlawed negative marketing option techniques. The new 1999 federal rules also do not allow negative marketing techniques.

ii. Telecommunications complaints. The overall number of utility complaints received by the Commission increased from 1,373 in 1998 to 1,886 in 1999. The following table, containing a breakdown of the complaints received by the Commission during the reporting year, places the volume of telecommunications complaints into perspective:

WaterGasElectricLocal

Telecommunications Long Distance
Telecommunications
1%6%10%63%20%

As the Wyoming Telecommunications Act of 1995 approaches its fifth anniversary, the nature of telecommunications complaints, mirroring the pace of change in telecommunications markets, has continued to change. Although many complaints still concern more "traditional" subjects such as the quality of support for advanced services, availability (or not) of service enhancements, and billing discrepancies and disagreements, other issues, such as the problems surrounding the billing errors which accompanied the October 1, 1999, implementation of the latest U S WEST price plan have also appeared. By the time of this report, the large volume of consumer complaints concerning billing errors had subsided, even if complaints from persons not satisfied with the October 1 price changes has not.

iii. Newer types of complaints. During the reporting year, there was a significant increase in the number of Wyoming consumers being solicited by telemarketers for long distance companies who offer long distance plans providing both intraLATA and interLATA service and offering special per-minute rates. When the bills arrive, the billed rate is often much higher than the plan originally seemed to offer. Long distance companies have acknowledged that they never offered this plan and that the rate on the bill was accurate. When consumers change from one long distance provider to another, the first company may not send the proper request to the local exchange carrier to release the line to the newly chosen long distance service provider. This problem can be so persistent that sometimes the only way to free a telephone subscriber is to ask the local exchange company for a new telephone number (which also makes current telephone directory listings inaccurate).

We have found situations in which consumers receive a bill from two carriers for the same call; and, sometimes when consumers attempt to resolve such long distance service issues, the telephone numbers provided either do not answer, are cut off, or result in persistent "on hold" status. When consumers call the local provider, the local provider advises the customer to contact the long distance company listed on the bill. Many consumers are not pleased with having to pay a "blocking" charge to a local exchange company when declaring a desire not to have a presubscribed long distance carrier.

Some consumers are confused when they use a dial around number (10-10-XXX) and the relatively unfamiliar call appears thereafter on their monthly telephone bill. It may appear to the customer as if a slamming has taken place. Additionally, the numerous other charges listed on telephone bills remain little understood by consumers and the Commission's complaint section assists customers by providing explanations and further information on these charges. Federal and Wyoming Universal Service Fund assessments and credits, for example, are objects of inquiry, as are U S WEST's "distance charges" which represent the explicit statement of zone charges for persons living outside of U S WEST base rate areas (reflecting the additional cost to serve persons farther from the local telephone switch). These charges were, in the past, not stated separately.

Sometimes just reading and understanding the telephone bill has become more difficult. Through explaining the charges and consulting with telecommunications companies regarding commonly encountered problems with their bills, we are working to improve the understandability of telecommunications bills and to help companies to be more effective in satisfying customer billing information needs.

iv. Information requests. In addition to the complaints received during the reporting year, we have also received 231 information requests from customers which are not formal complaints. These questions are driven by the more complex nature of the industry, the need for additional and higher speed service, the new choices of services and service providers facing the public in Wyoming, and

a desire for additional information about various price increases.

v. Speeding up the process. Wyoming utilities continue to be generally responsive in sharing information about complaints and about employing e-mail in resolving them more rapidly. They usually respond promptly to our policy of requesting statements in writing within five working days about the resolution of individual complaints. This helps speed up complaint resolution for the consumer, the utility and for the Commission. Because of the increase in the volume of complaints (and sometimes also because of the difficulty of locating some complained-of interexchange service providers), the number of unresolved complaints carried over each month averages 207.

vi. Toll free assistance. Since 1998, the Commission has maintained an 888 toll-free number for the use of Wyoming persons bringing complaints to the attention of the Commission.

vii. Confidentiality. As always, customers bringing complaints to the Commission can be assured that the facts of their individual situations will be treated confidentially.

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k. Recommendations for Legislative Change.

We believe that the most important legislative changes which should be made to improve the functioning of the Wyoming Telecommunications Act of 1995 concern the Wyoming Universal Service Fund. We present these ideas conceptually, understanding that there are varying opinions as to how the changes should be carried out.

i. The fund should be competitively and technologically neutral. No market participant should be given an undue financial advantage or disadvantage because of how the fund works. No customer should make the decision to utilize a particular carrier simply because of the fund. No telecommunications technology actually providing basic service should be excluded from obtaining support from the fund.

ii. Fund support should be explicitly portable. That is, when a customer switches from one competitive local carrier to another, the support pertaining to that person's service should also go to the new carrier.

iii. The mechanism for determining support should be more stable and predictable. Customers of one company should not have to experience changes in their prices due to the effect that another company's price changes have on the statewide weighted average service price and thus the support threshold. At this point, we believe that a support threshold expressed as a fixed dollar amount per residential or business line would be an improvement and one which would be welcomed by the public. Any policy limitations to be imposed on the number of lines eligible for support should also be considered.

iv. When universal service fund support is portable to competitive carriers, the amount of support should be the same amount as the incumbent carrier received for that customer. Although this does not perfectly mirror the costs of competitive carriers in providing service, it avoids, fairly and simply, the extremely complex, expensive and slow process of making a regulatory determination of the costs of every competing carrier in Wyoming.

v. As the federal universal service fund mechanisms make the transition to being explicitly cost-based, the Wyoming fund, now a price-based fund, should also have the ability to make a smooth transition to being cost-based also. Such a change would allow companies to be more vigorous in pricing competitively and would make the relationship between federal and state support more compatible.

vi. When dealing with new telecommunications technologies offered by companies which seek to obtain support from the Wyoming Universal Service Fund, the Commission should have the ability to designate which of the services qualify

for support. Basic local service, supportable under the Fund, might, in some cases, be only a component or group of components of a technologically complex service offering. This does not mean that the Commission should engage in ratemaking in a competitive market but rather that it should ensure that the Fund works fairly.

vii. Should the rate to which the Wyoming Universal Service Fund assessment is applied be the gross cost-of-service based price or the net cost paid by the customer?

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Section 2

The Telecommunications Industry in Wyoming

a. Introduction.

This section of the report provides a general description of the Telecommunications industry in Wyoming, the technology employed, and the availability of various services. It is shorter than in past years because of the steady improvement of telecommunications systems in Wyoming and because the differences in availability of many features and functions are less dramatic than in the past. This section should be read in conjunction with Appendix D, which contains detailed exchange-by-exchange information on the telecommunications technology deployed, the nature of the interoffice plant in service and the specific services which are generally available in the various exchanges (with new services or technology highlighted in boldface type). Questions about the availability of particular services in particular places within exchanges and the existing unused capacity of local telecommunications plant should be directed to the telecommunications service providers themselves. However, information regarding capacity is generally considered to be highly confidential and very commercially sensitive by the service providers.

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b. Number, Type and Size of Companies.

There are 14 facilities-based local telephone companies (also called Incumbent Local Exchange Carriers or ILECs) providing local exchange service in Wyoming. There are approximately 303,107 access lines in service in the state at this time, an increase of 6,128 or about 2.06% over 1998. U S WEST, Wyoming's predominant ILEC, provides service to approximately 253,873 of the state's access lines. The remaining access lines are served by the 13 independent local telephone companies. Appendix A to this report contains a brief summary of the basic facts about Wyoming ILECs, and Appendix F provides a map of the certificated territories of Wyoming's incumbent local exchange companies. When the Wyoming Telecommunications Act of 1995 went into effect on March 1, 1995, there were 24 interexchange (long distance or toll service) resellers and nine facilities based interexchange carriers providing long distance service in Wyoming. Before the Wyoming Telecommunications Act of 1995, there were no Competitive Local Exchange Carriers (CLECs) in Wyoming; but now there are 27, as shown in Appendix B to this report. Because the interexchange resale market is so dynamic and characterized by numerous new entrants, acquisitions, mergers and other business reorganizations, please see the listing of companies participating in the Wyoming market at the Commission's web site. Facilities-based companies own physical telecommunications facilities which may be used to transport traffic on their own systems, while resellers purchase or lease plant from facilities-based providers to transport traffic.

Facilities-based carriers do not necessarily carry all of their traffic over their own facilities and may purchase or lease facilities of others to help furnish the needed services.

By December 31, 1999, the combined number of resellers, interexchange resellers and facilities-based carriers serving Wyoming had increased to 330, a net increase of about 900% since 1995 including the registration of 68 new interexchange carriers during the reporting year. By the end of the reporting year, 27 CLECs had been certified to provide local telephone service in those Wyoming exchanges served by U S WEST, although widespread competition has yet to occur throughout all of the relevant exchanges. Although many CLECs originally applied for authority to serve the entire state, W.S. § 37-15-201(c) limits immediate competitive entry into the local exchange markets of companies with fewer than 30,000 access lines in Wyoming. Companies protected by this statutory provision can voluntarily waive the protection of statute, and Sprint/United Telephone Company of the West has done so. The validity of this section of the Wyoming Telecommunications Act of 1995, which the FCC has declared to be preempted by the federal Act, is now on appeal in the United States Court of Appeals for the Tenth Circuit.

With respect to long distance telecommunications services, customers now generally have a wide selection of carriers and choices of many differing terms, conditions and prices which have been brought about by the functioning of the competitive market. Competition in the local exchange service markets in Wyoming has not developed as rapidly because Wyoming lacks large high volume urban markets of relatively easily served customers. Resale of services is an easy and rapid way to enter into local market competition, but it does not always provide an attractive return to the competitor. Facilities-based competition, seen by many as the more stable and long term competitive option (and the one offering the most possibilities for technological advancement), requires substantial expenditures for the facilities needed to provide competitive local service. Although many smaller competitors do not have the financial capabilities for this type of market entrance, companies such as Silver Star Communications show that it is possible to be technologically advanced and successful in such an endeavor in Wyoming -- even in a relatively small market.

Additionally, some companies having interconnection agreements with U S WEST have not yet begun providing local telephone service partly because some aspects of their agreements refer to an AT&T interconnection agreement for certain specific contract terms. U S WEST and AT&T have asked for time until the middle of 2000 to conclude a comprehensive agreement.

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c. Technologies in use and under development.

During the past year, much additional emphasis has been placed on the need for higher speed data transmission serving residences and small business. The technology that appears now to be at the forefront is a Digital Subscriber Line (DSL) application. With DSL, the existing subscriber line (loop) is used in the traditional manner, but DSL will also support a second signal, carrying digital data, on the same line. The resulting service is a high speed data service known as xDSL, which is provided together with regular voice-grade service. A strength of the xDSL concept is that both services can be used simultaneously. The x in xDSL is a generic place holder which reminds us that there are several forms of Digital Subscriber Line service available. ADSL, Asymmetrical Digital Subscriber Line service appears to be the most widely deployed. It makes efficient use of the fact that digital data users usually need to download larger amounts of data than they need to upload to others.

Modems have been the primary means through which residential and small business

customers have accessed the Internet. The ability of modems to achieve acceptably high speeds over the existing voice-grade lines within the public switched network has improved. Advances in technology have allowed modems to reach higher effective transfer rates up to 53 Kbps, as limited by the FCC. Although the Wyoming public switched network voice system has evolved with high speed digital interoffice connections and virtually universal digital switching, much of the local loop plant (the wires which connect the individual customer with the local switch) needs additional upgrading to produce optimal modem speeds and to support the availability of more sophisticated services. Integrated Service Digital Network service (ISDN) has become available in several areas in Wyoming. It offers a switched data service capable of 128 Kbps. While the initial demand for ISDN appeared strong, the industry's offering of xDSL has caused the demand for ISDN to be virtually stagnant.

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d. Differences in geographical availability in Wyoming

As the system becomes more thoroughly modernized, differences in geographical availability of services, as well as the number of new services being offered for the first time, tend to diminish. For example, except for the Gas Hills and Jeffrey City exchanges, the state possesses virtually universal digital switching and interoffice facilities. Digital provisioning considered by itself, whether furnished by fiber or by radio, does not provide unlimited digital capability; and several areas in Wyoming require or will require additional digital service capabilities. Central office offerings (those services offered through the local switch) have generally exhibited minimal changes and additions. Please see the central office offerings set forth in Appendix D to this report.

With the completion of the Wyoming Educational Network, the superior performance of Asynchronous Transfer Mode (ATM) technology will provide high bandwidth, low delay, packet-type transmission on an interoffice basis. In areas where radio has been the transmission medium, there have been some capacity constraints. This has been most notable in the areas north and north west of the Casper.

Outages on the northern system due to fiber cuts and power outages are a lingering concern along with the capacity concerns.

U S WEST offers MegaBit in the Cheyenne exchange but only to subscribers on loops less than 15,000 - 18,000 feet from the central office. This loop length constraint is significant throughout Wyoming and is currently inhibiting the provision of a ubiquitous optional high speed data service. Independent local exchange carriers have virtually replaced all of their slower-speed analog carrier with faster digital facilities (often fiber optics), and U S WEST has reduced its active analog inventory which is still serving Wyoming customers. While a great deal of upgrading of outside plant has occurred, there is much yet to be accomplished.

The smaller independent telephone companies appear to be well positioned to offer higher speed data services, and they are led by Silver Star

Telecommunications and Tri County Telephone Association/TCT West. However, many independent companies are linked closely enough to the U S WEST backbone facilities, that any capacity restraints on that system appear also in the service of the affected independent company.

Solving data transmission problems can be done through the use of dedicated high capacity lines -- facilities suitable for larger businesses or those having heavy data transfer needs. Unfortunately, there have been persistent reports of insufficient T-1 facilities at several locations in Wyoming and continued reports of extended installation times for many T-1 (or faster) facilities. The extent and duration of the delays vary; but some of them appear to be caused by

intraexchange capacity restrictions as well as interoffice capacity deficiencies. This remains a troublesome problem because of the important economic development role played by high bandwidth services. Among other technological developments, the Williams, Enron and IXC Communications companies are crossing Wyoming with high speed and high capacity fiber networks. Although these are considered to be "long haul" operations rather than local due to the nature of the operations involved, IXC has, for example, created partnerships with local service providers to give them direct access to high speed facilities. IXC has also offered the possibility of scaling the size of particular "points of presence" (essentially a switching facility at which the local and long distance networks connect) to make access available to markets having smaller or larger numbers of lines at an affordable price by "rightsizing" the facilities.

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e. Telephone Subscribership Levels in Wyoming

The percentage of households that have telephone service is a good measure of the universality of telecommunications service; and the United States Bureau of the Census (Census Bureau) collects relevant data as part of its Current Population Survey, which monitors trends between the complete ten-year censuses, all under an ongoing arrangement with the FCC. This undertaking allows the FCC, state commissions and others to examine the possible effects of various actions on household decisions to maintain, acquire or drop telephone service. The Industry Analysis Division of the FCC's Common Carrier Bureau is the source of the Wyoming telephone subscribership information in this Report.

The two generally accepted basic measures of subscribership levels are [i] telephone service within the housing unit ("unit") and [ii] telephone service elsewhere which is available at a common location to the people in the housing unit, such as a hallway, clubhouse or other nearby shared area ("available"). The most current penetration rates for Wyoming, as of August 1999, are set forth in the table below, together with comparative data from previous reports.

Wyoming

Date	Unit	Available
August 1999	95.0%	95.6%
August 1998	94.8%	95.2%
August 1997	92.7%	94.5%
August 1984	89.9%	92.8%

Wyoming has experienced a statistically significant increase in penetration rates measured between 1984 and 1999, and has also shown modest increases in the "Unit" penetration and "Available" statistics since the previous year. Note that these measurements do not cover the use of wireless services such as cellular and PCS. The summary table below sets forth the nationwide average penetration rates for the same points in time as those presented above for Wyoming.

Nationwide Averages

Date	Unit	Available
August 1999	94.4%	95.3%
August 1998	94.1%	95.2%
August 1997	93.9%	95.0%
August 1984	91.6%	93.7%

The more comprehensive table below presents comparative data on individual state penetration rates, measured on a "Unit" basis during the reporting year and for a 1983 historical baseline.

Telephone Penetration by State
(Percentage of Households with Telephone Service)

State 1983 August 1999 Change

Alabama 87.9 % 92.6 % 4.7 %
Alaska 83.8 94.6 10.8
Arizona 88.8 92.4 3.7
Arkansas 88.2 90.5 2.3
California 91.7 96.5 4.8
Colorado 94.4 97.2 2.8
Connecticut 95.5 97.6 2.1
Delaware 95.0 94.4 -0.6
District of Columbia 94.7 92.7 -2.0
Florida 85.5 93.3 7.8
Georgia 88.9 91.2 2.3
Hawaii 94.6 97.4 2.8
Idaho 89.5 95.1 5.6
Illinois 95.0 91.7 -3.3
Indiana 90.3 93.7 3.4
Iowa 95.4 96.3 0.9
Kansas 94.9 92.1 -2.8
Kentucky 86.9 93.3 6.4
Louisiana 88.9 92.2 3.3
Maine 90.7 96.9 6.2
Maryland 96.3 94.1 -2.2
Massachusetts 94.3 94.7 0.4
Michigan 93.8 94.3 0.5
Minnesota 96.4 97.5 1.1
Mississippi 82.4 89.1 6.7
Missouri 92.1 97.1 5.0
Montana 92.8 95.4 2.6
Nebraska 94.0 97.0 3.0
Nevada 89.4 94.9 5.5

New Hampshire 95.0 97.9 3.0
New Jersey 94.1 92.4 -1.7
New Mexico 85.3 90.9 5.6
New York 90.8 95.4 4.6
North Carolina 89.3 94.3 5.0
North Dakota 95.1 98.9 3.8
Ohio 92.2 94.8 2.6
Oklahoma 91.5 91.3 -0.2
Oregon 91.2 95.8 4.6
Pennsylvania 95.1 96.9 1.8
Rhode Island 93.3 94.6 1.3
South Carolina 81.8 91.1 9.3
South Dakota 92.7 94.5 1.8
Tennessee 87.6 94.9 7.3
Texas 89.0 93.5 4.5
Utah 90.3 94.6 4.3
Vermont 92.7 94.5 1.8
Virginia 93.1 93.0 -0.1
Washington 92.5 96.8 4.3
West Virginia 88.1 92.7 4.6
Wisconsin 94.8 95.7 0.9
Wyoming 89.7 95.0 5.3

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f. The Wyoming Equality Network: Telecommunications Technology Serving Education in Wyoming.

In 1995, the Wyoming Supreme Court, in Campbell County School District v. State, 907 P.2d 1238 (Wyo. 1995) issued its decision on equity in education. This decision was followed by legislation in 1997 [i] requiring the development and implementation of a statewide education technology plan [W.S. §

21-2-202(a)(xx)]; and [ii] directing the Governor and the State Superintendent of Public Instruction to form a committee to draft and issue a request for proposals to provide the opportunity for connectivity for data transfer between schools and interactive video between all high schools in the state. This has been accomplished through two phases. Each phase required an RFP.

During the first phase, Governor Geringer and Superintendent Catchpole accepted the RFP Panel's recommendation; and U S WEST was awarded a contract to provide data connectivity to all schools. The cost, as proposed by U S WEST, totaled \$26,298,847 over eight years, including a cost of \$18,053,735 the first five years of which \$9,262,928 was applied during the 1999-2000 biennium. It will provide for network services, frame relay services, ATM-CRS services, private line services, data equipment, satellite service maintenance and management services. The project, officially known as the Wyoming Equality Network, covers the entire state; and Wyoming's independent telephone companies, in partnership with U S WEST, are responsible for substantial portions of the system.

Additionally, the State has selected McLeodUSA as the interexchange carrier to carry interLATA traffic to Torrington.

The new network is basically a high-speed, broadband digital data access network which offers several unique and flexible features. It will provide equitable access and is scaleable, manageable, standards-based, and future-oriented, as well as being compatible with the existing telecommunications infrastructure of Wyoming's local exchange service providers, including U S WEST and the independent telephone companies.

All schools have been connected to the State's education Intranet. U S WEST and the independent companies met timelines even with the U S WEST strike in early August 1999. U S WEST worked with the State to establish a more cost effective connectivity solution for twelve remote rural schools. The solution which was proposed and accepted was satellite-based. This solution utilizes both uplink and downlink capabilities of the satellite.

Phase two began with an RFP for video equipment. Tandberg was awarded the contract in June 1999. Schools have been given the option of a student and teacher site. The difference in the two types of sites is in the amount of equipment required for a teaching site. Along with the video equipment, the State has purchased a state-of-the-art video bridge. The bridge has the capability to expand in both size and technology. For example with the technology moving to the H.323 Internet Protocol for video, the bridge will allow Wyoming to take advantage of this new technology when it is not so bandwidth intensive.

Technologically, the network will use public or private Asynchronous Transfer Mode-Cell Relay Services (ATM-CRS) to serve up to eight aggregating points with DS-1 service (at a speed of 1.544 Mbps) from these points to the State's high schools to provide for interactive video and data transfer and to enable 56 kbps circuits for data transfer to all other schools in the state.

Bringing new technology like ATM-CRS into Wyoming affords possibilities for many new communications applications for Wyoming, and this leading-edge technology is

recognized for its integration capabilities. Regardless of the type of information sought to be carried -- voice, data or video -- seamless transport is provided by prioritized delivery. The technology, when deployed, will allow the data network to deliver greatly enhanced performance with the attendant increase in the ability to handle the faster and more efficient transfer of data and the ability to offer data capabilities beyond those which would be possible in a combined voice/data environment. A plan has been worked out whereby the network will allow equal access by the Internet Service Providers (ISPs) designated by the school districts through special equipment housed at the Emerson Building in Cheyenne.

The aggregation of the schools to address their common communications technology needs on a statewide basis provides U S WEST with the "anchor tenant" which makes the deployment of this new technology feasible for other businesses as well -- a significant benefit given the rural and sparsely populated character of the state and the investment required.

ATM-CRS could not exist in a vacuum. The concerted efforts of Wyoming's telephone companies in upgrading central offices with digital capabilities and connecting these offices with digital interoffice carrier facilities has made this innovative project possible.

For the next biennium, a request of \$7,524,592 has been submitted to cover recurring connectivity costs, managed data services for maintenance of the hardware and video equipment maintenance costs.

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g. Cellular Telecommunications Facilities in Wyoming

Cellular services are provided state-wide within each of five Rural Service Areas (RSAs) and one Metropolitan Statistical Area (MSA). Each Area, conceptually similar to a certificated service territory, is served by two providers. In each Area, there is always a non-wireline provider (System A) and a wireline provider legally affiliated with an existing land-line telephone company (System B). Systems A and B are mutually exclusive. Further information about wireless telephone service providers may be found in Appendix C to this report.

A Wyoming company, SpectraCom, Inc., is beginning the vigorous deployment of PCS digital personal wireless communications services in major Wyoming markets. A corporate relative of Range Telephone Cooperative and RT Communications, it is now bringing its state of the art digital cellular service to the Gillette, Casper, Riverton, Lander, Worland, Cheyenne, Hudson and Laramie areas and to the I-80 corridor between Cheyenne and Laramie. Reinforcement of the system is being undertaken and expansion is under consideration. Competition is developing here also, through U S WEST Wireless which has entered the PCS market serving the Cheyenne area.

Cellular service quality in Wyoming is the subject of further conceptual consideration by the Commission under its general rule making authority found at W.S. § 37-15-401(a)(iii) and its specific authority regarding cellular quality of service found in W.S. § 37-15-104(a)(vi), that being only to the extent not preempted by federal law. No proceeding has been established to promulgate such rules.

SECTION 3

Other Information

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a. The Commission's Geographic Information System (GIS), a tool for the future.

Since its inception, the Commission has issued Certificates of Public Convenience and Necessity under Wyoming law which gave public utilities the authority, most often exclusively, to provide service in specific areas of Wyoming. These certificates contain geographic descriptions of the territory for which authority has been granted. In the past, the Commission's facilities engineers created hand-drafted maps to graphically represent certificated territory. Keeping those maps up to date has become a very labor intensive and slow process. The Commission has realized the need for a more accessible and comprehensive method of recording, preserving and using land records which define the boundaries of utility service territories.

Recognizing this need, the Commission sought assistance in the latter part of 1997 to develop an action plan for a Commission system which would provide GIS mapping and documentation of utility certificated territories in Wyoming. Using a competitive bidding process, the project was awarded to Electrical Systems Consultants, Inc., (ESC). The action plan was completed in the Spring of 1998. Thereafter, the Commission undertook the much larger project of implementing the action plan in the Summer of 1998. In a separate competitive bidding process, this phase of the project was also awarded to ESC.

The Commission began validating the data compilations initially provided by ESC in May 1999. Through this validation process, the Commission discovered several inconsistencies in the ESC data which required additional research and remediation prior to acceptance by the Commission. Subsequently, ESC has engaged in several months of intensive efforts to complete the digitization of the Commission's certificated area records; and the Commission, at the time of this report, considers the project substantially complete. Using the data, software, and computer hardware provided pursuant to the contract, the Commission is now able to generate graphical representations of the boundaries of the areas in Wyoming in which electric, natural gas, telecommunications and water utilities are certified to provide service.

There are additional aspects of the Commission's GIS system which will be useful in the future. The Commission is, for example, required by law to report on the status of Wyoming's telecommunications utilities in this Annual Report. The Commission intends to enhance and expand the GIS system and to use it in analyzing the types and quality of utility services that are available throughout Wyoming. The information produced by such a system could include analyses of the cost of providing utility services, information about the location, frequency and duration of utility service interruptions, major utility facility locations, and information related to the status of competitive service provision (recognizing that the details of local telecommunications plant and facilities are regarded as closely held competitive secrets by local exchange companies).

The Commission believes that the new GIS system will improve the quality and accuracy of the information included in these reports, and that GIS is the appropriate technology to accomplish this result. This resource will be useful to the Commission, which is frequently asked to make presentations to legislative committees on issues concerning telecommunications reform as well as natural gas or electric industry questions. These presentations can be greatly enhanced with maps of utility services overlaid with state population records and other useful statistics. The ultimate goal of the Commission is to develop our GIS resource as a comprehensive spatial data information system fully integrated into the work processes of the Commission to facilitate attainment of our strategic goals and objectives.

As an economic development tool and as a way to obtain accurate overviews of the state of development of the telecommunications infrastructure of Wyoming, GIS provides unparalleled ease and efficiency of use. It is also sufficiently secure that proprietary and otherwise sensitive information could be contained in secure GIS overlays. We believe that the system will, as it develops, be able to

supersede portions of this Annual Report in the future. Although the Commission's facilities engineers regularly inspect utility infrastructure throughout the state, there is no centralized record of major facility locations or supporting data concerning the equipment in use and to be inspected. The use of our GIS system to compile such a record will assist the Commission in maintaining the continuity of quality and thoroughness of inspections as employees are lost to retirement. It will allow for more accurate planning and enhanced inspection results. The Commission has also discussed on a preliminary basis the possibility of integrating the Commission's GIS information with information maintained by the Wyoming Emergency Management Agency for use in responding to natural disasters or man-made events. These are a few of the immediate applications of GIS technology at the Commission. We will develop others as they are warranted in the future.

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b. Your reactions to this Report.

Tell us what you liked about this Report and what you would like to see added, changed or covered differently in the future. Please share your thoughts and ideas with Steve Oxley, the Commission's Chief Counsel:
by telephone: 307-777-7427 (voice) or 307-777-5700 (fax)
by e-mail: soxley@state.wy.us
in writing: Steve Oxley, Chief Counsel, Wyoming Public Service Commission
2515 Warren Avenue, Suite 300, Cheyenne, Wyoming 82002

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APPENDIX A - Wyoming Incumbent Local Exchange Companies

1.All West Communications
P.O. Box 588
Kamas, UT 84036-0588
(801) 783-4361

County Served: Lincoln
Exchange: Cokeville Access Lines
Revenues
Gross Plant
Net Plant

362
\$ 530,944
\$2,161,313
\$ 972,498

2.Chugwater Telephone Company
P.O. Box 223
Chugwater, WY 82210-0223

(307) 422-3535

Counties Served: Laramie, Platte
Exchange: Chugwater Access Lines
Revenues
Gross Plant
Net Plant

268
\$ 385,182
\$1,026,986
\$ 431,310

3. Dubois Telephone Exchange
P.O. Box 246
Dubois, WY 82513-0246
(307) 455-2341

Counties Served: Fremont, Sweetwater and Carbon
Exchanges: Baggs, Crowheart and Dubois Access Lines
Revenues
Gross Plant
Net Plant

2,139
\$ 3,720,233
\$12,834,389
\$ 7,268,851

4. Golden West Telephone Cooperative
P.O. Box 411
Wall, SD 57790-0411
(605) 279-2161

Counties Served: Niobrara and Weston
Exchange: Edgemont, SD Access Lines
Revenues
Gross Plant
Net Plant

32
\$49,842

\$76,963
\$ 0

5.Project Telephone Company
P.O. Box 600
Scobey, MT 59263-0600
(406) 783-5659

County Served: Park
Exchange: Clark

Access Lines
Revenues
Gross Plant
Net Plant

202
\$114,237
\$855,405
\$539,619

6.Range Telephone Cooperative
P.O. Box 127
Forsyth, MT 59327-0127
(406) 347-2226

Counties Served: Crook, Weston, Campbell, Sheridan and Johnson
Exchanges: Alzada, MT, Decker, MT, Arvada, Clearmont, Southeast Sheridan,
and Sundance

Access Lines
Revenues
Gross Plant
Net Plant

1,881
\$ 2,287,228
\$10,605,106
\$ 6,059,823

7.RT Communications
P.O. Box 506
Worland, WY 82401
(307) 347-8251

Counties Served: Fremont, Natrona, Laramie, Weston, Crook, Washakie,
Johnson, and Hot Springs
Exchanges: Albin, Burns, Carpenter, Pine Bluffs, Gas Hills, Hulett,
Jeffrey City, Kaycee, Midwest, Moorcroft, Newcastle, Shoshoni,
Thermopolis, Upton/Osage and Worland Access Lines
Revenues
Gross Plant
Net Plant

15,898
\$16,430,874
\$78,816,871
\$36,834,243

8.Silver Star Communications
P.O. Box 226
Freedom, WY 83120-0226
(307) 883-2411

County Served: Lincoln
Exchanges: Alpine and FreedomAccess Lines
Revenues
Gross Plant
Net Plant

2,441
\$ 3,220,583
\$10,779,365
\$ 4,182,592

8a.Silver Star Communications
at Alta, d/b/a Teton Telecom

County Served: Teton
Exchange: Driggs, ID Access Lines
Revenues
Gross Plant

Net Plant 251
\$166,772
\$905,730
\$645,875
9.CenturyTel of Wyoming
formerly PTI Communications
P. O. Box 160
Pinedale, WY 82941-0160
(307) 367-4321

Counties Served: Sublette, Sweetwater, Carbon, and Albany
Exchanges: Big Piney, Eden-Farson, Medicine Bow and Pinedale Access Lines
Revenues
Gross Plant
Net Plant

4,660
\$ 3,113,706
\$14,403,472
\$ 4,078,139

10.TCT West
P.O. Box 671
Basin, WY 82410
(307) 568-3357

Counties Served: Big Horn, Park and Hot Springs
Exchanges: Lovell, Meeteetse, Greybull, Frannie/Deaver and Basin Access
Lines
Revenues
Gross Plant
Net Plant

5,690
\$ 3,851,172
\$25,026,718
\$15,300,009

11.Tri County Telephone Association
P.O. Box 310
Basin, WY 82410-0310
(307) 568-2427

Counties Served: Washakie, Big Horn, Park, and Hot Springs

Exchanges: Burlington, Hamilton Dome, Hyattville and Ten Sleep

Access Lines
Revenues
Gross Plant
Net Plant

1,029
\$ 1,674,696
\$10,156,957
\$ 6,957,705

12.Union Telephone Company
P.O. Box 160
Mountain View, WY 82939-0160
(307) 782-6131

Counties Served: Uinta, Sweetwater, Carbon, Albany, Lincoln, and Sublette
Exchanges: Mountain View, Lyman, Hanna/Elk Mountain, Rock River, LaBarge,
Shirley Basin, Saratoga and Encampment

Access Lines
Revenues
Gross Plant
Net Plant

6,291
\$25,512,421
\$47,168,400
\$23,255,479

13.Sprint Communications d/b/a United Telephone Company of the West
P.O. Box 2128
Scottsbluff, NE 69363
(308) 635-8200

Counties Served: Goshen and Platte
Exchanges: Guernsey, LaGrange, Lingle, Torrington and Lyman, NE Access
Lines
Revenues
Gross Plant
Net Plant

7,679
\$ 5,763,283
\$13,231,155
\$ 5,789,897

14.US WEST Communications
6101 Yellowstone Road
P.O. Box 428
Cheyenne, WY 82003-0428
(307) 771-6298

Counties Served: All Wyoming Counties (Albany, Big Horn, Campbell, Carbon, Converse, Crook, Fremont, Goshen, Hot Springs, Johnson, Laramie, Lincoln, Natrona, Niobrara, Park, Platte, Sheridan, Sublette, Sweetwater, Teton, Uinta, Washakie and Weston) and Yellowstone National Park.
Exchanges: Afton, Buffalo, Casper, Cheyenne, Cody, Dayton/Ranchester, Douglas, Evanston, Gillette, Glendo, Glenrock, Green River, Jackson, Kemmerer, Lander, Laramie, Lusk, Powell, Rawlins, Riverton, Rock Springs, Sheridan, Story, Wheatland, Wright, Yellowstone Park (Lake, Mammoth, Old Faithful)

Access Lines
Revenues
Gross Plant
Net Plant

253,873
\$117,266,394
\$512,576,482
\$254,883,838

Sources: Telecommunications company reports filed with the Commission during the reporting year.

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APPENDIX B - Wyoming Competitive Local Exchange Companies

Please note that mergers and acquisitions which occurred during the reporting year and previous years are described at the end of applicable company entries.

1.AT&T Communications of the Mountain States
1875 Lawrence Street

Denver, CO 80202
Certificate authority: US WEST exchanges only
2.Sprint Communications Company
8140 Ward Parkway
P.O. Box 8417
Kansas City, MO 64114
Certificate authority: US WEST and United Telephone Company of the West
exchanges only
3.Excel Telecommunications
8750 North Central Expressway
Suite 1700
Dallas, TX 75231
Certificate authority: US WEST exchanges only
(Acquired by Teleglobe Communications during 1998.)
4.McLeodUSA Telecommunications Services
McLeodUSA Technology Park
6400 C Street SW
P.O. Box 3177
Cedar Rapids, IA 52406-3177
Certificate authority: US WEST exchanges only
5.FirsTel
2900 West 11th Street
Sioux Falls, SD 57104
Certificate authority: US WEST exchanges only
(Acquired by Advanced Communications Group during 1998.)
(Acquired by Ionex Telecommunications during the reporting year.)
6.MCIMETRO Access Transmission Services
MCIMETRO
707 17th Street, Suite 3600
Denver, CO 80202
Certificate authority: US WEST exchanges only
7.WYOCOM
wyoming.com
213 West Main Street, Suite A
Riverton, WY 82501
Certificate authority: US WEST exchanges only
8.Atlas Communications
482 Norristown Road
Blue Bell, PA 19422
Certificate authority: US WEST exchanges only
9.Preferred Carrier Services
500 Grapevine Highway Suite 300
Hurst, TX 76054
Certificate authority: US WEST exchanges only
(Acquired by Phones For All during 1998.)
10.Tel-Save d/b/a The Phone Company
6805 Route 202
New Hope, PA 18938
Certificate authority: US WEST exchanges only
11.LCI International Telecom
8180 Greensboro Drive
McLean, VA 22102
Certificate authority: US WEST exchanges only
(Acquired by Qwest Communications during 1998.)
12.LDM Systems
254 South Main Street
New City, NY 10956

Certificate authority: US WEST exchanges only
(Acquired by RSL COM U.S.A. during 1998.)
13.Dial and Save of Wyoming
4219 Lafayette Center Drive
Chantilly, VA 22021
Certificate authority: US WEST exchanges only
14.Silver Star Communications
104101 Highway 89
Freedom, WY 83120
Certificate authority: Afton exchange of US WEST only
15.WorldCom Technologies
515 East Amite
Jackson, MS 39201
Certificate authority: US WEST exchanges only
16.Sterling International Funding
d/b/a Reconex a/k/a Ameritel
9620 S.W. Barbur Blvd. - Suite 330
Portland, OR 97219
Certificate authority: US WEST exchanges only
17.

Group Long Distance
1451 West Cypress Creek Road - Suite 200
Fort Lauderdale, FL 33309
Certificate authority: US WEST exchanges only
18.

Eclipse Communications
3650 131st Avenue SE - Suite 400
Bellevue, WA 98006
Certificate authority: US WEST exchanges only
19.Level 3 Communications
1450 Infinite Drive
Louisville, CO 80027
Certificate authority: US WEST exchanges only
20.NET-tel
11921 Freedom Drive - Suite 550
Reston, VA 20190
Certificate authority: US WEST exchanges only
21.IntTec
subsidiary of Visionary Communications
301 South Douglas Highway
Gillette, WY 82716
Certificate authority: US WEST exchanges only
22. DSLnet Communications
545 Long Wharf Drive - Fifth Floor
New Haven, CT 06511
Certificate authority: US WEST exchanges only
23.JATO Operating Two Corp
1099 18th Street - Suite 700
Denver, CO 80202
Certificate authority: US WEST exchanges only
24.TRI TEL

405 South Fourth Street
P. O. Box 350
Basin, WY 82410
Certificate authority: US WEST exchanges only
25.New Edge Networks
3000 Columbia House Blvd. - Suite 106
Vancouver, WA 98661
Certificate authority: US WEST exchanges only
26.All West/Wyoming
50 West 100 North
Kamas, UT 84036
Certificate authority: US WEST exchanges only
27.MVX.COM Communications
100 Rowland Way - Suite 145
Novato, CA 94945
Certificate authority: US WEST exchanges only

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APPENDIX C

Wyoming Wholesale Cellular Service Providers and Personal Communication Service
(PCS) Providers Licensed by the Federal Communications Commission

1. CommNet Cellular
8350 East Crescent Parkway - Suite 400
Englewood, CO 80111
Authorized Service Areas:
RSA #1 (System B)
RSA #2 (System B)
RSA #3 (System A)

2. Western Wireless
d/b/a Cellular One
11400 S.E. 8th Street - Suite 445
Bellevue, WA 98004
Authorized Service Areas:
Casper MSA (System A)
RSA #2 (System A)
RSA #4 (System A)
RSA #5 (System A)

3. Union Telephone Cellular Company
d/b/a Union Cellular
P.O. Box 160
Mountain View, WY 82939
Authorized Service Area:
RSA #3 (System B)

4. US WEST NewVector Group
d/b/a AirTouch Cellular
3350 161st Avenue SE
Bellevue, WA 98009
Authorized Service Areas:
Casper MSA (System B)
RSA #4 (System B)
RSA #5 (System B)

5. MetaComm Cellular Partners
d/b/a Cellular One
190 Parish Drive
Wayne, NJ 07470
Authorized Service Area:
RSA #1 (System A)

6. SpectraCom (PCS Provider)
d/b/a PYXIS Communications
130 South 9th Street
Worland, WY 82401
Authorized Service Areas:
Basic Trading Area #69
Basic Trading Area #77
Basic Trading Area #375
Counties Served:
Washakie, Hot Springs, Fremont, Natrona, Campbell, Albany, Laramie,
Johnson, Converse, Platte and Carbon

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APPENDIX E - Commission Petition for Reconsideration of FCC decision on federal
universal service funding
Before the
Federal Communications Commission
Washington, D.C. 20554
In the Matter of
Federal-State Joint Board on
Universal Service)
)
)CC Docket No. 96-45

PETITION FOR RECONSIDERATION OF THE
NINTH REPORT & ORDER AND
EIGHTEENTH ORDER ON RECONSIDERATION

Comes now the Wyoming Public Service Commission (WPSC) on behalf of the citizens
of Wyoming and respectfully asks the Federal Communications Commission
(Commission) to reconsider its decision in its Ninth Report and Order and
Eighteenth Order on Reconsideration in CC Docket No. 96-45, In the Matter of
Federal-State Joint Board on Universal Service.

WYOMING

The WPSC is statutorily charged under the Wyoming Telecommunications Act of 1995

to "ensure essential telecommunications services are universally available to the citizens of this state while encouraging the development of new infrastructure, facilities, products and services." Additionally, the Wyoming Act directed that:

(a) Services provided by a telecommunications company that provides noncompetitive services shall be priced such that the service's revenues from sale of the service recover the total service long-run incremental cost of providing that service. . .

Under this charge, the WPSC entered an Order in July, 1999, which directed U S WEST Communications, Inc. (U S WEST), Wyoming's only non-rural telecommunications company, to price its local exchange service above a price floor which is based on a total service long-run incremental cost pricing model (TSLRIC). The effect of this pricing of local exchange service is that all embedded subsidies have been removed so all economic barriers to entry (except capital investments) have been eliminated from U S WEST's service territory. The removal of barriers to competition and the development of competition for local services is one of the goals of the Wyoming Telecommunications Act, as well as the primary goal of the federal Telecommunications Act of 1996. The theoretical goals of both the Wyoming and the federal Acts have been met. However, Wyoming is a high cost state, and the prices for local service that customers must pay are far above the national average. In 1998, the national average residential monthly charge for local service in urban areas was \$13.77. As of October 1, 1999, U S WEST's weighted average residential rate in Wyoming exceeded \$28. Based on the TSLRIC model, using a base rate area and three rural zones, the resulting prices, before taxes, surcharges, or high cost support, for Wyoming's U S WEST customers are: \$23.10 per month for the base rate area; \$38.60 per month for Zone 1; \$48.60 per month for Zone 2; and \$69.35 per month in Zone 3.

The currently available federal universal service fund support is then targeted to high cost customers, in the following graduated manner: none of the federal support is provided to base rate area customers; Zone 1 customers currently receive \$2.00 per month as a direct bill credit; Zone 2 customers currently receive \$6.50 per month as a bill credit; and Zone 3 customers receive a bill credit of \$12.25 per month. These amounts are subject to change as the federal high cost support changes. Wyoming targeted high cost support by rural distance zone. This work was completed prior to the issuance of the FCC decision which suggests the targeting of high cost support by wire center rather than rural zones outside the base rate area. Wyoming intends to request a waiver regarding the way the targeting occurs, as allowed by the Commission's order, and hopes to work with the Commission on an appropriate resolution of these targeting differences.

Any remaining support comes from the Wyoming universal service fund. Support is provided to Wyoming customers whose basic local service rate exceeds 130% of the statewide weighted average rate. Currently, given that Wyoming has eliminated implicit subsidies for more than 80% of its ratepayers and has moved to forward looking, cost-based rates, a residential customer's rate must exceed \$34.81 before the threshold for support from the Wyoming universal service fund has been reached! Clearly, even with an explicit state universal service fund in place, combined with targeting of all currently available federal support, Wyoming customers pay well above the national average, failing the comparability test that is critical to rural, high cost states, such as Wyoming.

FCC ORDER

The result of the Commission's Ninth Report and Order is that Wyoming's federal high cost support for U S WEST is reduced! Naturally, we are astonished at the results of the model and the FCC decision. These results are contrary to the intent of Congress and the clear reading of the 1996 Act. Under section 254(b)(3), a section of terrific familiarity, rural, insular and high cost areas

should have access to telecommunications and information services, that are reasonably comparable to those services provided in urban areas and that are available at rates that are reasonably comparable to rates charged for similar services in urban areas. Congress must have had Wyoming and other rural states, similarly situated, in mind when it drafted this section of the 1996 Act. Equally important is the sufficiency provision found at Section 254(b)(4). This states that the federal and state support mechanisms should be "specific, predictable, and sufficient" such that they "preserve and advance universal service." As further discussed below, the Commission presumes that the states will have sufficient resources to pick up whatever piece of high cost support is needed to keep rates affordable and penetration rates high. We will show that this is not the case in Wyoming.

The results of the Commission's order are directly contrary to the intent of Section 254(b)(3) and Section 254(b)(4) and we respectfully ask that the Commission grant this Petition for Reconsideration. We offer below alternatives, any one of which would remedy the Commission's Ninth Report and Order, such that it would meet the comparability and sufficiency objectives of Congress as stated in the 1996 Act.

AVERAGING VERSUS DEAVERAGING

For Wyoming customers, the most devastating portion of the Commission's Ninth Report and Order is the decision to average costs across the study area, rather than providing support at the wire center level. This is also the portion of the decision that is the most surprising, given the prior orders of the Commission. Starting with the Commission's May 7, 1997, Report and Order, one of the key elements of a forward looking cost model was to be its ability to ". . . deaverage support calculations to the wire center serving area at least, and if feasible, to even smaller areas. . ." This deaveraging concept has always shown through the Commission's discussions of universal service support.

Two years later, the Commission continues to ask for comments on deaveraging, and in the process, provides some of the best supporting reasons to adopt deaveraging at something less than the study area level. In its Seventh Report and Order and Thirteenth Order on Reconsideration in CC Docket No. 96-45, adopted May 27, 1999, the Commission states:

As competition places downward pressure on rates charged to urban, business, and other low-cost subscribers, we believe that support deaveraged to the wire center level or below may ensure that adequate support is provided specifically to the subscribers most in need of support, because the support reflects the costs of specific areas.

The Commission continues to express its concerns along this same line when it asks for comment on the following specific issue:

We seek specific comment, however, on the extent to which competition is likely to place steadily increasing pressure on implicit support flows from low-cost areas and the extent to which this pressure suggests that we should deaverage support in the implementation of our new mechanism.

Even in the Further Notice of Proposed Rulemaking in CC Docket No. 96-45, adopted May 27, 1999, the Commission notes, ". . . the Joint Board recommended that the Commission should estimate the total support amount necessary in those areas considered to have high costs relative to other areas." How does averaging higher and lower cost areas support the concept of supporting those areas "considered to have high costs relative to other areas?" The answer was clear to the Commission all along. The competitive model demands that support be provided at a level deaveraged below the study area. The WPSC took the Commission at its word for the nearly four years that this model has been in process, relying itself on deaveraging of prices to further the competitive cause.

In addition, the method of averaging all wire centers without consideration of high cost areas within the exchange, fails the sufficiency and comparability tests in Wyoming. We have no doubt, that in many of the states with large urban

populations, this method provides adequate funding, but it does not do so in the rural, low-population state of Wyoming. Attached is a schedule that shows the significant difference in funding that Wyoming receives under the averaging method when compared to deaveraging at the wire center level. Under the proposed new support mechanism which includes the averaging method, and without the extra support under the hold harmless provisions, U S WEST in Wyoming receives about \$3.3 million annually. This amount would be increased nearly fourfold if the support were to be calculated at the wire center level -- an annual increase of more than \$9 million. These extra funds would translate into nearly an additional \$9 per month for high cost customers that could be used as a bill credit on customers' bills. Even with the \$9 per month increase in federal support, Wyoming residential rates would be nearly double the national average residential rate.

Looking further at the distribution of the funds on a deaveraged basis, the Commission can be assured that this would truly be going to high cost customers in Wyoming. According to the Commission staff's own data, there are eight exchanges in Wyoming with fewer than 1,000 lines each, and, in fact, these eight exchanges have a total of only 2,608 lines, comprising just over one percent of the Wyoming non-rural lines. The lines in these eight exchanges have an average monthly cost of about \$220 each. If support were provided at the wire center level, these customers would receive nearly 35% of the non-rural federal support in Wyoming. Aren't these the customers that should be getting the high cost support?

Under the hold harmless provisions, more than twenty percent (20%) of U S WEST's residential customers in Wyoming will be paying \$34.81. And, if for some reason that we pray never comes to be, the hold harmless provisions were to disappear, Wyoming rates would actually be well above the current level, since this difference would either be paid by customers themselves or through a universal service surcharge that is already approaching five percent. How can rates at this level be deemed to be reasonably comparable to currently charged monthly urban rates in the \$13 range? A loss of 25% of the federal funding translates into more than a \$3.00 a month increase to Zone 3 customers who already pay nearly \$45 (with taxes and surcharges) for dial tone. Where is the comparability? Where is the sufficiency?

Many have argued with the WPSC that we should discard the competitive model to keep our low, implicitly subsidized rates for as long as possible. But, where does the federal Act say that we should be denied the benefits of competition just because we live in a rural state? Nowhere. In fact, the federal Act prohibits a state, even a rural state, from barring competition. Wyoming has opened its doors to competition; we have set rates to eliminate implicit subsidies; we have reduced access and toll charges; we have deaveraged unbundled elements and local prices; we have targeted federal support to high cost customers; and we have established a large intrastate universal service fund. Now, it is the Commission's turn to recognize that Wyoming did the right thing, but we need help. We ask that you implement support at the wire center level rather than the study area level.

RURAL STATE EXCEPTION

Wyoming offers a second alternative of allowing for a rural state exception, where help is shown to be needed, due to the lack of sufficient intrastate resources. This alternative works well alone, as explained below, or could be easily paired with the above requested deaveraging, if concerns persist regarding the overall size of the fund. In other words, additional parameters could be placed around the deaveraging issue, where, for example, a non-rural carrier would only receive support at the wire center level, if its costs exceed a certain level and the state universal service surcharge exceeded a specified level.

Specifically, Wyoming took the Commission at its word when it said, "To the

extent a state's resources are deemed inadequate to maintain affordable and reasonably comparable rates, the federal mechanism will provide the necessary support." We also took to heart the Federal-State Joint Board's recommendation that "... federal support should be provided to the extent that the state would be unable to support its high cost areas through its own reasonable efforts." Yet, rather than looking at specific state situations, or even allowing for specific state exceptions, the Commission simply presumes that states will be able to fund any high cost needs not funded at the federal level, when it states:

We recognize that, irrespective of our policies, the development of competition may place pressure on implicit support mechanisms at the state level. For example, states that use above-cost pricing in urban areas to subsidize below-cost service in rural areas may face pressure to deaverage rates as competitors begin to offer cost-based rates to urban customers. Although this development may compromise states' ability to facilitate universal service using implicit support, it should not compromise states' ability to facilitate universal service through explicit support mechanisms.

We remind you again that Wyoming has deaveraged rates to not only meet competition, but to allow for competition since it is questionable if it would ever come to Wyoming without first eliminating the implicit subsidies. But, where we really take exception to the order is the assumption that states will readily be able to convert their implicit subsidies into explicit subsidies, without an affordability issue, and thus, universal service, issue arising. Once again, many, many non-rural customers in Wyoming are paying nearly \$45 for dial tone (including taxes and surcharges) and all Wyoming customers could soon be paying between four and five percent to fund the Wyoming universal service fund. We believe this does compromise our ability to facilitate universal service through explicit support mechanisms.

Interestingly, the next sentence of this same paragraph in the Ninth Report & Order seems to leave an opening for the kind of small state exception that we are proposing. This sentence states:

In addition, we do not believe it would be equitable to expect the federal mechanism -- and thus ratepayers nationwide -- to provide support to replace implicit state support that has been eroded by competition if the state possesses the resources to replace that support through other means at the state level. [Emphasis added.]

We do not have such resources. We are already stretched to our limits. Our survey of affordability taken in the Summer of 1997 indicated that customers would only tolerate a local rate that did not exceed \$30. We have recently exceeded that level, so we do not yet know how this will impact the penetration level or rural lifestyles. (Will phone service remain widely available in Wyoming?) Therefore, we ask that the Commission expand on this opening left in its order, and develop what we term a "rural state exception." This exception of allowing for additional federal support would apply where a non-rural carrier's average forward looking cost exceeds a designated threshold and where the state universal service fund exceeds a designated percentage. Wyoming recommends that this exception be implemented when a non-rural carrier's average forward looking cost exceeds \$30 per month and the surcharge on intrastate revenues exceeds four percent in order to fund the intrastate portion of the universal service fund needs. To quantify this, if the difference between the average non-rural cost per line of \$33.68 per month and a threshold of \$30 were funded, the total would be \$10,651,259 annually (\$3.68 per line x 241,197 lines x 12 months). This amount is not enough to break the national bank, but is of critical importance to Wyoming. This extra \$10 million of federal support would require an additional five percent surcharge on all intrastate, jurisdictional revenues (including cellular, paging, pay phones, local, features, and intrastate toll) in Wyoming, whereas it is negligible compared to total interstate revenues.

The WPSC believes that a rural state exception (that, of course, would apply to any state that showed that it lacked sufficient resources to meet its intrastate needs) is a viable addition to the Commission's high cost decision. It is consistent with earlier statements that there should be a federal-state partnership. It allows the state to accept as much responsibility as possible without placing an undue burden on customers. It utilizes the Commission's forward looking cost model to promote least-cost, most efficient networks. Most importantly, it passes the comparability and sufficiency tests.

INPUT CONCERNS

In its review of the non-rural cost model, the WPSC has developed concerns about several of the cost inputs, but has not yet had a full opportunity to explore the impact of each of these items, including the fill factors, the operations and maintenance expense factors, and customer location placement (based on non-public data). However, we have a particular concern about the use of 18,000 foot loops. Loop length is a significant driver of costs, and the 18,000 foot length may be longer than reasonable. We believe that this longer loop length may be driving down the average cost of service, especially in a sparsely populated rural state such as Wyoming.

We also believe that a loop this long is inconsistent with several other provisions of the 1996 Act. For example, Congress designated that one of the principles of universal service is that "Access to advanced telecommunications and information services should be provided in all regions of the Nation." We believe that many of today's advanced and information services will not be provided over loop lengths of 18,000 feet. Specifically, U S WEST's megabit service, which is an ADSL, high speed digital line, is not offered on loop lengths longer than 15,000 feet with 26 gauge wire, or 18,000 feet with 24 gauge wire. In addition, traditional modem transfer rates appear to become affected in loops of 18,000 feet and greater.

Continuing through the list of universal service principles found in the 1996 Act, access to advanced and information services is again reiterated in Section 254(b)(3), where it is stated:

Consumers in all regions of the Nation, including low-income consumers and those in rural, insular, and high cost areas, should have access to telecommunications and information services, including interexchange services and advanced telecommunications and information services, that are reasonably comparable to those services provided in urban areas and that are available at rates that are reasonably comparable to rates charged for similar services in urban areas.

[Emphasis added.]

Again, the comparability standard not only requires reasonably comparable rates but also requires reasonably comparable services, and these are not without a cost. This comparable cost should be reasonably reflected in the forward looking cost model through a loop length that allows customers access to these services without having to subscribe to a special access or private line. We believe that this loop length warrants a further review, and that consideration should be given to the use of a 12,000 foot loop length, rather than the currently modeled 18,000 foot loop.

CONCLUSION

In summary, the WPSC requests that the Commission grant this Petition for Reconsideration in order to modify its order using one, or more, of the alternative modifications suggested and described above. We appreciate the work that has gone into the Commission's forward-looking cost model and our suggested modifications to the order work within the framework of that model. We believe that our suggested modifications could be implemented without having to further delay the implementation date of the Commission's order. This issue is of critical importance to Wyoming ratepayers and the continued affordability of telephone service in Wyoming. We await your response to this mandated federal-state partnership and repeat our desire to work with you on this most

important issue. We ask that you grant this Petition for Reconsideration and provide Wyoming with additional support soon. We have already waited far too long.

Submitted this 30th day of December, 1999.

Respectfully Submitted,

STEVE ELLENBECKER

Chairman

Please send your comments and suggestions to the PSC Webmaster

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This page was last updated on February 14, 2000.

Dkt. No _____
D. Blessing Ex. No. ____ (DCB-32)
§ 364.10, Fla. Stat.

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Alltel Florida, Inc.'s Petition)
To Reduce Intrastate Switched Network)
Access Rates In A Revenue Neutral)
Manner Pursuant to Section 364.164,)
Florida Statutes)
_____)

Exhibit DCB-32

Florida Statute § 364.10 Lifeline.

*43961 West's F.S.A. § 364.10

**WEST'S FLORIDA STATUTES
ANNOTATED
TITLE XXVII. RAILROADS
AND OTHER REGULATED
UTILITIES (CHAPTERS
350-368)
CHAPTER 364.
TELECOMMUNICATIONS
COMPANIES
PART I. GENERAL
PROVISIONS**

*Current through Chapter 484 and H.J.R.
No. 1 and S.J.R. No. 2394 (End) of 2004
Special "A" Session of the Nineteenth
Legislature*

**364.10. Undue advantage to person or
locality prohibited; Lifeline service**

(1) A telecommunications company may not make or give any undue or unreasonable preference or advantage to any person or locality or subject any particular person or locality to any undue or unreasonable prejudice or disadvantage in any respect whatsoever.

(2) The prohibitions of subsection (1) notwithstanding, a telecommunications company serving as carrier of last resort shall provide a Lifeline Assistance Plan to qualified residential subscribers, as defined in a commission-approved tariff and a preferential rate to eligible facilities as provided for in part II.

(3)(a) Effective September 1, 2003, any local exchange telecommunications company authorized by the commission to reduce its switched network access rate pursuant to s. 364.164 shall have tariffed and shall provide Lifeline service to any otherwise eligible customer or potential customer who meets an income eligibility test at 125 percent or less of the federal poverty income guidelines for Lifeline customers. Such a test for eligibility must augment, rather than replace, the eligibility standards established by federal law and based on participation in

certain low-income assistance programs. Each intrastate interexchange telecommunications company shall, effective September 1, 2003, file a tariff providing at a minimum the intrastate interexchange telecommunications carrier's current Lifeline benefits and exemptions to Lifeline customers who meet the income eligibility test set forth in this subsection. The Office of Public Counsel shall certify and maintain claims submitted by a customer for eligibility under the income test authorized by this subsection.

(b) Each local exchange telecommunications company subject to this subsection shall provide to each state and federal agency providing benefits to persons eligible for Lifeline service applications, brochures, pamphlets, or other materials that inform such persons of their eligibility for Lifeline, and each state agency providing such benefits shall furnish the materials to affected persons at the time they apply for benefits.

*43962 (c) Any local exchange telecommunications company customer receiving Lifeline benefits shall not be subject to any residential basic local telecommunications service rate increases authorized by s. 364.164 until the local exchange telecommunications company reaches parity as defined in s. 364.164(5) or until the customer no longer qualifies for the Lifeline benefits established by this section or s. 364.105, or unless otherwise determined by the commission upon petition by a local exchange telecommunications company.

(d) By December 31, 2003, each state agency that provides benefits to persons eligible for Lifeline service shall undertake, in cooperation with the Department of Children and Family Services, the commission, and telecommunications companies providing Lifeline services, the development of procedures to promote Lifeline participation.

(e) The commission shall report to the Governor, the President of the Senate, and the Speaker of the House of Representatives by December 31 each year on the number of customers who are subscribing to Lifeline service

and the effectiveness of any procedures to promote participation.

CREDIT(S)

Amended by Laws 1980, c. 80-36, § 12, eff. July 1, 1980; Laws 1990, c. 90-244, § 17, eff. Oct. 1, 1990; Laws 1995, c. 95-403, § 13, eff. July 1, 1995; Laws 2003, c. 2003-32, § 10, eff. May 23, 2003.

<General Materials (GM) - References, Annotations, or Tables>

HISTORICAL NOTES

HISTORICAL AND STATUTORY NOTES

Derivation:

Comp.Gen.Laws 1927, § 6366.
Rev.Gen.St.1920, § 4402.
Laws 1913, c. 6525, § 10.

REFERENCES

LAW REVIEW AND JOURNAL COMMENTARIES

Discrimination between resident and nonresident users of public utilities. 7 Miami L.Q. 266.

RESEARCH REFERENCES

Encyclopedias

FL Jur. 2d Telecommunications § 26, Generally; Local Exchange Telecommunications Companies.

FL Jur. 2d Telecommunications § 37, Rates, Tolls, and Charges, Generally.

FL Jur. 2d Telecommunications § 45, Prohibition Against Charges Other Than as Specified in Schedule; Discrimination as to Rates, Charges, Benefits of Contract, Rules or Regulations.

ANNOTATIONS

NOTES OF DECISIONS

Construction and application 1

1. Construction and application

*43963 Telephone company had no legal duty, under this section prohibiting it from giving undue advantage to person or locality, to enter into pole rental agreement with plaintiffs for use of company's poles in connection with plaintiffs' cable television antenna services even though company was furnishing similar services to similar customers. *Twin Cities Cable Co. v. Southeastern Telephone Co.*, App. 1 Dist., 200 So.2d 857 (1967). Telecommunications ⚡81

Under § 364.20 railroad and public utilities commission was authorized to promulgate rule prohibiting the furnishing of telephone or telegraph service when such service is intended or is being used in violation of law. *Dade County News Dealers Supply Co. v. Florida R. R. & Public Utilities Commission*, 48 So.2d 89 (1950). Administrative Law And Procedure ⚡673; Telecommunications ⚡273

This section forbids "any undue or unreasonable preference or advantage to any person, corporation or locality." *State v. Peninsular Tel. Co.*, 73 Fla. 913, 75 So. 201 (1917).

Current through Chapter 484 and H.J.R. No. 1 and S.J.R. No. 2394 (End) of 2004 Special "A" Session of the Nineteenth Legislature

Dkt. No. _____
D. Blessing Ex. No. ____ (DCB-33)
Transparent Subsidies

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Alltel Florida, Inc.'s Petition)
To Reduce Intrastate Switched Network)
Access Rates In A Revenue Neutral)
Manner Pursuant to Section 364.164,)
Florida Statutes)
_____)

Exhibit DCB-33

Robert Crandall and Leonard Waverman, *Who Pays for Universal Service?: When Telephone Subsidies Become Transparent*, Brookings Institute, (2000), pp. 91 - 93.

Table 5-1. *Price Elasticity of Residential Demand for Telephone Service*

<i>Study</i>	<i>Estimated elasticity with respect to monthly rate</i>	<i>Estimated elasticity with respect to initial connection charge</i>	<i>Country (type of data)</i>
Waverman (1974) ^a	-0.12	...	Canada (time series)
Allenman (1977) ^a	-0.17	...	USA (cross-section of cities)
Perl (1978) ^b	-0.04	-0.02	USA (cross-section of households)
Perl (1983) ^b	-0.03	-0.01	USA (cross-section of households)
Bodnar and others (1988)	-0.009	...	Canada (cross-section of households)
Taylor and Kindel (1990)	-0.04	...	USA (cross-section of census tracts)
Hausman, Tardiff, and Belinfante (1993)	-0.005	-0.021	USA (pooled time series, cross-section)
Garbacz and Thompson (1997)	-0.026 to -0.001	-0.046 to -0.027	USA (cross-section of states)
Eriksson, Kaserman, and Mayo (1998)	-0.011 to -0.014	-0.011 to -0.015	USA (cross-section of states)

Sources: See note 6 in text.

a. As reported by Levin Taylor, *Telecommunications Demand: A Survey and Critique* (Basingstoke, 1980).

b. At a 93 percent penetration rate with a \$10 monthly access price.

GDP per capita across countries in the Organization for Economic Cooperation and Development (OECD). In this section, we utilize a larger sample of countries to estimate the relationship between telephone rates and telephone penetration. The International Telecommunication Union compiles a variety of data for more than 200 countries, but reporting lags in the key series limit the usefulness of these data for recent years. As a result, we estimate the following relationship for 102 countries for 1990 and then for a more limited sample of 60 countries for 1995:

$$(5-1) \quad \text{LINES} = f(P_{\text{inst}}, P_{\text{loc-m}}, P_{\text{loc-c}}, Y).$$

where *LINES* is the number of access lines per 100 persons, P_{inst} is the nonrecurring residential installation charge, $P_{\text{loc-m}}$ is the monthly residential charge for a local line, $P_{\text{loc-c}}$ is the price of a three-minute local call during prime calling hours, and Y is GDP per capita. All estimates are weighted by population to correct for heteroskedasticity. The results are shown in table 5-2 separately for high-income countries (per capita GDP of \$6,000 or more) and lower-income countries (per capita GDP of less than \$6,000).

The more interesting results for our purposes are those involving residential lines per 100 persons. Unfortunately, there are far fewer countries that report the residential share of total lines; hence, the results are less robust for the residential lines variable, particularly in 1995. We do not report results for developed countries in 1995, given that there are only thirteen usable observations. Note, however, that the 1990 results demonstrate the importance of the residential installation charge in explaining the proliferation of residential lines. In developed countries, the elasticity of residential lines with respect to the connection charge at the point of means is -0.15 ; in the less developed countries, it is -0.43 . Moreover, the income elasticity at the point of means is only 0.54 for the developed countries in 1990 but 1.25 for the less developed countries. In every case, the connection charge proves to add more to the explanation of telephone penetration than does the recurring monthly charge. Unfortunately, this connection charge was much higher in less developed countries than in the wealthier countries, contributing to their much lower telephone penetration.⁷

In our 1995 sample, the mean number of residential lines per 100 persons for less developed countries was only 6.9, while for the developed countries it was 31.7. The 1995 results are much less satisfactory. For

Table 5-2. *Determinants of Telephone Penetration across Countries, 1990 and 1995^a*

Variable	High-income countries, 1990	Low-income countries, 1990	High-income countries, 1995	Low-income countries, 1995
<i>Dependent variable: Main lines per 100 persons</i>				
Constant	31.46 (11.61)	-0.850 (-2.24)	28.29 (3.15)	3.13 (4.12)
P_{inst}	-0.039 (-28.47)	-0.0047 (-3.83)	0.0027 (0.08)	-0.0018 (-1.05)
P_{local}	-0.688 (-4.69)	-0.0051 (-0.07)	-0.834 (-3.07)	-0.452 (-3.72)
P_{resid}	-108.1 (-8.56)	9.83 (2.26)	74.60 (2.17)	-38.02 (-2.83)
Y	1.92 (19.76)	3.91 (27.94)	0.812 (1.98)	4.947 (9.66)
R^2	1.00	0.941	0.996	0.862
N	29	73	20	40
<i>Dependent variable: Residential lines per 100 persons</i>				
Constant	23.38 (7.00)	-1.47 (-2.20)	...	2.01 (1.19)
P_{inst}	-0.024 (-9.29)	-0.0037 (-2.76)	...	-0.002 (-0.53)
P_{local}	-0.496 (-1.93)	0.024 (0.16)	...	-0.38 (-1.49)
P_{resid}	-1.79 (-0.09)	9.21 (2.20)	...	-18.05 (-0.81)
Y	0.971 (8.81)	2.97 (17.89)	...	3.78 (6.67)
R^2	1.00	0.913	...	0.737
N	26	59	...	31

Source: Authors' calculations.

a. t -statistics in parentheses.

residential lines, there is no systematic effect of any of the price variables, but income retains its significant influence—though at an elasticity at the point of means that is now only 0.9. For total lines per 100 persons, there now appears to be a statistically significant negative effect of the monthly residential charge and the local usage charge, but no such effect from the residential installation charge. These results may simply reflect the fact that residential rates have been reduced substantially by these developing

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Dkt. No _____
D. Blessing Ex. No. ____ (DCB-34)
Staff Analysis

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Alltel Florida, Inc.'s Petition)
To Reduce Intrastate Switched Network)
Access Rates In A Revenue Neutral)
Manner Pursuant to Section 364.164,)
Florida Statutes)
_____)

Exhibit DCB-34

*Senate Staff Analysis and Economic Impact Statement of CS/SB 654 – the Tele-
Competition Innovation and Infrastructure Enhancement Act, dated April 8, 2003.*

SENATE STAFF ANALYSIS AND ECONOMIC IMPACT STATEMENT

(This document is based on the provisions contained in the legislation as of the latest date listed below.)

BILL: CS/SB 654

SPONSOR: Communication and Public Utilities Committee and Senator Haridopolos

SUBJECT: Telecommunications

DATE: April 8, 2003

REVISED: _____

	ANALYST	STAFF DIRECTOR	REFERENCE	ACTION
1.	Caldwell	Caldwell	CU	Fav/CS
2.			ATD	
3.			AP	
4.			RC	
5.				
6.				

I. Summary:

This committee substitute creates the Tele-Competition Innovation and Infrastructure Enhancement Act.

The committee substitute does the following:

- Exempts voice over Internet protocol (VOIP) service from regulation and broadband or information services from local government regulation.
- Deregulates intrastate interexchange telecommunications companies (IXCs) (companies providing long distance service) except in certain circumstances and eliminates the requirement that IXCs providing operator service obtain a certificate or be subject to greater regulation than the incumbent local exchange telecommunications companies (ILECs).
- Extends the ILECs' universal service and carrier-of-last-resort obligations until January 1, 2009.
- Requires ILECs to increase Lifeline participation to 125 percent of federal poverty income level and provides for other related requirements.
- Changes the references to competitive local exchange telecommunications company (CLEC) from alternative local exchange telecommunications company (ALEC).
- Allows ILECs to petition the Florida Public Service Commission (PSC or commission) to reduce its access charges to parity in a revenue neutral manner and provides the criteria the commission must consider when rendering its decision. "Parity" is defined as the interstate switched network access rates in effect on January 1, 2003.

- Caps network access charges at parity levels for three years after parity is reached and requires IXCs to pass through access reductions and eliminate any "instate connection fees."
- If an ILEC with more than one million access lines in service reduces its access charges to parity, then it may have its basic local services (residential and single line business) treated in the same manner as its non-basic services and its retail service quality requirements are no greater than the service requirements than those being imposed on the CLEC unless the PSC determines otherwise, under certain conditions.
- Allows an ILEC to petition for retail regulatory treatment no greater than CLECs when the ILEC has elected to treat its basic local services the same as its non-basic service when certain conditions are met.
- Creates a procedure for staying and resolving reductions of basic service prices in an anti-competitive manner when certain conditions are met.
- Makes cross reference corrections and conforming terminology.

This bill substantially amends the following sections of the Florida Statutes: 364.01, 364.02, 364.025, 264.0361, 364.051, 364.052, 364.058, 364.10, 364.16, 364.161, 364.162, 364.163, 364.337, 364.3376, 364.502, 365.172, 196.012, 199.183, 212.08, 290.007, 350.0605, 364.602, and 489.103.

The bill creates sections 364.059 and 364.164 of the Florida Statutes.

II. Present Situation:

In 1995, the Legislature enacted chapter 95-402, Laws of Florida, that opened up the local monopoly telecommunications market to competition by allowing competing telephone companies, called alternative local exchange companies or ALECs, to operate in Florida. Prior to that time, the ILECs were rate-of-return regulated companies that had a telephone service monopoly within established service areas. Under the 1995 revisions, the rates for basic local service were capped at the rates in effect on July 1, 1995, until January 1, 2000, for all companies except BellSouth and until January 1, 2001, for BellSouth.

Section 364.01, F.S., provides for the powers of the commission and legislative intent. Under subsection (3), the provision of local exchange telecommunications service is found to be in the public interest and will provide customers with freedom of choice, encourage the introduction of new telecommunications service, encourage technological innovation and encourage investment in telecommunications infrastructure.

Section 364.02, F.S. provides for definitions. Under subsection (1), companies certificated by the commission to provide local exchange telecommunications service in Florida on or after July 1, 1995, are alternative local exchange telecommunications companies. A "local exchange telecommunications company" is defined by s. 364.02(6), F.S., as "any company certificated by the commission to provide local exchange telecommunications service in this state before June 30, 1995." Intrastate interexchange telecommunications companies are not defined. The term "service" is to be construed in its broadest and most inclusive sense.

A "telecommunications company" is defined by s. 364.02(12), F.S., as:

every corporation, partnership, and person and their lessees, trustees, or receivers appointed by any court whatsoever, and every political subdivision in the state, offering two-way telecommunications service to the public for hire within this state by the use of a telecommunications facility. . . .

Companies that provide telecommunications facilities exclusively to certificated telecommunications companies and companies excluded from the definition of telecommunications companies are not included in this definition. Companies specifically excluded from the definition include: commercial mobile radio service providers, facsimile transmission services, private computer data networks not offering services to the public for hire, and cable television companies providing cable service as defined in 47 U.S.C. § 522.

Section 364.025, F.S., provides for universal service and carrier-of-last-resort requirements. Universal service is a concept that basic telephone service should be available to everyone that desires the service at affordable prices. Subsection (1) defines "universal service" as an "evolving level of access to telecommunications services that, taking into account advances in technologies, services, and market demand for essential services, the commission determines should be provided at just, reasonable, and affordable rates to customers, including those in rural, economically disadvantaged, and high-cost areas." The carrier-of-last-resort provision requires the local exchange telecommunications company to "furnish basic local exchange telecommunications service within a reasonable time period to any person requesting such service within the company's service territory." This requirement expires on January 1, 2004.

Section 364.0361, F.S., requires local government authorities to treat each telecommunications company in a nondiscriminatory manner when granting a franchise or establishing conditions for compensation for the use of rights-of-way or other public property by a telecommunications company.

There are currently ten local exchange companies operating in Florida. They are: BellSouth Telecommunications, Inc., Verizon (merger of GTE and Bell Atlantic), Sprint-Florida Inc., ALLTEL Florida, Inc., GT Com (formerly St. Joseph Telephone & Telegraph Company, Florida Telephone Company, Inc., and Gulf Telephone Company), TDS/Quincy Telephone Company, Smart City Telecom (formerly Vista-United Telecommunications), Northeast Florida Telephone Company, Inc., Frontier Communications of the South, Inc., and ITS Telecommunications Systems, Inc. (formerly Indiantown Telephone System, Inc.).

The following is the number of total access lines for the Florida local exchange companies as of December 2000 according to the PSC:

BellSouth	5,532,534	Smart City Telecom	17,753
Verizon	2,336,571	TDS/Quincy	14,351
Sprint	2,166,374	NE Florida	10,285
ALLTEL	94,782	Frontier	4,660
GT Com	52,191	ITS	3,903

According to the PSC, the number of residence and business basic local telecommunications access lines for the local exchange companies with more than one million access lines is as follows:

BellSouth	4,098,599 - residence and 1,434,015 - business
Sprint	1,528,371 - residence and 625,116 - business
Verizon	1,666,058 - residence and 655,352 - business

Basic local telecommunications service is defined by s. 364.02(2), F.S., as:

voice-grade, flat-rate residential, and flat-rate single-line business local exchange services which provide dial tone, local usage necessary to place unlimited calls within a local exchange area, dual tone multifrequency dialing, and access to the following: emergency services such as "911," all locally available interexchange companies, directory assistance, operator services, relay services, and an alphabetical directory listing. For a local exchange telecommunications company, such term shall include any extended area service routes, and extended calling service in existence or ordered by the commission on or before July 1, 1995.

According to the PSC, the monthly rates for basic local telecommunications service in Florida are as follows:

	<u>Lowest Rate Group</u>	<u>Highest Rate Group</u>
BellSouth	\$7.57	\$11.04
Verizon	\$9.72	\$12.06
Sprint	\$7.63	\$11.48
ALLTEL	\$9.53	\$11.21
Frontier	\$10.85	\$10.95

GT Com	\$6.39	\$9.28
ITS	\$9.03	\$9.03
Northeast	\$9.00	\$9.00
Quincy	\$12.95	\$12.95
Smart City Telecom	\$7.35	\$11.47

Basic local telecommunication service is subject to price regulation to the extent provided in s. 364.051, F.S. Section 364.051(1), F.S., allows local exchange companies to choose price regulation instead of rate base, rate of return regulation. Subsection (1)(c) provides that each company subject to this section is exempt from rate base, rate of return regulation and the requirements of several sections dealing with rates and revenues. The rates for basic local telecommunications service are capped for local exchange companies that choose price regulation under this section. The rates were capped at the rates in effect on July 1, 1995, and could not be increased before January 1, 1999, except for BellSouth. The rates for BellSouth could not be increased before January 1, 2001. Sprint, Verizon, and BellSouth have subsequently raised their rates under this section.

Subsection (3) of s. 364.051, F.S., allows the ILEC to adjust its basic service prices once in any 12-month period in an amount not to exceed the change in inflation less one percent on 30-days' notice. Adjustments for nonbasic service are not to exceed 20 percent within a 12-month period when there is a provider of local telecommunications service in an exchange area. Otherwise, adjustments are limited to six percent in a 12-month period where there is no other provider.

Section 364.052, F.S., provides for the regulatory methods for small local exchange telecommunications companies. This section provides conditions for small ILECs to remain rate base regulated unless they elect to become subject to price caps or when an ALEC provides basic local exchange services in the small ILEC's territory.

Section 364.058, F.S., provides that the commission may, on its own motion or upon petition, conduct limited or expedited proceedings to consider and act upon any matter within its jurisdiction. The commission is given the discretion to determine the issues to be considered.

Section 364.10, F.S., prohibits companies from giving undue advantage to persons or localities. It further provides for the exception of Lifeline assistance. Both the federal and state governments have encouraged telephone subscribership for every household. Section 364.10(2), F.S., requires telecommunications companies serving as the carrier of last resort to provide a Lifeline Assistance Plan to qualified residential subscribers. The Lifeline Assistance Plan provides bill credits for qualifying low-income consumers. Consumers who receive assistance through the Temporary Aid to Needy Families program, including the Temporary Cash Assistance and Supplemental Security Income programs, the Food Stamp program, the Federal Public Housing Assistance program, the Low-Income Home Energy Assistance Program, or the Medicaid program are eligible for the plan.

According to the commission, as of December 2002, there were 819,112 people eligible for Lifeline Assistance Plan in Florida. The commission indicates that as of that date, the total number of Lifeline subscribers was 142,521 with a participation rate of 17.3%. For 2002, BellSouth has approximately 104,503 Lifeline customers, Sprint has 10,706 and Verizon has approximately 22,850. Lifeline subscribers may receive a credit of up to \$13.00 on local monthly telephone bills as of July 1, 2001. Of that amount, the local exchange telecommunications companies contribute \$3.50.

According to the commission, BellSouth executed a settlement agreement with the Office of Public Counsel in a docket before the commission concerning quality of service issues. The agreement dealt with promoting the Lifeline Assistance Plan. The company agreed to file a tariff to establish an income eligibility test of 125% of the Federal poverty guidelines for Lifeline customers. The tariff will augment, not replace, the eligibility guidelines noted above.

Section 364.16, F.S., provides for local interconnection between the ILEC and ALECs and prescribes certain conditions upon ALEC operations.

Section 364.161, F.S., provides conditions when ALECs must unbundle their service offerings and s. 364.162, F.S., provides conditions when ALECs negotiate mutually acceptable prices, terms, and conditions and for the sale of services and facilities.

Section 364.163, F.S., provides for network access services. Under this section "network access service" means "any service provided by a local exchange telecommunications company to a telecommunications company certificated under chapter 364 or licensed by the Federal Communications Commission." It does not include local interconnection arrangements, provided in s. 364.16, F.S., or the resale arrangements provided in s. 364.161, F.S. Each local exchange telecommunications company subject to s. 364.051, F.S., (price regulation) is required to maintain tariffs with the commission that contain the terms, conditions, and rates for each of its network access services.

Switched network access rates refer to the charges for network access that are paid by IXC to the ILECs for connection to their network and facilities. The charges are for originating a call and terminating a call for both intrastate and interstate calls. The FCC has jurisdiction over interstate telecommunication services and the PSC has jurisdiction over intrastate telecommunication services. In Florida, the intrastate charge is a per minute charge and the interstate charge established by the FCC is both a per minute charge and a monthly per line charge.

Subsection (1) of s. 364.163, F.S., provides that the rates for switched network access services for each local exchange company shall be capped at the rates in effect on July 1, 1999, and shall remain capped until January 1, 2001. Upon the date of filing its election under this section (for price regulation under s. 364.051, F.S.), the access rates are capped at the rates in effect on that date and remain capped for five years. According to the PSC, all local exchange companies except Frontier Communications of the South, Inc., have elected price regulation.

Under subsection (2), after termination of the caps imposed by subsection (1) and after the local exchange company's intrastate switched access rates reach parity with its interstate switched

access rates, a company may annually adjust any network access service rate by the cumulative change in inflation, but no more than three percent annually. The company must give 30 days' notice of the adjustment.

Subsection (3) allows ILECs to petition the commission for a network access service rate change to recover the cost of governmentally mandated projects or programs or an increase in federal or state income tax incurred after that date. Criteria are provided regarding the costs and expenses of the required government program or project.

Section 364.163(4), F.S., provides that a company may choose to implement all or a portion of a rate increase allowed for network access service under subsections (1), (2), or (3). It also provides that, notwithstanding those subsections, a company may decrease its network access services rates at any time and the new rates will become effective upon seven days' notice.

Subsection (5) of this section provides that company-proposed changes made in the terms and conditions for existing network access rates pursuant to subsections (1) - (4) are presumed valid and become effective upon 15 days' notice. Company-proposed rate decreases become effective upon seven days' notice. Rate increases made by a local exchange telecommunications company are presumed valid and become effective on the date the tariff is filed, but in no event earlier than 30 days after filing the tariff. The PSC is given continuing regulatory oversight of local exchange telecommunications company-provided network access services for purposes of determining the correctness of any price increase resulting from the application of the inflation index and making any necessary adjustments, establishing reasonable service quality criteria, and assuring resolution of service complaints.

No later than 30 days after the tariff is filed, the PSC may determine if the price increase is correct and order the local exchange company to hold all the revenues collected under the increase to refund to its customers. The commission must make a determination, within 60 days of that order, whether to order a full or partial refund or release the revenues.

Chapter 98-277, Laws of Florida, amended subsection (6) of s. 364.163, F.S., to its present form and required any local exchange telecommunications company with more than 100,000, but fewer than 3 million basic local telecommunications service access lines in service on July 1, 1995, to reduce its intrastate switched access rates by 5 percent on July 1, 1998, and by 10 percent on October 1, 1998. This reduction affected Verizon (then GTE-Florida) and Sprint-Florida. Any interexchange telecommunications company whose intrastate switched access rates were reduced as a result of these rate decreases was required to reduce its intrastate long distance rates by the "amount necessary to return the benefits of such reduction to its customers" The IXC could not reduce its per minute intraLATA toll rates by a percentage greater than the per minute intrastate switched access rate reduction. The IXC could determine the specific intrastate rates to be decreased, provided that residential and business customers benefited from the reductions.

Prior to the changes in 1998, subsection (6) of s. 364.163, F.S., provided that any local exchange telecommunications company whose current intrastate switched access rates were higher than its interstate switched access rates in effect on December 31, 1994, shall reduce its intrastate switched access rates by 5 percent each year beginning October 1, 1996. A local exchange

telecommunications company was relieved of this requirement if it reduced its rates by a greater percentage by the relevant dates or earlier. The reductions were made pursuant to commission Order No. PSC-94-0172-FOF-TL. This order provided, among other things, that BellSouth reduce its access rates.

Section 364.163 (7), F.S., currently provides that reductions for intrastate-switched access rates and customer long distance rates shall become effective on October 1 of each relevant year. Any rate decreases proposed in tariff revisions filed with the commission by the telecommunications companies is presumed valid and becomes effective October 1 of each relevant year.

Subsection (8) provides that no later than 30 days after the tariff is filed, the commission may determine if the rate decrease is correct and order the telecommunications company to hold all intrastate switched access or customer long distance rate revenues collected after the decrease to refund to its customers. The PSC must make a determination, within 60 days of the order, whether to order a full or partial refund or release the revenues.

Subsection (9) of s. 364.163, F.S., gives the commission continuing regulatory oversight of intrastate switched access and customer long distance rates for the purpose of "determining the correctness of any rate decrease by a telecommunications company resulting from the application of this section and making any necessary adjustments to those rates, establishing reasonable service quality criteria, and assuring resolution of service complaints."

The following is a comparison of switched access charges for intrastate and interstate rates as of July 2, 2002. It includes one minute of originating and one minute of terminating switched access and assumes common transport.

	<u>Intrastate Rate</u>	<u>Interstate Rate</u>
BellSouth	\$0.0460	\$0.0098
Verizon	\$0.0982	\$0.0157
Sprint	\$0.1027	\$0.0140
ALLTEL	\$0.1132	\$0.0224
GT Com		
(Floral)	\$0.1522	\$0.0327
(Gulf)	\$0.1214	\$0.0368
(St. Joseph)	\$0.1306	\$0.0327
Smart City Telecom	\$0.1426	\$0.0210
TDS/Quincy	\$0.1282	\$0.0299
NE Florida	\$0.1126	\$0.0323

	<u>Intrastate Rate</u>	<u>Interstate Rate</u>
Frontier	\$0.1040	\$0.0203
ITS	\$0.1128	\$0.0364

According to the commission, intrastate network access service rates were set well above the incremental cost of providing the service in order to keep rates for basic local telecommunications service as low as possible and to encourage subscribership. The FCC has addressed the issue of access charges by reducing the per minute charge and establishing line item flat charges on the telephone bill. According to an FCC consumer facts web publication, subscriber line charge caps are now set at \$6.50.

Section 364.337, F.S., provides for oversight of alternative local exchange telecommunications companies.

Section 364.3376, F.S., provides for the regulation of operator service providers and requires a certificate of convenience and necessity as an operator services provider or an interexchange telecommunications company in order to provide such services.

Section 364.502, F.S., establishes criteria ILECs and ALECs must meet when video programming is offered. Section 365.172, F.S., relates to the Wireless Emergency Communications Act.

Subsection 196.012(6), F.S., establishes certain exemptions for tax purposes, paragraph 119.183(1)(b), F.S., provides for certain exemptions from annual and non-recurring taxes, and subsection 212.08(6), F.S., provides for sales, rental, use, consumption, distribution and storage taxes and certain exemptions and each provision references telecommunications facility as defined in 364.02(13), F.S.

Subsection 290.007(8), F.S., provides for state incentives that are available in enterprise zones, subsection 350.0605(3), F.S., provides certain prohibitions and conditions for former commissioners and employees representing clients before the commission, subsection 364.602(4), F.S., provides for the definition of originating party with respect to the Telecommunications Consumer Protection Act, and subsection 489.103(5), F.S., relating to construction contracting and providing exemptions and each provision refers to the definition of telecommunications companies in 364.02(13), F.S.

III. Effect of Proposed Changes:

Section 1 creates s. 364.012, F.S., to name the act the "Tele-Competition Innovation and Infrastructure Enhancement Act"

Section 2 of this bill amends the legislative intent provisions in s. 364.01(3), F.S., to find that unnecessary regulation, regardless of the provider, of the provision of voice over Internet protocol (VOIP) is not in the public interest. There is no definition of VOIP contained in s. 364.02, F.S.

VOIP is an emerging service that uses digital technology to provide voice communications service rather than traditional analog technology. There is currently regulatory uncertainty regarding VOIP since the FCC has not determined whether VOIP service is a "telecommunications service" or an "information service" under federal law. The federal regulatory framework is substantially different for these classifications.

The commission states that the concept of a regulatory distinction based on technology rather than services is new. Historically, both state and federal law and regulatory regimes have focused on the nature of services, such as "telecommunications services" versus "information services," rather than the underlying technological provision of the service. The commission continues that such an approach permits the evolution of technology without retooling regulatory frameworks at every evolutionary stage. Today's merging of telecommunications technologies and computing technologies adds further ambiguity when determining an appropriate method by which to distinguish those things to which regulation should apply. By example, the commission states that currently, some local exchange companies in Florida employ VOIP technology in their existing networks. The commission opines that it is unclear whether this provision has any impact on existing regulation of the local exchange company services based on the fact that some of those services are provided, in part, through VOIP technology.

Section 3 amends s. 364.02, F.S., regarding definitions. The term "alternative" local exchange telecommunications company is changed to "competitive" local exchange telecommunications company. Since passage of the Telecommunications Act of 1995, the FCC and the industry more commonly use the term competitive local exchange telecommunications company rather than alternative local exchange company. This change conforms Florida's laws with industry and federal use.

Subsection (7) is added to define the term "intrastate interexchange telecommunications company" to mean any entity that provides intrastate interexchange telecommunications service. Subsection (11) is renumbered to (12) and the definition of the term "service" is modified to exclude VOIP except as it relates to the rights and obligations on any entity providing VOIP to pay access charges or intercarrier compensation to the extent that those charges are implemented by the FCC or the commission at some future date. This issue is currently pending before the Federal Communications Commission.

The definition of "telecommunications company" is renumbered subsection (13) and amended to exempt intrastate interexchange telecommunications companies from the definition and, therefore, from regulation. However, the exemption would not apply to: chapters 202, 203, and 212, F.S., pertaining to taxation; s. 364.025, F.S., charges relating to universal service; and s. 364.336, F.S., relating to regulatory assessment fees. The exclusion is further limited by the continuing application of ss. 364.04 (tariffs), 364.10(3)(a) and (d) (Lifeline), 364.015 (injunctive relief), 364.285 (penalties), 364.163 (network access charges), 364.501 (underground excavation damage protection), 364.603 (slamming) and 364.604 (billing practice - primarily cramming), F.S. Further, the IXCs are obligated to pay network access charges or other applicable intercarrier compensation to local exchange telecommunications companies and reduce their long distance toll rates in accordance with s. 364.163(2) (pass through requirement associated with access reductions), F.S. Interexchange telecommunications companies are required to

provide the commission with current information the commission deems necessary to contact and communicate with each company. This approach appears to eliminate the need for certification under s. 364.337, F.S., although it is still required under that section.

The commission states that under this committee substitute, IXC's will no longer be subject to s. 364.19, F.S., relating to regulation by the commission of telecommunications service contracts. This statute is the primary basis for the commission's rules relating to consumer billing issues other than slamming and cramming. Such billing complaints still comprise a significant portion of all IXC related complaints.

Section 4 of the bill extends the applicable deadlines that appear in s. 364.025, F.S., for Universal Service and carrier of last resort (COLR) to January 1, 2009. In effect, the incumbent local exchange telecommunications companies remain the universal service providers and COLR until that time. Prior to that date, any party may petition the commission to change the existing interim universal service mechanism and the Legislature is to establish a permanent universal service mechanism. After that date, a competitive local exchange telecommunications company may petition the PSC to become the universal service provider and COLR in its designated service territory. Language providing a competitive carrier a mechanism to carry out these duties and obligations is deleted. Throughout the section, the word alternative is changed to competitive as it describes those local exchange telecommunications companies.

The commission is required to make a determination as to its authority to address a universal service support mechanism for small local exchange telecommunications companies different from the interim mechanism. The commission is required to report its finding to the Legislature and, if deemed necessary, recommend legislation.

Section 5 amends s. 364.0361, F.S., to prohibit any local government from regulating terms and conditions, which include operating systems, qualifications, services, service quality and territory, and prices, applicable to the provision of any broadband or information service. Telecommunications providers are still subject to the provisions of ss. 166.046 (minimum standards for cable television franchises), and 337.401 (use of right-of-way for utilities subject to regulation), F.S.

Section 6 amends s. 364.051, F.S., to address the transition of regulatory oversight for incumbent local exchange telecommunications companies to that equivalent for competitive local exchange telecommunications companies. In subsection 364.051(3), F.S., the current language provides that ILECs may increase the prices for basic services once in a 12 month period not to exceed the change in inflation less 1 percent. The word "prices" has been changed to "revenues" which gives the ILECs more flexibility for adjustments within the category of basic services. According to the PSC, most ILECs have rate groups for basic local exchange service. Historically, rates have varied across rate groups according to the number of customers in the local calling area. (See chart on page 4.) Those local calling areas with the highest number of customers pay more and those in the smaller local calling areas pay less. For example, the commission states that in one ILEC's territory, the largest rate group pays \$11.04 per month and the smallest rate group pays \$7.57 per month. The ILECs have historically argued that this price relationship is inversely related to the actual cost of providing service. The change from "price" to "revenue" will permit the ILECs to raise rates in the lowest priced area by more than the

inflation rate less 1 percent and higher rate group might be increased less, but overall across the basic category, revenues would not increase beyond the inflation rate less 1 percent.

The bill adds subsection (6) which provides that when ILECs with greater than one million access lines have achieved parity as defined in s. 364.164(5), F.S., the ILEC's basic local telecommunications services may, at the company's election, thereafter be subject to the same regulatory treatment as its non-basic services. The company's retail quality of service requirements will thereafter be no greater than those applicable to competitive local exchange telecommunications companies. However, the PSC may, within 120 days of election by the ILEC, find that such relaxation of service quality standards is not warranted in some or all markets served by the ILEC. The commission is authorized to allow some relaxation of quality standards in some or all markets. The PSC may impose no service quality requirements for competitive local exchange telecommunications companies greater than those in effect as of January 1, 2003.

According to the commission, ss. 364.01(4)(c), 364.337(2) and (5), F.S., provide it with specific statutory authority for service quality standards for CLECs, however, it has not adopted any rules nor a defined regulatory program on service quality for CLECs beyond the requirement to file and follow what is contained in its price list. Service quality standards include the timeliness of providing service when requested, the frequency and duration of service outages, the timely restoration of service following an outage, and the likelihood of successfully completing a call.

The commission states that they have not imposed any service standards on CLECs prior to January 1, 2003, because they have taken the approach of minimizing any barriers to entry for the competing companies and because many CLECs have no facilities of their own and rely on the underlying service quality of larger ILECs. The commission explains that most CLECs are small start-up companies for which additional requirements may have imposed unnecessary costs. The commission states that it has worked to complete performance metrics and standards for the ILECs wholesale operations before considering imposing service standards on CLECs. The commission continues that the CLECs do not have control over the installation and repair of resale and leased network facilities, for the most part. The ILEC usually performs both the installation and repair under the interconnection agreement with the CLEC. The commission states that they have effectively set standards for the performance of the CLECs to some degree by requiring the ILECs to provide the service in a timely manner to the CLECs. It adds that the ILEC's wholesale performance is required to be at parity with its retail standards. The commission concludes that if they have service requirements on the retail portion, the performance on the wholesale is driven accordingly.

The bill adds subsection (7) that provides when an ILEC has met the condition of parity and has elected to have its basic services treated as non-basic, it may, at that time or thereafter, petition the commission for regulatory treatment of its retail services at a level no greater than that currently imposed on CLECs. The ILEC is required to show that granting the petition is in the public interest and it must further reduce its switched network access charges to a level equal to that of its intercarrier compensation rates. The commission must act on the petition within nine months and in its consideration of the petition must determine the extent to which the level of competition faced by the ILEC permits, and will continue to permit, the regulatory treatment of ILEC retail service regulated on the same basis as those of CLECs. The commission is

prohibited from increasing the level of regulation on CLEC retail services beyond that which is in effect on the date of the ILEC petition. These provisions also apply to small ILECs (less than one million access lines) that have reduced their intrastate switched network access rates to a level equal to the company's interstate switched network access rate in effect on January 1, 2003.

Section 7 amends s. 364.052, F.S., to make conforming changes to use the term competitive local exchange telecommunications company rather than alternative local exchange telecommunications company.

Section 8 amends s. 364.058, F.S., to add subsection (3) which creates an expedited process before the commission to facilitate quick resolution for dealing with intercarrier disputes by minimizing the time necessary to reach decisions. The commission is to render its decision within 120 days. The commission may limit use of the process based on the number of parties and the complexity of the issues. The commission is required to adopt rules to implement this process.

Section 9 creates a new s. 364.059, F.S., relating to procedures for seeking a stay and providing for benchmarks and criteria. The commission is designated as arbiter of allegations relating to anti-competitive practices by an ILEC against another ILEC or CLEC. The commission may grant a stay of the effective date of a price reduction for a basic local telecommunications service. The commission is authorized to address allegations pursuant to the sections relating to cross-subsidization, below cost, and rate caps; free or reduced rates; rebates or special considerations; undue advantage to individual or locality; or cross-subsidization. The petitioner must make the same showing as required by law for a temporary injunction and the ILEC is given seven days to respond. The commission may not grant a stay unless it has voted on the petition after an opportunity for oral argument. If granted, the stay can not exceed 45 days and the commission must make its decision on the merits within 45 days from when the petition is filed unless relevant cost information and supporting documentation cannot be provided in that time period. The commission may grant an extension, not to exceed 15 days, to permit parties to provide relevant cost and supporting documentation. The commission has access to the ILECs' relevant cost studies and supporting documentation pursuant to s. 364.183, F.S.

In carrying out the above described procedures, the commission is required to establish objective benchmarks, such as a price or cost floor, by which it can determine whether a requested stay is warranted. The benchmarks are to be based on generally accepted economic costing and pricing principles and judicial or regulatory costing and pricing precedent. The commission is to establish the criteria for determining whether the basic local telecommunications service price reduction is anti-competitive. The commission must initiate rulemaking to establish the benchmarks no sooner than January 1, 2005, and issue a final order no later than 120 days after commencement. It should be noted that some contested rulemakings can take longer than 120 days to complete.

The commission states that this section is designed to provide more timely relief to CLEC market participants, in cases where anti-competitive behavior is alleged, than is currently available through other legal avenues. The commission notes that since the new language refers to allegations against a "local exchange telecommunications company," the relief appears to be

available only to CLECs, but not to ILECs should they believe anti-competitive activity is occurring against them.

If, however, the FCC or commission determines that neither access charges or intercarrier compensation apply to VOIP, the commission must immediately commence the establishment of the benchmarks and criteria required under this section and the ILEC may make and implement its plan for rebalancing its rates and access charges as described in s. 364.051(6), F.S.

Section 10 amends s. 364.10, F.S. to add subsection (3)(a) which requires that any LEC authorized to reduce its switched network access rate, effective September 1, 2003, to have tariffed and provide Lifeline service to any currently eligible customer and expands the eligibility criteria to include those persons meeting an income test of 125% of the federal poverty guideline. All IXC's must file a tariff by September 1, 2003, providing, at a minimum, any Lifeline benefits currently provided and those benefits also must be provided to those newly eligible under the new income test. The Office of Public Counsel will be responsible for certifying and maintaining claims submitted by a customer for eligibility.

New paragraph (3)(b) provides that each affected ILEC must supply each state and federal agency that provides benefits to persons eligible for Lifeline services with applications, brochures, pamphlets, or other materials to inform such persons of their eligibility. Each state agency providing benefits must furnish the materials to affected persons at the time of application for benefits.

Paragraph (3)(c) exempts Lifeline subscribers from basic local service rate increases associated with the reduction of access charges until the access charges of the ILEC providing service reach parity, or until the subscriber is no longer eligible for Lifeline benefits.

Paragraph (3)(d) provides that each agency providing benefits to persons eligible for Lifeline service must, by December 31, 2003, undertake with the Department of Children and Families, the PSC, and telecommunications companies, to develop processes for promoting Lifeline participation.

Paragraph (3)(e) requires the commission to report by December 31 of each year to the Governor, the Speaker of the House, and the President of the Senate, on the number of customers to subscribing to Lifeline service and the effectiveness of any promotional programs.

Sections 11, 12, 13, 18, and 19 amend ss. 364.16, 364.161, 364.162, 364.502, and 365.172 F.S., respectively, to make conforming changes to use the term competitive local exchange telecommunications company rather than alternative local exchange telecommunications company.

Section 14 amends s. 364.163, F.S., by deleting subsections (1), (3), (4), and (5) which relate to current caps on intrastate switched access rates, already executed reductions, and long distance flow through reductions. Subsections (7) and (8) are also deleted. Amended subsection (2) becomes (1) and provides that after an ILEC's access rates are reduced to parity, they become capped for a period of three years thereafter.

Former subsection (6) becomes (2) and is amended to provide long distance rate reduction flow-throughs tied to switched network access charge reductions pursuant to s. 364.164, F.S. It further provides that these reductions must benefit both business and residential consumers. It provides for the elimination of any in-state connection, or similarly named fee, to be eliminated by July 1, 2006, provided that the reductions can be done in a revenue neutral manner. Tariff changes made pursuant to this section are effective on one-day's notice.

Subsection (3), formerly subsection (9), maintains the commission's regulatory authority over switched network access and customer long distance rates for the purpose of determining the correctness of any rate decrease resulting from the applications of the access reduction provision.

Section 15 creates s. 364.164, F.S., to provide for the switched network access rate reductions. After July 1, 2003, a LEC may petition the commission to reduce its intrastate access charges in a revenue neutral manner. The final order on the petition must be issued within 90 days. In reaching its decision, the commission must consider whether granting the petition will (1) remove current support for basic local telecommunications services that is preventing the development of more competitive options for the benefit of residential customers, (2) enhance market entry, (3) require access rates to reach parity in two to four years, and (4) be revenue neutral.

If the commission grants the petition, the LEC is authorized to create a revenue category that consists of basic local exchange service and switched network access service, in which any reduction to switched access rates shall be revenue neutral within the category. On 45 days notice, thereafter the LEC may, once in a 12 month period and in a revenue neutral manner, adjust the various prices and rates within this revenue category to the amount previously established by the commission. The revenue effect on the category is then calculated by multiplying the new switched network access rate by the number of switched network access minutes of use for the most recent 12 months. The number of switched network access minutes of use will most likely vary each year. Any shortfall in the revenue category is made up by increasing the revenues from basic local telecommunications service. In no event shall any reductions in switched network access charges be entirely offset by increases in the company's monthly recurring rates for basic local telecommunications service. Presumably nonrecurring charges associated with basic local exchange service would comprise the difference. This is accomplished by dividing the revenue shortfall by the number of most recent units of basic local telecommunications service, which most likely will vary each year.

Because the switched network access minutes of use, as well as the basic local service units, will vary year to year, it is not possible to predict with any certainty the size of any annual rate adjustments or the cumulative resulting rate adjustment. All changes within the category are to be implemented simultaneously and the commission must issue a final order, which will be final for all within 45 days after the rate adjustment filing. While the commission will make the ultimate determination, the large ILECs expect the following reductions in intrastate switched network access rates and potential increase in basic local service increase:

Company	Reduction in Switched Network Access Rates*	Increase in Basic Local Service*	Basic Local Service Rate Increase
BellSouth	\$135,000,000	\$.045/min to \$.01/min.	\$3.00 to \$3.50 over 3 years
Sprint-Florida	\$147,000,000	\$.10/min to \$.02-.01/min.	\$6.50 to \$7.25 over 4 years
Verizon	\$80,000,000	\$.09/min to \$.02-.01/min.	\$4.50 to \$5.00 over 4 years

* These figures are estimates and are subject to commission verification and approval.

Subsection (3) provides that the filing will be based on the company's most recent 12 months' pricing units. The commission has the authority only to verify the accuracy of the pricing units for the purpose of ensuring the revenue neutrality of the filing. Discovery or information requests must be limited to verification of pricing units to ensure that rate adjustments are revenue neutral within the revenue category.

Subsection (4) exempts pay telephone providers from increases under this section, which exemption appears to be permanent.

Subsection (5) defines parity for ILECs with greater than one million access lines as equal to interstate access charge rates in effect as of January 1, 2003. For ILECs with one million or less access lines parity is defined as equal to 8 cents per minute. Access reductions below parity in a revenue neutral manner are allowed.

Subsection (6) defines the intrastate switched network access rate as a composite of originating and terminating access rates for carrier common line, local channel/entrance facility, switched common transport, access tandem switching, interconnection charge, signaling, information surcharge, and local switching.

Subsection (7) defines revenue neutrality within the service category and exempts pay telephone units and Lifeline units from the calculation of revenue neutrality.

Subsection (8) provides that if the FCC or commission determines that VOIP services, or its functional equivalent, are not subject to the payment of switched network access rates, the timetable for reducing switched network access rates in a revenue neutral manner will be accelerated to the shortest time frame. It appears that if the FCC or the commission make this determination prior to the ILEC's petition, the rate adjustments could be come effective whether or not the commission granted the petition. However, according to the commission, it does not have any such docket before it and, while the FCC has petitions pending before it that would address these issues, it has not scheduled these for resolution. If, at a later date and after the commission has granted petitions, a decision on VOIP were made, then the ILEC may accelerate the reduction of its switched network access rates in a revenue neutral manner to the level of its intercarrier compensation rates within 2 years.

Section 16 amends s. 364.337, F.S., to substitute the word "competitive" for the word "alternative" and to include s. 364.33, F.S., relating to certificate required for construction or

operation of a telecommunications facility, in the list of statutes under which competitive local telecommunications companies will continue to be governed. Subsection (3) appears to continue to require IXC certification and may be inconsistent with 364.02(1)(g).

Section 17 amends subsection (1)(a) of s. 364.3376, F.S., relating to operator services to remove "interexchange telecommunications company" from the list of entities that must seek certification to provide operator services. Subsection (1)(b) is amended to include interexchange carriers as those exempt from certification requirements to provide operator services. These changes reflect that interexchange telecommunications companies would be exempt from the certification requirement if the bill is passed.

Sections 20, 21, and 22 amend ss. 196.102, 119.183, and 212.08, F.S., respectively, to make conforming changes regarding references to the term telecommunications facilities by changing subsection (13) to (14).

Sections 23, 24, 25, and 26 amend ss. 290.007, 350.0605, 364.602, and 489.103, F.S., respectively, to make conforming changes regarding references to the term telecommunications company by changing subsection (12) to (13).

Section 27 provides that this act shall take effect upon becoming a law.

IV. Constitutional Issues:

A. Municipality/County Mandates Restrictions:

None.

B. Public Records/Open Meetings Issues:

None.

C. Trust Funds Restrictions:

None.

V. Economic Impact and Fiscal Note:

A. Tax/Fee Issues:

None.

B. Private Sector Impact:

BellSouth has estimated that the total reduction in revenue to reduce the intrastate switched network access rates to parity is approximately \$135 million. BellSouth estimated that their adjustment would be in three increments of \$1.00 to \$1.17 per year for a total of \$3.00 to \$3.50.

Sprint estimates that the total reduction in revenue to reduce the intrastate switched network access rates to parity is approximately \$147 million. Sprint estimated that their adjustments would be in four increments of \$1.63 to \$1.81 per year for a total of \$6.50 to \$7.25.

Verizon estimates that the total reduction in revenue to reduce the intrastate switched network access rates to parity is approximately \$80 million. Verizon estimated that their adjustments would be in four increments of \$1.13 to \$1.25 per year for a total of \$4.50 to \$5.00.

It should be noted that these figures are only estimates and will be subject to commission verification and approval.

These adjustments would be added to the customers' basic rates. The long distance companies are required to flow through any reductions in access rates for the benefit of both the residential and business customers. The in-state connection charge, or other charges similarly named, will be eliminated under the committee substitute.

C. Government Sector Impact:

The PSC states that it will not realize a fiscal impact under this committee substitute. It states that the net increase in workload can be absorbed by existing resources.

VI. Technical Deficiencies:

None.

VII. Related Issues:

None.

VIII. Amendments:

None.

Dkt. No. _____
D. Blessing Ex. No. ____ (DCB-35)
Verizon Ad

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Alltel Florida, Inc.'s Petition)
To Reduce Intrastate Switched Network)
Access Rates In A Revenue Neutral)
Manner Pursuant to Section 364.164,)
Florida Statutes)
_____)

Exhibit DCB-35

Verizon Wireless America's Choice Calling Plan for Live Oak, FL found at
<http://www.verizonwireless.com/b2c/store/>.



America's Choicesm

Talk to any of our over 43 million customers from the America's Choice calling coverage area, without roaming.

Family SharePlan@
Available

Check if your friends & family are IN.

(Coverage not available everywhere. America's Choice covers 291 million people in the U.S.)

Back to all calling plans

Included Features:

3-Way Calling

Caller ID

411 Connect@

New Every Two@

Basic Voice Mail

No Answer/Busy Transfer

Call Forwarding

TXT Messaging

Call Waiting

Rate area map:

America's Choice Map

National Enhanced Services
Map

To add this plan to your wireless package complete these steps:

Select plan minutes

Select	Monthly Home Airtime Minutes	Promotions	Monthly Access	Additional Minutes
450		Unlimited IN Calling AND Night & Weekend Home Airtime Minutes	\$39.99	\$0.45
Recommended 900		Unlimited IN Calling AND Night & Weekend Home Airtime Minutes	\$59.99	\$0.40
1350		Unlimited IN Calling AND Night & Weekend Home Airtime Minutes	\$79.99	\$0.35
2000		Unlimited IN Calling AND Night & Weekend Home Airtime Minutes	\$99.99	\$0.25
4000		Unlimited IN Calling AND Night & Weekend Home Airtime Minutes	\$149.99	\$0.25
6000		Unlimited IN Calling AND Night & Weekend Home Airtime Minutes	\$199.99	\$0.20

- Domestic Long Distance (airtime applies)(Unlimited)
- Domestic Roaming (No roaming charges) (Coverage not available in all areas)

- Night Hrs (M-F): 9:01 p.m.–5:59 a.m.
Wknd Hrs: 12:00 a.m. Sat.–11:59 p.m. Sun.

Select optional services

In-Flight Services

- | | |
|---|---------------|
| <input type="checkbox"/> <u>Airfone® Service for Verizon Wireless</u>
(\$.69 per minute) | \$0.00 |
| <input type="checkbox"/> <u>Airfone® Service for Verizon Wireless</u>
(\$10 per month and \$.10 per minute) | \$10.00/month |

Additional Features

- | | |
|---|--------------|
| <input type="checkbox"/> <u>Detailed Billing</u> | \$1.99/month |
| <input type="checkbox"/> <u>Roadside Assistance</u> | \$2.99/month |

By clicking "Go To Phones Next" I acknowledge that I have read the plan terms & conditions below.

GO TO PHONES NEXT >

Additional Calling Plan Information

Monthly Home Airtime Allowance Minutes, National IN Calling, Night & Weekend Minutes and Home Airtime Per-Minute Rate are for use from within the America's Choice Home Airtime Rate and Coverage Area.

International Roaming

69¢/minute plus pass-through of serving carrier's tolls, surcharges and taxes. See verizonwireless.com for service availability.

411 Connect®

\$1.49 per call plus airtime.

Required Equipment

CDMA tri-mode or All-Digital phone with Verizon Wireless software.

Required Minimum Term, Activation Fees and Early Termination Fee

One-year Customer Agreement — \$35 activation fee per line.

Two-year Customer Agreement — \$20 activation fee per line.

Early Termination Fee — \$175 per line.

Taxes, Surcharges and other Fees

- Tolls, taxes, surcharges and other fees, such as E911 and gross receipt charges, vary by market and as of July 1, 2005, add between [6% and 33%] to your monthly bill and are in addition to your monthly access fees and airtime charges.
- Monthly Federal Universal Service Charge (varies quarterly based on FCC rate) is 2.13% per line as of October 1, 2005.
- Monthly Regulatory Charge (subject to change) is 5¢ per line.
- Monthly Administrative Charge (subject to change) is 40¢ per line as of October 1, 2005.
- The Federal Universal Service and Regulatory Charges are Verizon Wireless charges, not taxes. For more details on these charges, call 1-888-684-1888.

Important Information:

For more information, refer to the Customer Agreement.

Service is subject to the Customer Agreement, which you should read before activating service. Credit approval required. Billing, shipping and end-user address must be within the Verizon Wireless licensed and service areas where the wireless phone number is issued.

In some rare instances, dialing *228 may alter your Calling Plan's Home Airtime Rate and Coverage Area. The accuracy of the roaming indicator on your phone cannot be guaranteed. Charges for calls will be based on the cell sites used and time of day at the telephone switching office that carries your call, which may be different than the time of day shown on your phone. Rates do not apply to credit card or operator-assisted calls, which may be required in certain areas. Usage rounded up to next full minute. Unused allowance minutes lost. Charges start when you first press **SEND** or the call connects to a network on outgoing calls, and when the call connects to a network (which may be before it rings) on incoming calls. Time may end several seconds after you press **END** or the call otherwise disconnects. For calls made on our network, we only bill for calls that connect (which includes calls answered by machines). Calls to 'toll-free' numbers are toll-free; you will be billed airtime. Billing for airtime and related charges may sometimes be delayed. [Delayed airtime may be applied in the month it appears on your bill against airtime included in your Calling Plan for that month, rather than against the included airtime for the month when you actually made or received the call. This may result in charges higher than you'd expect in the later month.]

Family SharePlan

Minimum of two lines required. Maximum of five lines. Only one line is the primary line. All lines must be activated on the same billing account and in the same market.

National IN Calling

If Caller ID is not present or Caller ID Block is initiated, National IN Calling does not apply to incoming calls and will apply to outgoing calls only. National IN Calling is not available to customers whose wireless exchange restricts the delivery of Caller ID or with fixed wireless devices with usage substantially from a single cell site. National IN Calling does not apply if Call Forwarding or No Answer/Busy Transfer features are activated or to data usage, including Push to Talk calls, Picture Messaging or Video Messaging, calls to check your voice mail and calls to Verizon Wireless customers using Airfone® Service or any of the VZGlobal services. National IN Calling does not apply in those areas of Louisiana and Mississippi where your phone's roaming indicator flashes.

Internet Access

Mobile Office Kits, PC Cards, PDAs or other wireless modem devices may not be used for Internet access without a subscription to select VZAccess plans.

Verizon Wireless Calling Plans, Rate and Coverage Areas, rates, agreement provisions, business practices, procedures and policies are subject to change as specified in the Customer Agreement.

Last Update 09/01/05

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Dkt. No. _____
D. Blessing Ex. No. ____ (DCB-36)
eBay Press Release

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Alltel Florida, Inc.'s Petition)
To Reduce Intrastate Switched Network)
Access Rates In A Revenue Neutral)
Manner Pursuant to Section 364.164,)
Florida Statutes)
_____)

Exhibit DCB-36

"eBay to Acquire Skype" eBay press release dated September 12, 2005; available at
http://investor.ebay.com/downloads/eBay_PressRelease.pdf.



eBay to Acquire Skype

London, September 12, 2005 – eBay Inc. (Nasdaq: EBAY; www.ebay.com) has agreed to acquire Luxembourg-based Skype Technologies SA, the global Internet communications company, for approximately \$2.6 billion in up-front cash and eBay stock, plus potential performance-based consideration. The acquisition will strengthen eBay's global marketplace and payments platform, while opening several new lines of business and creating significant new monetization opportunities for the company. The deal also represents a major opportunity for Skype to advance its leadership in Internet voice communications and offer people worldwide new ways to communicate in a global online era. Skype, eBay and PayPal will create an unparalleled ecommerce and communications engine for buyers and sellers around the world.

"Communications is at the heart of ecommerce and community," said Meg Whitman, President and Chief Executive Officer of eBay. "By combining the two leading ecommerce franchises, eBay and PayPal, with the leader in Internet voice communications, we will create an extraordinarily powerful environment for business on the Net."

Founded in 2002 by Niklas Zennström and Janus Friis, Skype offers high-quality voice communications to anyone with an Internet connection anywhere in the world. The Skype software is easy to download and install, and enables free calls between Skype users online. Skype's premium services provide low-cost connectivity to traditional fixed and mobile telephones. Skype's software also offers a robust set of features, including voicemail, instant messaging, call forwarding and conference calling. Upcoming product innovations include Skype video, expressive content such as avatars, and customized toolbars for Outlook and Internet Explorer.

One of the fastest growing companies on the Internet, Skype already has 54 million members in 225 countries and territories. Skype is currently adding approximately 150,000 users a day and has created a thriving ecosystem of products, services, developers, and affiliates. Skype is considered the market leader in virtually all countries in which it does business. In North America alone, Skype has more users and serves more voice minutes than any other Internet voice communications provider.

"Our vision for Skype has always been to build the world's largest communications business and revolutionize the ease with which people can communicate through the Internet," said Niklas Zennström, Skype CEO and co-founder. "We can't think of any better platform to fulfill this vision to become the voice of the Internet than with eBay and PayPal."

"We're great admirers of how eBay and PayPal have simplified global ecommerce and payments," said Janus Friis, Skype co-founder and senior vice president, strategy. "Together we feel we can really change the way that people communicate, shop and do business online."

Zennström and Friis will remain in their current positions. Zennström will report to eBay CEO Whitman and join eBay's senior executive team.

A Powerful Ecommerce and Communications Engine

Online shopping depends on a number of factors to function well. Communications, like payments and shipping, is a critical part of this process. Skype will streamline and improve communications between buyers and sellers as it is integrated into the eBay marketplace. Buyers will gain an easy way to talk to sellers quickly and get the information they need to buy, and sellers can more easily build relationships

eBay to Acquire Skype../2

with customers and close sales. As a result, Skype can increase the velocity of trade on eBay, especially in categories that require more involved communications such as used cars, business and industrial equipment, and high-end collectibles.

The acquisition also enables eBay and Skype to pursue entirely new lines of business. For example, in addition to eBay's current transaction-based fees, ecommerce communications could be monetized on a pay-per-call basis through Skype. Pay-per-call communications opens up new categories of ecommerce, especially for those sectors that depend on a lead-generation model such as personal and business services, travel, new cars, and real estate. eBay's other shopping websites -- Shopping.com, Rent.com, Marktplaats.nl and Kijiji -- can also benefit from the integration of Skype.

PayPal and Skype also make a powerful combination. For example, a PayPal wallet associated with each Skype account could make it much easier for users to pay for Skype fee-based services, adding to the number of PayPal accounts and increasing payment volume.

In addition, Skype can help expand the eBay and PayPal global footprint by providing buyers and sellers in emerging ecommerce markets, such as China, India, and Russia, with a more personal way to communicate online. And consumers in markets where eBay currently has a limited presence, such as Japan and Scandinavia, can learn about eBay and PayPal through Skype. Skype can also help streamline cross-border trading and communications.

With its rapidly expanding network of users, the Skype business complements the eBay and PayPal platforms. Each business is self-reinforcing, organically bringing greater returns with each new user or transaction. The three services can also reinforce and accelerate the growth of one another, thereby increasing the value of the combined businesses. Working together, they can create an unparalleled engine for ecommerce and communications around the world.

Transaction and Financial Information

eBay will acquire all of the outstanding shares of privately-held Skype for a total up-front consideration of approximately €2.1 billion, or approximately \$2.6 billion, which is comprised of \$1.3 billion in cash and the value of 32.4 million shares of eBay stock, which are subject to certain restrictions on resale.

The maximum amount potentially payable under the performance-based earn-out is approximately €1.2 billion, or approximately \$1.5 billion, and would be payable in cash or eBay stock, at eBay's discretion, with an expected payment date in 2008 or 2009. Skype shareholders were offered the choice between several consideration options for their shares. Shareholders representing approximately 40% of the Skype shares chose to receive a single payment in cash and eBay stock at the close of the transaction. Shareholders representing the remaining 60% of the Skype shares chose to receive a reduced up-front payment in cash and eBay stock at the close plus potential future earn-out payments which are based on performance-based goals for active users, gross profit and revenue.

The above-mentioned dollar and eBay share amounts are approximate, based on the Euro-Dollar exchange rate and eBay's stock price as of September 9, 2005. The final value of the stock component of the consideration may vary significantly from this estimate based on the value of eBay stock at closing.

Skype generated approximately \$7 million in revenues in 2004, and the company anticipates that it will generate an estimated \$60 million in revenues in 2005 and more than \$200 million in 2006. For Q4-05, eBay expects the acquisition to be dilutive to pro forma and GAAP earnings per share by \$0.01 and \$0.04 respectively. For the full year 2006, eBay expects the transaction to be dilutive to pro forma and GAAP

eBay to Acquire Skype../3

earnings per share by \$0.04 and \$0.12 respectively, with breakeven on a pro forma basis expected in the fourth quarter of 2006. On a long-term basis, eBay expects Skype operating margins could be in the range of 20% to 25%.

The acquisition is subject to various closing conditions and is expected to close in the fourth quarter of 2005.

About eBay Inc.

Founded in 1995, eBay pioneers communities built on commerce, sustained by trust, and inspired by opportunity. eBay enables ecommerce on a local, national and international basis with an array of websites – including the eBay Marketplace, PayPal, Kijiji, Rent.com and Shopping.com – that bring together millions of buyers and sellers every day.

About Skype Technologies SA

Skype, the Global Internet Communications Company™, allows people everywhere to make free, unlimited, superior quality voice calls via its award-winning innovative peer-to-peer software for Windows, Linux, Mac OS X, and Pocket PC platforms. Skype is available in 27 languages and is the fastest growing voice communications offering worldwide. Since its launch in August 2003, Skype has been downloaded more than 163 million times in 225 countries and territories. Fifty-four million people are registered to use Skype's free services, with over 3 million simultaneous users on the network at any one time. Skype Technologies SA is headquartered in Luxembourg and is growing its offices in London and Estonia. www.skype.com

Forward-Looking Statements

This announcement contains forward-looking statements regarding Skype and the expected impact of the acquisition of Skype on eBay's financial results. Those statements involve risks and uncertainties, and actual results could differ materially from those discussed. Factors that could cause or contribute to such differences include, but are not limited to, the timing of the closing of the transaction, the possibility that the transaction may not close, the reaction of the users of Skype's services, the future growth of Skype's user base and public acceptance of Internet voice communication services, rapid technological changes in the Internet voice communications sector, the reaction of competitors to the transaction, global developments in the regulation of Internet voice communication services including those provided by Skype, the possibility that integration of Skype's offerings following the transaction may be more difficult than expected, and the possibility that entry by Skype and eBay into potential new lines of business will not be successful. More information about potential factors which could affect eBay's business and financial results is included in eBay's Annual Report on Form 10-K for the year ended December 31, 2004, the company's Quarterly Reports on Form 10-Q, and current reports on Form 8-K. All forward-looking statements are based on information available to eBay on the date hereof, and eBay assumes no obligation to update such statements.

###

Editor's Note

eBay will host an investor conference call to discuss the announcement at 5 am Pacific Time today. A live webcast of the conference call can be accessed through the eBay's Investor Relations website at <http://investor.ebay.com>. An archive of the webcast will be accessible through the same link.

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Dkt. No. _____
D. Blessing Ex. No. ____ (DCB-37)
Cox Website

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Alltel Florida, Inc.'s Petition)
To Reduce Intrastate Switched Network)
Access Rates In A Revenue Neutral)
Manner Pursuant to Section 364.164,)
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Exhibit DCB-37

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- Includes voicemail so you'll never miss an important call
- Special package pricing when you have certain Cox cable and/or high-speed Internet service
- One-company service: One place to call, one bill to pay

Plus, take advantage of these special offers when you order of Unlimited Connections today:

- **Cox Bundle Savings** — for customers with three services (telephone, digital cable and high-speed Internet) you can receive a \$10 discount every month. There are requirements for the type of service you have and Unlimited Connections is one of the telephone service package that qualify you toward Cox Bundle Savings. [see offer details](#)
- **Free Professional Installation** — For new service orders, the telephone portion of the professional installation charges are waived, a one-time savings of up to \$50. [see offer details](#)
- **Free Cox High Speed Internet Modem** — Are you renting your modem, own an older modem or have been thinking about getting high-speed Internet? When you order Cox Digital Telephone, you receive use of a Cox High Speed Internet modem free of charge, even if you are renting now. [see offer detail](#)

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Time Warner 10-Q

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Alltel Florida, Inc.'s Petition)
To Reduce Intrastate Switched Network)
Access Rates In A Revenue Neutral)
Manner Pursuant to Section 364.164,)
Florida Statutes)
_____)

Exhibit DCB-38

Time Warner Inc, Form 10Q Quarterly Report, Filed 8/3/2005 For Period Ending
6/30/2005.

TIME WARNER INC

FORM 10-Q (Quarterly Report)

Filed 8/3/2005 For Period Ending 6/30/2005

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Industry	Computer Services
Sector	Technology
Fiscal Year	12/31

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

FORM 10-Q

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

for the quarterly period ended June 30, 2005 or

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT

of 1934 for the transition period from _____ to _____.

Commission File Number 1-15062

TIME WARNER INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

13-4099534
(I.R.S. Employer
Identification Number)

One Time Warner Center
New York, New York 10019
(212) 484-8000
(Address, including zip code, and telephone number, including
area code, of registrant's principal executive offices)

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes ☒ No ☐

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

<u>Description of Class</u>	<u>Shares Outstanding as of July 29, 2005</u>
Common Stock — \$.01 par value	4,606,921,311
Series LMCN-V Common Stock — \$.01 par value	87,245,036

TIME WARNER INC.
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AND OTHER FINANCIAL INFORMATION

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

INTRODUCTION

Management's discussion and analysis of results of operations and financial condition ("MD&A") is provided as a supplement to the accompanying consolidated financial statements and notes to help provide an understanding of Time Warner Inc.'s ("Time Warner" or the "Company") financial condition, changes in financial condition and results of operations. MD&A is organized as follows:

- *Overview.* This section provides a general description of Time Warner's business segments, as well as recent developments the Company believes are important in understanding the results of operations and financial condition or in understanding anticipated future trends.
- *Results of operations.* This section provides an analysis of the Company's results of operations for the three and six months ended June 30, 2005 compared to the same periods in 2004. This analysis is presented on both a consolidated and a business segment basis. In addition, a brief description is provided of significant transactions and events that impact the comparability of the results being analyzed.
- *Financial condition and liquidity.* This section provides an analysis of the Company's financial condition as of June 30, 2005 and cash flows for the six months ended June 30, 2005.
- *Risk factors and caution concerning forward-looking statements.* This section provides a description of risk factors that could adversely affect the operations, business or financial results of the Company or its business segments and the use of forward-looking information appearing in this report, including in MD&A and the consolidated financial statements. Such information is based on management's current expectations about future events, which are inherently susceptible to uncertainty and changes in circumstances.

Use of Operating Income (Loss) before Depreciation and Amortization and Free Cash Flow

The Company utilizes Operating Income (Loss) before Depreciation and Amortization, among other measures, to evaluate the performance of its businesses. Operating Income (Loss) before Depreciation and Amortization is considered an important indicator of the operational strength of the Company's businesses. Operating Income (Loss) before Depreciation and Amortization eliminates the uneven effect across all business segments of considerable amounts of noncash depreciation of tangible assets and amortization of certain intangible assets that were recognized in business combinations. A limitation of this measure, however, is that it does not reflect the periodic costs of certain capitalized tangible and intangible assets used in generating revenues in the Company's businesses. Management evaluates the costs of such tangible and intangible assets, the impact of related impairments, as well as asset sales through other financial measures, such as capital expenditures, investment spending and return on capital.

Free Cash Flow is Cash Provided by Operations (as defined by U.S. generally accepted accounting principles) plus payments related to securities litigation, less cash provided by discontinued operations, capital expenditures and product development costs, principal payments on capital leases, and partnership distributions, if any. Free Cash Flow is considered to be an important indicator of the Company's liquidity, including its ability to reduce net debt, make strategic investments, pay dividends to common shareholders and repurchase stock. A limitation of this measure, however, is that it does not reflect securities litigation payments, which reduce liquidity.

Both Operating Income (Loss) before Depreciation and Amortization and Free Cash Flow should be considered in addition to, not as a substitute for, the Company's Operating Income (Loss), Net Income (Loss) and various cash flow measures (e.g., Cash Provided by Operations), as well as other measures of financial performance and liquidity reported in accordance with U.S. generally accepted accounting principles.

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OVERVIEW

Time Warner is a leading media and entertainment company whose major businesses encompass an array of the most respected and successful media brands. Among the Company's brands are HBO, CNN, AOL, *People*, *Sports Illustrated*, *Time* and Time Warner Cable. The Company has produced and distributed films including *The Lord of the Rings* trilogy, the *Harry Potter* series, *Million Dollar Baby* and *Batman Begins* and television programs including *ER*, *Two and a Half Men*, *Without a Trace* and *The West Wing*. During the six months ended June 30, 2005, the Company generated revenues of \$21.227 billion (up 1% from \$21.045 billion in 2004), Operating Income before Depreciation and Amortization of \$2.159 billion (down 57% from \$5.042 billion in 2004), Operating Income of \$548 million (down 84% from \$3.454 billion in 2004), Net Income of \$642 million (down 63% from \$1.738 billion in 2004), Cash Provided by Operations of \$3.463 billion (up 5% from \$3.306 billion in 2004) and Free Cash Flow of \$1.959 billion (up 12% from \$1.743 billion in 2004). The 2005 results reflect the effects of a \$3 billion pretax charge related to securities litigation as discussed further in "Other Recent Developments."

Time Warner Businesses

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

AOL. America Online, Inc. ("AOL" or "America Online") is a leader in interactive services, web brands, Internet technologies and e-commerce services, with 27.0 million total AOL brand subscribers in the U.S. and Europe at June 30, 2005. AOL reported total revenues of \$4.230 billion (20% of the Company's overall revenues), \$1.076 billion in Operating Income before Depreciation and Amortization and \$692 million in Operating Income for the six months ended June 30, 2005. AOL generates its revenues primarily from subscription fees charged to subscribers and from providing advertising services.

America Online is organized into four business units: Access, Audience, Digital Services and International. This structure reflects AOL's increased emphasis on generating higher advertising and search revenues, which the Company believes will continue to grow for the foreseeable future.

Historically, AOL's primary product offering has been an online subscription service that includes a component of telephone dial-up Internet access. This product, offered under a variety of different terms and price plans, generates the substantial majority of AOL's revenues. Over the past several years, the AOL Access business has experienced significant declines in U.S. subscribers and related Subscription revenues, and these declines are expected to continue. Driving this decrease is the continued industry-wide maturing of the premium dial-up services business, as consumers migrate to high-speed broadband and lower-cost dial-up services. AOL continues to develop, change, test and implement marketing and new product strategies to attract and retain subscribers. For example, AOL recently launched a marketing campaign to emphasize to consumers the benefits of being an AOL subscriber. AOL is also pursuing agreements, such as the previously announced agreement with Time Warner Cable, to bundle the AOL service along with broadband access.

AOL's Audience business strategy focuses on generating Advertising revenue by expanding its audience and increasing usage across all of its web properties, including properties such as AOL.com, MapQuest, Moviefone and AOL Instant Messenger. Currently, a majority of Advertising revenues are generated from traffic on the AOL service, which is generally available only to subscribers. A key component of the Audience business strategy is the upcoming official re-launch in the third quarter of 2005 of the publicly available version of the AOL.com web portal that includes a substantial portion of AOL's content, features and tools that historically have been available only to AOL subscribers. AOL seeks to generate Advertising revenue from increased traffic that is expected to result from the re-launch of AOL.com through the use of branded advertising and performance-based advertising, including paid-search advertising, as well as from increased utilization and optimization of AOL advertising inventory. The

**TIME WARNER INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
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acquisition of Advertising.com Inc. ("Advertising.com") in the third quarter of 2004 also provides incremental growth in Advertising revenues, primarily through third-party performance-based advertising.

AOL has taken steps over the past several years to align costs with the declining dial-up subscriber base. These efforts have resulted in reductions in the cost of operating AOL's network through improved pricing and decreased levels of fixed commitments. These factors are expected to result in continued declines in operating costs throughout the remainder of 2005, although at a rate less than experienced in the first half of 2005.

AOL's International business unit, which primarily includes AOL Europe S.A. ("AOL Europe"), has also focused on balancing its subscription and advertising businesses. In late 2004, the International business unit entered into a new, multi-year search arrangement with a third party designed to provide incremental Advertising revenues.

Cable. Time Warner's cable business, Time Warner Cable Inc. and its subsidiaries ("TWC Inc."), is the second-largest cable operator in the U.S. (in terms of basic cable subscribers served). TWC Inc. managed approximately 10.905 million basic cable subscribers (including approximately 1.589 million subscribers of unconsolidated investees) at June 30, 2005, in highly clustered and upgraded systems in 27 states. TWC Inc. delivered revenues of \$4.603 billion (21% of the Company's overall revenues), \$1.722 billion of Operating Income before Depreciation and Amortization and \$921 million in Operating Income for the six months ended June 30, 2005. As part of the strategy to expand TWC Inc.'s cable footprint, on April 20, 2005, the Company entered into an agreement to acquire, in conjunction with Comcast Corporation ("Comcast"), substantially all of the assets of Adelphia Communications Corporation ("Adelphia"). Please refer to "Other Recent Developments" for further details.

TWC Inc. offers three basic products — video, high-speed data and its newest service, Digital Phone. Video is TWC Inc.'s largest product in terms of revenues generated; however, the growth of its customer base for video cable service is limited, as the customer base has matured and industry-wide competition from direct-to-home satellite services has increased. Nevertheless, TWC Inc. is continuing to increase its video revenues through its offerings of advanced digital video services such as Digital Video, Video-on-Demand (VOD), Subscription-Video-on-Demand (SVOD) and Digital Video Recorders (DVR) that are available in all of TWC Inc.'s 31 divisions. TWC Inc.'s digital video subscriber base provides a broad base of potential customers for these advanced services. Video programming costs represent a major component of TWC Inc.'s expenses and are expected to continue to increase, reflecting an expansion of service offerings and contractual rate increases across TWC Inc.'s programming lineup.

High-speed data service has been one of TWC Inc.'s fastest-growing products over the past several years and is a key driver of its results. TWC Inc. expects continued strong growth in residential high-speed data subscribers and revenues for the foreseeable future; however, the rate of growth of both subscribers and revenue could be impacted by intensified competition for subscribers.

TWC Inc.'s new voice product, Digital Phone, has been launched in all of its divisions and is available to over 70% of TWC Inc.'s homes passed. Digital Phone customers receive unlimited local, in-state and domestic long distance calling, as well as call waiting, caller ID and enhanced "911" services for a monthly fixed fee. In the future, TWC Inc. intends to offer additional plans, including one that will provide unlimited local calling with separate long distance charges. Digital Phone enables TWC Inc. to offer its customers a combined, easy-to-use package of video, high-speed data and voice services, and to compete effectively against similar bundled products that are available from its competitors.

In addition to the subscription services, TWC Inc. also earns revenue by selling advertising time to national, regional and local businesses.

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Filmed Entertainment. Time Warner's Filmed Entertainment businesses, Warner Bros. Entertainment Group ("Warner Bros.") and New Line Cinema Corporation ("New Line"), generated revenues of \$5.650 billion (25% of the Company's overall revenues), \$629 million in Operating Income before Depreciation and Amortization and \$465 million in Operating Income for the six months ended June 30, 2005.

One of the world's leading studios, Warner Bros. has diversified sources of revenues with its film and television businesses, combined with an extensive film library and global distribution infrastructure. This diversification has helped Warner Bros. deliver consistent long-term growth and performance. New Line is the oldest independent film company in the world. Its primary source of revenues is the creation and distribution of theatrical motion pictures.

The sale of DVDs has been one of the largest drivers of the segment's profit growth over the last few years. Warner Bros.' library, consisting of more than 6,600 theatrical titles and 54,000 live-action and animated television titles, positions it to benefit from strong DVD sales.

Warner Bros. continues to develop its industry-leading television business, including the successful releases of television series into the home video market. For the 2004-2005 television season, Warner Bros. had more current productions on the air than any other studio, with prime-time series on all six broadcast networks (including *Two and a Half Men*, *Joey*, *ER*, *Without a Trace*, *The O.C.*, *Cold Case*, *Smallville* and *The West Wing*). For the 2005-2006 television season, Warner Bros. anticipates having approximately 30 prime-time series on the fall schedule, more than any other studio.

Piracy, including physical piracy as well as illegal online file-sharing, continues to be a significant issue for the filmed entertainment industry. Piracy has expanded from music to movies and television programming due to advances in technology. The Company has taken a variety of actions to combat piracy over the last several years and will continue to do so, both individually and together with industry associations.

Networks. Time Warner's Networks group comprises Turner Broadcasting System, Inc. ("Turner"), Home Box Office ("HBO") and The WB Television Network ("The WB Network"). The Networks segment delivered revenues of \$4.774 billion (21% of the Company's overall revenues), \$1.422 billion in Operating Income before Depreciation and Amortization and \$1.298 billion in Operating Income for the six months ended June 30, 2005.

The Turner networks — including such recognized brands as TBS, TNT, CNN, Cartoon Network and CNN Headline News — are among the leaders in advertising-supported cable TV networks. For over three consecutive years, more prime-time viewers watched advertising-supported cable TV networks than the national broadcast networks. For the six months ended June 30, 2005, TNT ranked first among ad-supported cable networks in total day and prime time delivery of its key demographics, adults 18-49 and adults 25-54. TBS ranked second among ad-supported cable networks in prime time delivery of its key demographic, adults 18-34.

The Turner networks generate revenues principally from the sale of advertising time and monthly subscriber fees paid by cable system operators, satellite companies and other affiliates. Turner has benefited from strong ratings and a strong advertising market. Key contributors to Turner's success are its continued investments in high-quality programming focused on original movies, sports, network premieres, licensed and original series, news and animation, as well as brand awareness and operating efficiency.

HBO operates the HBO and Cinemax multichannel pay television programming services, with the HBO service being the nation's most widely distributed pay television network. HBO generates revenues principally from monthly subscriber fees from cable system operators, satellite companies and other affiliates. An additional source of revenue is from the ancillary sales of its original programming, including such programs as *The Sopranos*, *Sex and the City*, *Six Feet Under*, *Band of Brothers* and *Deadwood*.

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The WB Network is a broadcast television network whose target audience consists primarily of young adults in the 12-34 age group demographic. The WB Network generates revenues almost exclusively from the sale of advertising time. The WB Network experienced a decline in its audience of young adults in its target demographic during the 2004-2005 television season. This loss in audience had a significant effect on The WB Network's ability to grow its advertising revenue during the recently completed broadcast season. Along with a series of cost containment initiatives implemented during the year to offset the decline in advertising revenues, The WB Network is introducing an aggressive new slate of programming in the fall of 2005 that is designed to increase viewership among adults 18-34.

Publishing. Time Warner's Publishing segment consists principally of magazine publishing, book publishing and a number of direct-marketing and direct-selling businesses. The segment generated revenues of \$2.742 billion (13% of the Company's overall revenues), \$523 million in Operating Income before Depreciation and Amortization and \$404 million in Operating Income for the six months ended June 30, 2005.

Time Inc. publishes approximately 140 magazines globally, including *People*, *Sports Illustrated*, *In Style*, *Southern Living*, *Time*, *Entertainment Weekly*, *Fortune*, *Real Simple*, *What's on TV* and *Cooking Light*. It generates revenues primarily from advertising, magazine subscription and newsstand sales, and drives growth through higher circulation and advertising on existing magazines, new magazine launches and acquisitions. Time Inc. owns IPC Media (the U.K.'s largest magazine company) and is the majority shareholder of magazine subscription marketer Synapse Group, Inc. In addition, Time Inc. continues to invest in new magazines, including *Pick Me Up*, a weekly women's magazine, and *TV Easy*, a weekly TV listings magazine, which IPC Media launched in the U.K. in January and May 2005, respectively. In the first quarter of 2005, Time Inc. acquired the remaining 51% stake it did not already own in Essence Communications Partners ("Essence"), the publisher of *Essence*. Time Inc.'s book publishing operations are conducted primarily by Time Warner Book Group, which had 43 books on the *New York Times* bestseller list during the first six months of 2005. Time Inc.'s direct-selling division, Southern Living At Home, sells home decor products through approximately 32,000 independent consultants at parties hosted in people's homes throughout the U.S.

Other Recent Developments

Legal Reserves Related to Securities Litigation

The Company has reached an agreement in principle for the settlement of the securities class action lawsuits included in the matters consolidated under the caption *In re: AOL Time Warner Inc. Securities & "ERISA" Litigation* and described in the Company's Annual Report on Form 10-K for the year ended December 31, 2004 (the "2004 Form 10-K"). The tentative settlement is reflected in a Memorandum of Understanding dated as of July 29, 2005 between the lead plaintiff and the Company. Under the proposed settlement, \$2.4 billion will be paid by Time Warner into a settlement fund for the members of the class represented in the action. In addition, the \$150 million previously paid by Time Warner into a fund in connection with the settlement of the investigation by the U.S. Department of Justice ("DOJ") will be made available to the class, and Time Warner will use its best efforts to have the \$300 million it previously paid in connection with the settlement of its SEC investigation transferred to the settlement fund for the class. The proposed settlement is subject to completion of final documentation and preliminary and final court approval as well as other conditions. At this time, there can be no assurance that these conditions will be met and that the settlement of the securities class action litigation will receive preliminary or final court approval. Ernst & Young also has agreed to a settlement in this litigation matter and will pay \$100 million.

In connection with reaching the agreement in principle on the securities class action litigation, the Company has established a reserve of \$2.4 billion. Although the Company has reached an agreement in principle to settle the primary securities class action, other related litigation remains pending, including shareholder derivative actions, lawsuits alleging ERISA violations and securities actions brought by individual shareholders. The Company has established an additional reserve totaling \$600 million in connection with the remaining related securities litigation matters pending against the Company. This \$600 million amount represents the Company's current best estimate of its potential financial exposure in these matters. The aggregate \$3 billion reserve established, however, does not consider any future insurance recoveries under existing insurance policies because the Company cannot reliably estimate the amount of recovery at this time (Note 10).

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Common Stock Repurchase Program

On July 29, 2005, Time Warner's Board of Directors authorized a common stock repurchase program that allows Time Warner to repurchase, from time to time, up to \$5 billion of common stock over a two-year period. Purchases for the stock repurchase program may be made from time to time on the open market and in privately negotiated transactions. Size and timing of these purchases will be based on a number of factors including price and business and market conditions.

Common Stock Dividend

As previously announced, the Company will start paying a regular quarterly cash dividend of \$0.05 per share on its common stock, beginning in the third quarter of this year.

Adelphia Acquisition Agreement

On April 20, 2005, a subsidiary of the Company, Time Warner NY Cable LLC ("TW NY"), and Comcast each reached separate definitive agreements to, collectively, acquire substantially all the assets of Adelphia for a total of \$12.7 billion in cash (of which TW NY will pay \$9.2 billion and Comcast will pay the remaining \$3.5 billion) and 16% of the common stock of TWC Inc.

At the same time that Comcast and TW NY entered into the Adelphia agreements, Comcast, TWC Inc. and/or their respective affiliates entered into agreements providing for the redemption of Comcast's interests in TWC Inc. and Time Warner Entertainment Company, L.P. ("TWE") (the "TWC Inc. Redemption Agreement" and the "TWE Redemption Agreement," respectively, and, collectively, the "TWC Inc. and TWE Redemption Agreements"). Specifically, Comcast's 17.9% interest in TWC Inc. will be redeemed in exchange for stock of a subsidiary of TWC Inc. holding cable systems serving approximately 587,000 subscribers (as of December 31, 2004), as well as approximately \$1.9 billion in cash. In addition, Comcast's 4.7% interest in TWE will be redeemed in exchange for interests in a subsidiary of TWE holding cable systems serving approximately 168,000 subscribers (as of December 31, 2004), as well as approximately \$133 million in cash. TWC Inc., Comcast and their respective subsidiaries will also swap certain cable systems to enhance their respective geographic clusters of subscribers ("Cable Swaps").

After giving effect to the transactions, TWC Inc. will gain systems passing approximately 7.5 million homes (as of December 31, 2004), with approximately 3.5 million basic subscribers. TWC Inc. will then manage a total of approximately 14.4 million basic subscribers. Time Warner will own 84% of TWC Inc.'s common stock, which will become publicly traded at the time of closing, and own a \$2.9 billion indirect economic interest in TW NY, a subsidiary of TWC Inc.

These transactions are subject to customary regulatory review and approvals, including Hart-Scott-Rodino antitrust approval, Federal Communications Commission and local franchise approvals, as well as, in the case of the Adelphia acquisition, the Adelphia bankruptcy process, which involves approvals by the bankruptcy court having jurisdiction over Adelphia's Chapter 11 case and Adelphia's creditors. An amended plan of reorganization was filed with the bankruptcy court by Adelphia on June 25, 2005. Closing of the Adelphia acquisition is expected during the first half of 2006.

The purchase of Adelphia's assets is not dependent on the occurrence of the Cable Swaps and redemption transactions between Time Warner and Comcast. Furthermore, if Comcast fails to obtain certain necessary governmental authorizations, TW NY has agreed that it will also acquire the cable operations of Adelphia that would have been acquired by Comcast, with the purchase price payable in cash or TWC Inc. stock at the Company's discretion.

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Government Investigations

As previously disclosed by the Company, the Securities and Exchange Commission ("SEC") and the DOJ had been conducting investigations into the accounting and disclosure practices of the Company. Those investigations focused on advertising transactions, principally involving the Company's America Online segment, the methods used by the America Online segment to report its subscriber numbers and the accounting related to the Company's interest in AOL Europe prior to January 2002.

The Company and its subsidiary, AOL, entered into a settlement with the DOJ in December 2004 that provided for a deferred prosecution arrangement for a two-year period. In addition, on March 21, 2005, the Company announced that the SEC has approved the Company's proposed settlement, which resolves the SEC's investigation of the Company.

Under the terms of the settlement with the SEC, the Company agreed, without admitting or denying the SEC's allegations, to be enjoined from future violations of certain provisions of the securities laws and to comply with the cease-and-desist order issued by the SEC to AOL in May 2000. The settlement also required the Company to:

- Pay a \$300 million penalty, which will be used for a Fair Fund, as authorized under the Sarbanes-Oxley Act;
- Adjust its historical accounting for Advertising revenues in certain transactions with Bertelsmann, A.G. that were improperly or prematurely recognized, primarily in the second half of 2000, during 2001 and during 2002; as well as adjust its historical accounting for transactions involving three other AOL customers where there were Advertising revenues recognized in the second half of 2000 and during 2001;
- Adjust its historical accounting for its investment in and consolidation of AOL Europe; and
- Agree to the appointment of an independent examiner, who will either be or hire a certified public accountant. The independent examiner will review whether the Company's historical accounting for transactions with 17 counterparties identified by the SEC staff, principally involving online advertising revenues and including three cable programming affiliation agreements with related advertising elements, was in conformity with GAAP, and provide a report to the Company's audit and finance committee of its conclusions within 180 days of being engaged. The transactions that would be reviewed were entered into between June 1, 2000 and December 31, 2001, including subsequent amendments thereto, and involved online advertising and related transactions for which revenue was principally recognized before January 1, 2002.

The Company paid the \$300 million penalty in March 2005; however, it will not be able to deduct the penalty for income tax purposes, be reimbursed or indemnified for such payment through insurance or any other source, or use such payment to setoff or reduce any award of compensatory damages to plaintiffs in related securities litigation pending against the Company. As described above, in connection with the proposed settlement of the primary securities class action, the Company has agreed to use its best efforts to have the \$300 million transferred to the settlement fund for the class represented in the action. The historical accounting adjustments were reflected in the restatement of the Company's financial results for each of the years ended December 31, 2000 through December 31, 2003, which were included in the Company's 2004 Form 10-K.

The independent examiner has begun its review, which is expected to be completed by the end of the year. Depending on the independent examiner's conclusions, a further restatement might be necessary. It is also possible that, so long as there are unresolved issues associated with the Company's financial statements, the effectiveness of any registration statement of the Company or its affiliates may be delayed.

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Investment in Google Inc.

In May 2004, America Online exercised a warrant for approximately \$22 million and received approximately 7.4 million shares of Series D Preferred Stock of Google Inc. ("Google"). Each of these shares converted automatically into shares of Google's Class B common stock immediately prior to the closing of Google's initial public offering on August 24, 2004. In connection with this offering, America Online converted approximately 2.4 million shares of its Google Class B common stock into an equal number of shares of Google's Class A common stock. Such Class A shares were sold in the offering for \$195 million, net of the underwriters' discounts and commissions, and the Company recorded a gain of approximately \$188 million in the third quarter of 2004. Beginning in March, the Company entered into agreements to sell its remaining 5.1 million shares at an average share price of approximately \$185. The sales under such agreements settled on May 3, 2005, and the Company received total cash consideration of approximately \$940 million, resulting in a gain of approximately \$925 million recognized in the second quarter of 2005, which is included as a component of Other income, net.

Mandatorily Convertible Preferred Stock

At December 31, 2004, the Company had outstanding one share of its Series A mandatorily convertible preferred stock, par value \$0.10 per share, face value of \$1.5 billion (the "Series A Preferred Stock"), held by a trust for the benefit of Comcast, that was issued on March 31, 2003, as part of the TWE Restructuring. In accordance with the terms of the stock, on March 31, 2005, the Series A Preferred Stock was automatically converted into 83,835,883 shares of common stock of the Company, valued at \$1.5 billion, and such amount was reclassified to equity in the accompanying consolidated balance sheet. Prior to the conversion, an estimate of the number of shares of common stock issuable upon the conversion of the Series A Preferred Stock based on the fair market value of the common stock at the end of the applicable period was included only in the calculation of the Company's diluted earnings per share. Following the issuance of the common stock upon the conversion of the Series A Preferred Stock, the shares issued are included in the calculation of both the basic and diluted earnings per share.

Urban Cable Works of Philadelphia, L.P.

Urban Cable Works of Philadelphia, L.P. ("Urban Cable") is an unconsolidated joint venture of TWC Inc., with approximately 48,000 basic subscribers at June 30, 2005, that operates cable television systems in Philadelphia, Pennsylvania. Urban Cable is 40% owned by TWC Inc. and 60% owned by an investment group led by Inner City Broadcasting ("Inner City"). Under a management agreement, TWC Inc. is responsible for the day-to-day management of Urban Cable. During 2004, TWC Inc. and Inner City settled certain disputes regarding the joint venture for \$34 million in cash.

TWC Inc. has also agreed to purchase, subject to receipt of applicable regulatory approvals, all of Inner City's interests in the Urban Cable venture for approximately \$53 million in cash. In addition, upon closing, TWC Inc. will eliminate in consolidation \$68 million of debt and interest owed to it by Urban Cable and will assume \$47 million of Urban Cable's third-party debt. On March 3, 2005, the City Council of Philadelphia denied TWC Inc.'s request for approval of this transaction. TWC Inc. believes the denial was invalid, but is unable to predict when the transaction may be completed. In conjunction with the agreement to acquire substantially all of the assets of Adelphia, Urban Cable would be transferred to Comcast as part of the Cable Swaps. For additional details, please refer to the Adelphia/Comcast discussion above. For the six months ended June 30, 2005, Urban Cable's revenues and Operating Income were \$23 million and \$2 million, respectively.

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RESULTS OF OPERATIONS

New Accounting Principles To Be Adopted

Stock-Based Compensation

In December 2004, the Financial Accounting Standards Board ("FASB") issued FASB Statement of Financial Accounting Standards ("Statement") No. 123 (Revised), "Share-Based Payment" ("FAS 123R"). FAS 123R requires all companies to measure compensation costs for all share-based payments (including employee stock options) at fair value and recognize such costs in the statement of operations. As a result, the application of the provisions of FAS 123R will have a significant impact on Operating Income before Depreciation and Amortization, Operating Income, net income and earnings per share. In April 2005, the SEC amended the compliance dates for FAS 123R from fiscal *periods* beginning after June 15, 2005 to fiscal *years* beginning after June 15, 2005. The Company will continue to account for share-based compensation using the intrinsic value method set forth in Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25"), until the Company's adoption of FAS 123R beginning January 1, 2006.

In accordance with APB 25 and related interpretations, compensation expense 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. The compensation costs related to stock options recognized by the Company pursuant to APB 25 were minimal. If a company measures share-based compensation using APB 25, it must also disclose what the impact would have been if it had measured share-based compensation using the fair value of the equity award on the date it is granted as provided in FAS 123, the predecessor of FAS 123R. See Note 1 for the pro forma impact if compensation costs for the Company's stock option plans had been determined based on the fair value method set forth in FAS 123.

Reclassifications

Certain reclassifications have been made to the prior year's financial information to conform to the June 30, 2005 presentation.

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Significant Transactions and Other Items Affecting Comparability

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

	Three Months Ended		Six Months Ended	
	6/30/05	6/30/04	6/30/05	6/30/04
	(millions)		(millions)	
Legal reserves related to securities litigation	<u>\$ (3,000)</u>	<u>\$ —</u>	<u>\$ (3,000)</u>	<u>\$ —</u>
Restructuring costs	(11)	2	(23)	2
Asset impairments	—	(10)	(24)	(10)
Gains on disposal of assets, net	8	—	18	1
Impact on Operating Income	<u>(3,003)</u>	<u>(8)</u>	<u>(3,029)</u>	<u>(7)</u>
Investment gains, net	982	10	1,005	46
Gain (loss) on WMG option	(27)	—	53	—
Impact on other income, net	<u>955</u>	<u>10</u>	<u>1,058</u>	<u>46</u>
Pretax impact	(2,048)	2	(1,971)	39
Income tax impact	572	(1)	535	(16)
After-tax impact	<u>\$ (1,476)</u>	<u>\$ 1</u>	<u>\$ (1,436)</u>	<u>\$ 23</u>

Legal Reserves Related to Securities Litigation

As previously discussed, the three and six months ended June 30, 2005 include \$3 billion in legal reserves related to the securities litigation (Note 10).

Restructuring Costs

Restructuring costs consist of charges related to employee terminations and exit activities. During the three and six months ended June 30, 2005, the Company incurred restructuring costs of \$13 million and \$30 million, respectively, at the Cable segment. In addition, restructuring charges at the AOL segment reflect a \$2 million reduction for the three months ended June 30, 2005 and a net reduction of \$7 million for the six months ended June 30, 2005 relating to changes in estimates of previously established restructuring accruals. During the three and six months ended June 30, 2004, the Company recorded a \$2 million reduction in restructuring costs at the AOL segment, reflecting changes in estimates of previously established restructuring accruals (Note 9).

Asset Impairments

For the six months ended June 30, 2005, the Company recorded a \$24 million noncash impairment charge related to goodwill associated with America Online Latin America, Inc. ("AOLA") following AOL's March 2005 announcement that it intends to liquidate its operations. On June 24, 2005, AOL filed a petition for Chapter 11 bankruptcy protection. For the three and six months ended June 30, 2004, the Company recognized a \$10 million impairment charge related to a building held for sale at the AOL segment.

Gains on Disposal of Assets, Net

For the three and six months ended June 30, 2005, the Company recorded an approximate \$5 million gain at the AOL segment related to the sale of a building. The three and six months ended June 30, 2005 also include gains of \$3 million and \$5 million, respectively, from the resolution of previously contingent gains related to the 2004 sale of Netscape Security Solutions. In addition, the six months ended June 30, 2005 includes an \$8 million gain at the

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Publishing segment related to the collection of a loan made in conjunction with the Company's 2003 sale of Time Life Inc. ("Time Life"), which was previously fully reserved due to concerns about recoverability.

For the six months ended June 30, 2004, the Company recognized an \$8 million gain at the Publishing segment related to the sale of a building, partially offset by an approximate \$7 million loss at the Networks segment related to the sale of the winter sports teams.

Investment Gains, Net

For the three and six months ended June 30, 2005, the Company recognized net gains of \$982 million and \$1.005 billion, respectively, primarily related to the sale of investments, including a \$925 million gain on the sale of the Company's remaining investment in Google and a \$36 million gain, which was previously deferred, related to the Company's 2002 sale of a portion of its interest in Columbia House Holdings Inc. ("Columbia House"). The Company sold its 7.5% remaining interest in Columbia House for approximately \$9 million in July of 2005, and this will result in an approximate \$1 million gain in the third quarter of 2005. For the three and six months ended June 30, 2005, investment gains also include \$1 million and \$2 million, respectively, of gains to reflect market fluctuations in equity derivative instruments.

For the three and six months ended June 30, 2004, the Company recognized net gains of \$10 million and \$46 million, respectively, primarily related to the sale of investments. Investment gains were partially offset by \$5 million and \$7 million, respectively, of losses to reflect market fluctuations in equity derivative instruments.

Gain (Loss) on WMG Option

In the first quarter of 2005, the Company entered into an agreement with Warner Music Group ("WMG") pursuant to which WMG agreed to a cash purchase of the Company's option to acquire shares of WMG that it received in connection with the sale of WMG in 2004. Under the agreement, the cash purchase of the option would be made at the time of the WMG public offering at a price based on the initial public offering price per share, net of any underwriters' discounts. As a result of the estimated public offering price range, the Company adjusted the value of the option in the first quarter of 2005 from \$85 million to \$165 million and, accordingly, recorded a gain of \$80 million. In the second quarter of 2005, WMG's registration statement was declared effective and it completed its initial public offering at a reduced price from its initial estimated range, and the Company received approximately \$138 million from the sale of its option. As a result of these events, for the three and six months ended June 30, 2005, the Company recorded a \$27 million loss and a \$53 million net gain, respectively, related to this option (Note 2).

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Three and Six Months Ended June 30, 2005 Compared to Three and Six Months Ended June 30, 2004

Consolidated Results

Revenues. As shown below, consolidated revenues decreased 1% to \$10.744 billion for the three months ended June 30, 2005 from \$10.860 billion for the three months ended June 30, 2004. For the six months ended June 30, 2005, consolidated revenues increased 1% to \$21.227 billion compared to \$21.045 billion for the six months ended June 30, 2004. The components of revenues are as follows:

	Three Months Ended			Six Months Ended		
	6/30/05	6/30/04 (millions)	% Change	6/30/05	6/30/04 (millions)	% Change
Subscription	\$ 5,618	\$ 5,486	2%	\$11,110	\$ 10,800	3%
Advertising	2,020	1,846	9%	3,667	3,293	11%
Content	2,816	3,237	(13%)	5,899	6,354	(7%)
Other	290	291	—	551	598	(8%)
Total revenues	<u>\$10,744</u>	<u>\$ 10,860</u>	(1%)	<u>\$21,227</u>	<u>\$ 21,045</u>	1%

The increase in Subscription revenues for the three and six months ended June 30, 2005 was primarily related to increases at the Cable and Networks segments, offset partially by a decline at the AOL segment. The increase at the Cable segment for the three and six months was principally due to the continued penetration of advanced services (primarily high-speed data, Digital Phone and advanced digital video services) and video rate increases. The increase at the Networks segment for the three and six months was due primarily to higher subscription rates at Turner and HBO and, to a lesser extent, an increase in the number of subscribers at Turner and HBO. The AOL segment declined for the three and six months primarily as a result of lower domestic subscribers, partially offset by growth at AOL Europe due to the favorable effects of foreign currency exchange rates.

The increase in Advertising revenues for the three and six months ended June 30, 2005 was primarily due to growth at the AOL, Networks and Publishing segments. The increase at the AOL segment for the three and six months was due primarily to revenues associated with the acquisition of Advertising.com and growth in paid-search advertising. The increase at the Networks segment for the three and six months was primarily driven by higher CPMs (advertising cost per one thousand viewers) and sellouts at Turner's entertainment networks, partly offset by a decline at The WB Network as a result of lower ratings. The increase at the Publishing segment for the three and six months was due to contributions from new magazine launches, the acquisition of the remaining interest in the publisher of *Essence*, and growth at *In Style*, *Real Simple*, and *Southern Living*, offset partly by lower Advertising revenues from *Time*, *Sports Illustrated* and *Fortune*. In addition, the six months ended June 30, 2005 benefited from an increase in Advertising revenues from *People* in the first quarter of 2005.

The decrease in Content revenues for the three and six months ended June 30, 2005 was principally due to declines at the Filmed Entertainment and Networks segments. The decline at the Filmed Entertainment segment for the three months was primarily driven by a decline in theatrical product revenues, partially offset by an increase in television product revenues. For the six months, the decrease was driven by a decline in both theatrical and television product revenues. The decline at the Networks segment for the three and six months was due primarily to lower licensing revenue at HBO associated with fewer episodes of *Everybody Loves Raymond*, partially offset by higher ancillary sales of HBO's original programming. In addition, for the six months, Content revenues declined at the Networks segment due to the absence of the winter sports teams at Turner, which were sold at the end of the first quarter of 2004.

Other revenues were flat for the three months ended June 30, 2005. For the six months ended June 30, 2005, the decline in Other revenues was attributable to a decline at the Networks segment, primarily due to the sale of the winter sports teams.

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

Costs of Revenues. For the three months ended June 30, 2005 and 2004, costs of revenues totaled \$6.249 billion and \$6.342 billion, respectively, and as a percentage of revenues were 58% for both periods. For the six months ended June 30, 2005 and 2004, costs of revenues totaled \$12.249 billion and \$12.313 billion, respectively, and as a percentage of revenues were 58% and 59%, respectively. Costs of revenues as a percentage of revenues were flat for the three months, primarily as a result of declines in margin at the Publishing and Film segments, offset by an increase in margin at AOL. The improvement in costs of revenues as a percentage of revenues for the six months related primarily to improved margins at the AOL and Networks segments. The segment variations are discussed in detail in "Business Segment Results."

Selling, General and Administrative Expenses. For the three months ended June 30, 2005 and 2004, selling, general and administrative expenses increased 2% to \$2.571 billion in 2005 from \$2.515 billion in 2004. For the six months ended June 30, 2005 and 2004, selling, general and administrative expenses increased 3% to \$5.099 billion in 2005 from \$4.960 billion in 2004. The increase for the three and six months resulted primarily from increases at all segments except the AOL segment and Corporate. The segment variations are discussed in detail in "Business Segment Results."

Legal Reserves Related to Securities Litigation. As previously discussed in "Other Recent Developments," the three and six months ended June 30, 2005 include \$3 billion in legal reserves related to the securities litigation.

Reconciliation of Operating Income (Loss) before Depreciation and Amortization to Operating Income (Loss) and Net Income (Loss).

The following table reconciles Operating Income (Loss) before Depreciation and Amortization to Operating Income (Loss). In addition, the table provides the components from Operating Income (Loss) to Net Income (Loss) for purposes of the discussions that follow:

	Three Months Ended			Six Months Ended		
	6/30/05	6/30/04	% Change	6/30/05	6/30/04	% Change
		(millions)			(millions)	
Operating Income (Loss) before Depreciation and Amortization	\$ (422)	\$2,637	NM	\$ 2,159	\$ 5,042	(57%)
Depreciation	(657)	(642)	2%	(1,309)	(1,277)	3%
Amortization	(152)	(157)	(3%)	(302)	(311)	(3%)
Operating Income (Loss)	(1,231)	1,838	NM	548	3,454	(84%)
Interest expense, net	(324)	(383)	(15%)	(670)	(787)	(15%)
Other income, net	989	33	NM	1,100	64	NM
Minority interest expense, net	(72)	(62)	16%	(131)	(118)	11%
Income (Loss) before income taxes, discontinued operations and cumulative effect of accounting change	(638)	1,426	NM	847	2,613	(68%)
Income tax benefit (provision)	317	(544)	NM	(205)	(1,019)	(80%)
Income (Loss) before discontinued operations and cumulative effect of accounting change	(321)	882	NM	642	1,594	(60%)
Discontinued operations, net of tax	—	(105)	NM	—	110	NM
Cumulative effect of accounting change, net of tax	—	—	—	—	34	NM
Net income (loss)	\$ (321)	\$ 777	NM	\$ 642	\$ 1,738	(63%)

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Operating Income (Loss) before Depreciation and Amortization. Time Warner's Operating Income (Loss) before Depreciation and Amortization was a loss of \$422 million for the three months ended June 30, 2005 compared to income of \$2.637 billion for the three months ended June 30, 2004. Excluding the items previously discussed under "Significant Transactions and Other Items Affecting Comparability" totaling \$3.003 billion and \$8 million of net expense for 2005 and 2004, respectively, Operating Income (Loss) before Depreciation and Amortization decreased \$64 million principally as a result of a decline at the Filmed Entertainment segment, partially offset by growth at the Cable and AOL segments.

For the six months ended June 30, 2005, Operating Income before Depreciation and Amortization was \$2.159 billion compared to \$5.042 billion in 2004. Excluding the items previously discussed under "Significant Transactions and Other Items Affecting Comparability" of \$3.029 billion and \$7 million of net expense, Operating Income before Depreciation and Amortization improved by \$139 million principally as a result of growth at the Cable and AOL segments, partially offset by a decline at the Filmed Entertainment segment.

The segment variations are discussed in detail under "Business Segment Results."

Depreciation Expense. Depreciation expense increased to \$657 million and \$1.309 billion for the three and six months ended June 30, 2005 from \$642 million and \$1.277 billion for the three and six months ended June 30, 2004, respectively. The increase in depreciation expense for the three and six months primarily related to the Cable segment, partially offset by a decrease at AOL. The increase in depreciation expense at Cable for the three and six months reflects increased spending on customer premise equipment that is depreciated over a shorter useful life compared to the mix of assets previously purchased. The decrease in depreciation expense at AOL for the three and six months relates primarily to a decline in network assets as a result of membership declines.

Amortization Expense. Amortization expense decreased to \$152 million and \$302 million for the three and six months ended June 30, 2005, respectively, from \$157 million and \$311 million for the three and six months ended June 30, 2004, respectively. The decrease relates primarily to a decline in amortization at the Publishing segment as a result of certain intangibles with short useful lives, such as customer lists, becoming fully amortized beginning in the latter part of 2004.

Operating Income (Loss). Time Warner's Operating Income (Loss) was a loss of \$1.231 billion for the three months ended June 30, 2005 compared to income of \$1.838 billion for the three months ended June 30, 2004. Excluding the items previously discussed under "Significant Transactions and Other Items Affecting Comparability" totaling \$3.003 billion and \$8 million of net expense for 2005 and 2004, respectively, Operating Income declined \$74 million.

Time Warner's Operating Income was \$548 million for the six months ended June 30, 2005 compared to \$3.454 billion for the three months ended June 30, 2004. Excluding the items previously discussed under "Significant Transactions and Other Items Affecting Comparability" totaling \$3.029 billion and \$7 million of net expense for 2005 and 2004, respectively, Operating Income increased by \$116 million.

These amounts reflect the changes in business segment Operating Income before Depreciation and Amortization, and the increase in depreciation expense, as discussed above.

Interest Expense, Net. Interest expense, net, decreased to \$324 million and \$670 million for the three and six months ended June 30, 2005, respectively, from \$383 million and \$787 million for the three and six months ended June 30, 2004, respectively, due primarily to lower average net debt levels and higher interest rates on cash investments.

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Other Income, Net. Other income, net, detail is shown in the table below:

	Three Months Ended		Six Months Ended	
	6/30/05	6/30/04	6/30/05	6/30/04
	(millions)		(millions)	
Investment gains, net	\$982	\$10	\$1,005	\$ 46
Gain (loss) on WMG option	(27)	—	53	—
Income from equity method investees	36	26	47	32
Other	(2)	(3)	(5)	(14)
Other income, net	<u>\$989</u>	<u>\$33</u>	<u>\$1,100</u>	<u>\$ 64</u>

The changes in investment gains, net, and the gain (loss) on the WMG option are discussed above in detail under "Significant Transactions and Other Items Affecting Comparability." Excluding the impact of these items, Other income, net, improved in 2005 as compared to the prior period, primarily from an increase in income from equity method investees.

Minority Interest Expense, Net. Time Warner had \$72 million and \$131 million of minority interest expense for the three and six months ended June 30, 2005, respectively, compared to \$62 million and \$118 million for the three and six months ended June 30, 2004, respectively. The increase relates primarily to larger profits recorded by TWC Inc., in which Comcast has a minority interest.

Income Tax Benefit (Provision). Income tax from continuing operations was a \$317 million benefit for the three months ended June 30, 2005, compared to a provision of \$544 million for the three months ended June 30, 2004 and was a provision of \$205 million for the six months ended June 30, 2005, compared to a provision of \$1.019 billion for the six months ended June 30, 2004. The Company's effective tax rate for continuing operations was a benefit of 50% and a provision of 24% for the three and six months ended June 30, 2005, respectively, as compared to provisions of 38% and 39% for the three and six months ended June 30, 2004, respectively. The change in the effective tax rate was primarily a result of the favorable impact of state tax law changes in Ohio and New York enacted in the second quarter of 2005, partially offset by non-deductible expense related to a portion of the settlement accrual for the securities litigation.

The state law changes relate to the method of taxation in Ohio and the method of apportionment in New York. In Ohio, the income tax is being phased-out and replaced with a gross receipts tax, while in New York the methodology for income apportionment is changing over time to a single receipts factor from a three factor formula. These tax law changes resulted in a reduction in certain deferred tax liabilities related to these states. Accordingly, the Company has recognized these reductions as noncash tax benefits totaling approximately \$170 million for Ohio and \$135 million for New York State in the second quarter of 2005.

Income (Loss) before Discontinued Operations and Cumulative Effect of Accounting Change. Income (Loss) before discontinued operations and cumulative effect of accounting change was a loss of \$321 million for the three months ended June 30, 2005 compared to income of \$882 million for the three months ended June 30, 2004. Basic and diluted net income (loss) per share before discontinued operations and cumulative effect of accounting change were both losses of \$0.07 in 2005, compared to income of \$0.19 for both basic and diluted net income per share before discontinued operations and cumulative effect of accounting change in 2004. Excluding the items previously discussed under "Significant Transactions and Other Items Affecting Comparability" totaling \$1.476 billion of net expense and \$1 million of income in 2005 and 2004, respectively, Income (loss) before discontinued operations and cumulative effect of accounting change improved by \$274 million primarily due to the change in income tax benefit (provision) as discussed above.

Income before discontinued operations and cumulative effect of accounting change was \$642 million for the six months ended June 30, 2005 compared to \$1.594 billion for the six months ended June 30, 2004. Basic and diluted net income per share before discontinued operations and cumulative effect of accounting change were both \$0.14 in

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2005 compared to \$0.35 and \$0.34 in 2004, respectively. Excluding the items previously discussed under "Significant Transactions and Other Items Affecting Comparability" totaling \$1.436 billion of net expense and \$23 million of income, Income before discontinued operations and cumulative effect of accounting change improved by \$507 million, primarily due to the change in income tax benefit (provision) and Operating Income as discussed above.

Discontinued Operations, Net of Tax. Included in the 2004 results for the three and six months ended June 30, 2004 are \$93 million and \$16 million, respectively, of pre-tax losses and a \$12 million tax provision and \$126 million tax benefit, respectively, from the operations of the Music business (Note 2).

Cumulative Effect of Accounting Change, Net of Tax. The Company recorded a \$34 million benefit, net of tax, as a cumulative effect of accounting change upon the consolidation of AOL in the first quarter of 2004 in accordance with FASB Interpretation No. 46 (Revised), "Consolidation of Variable Interest Entities."

Net Income (Loss) and Net Income (Loss) Per Common Share. Net income (loss) was a loss of \$321 million for the three months ended June 30, 2005 compared to income of \$777 million for the three months ended June 30, 2004. Basic and diluted net income (loss) per common share were both a loss of \$0.07 in 2005, compared to income of \$0.17 for both basic and diluted net income per common share in 2004. Net income was \$642 million for the six months ended June 30, 2005 compared to \$1.738 billion for the six months ended June 30, 2004. Basic and diluted net income per common share were both \$0.14 in 2005 compared to \$0.38 and \$0.37 in 2004, respectively. Net income (loss) includes the items previously addressed under "Significant Transactions and Other Items Affecting Comparability," discontinued operations, net of tax, and the cumulative effect of accounting change, net of tax.

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Business Segment Results

AOL. Revenues, Operating Income before Depreciation and Amortization and Operating Income of the AOL segment for the three and six months ended June 30, 2005 and 2004 are as follows:

	Three Months Ended			Six Months Ended		
	6/30/05	6/30/04 (millions)	% Change	6/30/05	6/30/04 (millions)	% Change
Revenues:						
Subscription	\$1,734	\$ 1,902	(9%)	\$ 3,508	\$ 3,821	(8%)
Advertising	320	221	45%	631	435	45%
Other	43	54	(20%)	91	112	(19%)
Total revenues	2,097	2,177	(4%)	4,230	4,368	(3%)
Costs of revenues ^(a)	(961)	(1,056)	(9%)	(1,939)	(2,119)	(8%)
Selling, general and administrative ^(a)	(588)	(626)	(6%)	(1,208)	(1,265)	(5%)
Restructuring costs	2	2	—	7	2	250%
Asset impairment	—	(10)	NM	(24)	(10)	140%
Gain on sale of assets	8	—	NM	10	—	NM
Operating Income before Depreciation and Amortization	558	487	15%	1,076	976	10%
Depreciation	(143)	(170)	(16%)	(290)	(340)	(15%)
Amortization	(47)	(41)	15%	(94)	(83)	13%
Operating Income	<u>\$ 368</u>	<u>\$ 276</u>	33%	<u>\$ 692</u>	<u>\$ 553</u>	25%

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

The reduction in Subscription revenues for the three and six months ended June 30, 2005 primarily reflects a decrease in domestic Subscription revenues (from \$1.463 billion to \$1.278 billion for the three months and from \$2.934 billion to \$2.591 billion for the six months), offset in part by an increase in Subscription revenues at AOL Europe (from \$407 million to \$430 million for the three months and from \$836 million to \$879 million for the six months). AOL's domestic Subscription revenues declined due primarily to a decrease in the number of domestic AOL brand subscribers and related revenues. AOL Europe's Subscription revenues increased as the result of the favorable impact of foreign currency exchange rates (\$25 million and \$50 million for the three and six months, respectively), partially offset by a decline in subscribers and related revenues.

The number of AOL brand domestic and European subscribers is as follows at June 30, 2005, March 31, 2005 and June 30, 2004 (millions):

	June 30, 2005	March 31, 2005	June 30, 2004
Subscriber category:			
AOL brand domestic ^(a)			
\$15 and over	15.6	16.8	18.8
Under \$15	5.2	4.9	4.6
Total AOL brand domestic	<u>20.8</u>	<u>21.7</u>	<u>23.4</u>
AOL Europe	<u>6.2</u>	<u>6.3</u>	<u>6.3</u>

^(a) AOL includes in its subscriber count individuals, households or entities that have provided billing information and completed the registration process sufficiently to allow for an initial log-on to the AOL service.

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The average monthly Subscription revenue per subscriber ("ARPU") for each significant category of subscribers, calculated as total subscription revenue for the category divided by the average subscribers in the category for the applicable period, is as follows:

Subscriber category:	Three Months Ended		Six Months Ended	
	6/30/05	6/30/04	6/30/05	6/30/04
AOL brand domestic				
\$15 and over	\$20.84	\$21.10	\$20.68	\$20.88
Under \$15	13.31	13.07	13.21	12.92
Total AOL brand domestic	19.05	19.58	18.98	19.41
AOL Europe	22.31	20.84	22.71	21.28

Domestic subscribers to the AOL brand service include subscribers during introductory free-trial periods and subscribers at no or reduced monthly fees through member service and retention programs. Total AOL brand domestic subscribers include free-trial and retention members of approximately 11% at June 30, 2005, 13% at December 31, 2004 and 15% at June 30, 2004. Domestic AOL brand subscribers also include subscribers to a bundled broadband service, which combines the AOL service with high-speed Internet access provided by third-party broadband Internet access providers such as cable companies and telephone companies.

The largest component of the AOL brand domestic \$15 and over price plans is the \$23.90 price plan, which provides unlimited access to the AOL service using America Online's dial-up network and unlimited usage of the AOL service through any other Internet connection. The largest component of the AOL brand domestic under \$15 price plans is the \$14.95 per month price plan, which includes ten hours of dial-up access and unlimited usage of the AOL service through an Internet connection not provided by America Online, such as a high-speed broadband Internet connection via cable or digital subscriber lines. America Online continues to develop, test, change and implement price plans, service offerings and payment methods to attract and retain members to its AOL service and, therefore, the composition of AOL's subscriber base is expected to change over time.

The decline in AOL brand subscribers on plans priced \$15 and over per month for the three and six months resulted from a number of factors, principally the continued maturing of dial-up services and subscribers adopting other dial-up and high-speed services. Further, during the periods, subscribers migrated from the premium-priced unlimited dial-up plans, including the \$23.90 plan, to lower-priced limited dial-up plans, such as the \$14.95 plan. The decline in AOL brand subscribers overall, and specifically in the \$15 and over per month price plans, is expected to continue into the foreseeable future.

Growth in AOL brand subscribers on plans below \$15 per month for the three and six months was driven principally by the migration of subscribers from plans \$15 and over per month and, to a lesser extent, by new subscribers. AOL expects that the proportion of its subscribers on lower-priced plans will continue to increase. The AOL/TWC Inc. agreement relating to the bundling of the AOL service together with broadband access is still being implemented and the impact on the AOL segment and Time Warner's consolidated financial results is not expected to be significant during 2005.

Within the \$15 and over per month category, the decrease in ARPU for the three and six months ended June 30, 2005, as compared to the similar periods in the prior year, was due primarily to a lower priced mix in subscriber price plans, partially offset by an increase in the percentage of revenue generating subscribers. Premium services revenues included in ARPU for the three and six months ended June 30, 2005 were \$22 million and \$42 million, respectively, compared to \$26 million and \$48 million for the three and six months ended June 30, 2004, respectively. ARPU for subscribers in the below \$15 per month category increased primarily due to an improved mix in subscriber price plans and an increase in the percentage of revenue generating subscribers. In the below \$15 per month category, premium services revenues included in ARPU for the three and six months ended June 30, 2005 were \$8 million and \$14 million, respectively, compared to \$6 million and \$11 million, for the three and six months ended June 30, 2004, respectively.

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AOL Europe offers a variety of price plans, including bundled broadband, unlimited access to the AOL service using America Online's dial-up network and limited access plans, which are generally billed based on actual usage. AOL Europe continues to actively market bundled broadband plans, as AOL Europe's subscribers have been migrating from dial-up plans to bundled broadband plans, and this trend is expected to continue.

The ARPU for European subscribers for the three and six months ended June 30, 2005, as compared to the similar periods in the prior year, increased due to a change in the mix of price plans, with broadband subscribers growing as a percentage of total subscribers and an increase in premium services revenues. In addition, the three and six months benefited from the positive effect of changes in foreign currency exchange rates related to the strengthening of the Euro and British Pound relative to the U.S. Dollar. The total number of AOL brand subscribers at AOL Europe reflects a year-over-year decline in subscribers in France and Germany partially offset by an increase in the U.K.

In addition to the AOL brand service, America Online has subscribers to lower-cost services, both domestically and internationally, including the Netscape and CompuServe brands. These other brand services are not a significant source of revenue.

Advertising revenues increased for the three and six months primarily due to \$60 million and \$120 million, respectively, of revenues from sales of advertising run on third-party websites generated by Advertising.com, which was acquired in August 2004, and a \$30 million and \$57 million increase, respectively, in paid-search advertising. AOL expects Advertising revenues to continue to increase during the second half of 2005 due to contributions from Advertising.com's performance-based advertising, and expected growth in paid-search and traditional online advertising. However, the rate of growth is expected to be less than experienced in the first half of 2005 because the growth rate in the first half of 2005 benefited from the absence of Advertising.com in the first half of 2004.

Other revenues primarily include software licensing revenue and revenue from providing the Cable segment access to the AOL Transit Data Network ("ATDN") for high-speed access to the Internet. Other revenues decreased for the three and six months due primarily to lower ATDN revenue from TWC Inc., reflecting lower pricing under the terms of a new agreement and lower network usage.

For the three and six months ended June 30, 2005, costs of revenues decreased 9% and 8%, respectively, and, as a percentage of revenues, decreased to 46% for both the three and six months ended June 30, 2005 from 49% for both the three and six months ended June 30, 2004. For the three and six months ended June 30, 2005, the declines related primarily to lower network-related expenses. Network-related expenses decreased 32% to \$338 million and 32% to \$697 million for the three and six months, respectively, principally attributable to improved pricing and decreased levels of fixed commitments. These factors are expected to result in continued declines in network expenses throughout 2005, although at a rate less than that experienced in the first half of 2005. The decline in network costs was partially offset by costs associated with Advertising.com, which was acquired in August 2004, and higher broadband and member service costs at AOL Europe.

AOL's three and six months ended June 30, 2004 results included \$20 million and \$33 million, respectively, of expense related to the November 2003 expiration of the federal moratorium on Internet sales taxes. The six months ended June 30, 2004 results also included \$15 million of benefits related to the favorable rulings on certain state sales tax matters. In the fourth quarter of 2004, the federal moratorium on Internet sales taxes was retroactively reinstated to November 2003 and extended through 2007. As a result of the retroactive application of the legislation, the previously accrued amounts were reversed in the fourth quarter of 2004.

The decrease in selling, general and administrative expenses for the three and six months ended June 30, 2005 primarily related to a decrease in marketing costs, partially offset by additional costs resulting from the acquisition of Advertising.com and higher general and administrative costs. The three and six months ended June 30, 2005 amounts also include a \$15 million benefit related to the favorable resolution of a European value-added tax matter.

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The decrease in marketing costs primarily resulted from lower spending on member acquisition activities, partially offset by an increase in brand advertising. The three and six months ended June 30, 2004 also included an approximate \$25 million adjustment to reduce excess marketing accruals made in prior years, primarily related to AOL Europe. Marketing costs are expected to continue to decrease during the remainder of 2005 compared to the prior year.

As previously discussed under "Significant Transactions and Other Items Affecting Comparability," the results for the three and six months ended June 30, 2005 include an approximate \$5 million gain on the sale of a building and gains of \$3 million and \$5 million, respectively, from the resolution of previously contingent gains related to the 2004 sale of Netscape Security Solutions. The three months ended June 30, 2005 also reflect a \$2 million reduction in restructuring costs and a net reduction of \$7 million for the six months ended June 30, 2005 relating to changes in estimates of previously established restructuring accruals. The six months ended June 30, 2005 also include a \$24 million noncash goodwill impairment charge related to AOLA. The three and six months ended June 30, 2004 included the reversal of \$2 million of previously established restructuring accruals, that were no longer required and a \$10 million impairment charge related to a building that was held for sale.

The increases in Operating Income before Depreciation and Amortization and Operating Income for the three and six months are due primarily to lower costs of revenues and selling, general and administrative expenses, higher Advertising revenues and the net benefit of restructuring reversals and the gains on sale of consolidated businesses, partially offset by lower Subscription revenues. For the six months ended June 30, 2005, the increase was also partially offset by the \$24 million noncash goodwill impairment charge described above. Operating Income also improved due to lower depreciation expense reflecting a decline in network assets as the result of membership declines.

Cable. Revenues, Operating Income before Depreciation and Amortization and Operating Income of the Cable segment for the three and six months ended June 30, 2005 and 2004 are as follows:

	Three Months Ended			Six Months Ended		
	6/30/05	6/30/04	% Change	6/30/05	6/30/04	% Change
	(millions)			(millions)		
Revenues:						
Subscription	\$ 2,221	\$1,990	12%	\$ 4,348	\$ 3,924	11%
Advertising	136	126	8%	255	235	9%
Total revenues	2,357	2,116	11%	4,603	4,159	11%
Costs of revenues (a)	(1,067)	(935)	14%	(2,069)	(1,840)	12%
Selling, general and administrative (a)	(377)	(364)	4%	(782)	(752)	4%
Restructuring charges	(13)	—	NM	(30)	—	NM
Operating Income before Depreciation and Amortization	900	817	10%	1,722	1,567	10%
Depreciation	(386)	(355)	9%	(762)	(701)	9%
Amortization	(19)	(19)	—	(39)	(37)	5%
Operating Income	\$ 495	\$ 443	12%	\$ 921	\$ 829	11%

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

For the three and six months ended June 30, 2005, Subscription revenues increased due to the continued penetration of advanced services (primarily high-speed data, Digital Phone and advanced digital video services) and video rate increases. High-speed data subscription revenues increased to \$525 million for the three months ended June 30, 2005 from \$433 million for the three months ended June 30, 2004 and to \$1.018 billion for the six months ended June 30, 2005 from \$847 million for the six months ended June 30, 2004. Digital Phone revenues increased to \$57 million for the three months ended June 30, 2005 from \$3 million for the three months ended June 30, 2004 and to \$89 million for the six months ended June 30, 2005 from \$5 million for the six months ended June 30, 2004. The

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Company anticipates that revenues for the remainder of 2005 will be impacted positively by revenues associated with its high-speed data and Digital Phone services.

TWC Inc. subscriber counts include all billable subscribers for each level of service received. Basic cable subscribers include all subscribers who receive basic video cable service. Digital video subscribers reflect all subscribers who receive any level of video service received via digital technology. High-speed data subscribers include all subscribers who receive TWC Inc.'s Road Runner Internet service, as well as other Internet services offered by TWC Inc. Digital Phone subscribers includes all subscribers who receive telephony service. At June 30, 2005, as compared to June 30, 2004, basic cable subscribers were down slightly (i.e. 4,000 subscribers) and totaled 10.905 million (including 1.589 million subscribers of unconsolidated investees, which are managed by TWC Inc.), digital video subscribers increased by 10% to 5.053 million (including 768,000 subscribers of unconsolidated investees, which are managed by TWC Inc.), residential high-speed data subscribers increased by 22% to 4.323 million (including 623,000 subscribers of unconsolidated investees, which are managed by TWC Inc.) and commercial high-speed data subscribers increased by 30% to 193,000 (including 25,000 subscribers of unconsolidated investees, which are managed by TWC Inc.). Additionally, Digital Phone subscribers totaled 614,000 (including 96,000 subscribers of unconsolidated investees, which are managed by TWC Inc.).

The increase in Advertising revenues for the three and six months ended June 30, 2005 is due to growth of national and local advertising, including an increase in both the rates and volume of advertising spots sold.

For the three and six months ended June 30, 2005, costs of revenues increased 14% and 12%, respectively, and, as a percentage of revenues, were 45% for both the three and six months ended June 30, 2005 compared to 44% for both the three and six months ended June 30, 2004. The increase in costs of revenues is primarily related to increases in video programming costs, higher employee costs and an increase in telephony service costs. For the three and six months ended June 30, 2005, video programming costs increased 14% to \$532 million and 13% to \$1.042 billion, respectively, due primarily to contractual rate increases across TWC Inc.'s programming line-up, including a \$14 million charge related to the resolution of contractual terms with a program vendor. Programming costs in the first six months of 2004 also benefited from the receipt of non-recurring programming credits. Video programming costs are expected to increase during the remainder of 2005, and the full year rate of increase is expected to be at a rate similar to that experienced during the first half of 2005, reflecting the expansion of service offerings and contractual rate increases across TWC Inc.'s programming line-up. Employee costs increased primarily due to merit increases and higher headcount resulting from the roll-out of advanced services. Telephony service costs increased due to the growth of Digital Phone subscribers. Despite the growth in high-speed data subscribers, as discussed above, high-speed data connectivity costs declined 23% for both the three and six months of 2005, as connectivity costs have continued to decrease on a per subscriber basis due to industry-wide cost declines.

The increase in selling, general and administrative expenses is primarily the result of higher employee and administrative costs due to merit increases and higher headcount resulting from the roll-out of advanced services. This was partially offset by \$7 million and \$34 million of costs for the three and six months ended June 30, 2004, respectively, incurred in connection with the previously discussed Urban Cable dispute. The six months ended June 30, 2005 also include \$9 million in reserves related to legal matters.

As previously discussed under "Significant Transactions and Other Items Affecting Comparability," the results for the three and six months ended June 30, 2005 include approximately \$13 million and \$30 million, respectively, of restructuring costs, primarily associated with the early retirement of certain senior executives. These changes are part of TWC Inc.'s broader plans to simplify its organization and enhance its customer focus. TWC Inc. is in the process of executing this reorganization and expects to incur additional costs associated with this reorganization as it is implemented throughout 2005.

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Operating Income before Depreciation and Amortization for the three and six months increased principally as a result of revenue gains (particularly high margin high-speed data revenues), offset in part by higher costs of revenues, selling, general and administrative expenses and the restructuring charges discussed above.

Operating Income increased due primarily to the increase in Operating Income before Depreciation and Amortization described above, offset in part by an increase in depreciation expense. Depreciation expense increased \$31 million and \$61 million for the three and six months, respectively, due primarily to the increased spending on customer premise equipment in recent years, which generally has a significantly shorter useful life compared to the mix of assets previously purchased.

Filmed Entertainment. Revenues, Operating Income before Depreciation and Amortization and Operating Income of the Filmed Entertainment segment for the three and six months ended June 30, 2005 and 2004 are as follows:

	Three Months Ended			Six Months Ended		
	6/30/05	6/30/04 (millions)	% Change	6/30/05	6/30/04 (millions)	% Change
Revenues:						
Advertising	\$ 2	\$ 2	—	\$ 5	\$ 5	—
Content	2,585	3,043	(15%)	5,536	5,962	(7%)
Other	49	46	7%	109	111	(2%)
Total revenues	2,636	3,091	(15%)	5,650	6,078	(7%)
Costs of revenues ^(a)	(2,033)	(2,313)	(12%)	(4,259)	(4,521)	(6%)
Selling, general and administrative ^(a)	(384)	(361)	6%	(762)	(728)	5%
Operating Income before Depreciation and Amortization	219	417	(47%)	629	829	(24%)
Depreciation	(30)	(25)	20%	(60)	(49)	22%
Amortization	(52)	(53)	(2%)	(104)	(106)	(2%)
Operating Income	\$ 137	\$ 339	(60%)	\$ 465	\$ 674	(31%)

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

For the three months ended June 30, 2005, Content revenues decreased primarily as a result of a decline in theatrical product (from \$2.136 billion to \$1.560 billion), partially offset by an increase in television product (from \$781 million to \$896 million). For the six months ended June 30, 2005, Content revenues decreased as a result of declines in both theatrical product (from \$3.695 billion to \$3.415 billion) and television product (from \$2.010 billion to \$1.887 billion). Content revenues also include consumer products and other revenues, which increased \$3 million to \$129 million for the three months ended June 30, 2005, and decreased \$23 million to \$234 million for the six months ended June 30, 2005.

For the three months ended June 30, 2005, revenue from theatrical product decreased due to declines in worldwide home video sales and worldwide theatrical film revenues of \$357 million and \$276 million, respectively, partially offset by a \$57 million increase in television license fees. For the six months ended June 30, 2005, revenue from theatrical product decreased due to declines in worldwide theatrical film revenues and worldwide home video sales of \$416 million and \$44 million, respectively, partially offset by a \$180 million increase in television license fees.

The decline in home video sales from theatrical product for the three and six months ended June 30, 2005, was attributable to difficult comparisons to the prior year, which included the key home video releases of *The Lord of the Rings: The Return of the King*, *The Matrix Revolutions* and *The Last Samurai*. For the six months, this was partially offset by the first quarter 2005 home video release of *Harry Potter and the Prisoner of Azkaban* in most international territories and the domestic home video release of *Troy*. The decrease in worldwide theatrical film revenues for the three and six months ended June 30, 2005 was attributable to difficult comparisons to the prior year,

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which included international overages associated with *The Lord of the Rings: The Return of the King* and the success of *Troy*, *Harry Potter and the Prisoner of Azkaban*, and *The Last Samurai* in the first six months of 2004. For the three and six months ended June 30, 2005, the increase in theatrical product revenue from television distribution related to the timing and quantity of various international availabilities, including a greater number of significant titles in 2005.

The increase in television product revenues for the three months ended June 30, 2005 is attributable to a \$128 million increase in home video sales, partially offset by a \$13 million decline in license fees. The decrease in television product revenues for the six months ended June 30, 2005 is attributable to a \$295 million decline in license fees, partially offset by a \$172 million increase in home video sales.

The decrease in worldwide license fees from television product for the three and six months ended June 30, 2005 was primarily attributable to difficult comparisons to 2004, which included higher revenues associated with the final broadcast seasons of *Friends* and *The Drew Carey Show*. The first six months of 2004 also included the third-cycle syndication continuance license arrangements for *Seinfeld*. The growth in home video sales of television product for the three and six months was primarily attributable to an increased number of titles released in this format, with the most significant contributions from *Seinfeld*.

The decrease in costs of revenues resulted primarily from lower film costs (\$1.187 billion and \$2.595 billion for the three and six months ended June 30, 2005, respectively, compared to \$1.524 billion and \$3.052 billion for the three and six months ended June 30, 2004, respectively) primarily resulting from the quantity and mix of product released. Included in film costs are theatrical valuation adjustments, which declined from \$88 million in 2004 to \$57 million in 2005 for the three months and from \$144 million in 2004 to \$95 million in 2005 for the six months. Advertising and print costs also decreased for the three and six months due to the quantity and mix of films released. These decreases were offset partially by higher home video costs related to increased volume and an increase in the ratio of television product, which has higher manufacturing costs and freight costs. Costs of revenues as a percentage of revenues increased to 77% for the three months ended June 30, 2005 from 75% for the three months ended June 30, 2004, and to 75% for the six months ended June 30, 2005 compared to 74% for the six months ended June 30, 2004 due to the quantity and mix of product released.

Selling, general and administrative expenses increased for the three and six months ended June 30, 2005, primarily due to higher employee costs related to additional headcount and salary increases. The increase for the six months was partially offset by a decline related to the distribution fees associated with the off-network television syndication of *Seinfeld* in the prior year.

Operating Income before Depreciation and Amortization and Operating Income for the three and six months ended June 30, 2005 decreased due to lower revenues and increased selling, general and administrative expenses, which were partially offset by the decrease in costs of revenues, as discussed above.

The Company anticipates that both Operating Income before Depreciation and Amortization and Operating Income will continue to decline in the third quarter of 2005 as a result of difficult comparisons to 2004 but will return to growth in the fourth quarter of 2005 compared to the same periods of 2004.

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Networks. Revenues, Operating Income before Depreciation and Amortization and Operating Income of the Networks segment for the three and six months ended June 30, 2005 and 2004 are as follows:

	Three Months Ended			Six Months Ended		
	6/30/05	6/30/04 (millions)	% Change	6/30/05	6/30/04 (millions)	% Change
Revenues:						
Subscription	\$ 1,374	\$ 1,303	5%	\$ 2,716	\$ 2,537	7%
Advertising	861	817	5%	1,543	1,451	6%
Content	215	224	(4%)	468	508	(8%)
Other	39	34	15%	47	77	(39%)
Total revenues	2,489	2,378	5%	4,774	4,573	4%
Costs of revenues ^(a)	(1,366)	(1,282)	7%	(2,452)	(2,417)	1%
Selling, general and administrative ^(a)	(488)	(435)	12%	(900)	(753)	20%
Loss on sale of assets	—	—	—	—	(7)	NM
Operating Income before Depreciation and Amortization	635	661	(4%)	1,422	1,396	2%
Depreciation	(57)	(51)	12%	(112)	(100)	12%
Amortization	(8)	(8)	—	(12)	(11)	9%
Operating Income	\$ 570	\$ 602	(5%)	\$ 1,298	\$ 1,285	1%

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

The increase in Subscription revenues for the three and six months ended June 30, 2005 was due primarily to higher subscription rates at Turner and HBO and, to a lesser extent, an increase in the number of subscribers at Turner and HBO. The three and six months 2005 results also include a \$22 million benefit from the resolution of certain contractual agreements at Turner and the three and six months 2004 results included a benefit of approximately \$50 million from the resolution of certain contractual agreements at Turner and HBO.

The increase in Advertising revenues for the three and six months ended June 30, 2005 was driven primarily by higher CPMs and sellouts at Turner's entertainment networks, partially offset by a decline at The WB Network as a result of lower ratings.

The decrease in Content revenues for the three and six months ended June 30, 2005 was primarily due to lower licensing revenues at HBO associated with fewer episodes of *Everybody Loves Raymond*, partially offset by higher ancillary sales of HBO's original programming. In addition, for the six months ended June 30, 2005, Content revenues declined due to the absence of the winter sports teams at Turner, which were sold on March 31, 2004 and contributed \$22 million of Content revenues in 2004, and a 2004 benefit associated with favorable home video returns experience.

For the three months ended June 30, 2005, Other revenues increased primarily related to higher ticket and event revenue at the Atlanta Braves. For the six months ended June 30, 2005, the decline in Other revenues was primarily attributable to the sale of the winter sports teams in the first quarter of 2004, which contributed \$39 million of Other revenues in the first quarter of 2004, partially offset by the increase in revenues primarily related to the Atlanta Braves, as previously discussed.

Costs of revenues increased 7% for the three months ended June 30, 2005 and, as a percentage of revenues, was 55% and 54% for the three months ended June 30, 2005 and June 30, 2004, respectively. Costs of revenues increased 1% for the six months ended June 30, 2005 and, as a percentage of revenues, was 51% and 53% for the six months ended June 30, 2005 and June 30, 2004, respectively. For the three and six months ended June 30, 2005, the increase in costs of revenues was primarily attributable to an increase in programming costs, partially offset by lower costs related to the absence of the winter sports teams due to their sale in March 2004. Programming costs increased to \$1.012 billion for the three months ended June 30, 2005 as compared to \$967 million for the three

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months ended June 30, 2004 and to \$1.773 billion for the six months ended June 30, 2005 from \$1.708 billion for the six months ended June 30, 2004. The increase in programming expenses for the three and six months is primarily due to an increase in original series, sports rights and news costs at Turner, partially offset by lower theatrical film and original programming costs at HBO.

Selling, general and administrative expenses increased for the three and six months ended June 30, 2005 primarily due to higher marketing and promotional expenses to support new programming primarily at Turner and higher general and administrative costs at Turner, partially offset by a decline in marketing and promotional expenses at The WB Network. In addition, the increase in selling, general and administrative expenses for the three and six months reflects the reversal of bankruptcy related bad debt reserves of \$14 million and \$75 million for the three and six months ended June 30, 2004, respectively, at Turner and HBO on receivables from Adelphia.

As discussed in "Significant Transactions and Other Items Affecting Comparability," the six months 2004 results include an approximate \$7 million loss on the sale of the winter sports teams.

Operating Income before Depreciation and Amortization and Operating Income declined for the three months ended June 30, 2005 primarily due to higher costs of revenues and selling, general and administrative expenses, partially offset by an increase in revenues, as discussed above. Operating Income before Depreciation and Amortization and Operating Income increased for the six months ended June 30, 2005 primarily due to an increase in revenues, partially offset by higher selling, general and administrative expenses and costs of revenues, as described above.

The Company anticipates that the rate of growth in both Operating Income before Depreciation and Amortization and Operating Income during the remainder of 2005 will be higher than that experienced in the first half of 2005. The growth for the first half of 2005 was negatively impacted, in part, by an approximate \$28 million lower net benefit from the favorable resolution of certain contractual agreements as well as the 2004 reversal of \$75 million of Adelphia bad debt reserves.

Publishing. Revenues, Operating Income before Depreciation and Amortization and Operating Income of the Publishing segment for the three and six months ended June 30, 2005 and 2004 are as follows:

	Three Months Ended			Six Months Ended		
	6/30/05	6/30/04 (millions)	% Change	6/30/05	6/30/04 (millions)	% Change
Revenues:						
Subscription	\$ 421	\$ 423	—	\$ 802	\$ 777	3%
Advertising	742	716	4%	1,313	1,237	6%
Content	169	126	34%	297	235	26%
Other	170	178	(4%)	330	341	(3%)
Total revenues	1,502	1,443	4%	2,742	2,590	6%
Costs of revenues ^(a)	(608)	(556)	9%	(1,151)	(1,056)	9%
Selling, general and administrative ^(a)	(546)	(530)	3%	(1,076)	(1,015)	6%
Gain on sale of assets	—	—	—	8	8	—
Operating Income before Depreciation and Amortization	348	357	(3%)	523	527	(1%)
Depreciation	(31)	(33)	(6%)	(66)	(63)	5%
Amortization	(26)	(36)	(28%)	(53)	(74)	(28%)
Operating Income	\$ 291	\$ 288	1%	\$ 404	\$ 390	4%

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

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Subscription revenues were essentially flat for the three months ended June 30, 2005. For the six months ended June 30, 2005, Subscription revenues increased primarily due to higher newsstand sales of *People* and the U.K. magazine launches, *Pick Me Up* and *Nuts*.

For the three and six months ended June 30, 2005, Advertising revenues increased due to contributions from new magazine launches, the acquisition of the remaining interest in the publisher of *Essence*, and growth at *In Style*, *Real Simple*, and *Southern Living*, offset partly by lower Advertising revenues from *Time*, *Sports Illustrated* and *Fortune*. In addition, the six months ended June 30, 2005 benefited from an increase in Advertising revenues from *People* in the first quarter of 2005. The Company anticipates that the rate of growth in Advertising revenues will decline in the second half of 2005 as compared to the rate of growth experienced in the first half of 2005 due to soft market conditions.

Content revenues increased for the three and six months ended June 30, 2005 due to a number of best-selling titles at Time Warner Book Group.

Costs of revenues increased 9% for the three months ended June 30, 2005 and, as a percentage of revenues were 40% and 39% for the three months ended June 30, 2005 and 2004, respectively. Costs of revenues increased 8% for the six months ended June 30, 2005 and, as a percentage of revenues were 42% and 41% for the six months ended June 30, 2005 and 2004, respectively. Costs of revenues for the magazine publishing business include manufacturing (paper, printing and distribution) and editorial-related costs, which together increased 9% to \$483 million and 9% to \$911 million for the three and six months ended June 30, 2005, respectively. The increase for the three and six months was primarily due to magazine launch-related costs, the acquisition of the remaining interest in the publisher of *Essence*, increases in paper prices as well as costs related to several titles at Time Warner Book Group.

Selling, general and administrative expenses increased 3% and 6% for the three and six months ended June 30, 2005, respectively, primarily due to magazine launch-related costs, the acquisition of the remaining interest in the publisher of *Essence*, and higher selling expenses related to the success of several titles at Time Warner Book Group.

As previously discussed in "Significant Transactions and Other Items Affecting Comparability," the results for the six months ended June 30, 2005 reflect an \$8 million gain related to the collection of a loan made in conjunction with the Company's 2003 sale of Time Life, which was previously fully reserved due to concerns about recoverability. The results for the six months ended June 30, 2004 reflect an \$8 million gain on the sale of a building.

For the three and six months ended June 30, 2005, Operating Income before Depreciation and Amortization decreased, reflecting higher costs of revenues and selling, general and administrative expenses, including \$9 million and \$17 million, respectively, of higher start-up losses on magazine launches, partially offset by an increase in revenues.

Operating Income for the three and six months ended June 30, 2005 improved slightly, benefiting from a decline in amortization expense as a result of certain short-lived intangibles, such as customer lists, becoming fully amortized, partially offset by the decline in Operating Income before Depreciation and Amortization discussed above.

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Corporate. Operating Loss before Depreciation and Amortization and Operating Loss of the Corporate segment for the three and six months ended June 30, 2005 and 2004 are as follows:

	Three Months Ended			Six Months Ended		
	6/30/05	6/30/04 (millions)	% Change	6/30/05	6/30/04 (millions)	% Change
Legal reserves related to securities litigation.	\$(3,000)	\$ —	NM	\$(3,000)	\$ —	NM
Selling, general and administrative ^(a)	(104)	(112)	(7%)	(206)	(276)	(25%)
Operating Loss before Depreciation and Amortization	(3,104)	(112)	NM	(3,206)	(276)	NM
Depreciation	(10)	(8)	25%	(19)	(24)	(21%)
Operating Loss	<u>\$(3,114)</u>	<u>\$(120)</u>	NM	<u>\$(3,225)</u>	<u>\$(300)</u>	NM

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

As previously discussed, the three and six months ended June 30, 2005 results include \$3 billion in legal reserves related to the securities litigation.

Besides normal corporate expenses, included in selling, general and administrative expenses are legal and other professional fees related to the SEC and DOJ investigations into the Company's accounting and disclosure practices and the defense of various securities litigation matters (\$3 million and \$9 million for the three and six months ended June 30, 2005, respectively, compared to \$6 million and \$14 million for the three and six months ended June 30, 2004, respectively). Costs are expected to continue to be incurred in future periods.

Also included in selling, general and administrative expenses for the three and six months ended June 30, 2004 are charges of \$14 million and \$67 million, respectively, associated with the relocation of the Company's corporate headquarters. Of the \$67 million charge, approximately \$26 million relates to a noncash write-off of a fair value lease adjustment, which was established in purchase accounting at the time of the merger of America Online and Time Warner Inc., now known as Historic TW Inc. ("Historic TW"). In the first quarter of 2005, the Company reversed approximately \$3 million of this charge, which was no longer required due to changes in estimates.

Excluding the items discussed above, Operating Loss before Depreciation and Amortization and Operating Loss increased slightly for the three and six months ended June 30, 2005, due primarily to higher employee and general and administrative costs, partially offset in the six months by lower severance costs.

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FINANCIAL CONDITION AND LIQUIDITY*Current Financial Condition*

At June 30, 2005, Time Warner had \$20.549 billion of debt, \$7.592 billion of cash and equivalents (net debt of \$12.957 billion, defined as total debt less cash and equivalents) and \$62.620 billion of shareholders' equity, including the conversion of \$1.5 billion of mandatorily convertible preferred stock to common stock in the first quarter of 2005, compared to \$22.375 billion of debt, \$6.139 billion of cash and equivalents (net debt of \$16.236 billion) and \$60.771 billion of shareholders' equity at December 31, 2004.

The following table shows the significant items contributing to the decrease in net debt from December 31, 2004 to June 30, 2005 (millions):

Net debt at December 31, 2004	\$16,236
Free Cash Flow ^{(a)(b)}	(1,959)
Proceeds from sale of the Company's remaining interest in Google	(940)
Proceeds from the Company's option in WMG	(138)
All other, net	(242)
Net debt at June 30, 2005 ^(c)	<u>\$12,957</u>

(a) See Free Cash Flow discussion under "Cash Flows" below for a reconciliation of the Company's Free Cash Flow to cash provided by operations (\$3.463 billion for the six months ended June 30, 2005).

(b) Free Cash Flow includes a \$300 million payment made related to the government investigations.

(c) Included in the net debt balance is approximately \$277 million, which represents the net unamortized fair value adjustment recognized as a result of the merger of America Online and Historic TW.

As previously announced, the Company will start paying a regular quarterly cash dividend of \$0.05 per share on its common stock, beginning in the third quarter of this year.

As noted in "Other Recent Developments," the Company has accrued \$3 billion in legal reserves related to the securities litigation.

As noted in "Other Recent Developments," on July 29, 2005, the Company's Board of Directors authorized a common stock repurchase program that allows Time Warner to repurchase, from time to time, up to \$5 billion of common stock over a two-year period. Purchases for the stock repurchase program may be made from time to time on the open market and in privately negotiated transactions. Size and timing of these purchases will be based on a number of factors including price and business and market conditions.

In April 2005, the Company entered into an agreement to jointly acquire substantially all of the assets of Adelphia with Comcast for a combination of cash and stock of TWC Inc. TWC Inc. also has agreed to redeem Comcast's interests in TWC Inc. and TWE following the Adelphia acquisition. Upon closing, these transactions will impact the Company's financial condition and liquidity. For additional details, please see "Other Recent Developments."

As discussed in more detail below, management believes that Time Warner's cash provided by operations, cash and equivalents, borrowing capacity under its committed credit facilities and availability under its commercial paper programs are sufficient to fund its capital and liquidity needs for the foreseeable future, including the quarterly dividend payments, the common stock repurchase program, the proposed acquisition of Adelphia, the redemption of Comcast's interests in TWC Inc. and TWE and payments to be made in resolving pending securities litigation.

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Cash Flows

Cash and equivalents increased by \$1.453 billion and \$3.186 billion for the six months ended June 30, 2005 and 2004, respectively. Components of these changes are discussed in more detail in the pages that follow.

Operating Activities

Sources of cash provided by operations are as follows:

	Six Months Ended	
	6/30/05	6/30/04
	(millions)	
Operating Income before Depreciation and Amortization	\$ 2,159	\$ 5,042
Legal reserves related to securities litigation	3,000	—
Noncash asset impairments	24	10
Net interest payments ^(a)	(709)	(805)
Net income taxes paid ^(b)	(261)	(267)
Adjustments relating to discontinued operations ^(c)	(11)	120
Merger and restructuring payments ^(d)	(79)	(74)
Cash paid related to the government investigations	(300)	—
All other, net, including working capital changes	(360)	(720)
Cash provided by operations	<u>\$ 3,463</u>	<u>\$ 3,306</u>

(a) Includes interest income received of \$99 million and \$42 million in 2005 and 2004, respectively.

(b) Includes income tax refunds received of \$47 million and \$25 million in 2005 and 2004, respectively.

(c) Includes net income from discontinued operations of \$110 million in 2004. Amounts also include working capital related adjustments associated with discontinued operations of \$(11) million and \$10 million in 2005 and 2004, respectively.

(d) Includes payments for restructuring and merger related costs, as well as payment for certain other merger-related liabilities.

Cash provided by operations increased to \$3.463 billion in 2005 compared to \$3.306 billion in 2004. The increase in cash provided by operations is related primarily to an increase in Operating Income before Depreciation and Amortization (excluding the legal reserves related to securities litigation, which have not been paid), higher contributions from working capital changes and lower interest payments. These increases were partially offset by cash paid related to the settlement of the SEC investigation in 2005 and a reduction in cash relating to discontinued operations. The changes in components of working capital are subject to wide fluctuations based on the timing of cash transactions related to production schedules, the acquisition of programming, collection of accounts receivable and similar items. The change in working capital between periods primarily reflects higher cash collections on receivables, partially offset by the timing of accounts payable and accrual payments.

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Investing Activities

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

	<u>Six Months Ended</u>	
	<u>6/30/05</u>	<u>6/30/04</u>
	(millions)	
Investment and acquisitions, net of cash acquired:		
Essence	\$ (128)	\$ —
Consolidation of AOL A ^(a)	—	33
Synapse	—	(120)
All other, principally funding of joint ventures	(130)	(126)
Capital expenditures and product development costs	(1,448)	(1,341)
Proceeds from the sale of other available-for-sale securities	36	40
Proceeds from the sale of the Company's remaining interest in Google	940	—
Net proceeds from the sale of WMG ^(b)	—	2,501
Proceeds from the sale of the WMG Option	138	—
All other investment and asset sale proceeds	230	131
Cash provided (used) by investing activities	<u>\$ (362)</u>	<u>\$ 1,118</u>

(a) Represents cash balance of AOL A upon consolidation.

(b) Represents \$2.6 billion of proceeds received from the sale of WMG less certain working capital adjustments.

Cash used by investing activities was \$362 million in 2005 compared to cash provided by investing activities of \$1.118 billion in 2004. The change in cash provided (used) by investing activities is primarily due to the absence of proceeds from the 2004 sale of WMG and an increase in capital expenditures and product development costs, offset by the proceeds from the sale of the Company's remaining interest in Google, the proceeds received upon the sale of its WMG option and higher other investment proceeds.

Financing Activities

Sources of cash used by financing activities are as follows:

	<u>Six Months Ended</u>	
	<u>6/30/05</u>	<u>6/30/04</u>
	(millions)	
Borrowings	\$ 1,203	\$ 1,489
Debt repayments	(3,037)	(2,865)
Proceeds from exercise of stock options	158	224
Principal payments on capital leases	(67)	(102)
Other financing activities	95	16
Cash used by financing activities	<u>\$ (1,648)</u>	<u>\$ (1,238)</u>

Cash used by financing activities was \$1.648 billion in 2005 compared to \$1.238 billion in 2004. The increase in cash used by financing activities was due principally to higher incremental debt repayments in 2005, and lower proceeds from the exercise of stock options, partially offset by lower principal payments on capital leases.

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Free Cash Flow

Free Cash Flow is cash provided by operations (as defined by U.S. generally accepted accounting principles) plus payments related to securities litigation less cash provided by discontinued operations, capital expenditures and product development costs, principal payments on capital leases, and partnership distributions, if any. Free Cash Flow is considered to be an important indicator of the Company's liquidity, including its ability to reduce net debt, make strategic investments, pay dividends to common shareholders and repurchase stock. A limitation of this measure, however, is that it does not reflect securities litigation payments, which reduce liquidity. Free Cash Flow should be considered in addition to, and not as a substitute for, the Company's various cash flow measures (e.g., cash provided by operations) reported in accordance with U.S. generally accepted accounting principles.

The following table provides a reconciliation from the Company's cash provided by operations to Free Cash Flow.

	Six Months Ended	
	6/30/05	6/30/04
	(millions)	
Cash provided by operations	\$ 3,463	\$ 3,306
Capital expenditures and product development costs	(1,448)	(1,341)
Principal payments on capital leases	(67)	(102)
Free Cash Flow including discontinued operations	1,948	1,863
Less: Free Cash Flow from discontinued operations	11	(120)
Free Cash Flow	<u>\$ 1,959</u>	<u>\$ 1,743</u>

Capital Expenditures and Product Development Costs

Time Warner's total capital expenditures and product development costs were \$1.448 billion for the six months ended June 30, 2005 compared to \$1.341 billion for the six months ended June 30, 2004. Capital expenditures and product development costs principally relate to the Company's Cable segment, which had capital expenditures of \$899 million for the six months ended June 30, 2005 as compared to \$718 million for the six months ended June 30, 2004.

The Cable segment's capital expenditures comprise the following categories:

	Six Months Ended	
	6/30/05	6/30/04
	(millions)	
Cable Segment Capital Expenditures		
Customer premise equipment	\$ 431	\$ 348
Scaleable infrastructure	118	66
Line extensions	130	105
Upgrade/rebuild	69	54
Support capital	151	145
Total capital expenditures	<u>\$ 899</u>	<u>\$ 718</u>

TWC Inc. incurs expenditures associated with the construction and maintenance of its cable systems. Costs associated with the construction of the cable transmission and distribution facilities and new cable service installations are capitalized. TWC Inc. generally capitalizes expenditures for tangible fixed assets having a useful life of greater than one year. Capitalized costs include direct material, direct labor, overhead and, in some cases, interest. Sales and marketing costs, as well as the costs of repairing or maintaining existing fixed assets, are expensed as incurred. Types of capitalized expenditures include: customer premise equipment, scaleable infrastructure, line extensions, plant upgrades and rebuilds and support capital. With respect to customer premise equipment, which includes converters and cable modems, TWC Inc. capitalizes direct installation charges only upon the initial deployment of these assets. All costs incurred in subsequent disconnects and reconnects are expensed as

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incurred. Depreciation on these assets is provided generally using the straight-line method over their estimated useful lives. For converters and modems, useful life is generally 3 to 4 years and for plant upgrades, useful life is up to 16 years.

Backlog

Backlog represents the amount of future revenue not yet recorded from cash contracts for the licensing of theatrical and television product for pay cable, basic cable, network and syndicated television exhibition. Backlog was approximately \$4.9 billion and \$3.7 billion at June 30, 2005 and December 31, 2004, respectively. Included in these amounts is licensing of film product from the Filmed Entertainment segment to the Networks segment of \$737 million and \$514 million at June 30, 2005 and December 31, 2004, respectively.

RISK FACTORS AND CAUTION CONCERNING FORWARD-LOOKING STATEMENTS

Risk Factors

If the events discussed in these risk factors occur, the Company's business, financial condition, results of operations or cash flows could be materially adversely affected. In such case, the market price of the Company's common stock could decline.

The Company's America Online business continues to face substantial competition in maintaining and growing its subscriber base, in developing compelling products and services, and in increasing revenues from sources other than fees for the AOL service, and if America Online is unable to meet its competitive challenges, the Company's financial results could be adversely affected. Historically, America Online's primary product offering has been an online subscription service that includes a component of telephone "dial-up" Internet access. This product, offered under a variety of different terms and price plans, generates the substantial majority of America Online's revenues. During the last several years, the online services industry has been changing from one in which the only way for a household to access the Internet was through telephone "dial-up" Internet access provided by Internet service providers to one in which households can access the Internet through a variety of connection methods, such as cable modems, DSL or wireless connections offered by a number of different providers, including Internet service providers, cable companies and telephone and other telecommunications companies. As a result, significant price and service competition for Internet access exists. Furthermore, unlike some of its competitors, AOL does not own or control access to the "last mile" of connectivity to the consumer that would enable it to easily offer high-speed access to subscribers. Therefore, in order for America Online to provide high-speed access, it generally must secure access from the providers that control the last mile of infrastructure. In some cases, those companies provide products competitive to AOL. To date, America Online has had limited success in reaching agreements with companies for high-speed access and implementing such agreements, and there can be no assurance that it will be successful in doing so in the future. As a result primarily of these factors, America Online has experienced declines in subscribers throughout 2003, 2004 and to date in 2005, and declines are expected to continue into the foreseeable future. Declines in subscribers have resulted in decreased Subscription revenues and have had an adverse impact on Advertising revenues and profitability.

Since late 2002, America Online's strategy has focused on improving and expanding its Internet products and services, including enhancement of or upgrade to the content and features provided through the flagship AOL service, and introducing premium services, as well as reducing costs. In late 2004, America Online reorganized its operating structure and expanded its strategy from attracting and retaining subscribers, especially those who access the Internet via a high-speed connection, to focus also on increasing the value of and maintaining or increasing the size of its U.S. and worldwide audience to the America Online network of sites, content and services. America Online's strategy continues to include the development and offering of additional products and services to existing subscribers, as well as to Internet users in general. This strategy includes the potentially conflicting goals of maintaining and improving a subscription business while increasing the audience for its Internet properties by making generally available to Internet users without charge much of the content, features and tools that were previously only available to subscribers. The success of America Online's strategy will depend on a number of

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factors, including competition, the rate of decline in the number of subscribers to the AOL service, the ability to generate more activity on, and to attract more people to, its network of sites, content and services, the growth of the online advertising business, the ability to secure and maintain agreements with third parties for advertising and for distribution of America Online products and services, accurate forecasting of consumer preferences, and the ability to anticipate and keep up with technological developments. If America Online is unsuccessful, Time Warner's financial condition, results of operations and cash flows could be adversely affected.

With respect to telephone "dial-up" Internet access, America Online faces significant competition from other Internet service providers, particularly those with low-priced offerings. To meet this competition, America Online plans to continue to provide certain content, features and tools that will only be available to its subscribers. America Online also operates lower-priced Internet services to compete with the low-price ISPs. It is too early to determine whether these services will compete successfully.

America Online expects to continue to experience declines in the number of subscribers. Each year, a significant portion of AOL members cancel their membership or are terminated by America Online either for non-payment of account charges or violation of one of the terms of service that apply to members (for example, sending spam e-mails or violating community guidelines in chat rooms). In addition, maintaining and growing the subscriber base is difficult because the larger the subscriber base, the greater the number of new subscribers required to offset those subscribers who cancel or are terminated. In 2003 and continuing to the present, America Online did not register new members in numbers sufficient to replace the subscribers who canceled or were terminated. One important reason for the declining number of subscribers has been that registrations have been declining in response to marketing campaigns and various other subscriber acquisition methods; continuing decreases in new registrations could adversely affect the rate of decline in the total number of subscribers. Broadband DSL access providers have recently announced conditional offers that include price reductions that could further adversely affect the rate of decline of America Online subscribers. As part of its strategy announced in late 2004 and in connection with the upcoming official re-launch of the AOL.com Website as a portal, America Online during 2005 has been moving certain proprietary content, features and tools to the Internet, allowing all Internet users, not just members of the AOL service, to access such content, features and tools without charge. This strategy could result in further declines in the number of subscribers and may result in subscribers canceling their subscriptions at a faster rate than in the past. In addition, America Online is seeking to enter into agreements with high-speed access distributors, such as cable companies and telecommunications companies, to bundle the AOL service along with broadband access. It is uncertain whether these agreements will result in America Online attracting or retaining subscribers. Furthermore, even if this strategy is successful in attracting or retaining subscribers, such agreements may be less profitable. America Online continues to develop, test, change, market and implement price plans, service offerings and payment methods to identify effective ways to attract and retain members.

America Online will need to develop other sources of revenues to offset the lower revenues from service fees resulting from the decline in subscribers and migration of existing subscribers to lower-priced plans. For the foreseeable future, Advertising revenues will be an increasingly important source of revenues for America Online. To date, increases in Advertising revenues have not been high enough to offset the losses in revenues resulting from the decline in subscribers and migration of existing subscribers to lower-priced plans. Advertising revenues have been adversely impacted by the loss in AOL subscribers because subscribers generate more usage than non-subscriber Internet visitors to the America Online network of sites, services and content. America Online's Advertising revenues have improved in large part due to America Online's acquisition of Advertising.com, which provides strategic direct-response and brand marketing services to online advertisers, and the paid-search relationship America Online has with Google, including a more recent arrangement with AOL Europe. Increased competition for advertising inventory on third-party Internet sites could adversely impact Advertising.com's continued growth.

America Online's ability to increase Advertising revenues depends in part on its ability to maintain and increase the size and value of its audience using the America Online network of sites, content and services. This audience currently includes AOL members, as well as Internet users accessing America Online's network of sites,

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content and services from the Internet either in the U.S. or from another country. America Online hopes to increase the size and value of its audience through the upcoming official re-launch of the AOL.com Website as a portal, which is currently scheduled to occur during the third quarter of 2005. Although America Online has had some success in attracting an audience outside of its member base at Internet sites like MapQuest and Moviefone, America Online faces significant competition from third-party Internet sites, such as Yahoo!, in attracting Internet users to its portal. It is unknown whether this strategy of increasing content available on the Web through a portal will be successful in generating increased activity by its audience or in maintaining or increasing its audience size, and thus lead to an increase in Advertising revenues.

America Online has made progress in developing alternative sources of revenue and reducing costs, and it needs to continue to do so. For example, while AOL Europe's profitability increased in 2004, the AOL European services are not the leading Internet service providers in France, Germany or the U.K. Competition includes telecommunications companies that may have greater resources and infrastructure. AOL's continued growth will depend in part on AOL Europe's increasing its Advertising revenues and profitability over the next year.

A significant portion of the increase in AOL's operating income is attributable to decreases in costs. While network service costs were cut substantially in 2004 and to date in 2005, further decreases in 2005 are expected, but in a smaller amount than in 2004. Further decreases in network service costs in 2005 are expected to result primarily from previously negotiated price decreases and from continuing decreases in demand based on the decline in the number of subscribers to the AOL service who access the service via dial-up telephone. AOL expects that reductions in network-related expenses after 2005 will not continue at the same rate as in 2005. America Online is also continuing to explore opportunities for further cost reductions. America Online must continue to identify and implement further cost reductions and develop alternative sources of revenues from advertising, digital services and other sources to continue to generate growth in operating income. Accordingly, America Online's strategy includes continuing to sell both new and existing premium digital services, such as AOL Call Alert and MusicNet, to subscribers and non-subscribers. Developing and introducing digital services requires America Online to operate outside of its core area of expertise and may subject America Online to new regulatory requirements. America Online has announced the launch of the AOL Internet Phone Service, an enhanced Voice Over Internet Protocol service for new and current AOL subscribers. This new service involves an ongoing commitment of resources, and there can be no assurance that it will be successful. Furthermore, revenues from digital premium services may be adversely affected by a reduction in prices for these services or from incorporating them into the standard AOL service offering rather than offering them separately as premium services, resulting from pressure from competitors who may offer similar services over time at lower prices or at no additional charge as part of their standard offerings. For example, a McAfee Virus Scan Online product, which AOL previously sold separately to subscribers, is now provided to AOL subscribers at no additional charge.

If the proposed Adelphia acquisition and/or related transactions with Comcast close, TWC Inc. will face certain challenges regarding the integration of the newly acquired systems into its existing managed systems. The successful integration of the acquired systems will depend primarily on TWC Inc.'s ability to manage the combined operations and integrate the acquired systems (including management information, marketing, purchasing, accounting and finance, sales, billing, customer support and product distribution infrastructure, personnel, payroll and benefits, regulatory compliance and technology systems) into its operations. The integration of these systems, including the anticipated upgrade of certain of the Adelphia acquired systems, will require significant capital expenditures and may require TWC Inc. to use financial resources it would otherwise devote to the development of new products and services and the expansion of its existing cable systems. Furthermore, these integration efforts will require substantial attention from TWC Inc.'s management and may impose significant strains on technical resources. If TWC Inc. fails to successfully integrate the acquired systems, it could have a negative impact on the performance of the Company.

In addition, when appropriate, TWC Inc. intends to selectively pursue strategic acquisitions of additional cable systems as part of its growth strategy. Time Warner cannot predict whether TWC Inc. will be successful in buying additional cable systems. However, if TWC Inc. completes a significant acquisition of additional cable

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systems prior to the integration of the systems proposed to be acquired from Adelphia and Comcast, it could further complicate the integration risks associated with the integration of the systems proposed to be acquired from Adelphia and Comcast. Further, TWC Inc. might not be able to successfully integrate a significant acquisition of additional cable systems. If TWC Inc. fails to integrate successfully systems acquired from Adelphia, Comcast or from others, if TWC Inc. fails to manage its growth or if it encounters unexpected difficulties during expansion, it could have a negative impact on the performance of TWC Inc.'s systems (including the systems to be acquired in the Adelphia and Comcast transactions), as well as on the operations, business or financial results of Time Warner.

TWC Inc. also faces certain integration challenges in connection with the internal controls and procedures that have been implemented with respect to the systems to be acquired from Adelphia in the proposed transactions. Certain provisions of the Sarbanes-Oxley Act of 2002 require public companies to, among other things, implement and maintain policies and procedures pertaining to the maintenance of records that reflect the company's transactions and disposition of assets in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with generally accepted accounting principles such that, among other things, (1) transactions are accurately and fairly recorded to permit the preparation of financial statements in accordance with generally accepted accounting principles and that receipts and expenditures are made only when properly authorized and (2) unauthorized transactions involving the acquisition, use or disposition of assets that could have a material adverse effect on the company's financial statements are prevented or detected in a timely manner. Adelphia has stated that it has material weakness in its internal controls and, while Adelphia has agreed to use reasonable efforts to implement effective internal controls prior to the consummation of the proposed transactions, such policies and procedures may not be in place when TWC Inc. acquires such systems in the proposed transactions. If TWC Inc. is required to devote significant time and resources to implementing and ensuring that such controls are in place, it will further complicate the integration of the Adelphia systems with its existing managed systems.

If the proposed Adelphia acquisition and/or related transactions with Comcast close, TWC Inc. may not realize the anticipated benefits of such transactions. The proposed Adelphia acquisition and related transactions with Comcast will combine cable systems of three companies that have previously operated separately. Time Warner expects that TWC Inc. will realize cost savings and other financial and operating benefits as a result of the proposed transactions. However, Time Warner cannot predict with certainty when these cost savings and benefits will occur or the extent to which they actually will be achieved, if at all. As described above, many systems must be integrated and such integration and the anticipated upgrade of a significant portion of the systems acquired from Adelphia will require substantial attention from TWC Inc.'s management and impose strains on TWC Inc.'s technical resources. If the proposed transactions close, the diversion of management attention, the strains on technical resources and the difficulties associated with integrating the acquired systems and TWC Inc.'s existing cable systems could have a material adverse effect on Time Warner's consolidated operating results and on the value of Time Warner's common stock.

The Company's Cable segment has begun providing voice services over its cable systems and faces risks inherent to entering into a new line of business, from competition and from regulatory actions or requirements. TWC Inc.'s Digital Phone service was launched in all of its operating divisions at December 31, 2004. Coordinating the continued roll-out of a product with which it has only limited operating experience may present significant challenges. First, although TWC Inc. has launched Digital Phone service in all its divisions, it remains a relatively new technology. Furthermore, the Digital Phone service depends on interconnection and related services provided by certain third parties. TWC Inc. may encounter unforeseen difficulties as it introduces the product in new operating areas or increases the scale of its offering in areas in which it has launched. Second, TWC Inc. may face heightened customer expectations and regulatory requirements related to the reliability of voice services as compared with video and high-speed data services. TWC Inc. will need to undertake significant training of customer service representatives and technicians. If the service is not sufficiently reliable or TWC Inc. otherwise fails to meet customer expectations or regulatory requirements, the Digital Phone business could be impacted adversely. Third, the competitive landscape for voice services is expected to be intense, with TWC Inc. facing competition from other providers of VoIP services, as well as incumbent local telephone companies, cellular telephone service providers

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and others, including established long distance companies. The incumbent local telephone companies have substantial capital and other resources, as well as longstanding customer relationships. Some of these companies have entered into co-marketing arrangements with direct-to-home satellite service providers to offer video services, and some have begun fiber upgrades to their networks to enable the direct delivery of video services, together with their telephone and DSL offerings. Such bundled offerings by telephone companies may compete with TWC Inc.'s offerings and could adversely impact TWC Inc. Finally, the Company expects advances in communications technology, as well as changes in the marketplace and the regulatory and legislative environment. Consequently, the Company is unable to predict the effect that ongoing or future developments in these areas might have on the Cable segment's voice business and operations. MCI, one of TWC Inc.'s two interconnect and provisioning partners in the Digital Phone business, has announced that it has agreed to be acquired by Verizon, a regional phone company that competes with TWC Inc. in some areas. It is currently not known whether, or to what extent, the proposed acquisition will have any negative impact on the Digital Phone business.

In addition, there are risks associated with TWC Inc.'s launch of voice services in the cable systems acquired in the proposed Adelphia and Comcast transactions. Some of the acquired systems may not currently have cable facilities with sufficient capacity to provide voice services using VoIP technology. In such case, TWC Inc. will be required to upgrade the facilities prior to launching any Digital Phone services. Additionally, the Digital Phone service depends upon interconnection and related services that can only be obtained by third parties, and TWC Inc. will be required to secure such services for the areas covered by the acquired systems before deploying Digital Phone service in those areas.

The voice services business may also present additional regulatory risks. It is unclear whether and to what extent traditional state and federal telephone regulations will apply to telephony services provided using VoIP technology. In addition, regulators could allow utility pole owners to charge cable operators offering voice services higher rates for pole rental than is allowed for cable and high-speed services. The FCC recently initiated a rulemaking proceeding on the regulatory approach to voice services utilizing VoIP technology, and Congress is considering enacting new laws to govern it. The FCC held in November 2004 that one particular VoIP service is not subject to traditional state public utility regulation and indicated that other providers offering similar VoIP services would not be subject to state public utility regulation if they met certain criteria. This decision has been appealed in federal court. In May 2005, the FCC adopted rules requiring VoIP providers that connect to the public switched telephone network to supply enhanced "911" (E911) capabilities as a standard feature to their subscribers. There are also court cases addressing the proper regulatory treatment for the service and rulemakings and various other proceedings underway at the state level. Therefore, the Company cannot be certain what impact regulation will have on the Digital Phone business.

Pending securities litigation or failure to fulfill the obligations under the deferred prosecution agreement with the U.S. Department of Justice or the Consent Order with the Securities and Exchange Commission could adversely affect Time Warner's operations. In connection with the resolution of the investigation by the DOJ of the Company, America Online entered into a deferred prosecution agreement with the DOJ. In accordance with the agreement, the DOJ filed a criminal complaint against America Online in December 2004 for the conduct of certain employees in connection with securities fraud by PurchasePro.com, but the DOJ will defer prosecution of AOL and will dismiss the complaint in December 2006 provided the Company fulfills its obligations under the deferred prosecution agreement, as described in the 2004 Form 10-K. If the Company does not satisfy its obligations, the DOJ can proceed with the prosecution of America Online for actions in connection with PurchasePro.com, as set forth in the complaint, and may consider additional actions against the Company, which could have significant adverse effects on its operations and financial result. The Company intends to satisfy its obligations under the deferred prosecution agreement. In addition, in connection with the settlement with the SEC, the Company consented to entry of a Consent Order requiring it to comply with federal securities laws and regulations and the terms of an earlier order. If the Company is found to be in violation of the Consent Order, it may be subject to increased penalties and consequences as a result of the prior actions. As of August 1, 2005, 42 putative class action and shareholder derivative lawsuits alleging violations of federal and state securities laws as well as purported breaches of fiduciary duties had been filed against Time Warner, certain of its current and former executives, past

**TIME WARNER INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
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and present members of its Board of Directors and, in certain instances, America Online. There is also a consolidated action making allegations of ERISA violations. The complaints purport to be made on behalf of certain of the Company's shareholders and allege, among other things, that Time Warner violated various provisions of the securities laws. There are also actions filed by individual shareholders pending in federal and state courts. Although the Company has reached an agreement in principle to settle the primary consolidated securities class action lawsuits, the settlement is subject to certain conditions and some members of the class may elect to "opt out" of the settlement to pursue their claims separately. In addition, the shareholder derivative, ERISA and individual securities actions remain pending and the Company is unable to predict the outcome of these remaining securities matters. The Company has established a reserve of \$3 billion, with \$2.4 billion related to the proposed settlement of the primary consolidated securities class actions and \$600 million in connection with the remaining shareholder derivative, ERISA and securities matters. The Company is incurring expenses as a result of the pending litigation, and costs associated with judgments in or additional settlements of these matters could adversely affect its financial condition and results of operations. See Note 10, "Commitments and Contingencies—Securities Matters."

Technological developments may adversely affect the Company's competitive position and limit its ability to protect its valuable intellectual property rights. Time Warner's businesses operate in the highly competitive, consumer-driven and rapidly changing media and entertainment industries. These businesses, as well as the industries generally, are to a large extent dependent on the ability to acquire, develop, adopt, and exploit new technologies to distinguish their products and services from those of their competitors. In addition, the Company may face legal and practical limitations on its ability to enforce the Company's intellectual property rights as a result of technological developments that facilitate the theft and unlawful distribution of the Company's copyrighted works in digital form, including via the Internet. For example:

- The Company's cable business may be adversely affected by more aggressive than expected competition from alternate technologies, such as satellite, DSL, traditional phone, and wireless and power-line services; by the failure to choose technologies appropriately; by the failure of new equipment, such as digital set-top boxes or digital video recorders; or by the failure of new services, such as digital cable, high-speed data services, Digital Phone and Video-On-Demand, to appeal to enough consumers, or to be available at prices consumers are willing to pay, to function as expected or to be delivered in a timely fashion;
- The Company's America Online business may be adversely affected by competitors' abilities to develop new technologies more quickly, including more compelling features/functions and premium digital services for Internet users, and by the uncertainty of the costs for obtaining rights from third parties, including appropriate patent licenses for technologies and methods used to deliver new services; and
- The Company's filmed entertainment and television network businesses may be adversely affected by the impact of digital video recorders or other technologies that change the nature of television advertising or by the fragmentation of consumer leisure and entertainment time caused by a greater number of choices resulting from technological developments.

Caution Regarding 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 contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, particularly statements anticipating future growth in revenues, Operating Income before Depreciation and Amortization and cash flow. Words such as "anticipates," "estimates," "expects," "projects," "intends," "plans," "believes" and words and terms of similar substance used in connection with any discussion of future operating or financial performance identify forward-looking statements. These forward-looking statements are based on management's present expectations and beliefs about future events. As with any projection or forecast, they are inherently susceptible to uncertainty and changes in circumstances, and the Company is under no obligation to, and expressly disclaims any obligation to,

TIME WARNER INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
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update or alter its forward-looking statements whether as a result of such changes, new information, subsequent events or otherwise.

Additionally, Time Warner operates in highly competitive, consumer and technology-driven and rapidly changing media, entertainment and Internet businesses. These businesses are affected by government regulation, economic, strategic, political and social conditions, consumer response to new and existing products and services, technological developments and, particularly in view of new technologies, the continued ability to protect intellectual property rights. Time Warner's actual results could differ materially from management's expectations because of changes in such factors. Other factors and risks could adversely affect the operations, business or financial results of Time Warner or its business segments in the future and could also cause actual results to differ materially from those contained in the forward-looking statements, including those identified in Time Warner's other filings with the SEC, and the following factors and risks:

For Time Warner's AOL business:

- the ability to successfully implement its business strategy;
- the ability to develop and introduce new products and services to remain competitive;
- the ability to differentiate its products and services from its competitors;
- the ability to develop, adopt or have access to new technologies;
- the ability to have access to distribution channels controlled by third parties;
- the ability to manage its subscriber base profitably;
- risks related to a non-compliance with the Deferred Prosecution Agreement and applicable FTC Consent Decrees and Assurances of Voluntary Compliance;
- the ability to provide adequate server, network and system capacity;
- the risk of business interruption caused by computer viruses, worms or other malicious activity, weather events, natural disasters, terrorist attacks, third-party supplier failures, or unforeseen events;
- the risk of unanticipated increased costs for network services;
- the ability to maintain, and the cost of maintaining, the privacy and security of company and customer information;
- increased competition from providers of Internet services, including providers of broadband access;
- the ability to generate increased usage of sites and services that are part of the America Online network, and the ability to maintain or expand the audience for its sites, content and services;
- the ability to attract additional traditional advertisers to the online advertising medium;
- the ability to maintain, expand or renew existing advertising or marketing commitments;
- the risk that the online advertising industry will not continue to grow, and that even if the industry continues to grow, the risk that America Online will not successfully compete in securing advertising relationships;

**TIME WARNER INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
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- the ability to maintain or enter into new content, electronic commerce or marketing arrangements and the risk that the cost of such arrangements may increase;
- risks associated with state, local or federal taxation of online services and Internet access providers;
- risks associated with foreign currency exchange rates; and
- the risks from changes in U.S. and international regulatory environments affecting interactive services.

For Time Warner's cable business:

- more aggressive than expected competition, including price competition, from other distributors of video programming, including direct to home satellite distributors, regional incumbent telephone companies and from competitors using new technologies;
- more aggressive than expected competition, including price competition, from other distributors of high-speed data services, including DSL, satellite and terrestrial wireless distributors, power companies and from competitors using new technologies;
- more aggressive than expected competition, including price competition, from other distributors of voice services, including regional telephone companies, long distance providers, national VoIP providers, wireless distributors and from competitors using new technologies;
- additional competition fostered by the grant of additional cable franchises by governmental authorities that enable competing operators to build cable systems in areas in which TWC Inc. holds franchises;
- greater than expected increases in programming or other costs, including costs of new products and services, or difficulty in passing such costs to subscribers;
- increases in government regulation of video services, including regulation that limits cable operators' ability to raise rates, that requires that particular programming be carried or offered in a particular manner (for instance, "a la carte"), or that dictates set-top box or other equipment features, functionalities or specifications;
- government regulation of other services, such as high-speed data and voice services, including regulation that results in the imposition of pole fees for such services that are higher than those permissible for video services;
- government regulation that dictates the manner in which it operates its cable systems or determines what to offer, such as the imposition of "forced access" rules or common carrier type requirements;
- increased difficulty in obtaining franchise renewals;
- the failure of new equipment, such as digital set-top boxes or digital video recorders, or by the failure of new services, such as digital cable service, high-speed data services, voice service or video-on-demand, to appeal to enough consumers or to be available at prices consumers are willing to pay, to function as expected or to be delivered in a timely fashion;
- fluctuations in spending levels by advertisers and consumers;
- changes in technology and failure to anticipate technological developments or to choose and implement technologies appropriately;

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

- unanticipated funding obligations relating to its cable joint ventures;
- a future decision by the FCC or Congress to require cable operators to contribute to the federal "Universal Service Fund" based on the provision of cable modem service, which could raise the price of cable modem service and impair TWC Inc.'s competitive position;
- the award of franchises or similar grants of rights to competitors of cable providers on terms substantially more favorable than those afforded existing cable operators;
- the risk of business interruption caused by computer viruses, worms or other malicious activity, weather events, natural disasters, terrorist attacks, third-party supplier failures, or unforeseen events, as well as the cost of repairing damage caused by such events; and
- the ability to maintain, and the cost of maintaining, the privacy and security of company and customer information.

For Time Warner's filmed entertainment businesses:

- the ability to continue to attract and select desirable talent and scripts at manageable costs;
- general increases in production costs;
- fragmentation of consumer leisure and entertainment time and its possible negative effects on the broadcast and cable networks, which are significant customers of the filmed entertainment businesses;
- continued popularity of merchandising;
- the uncertain impact of technological developments that facilitate theft and unlawful distribution of the Company's copyrighted works and by legal and practical limitations on the ability to enforce the Company's intellectual property rights;
- the ability to develop and apply adequate protections for filmed entertainment content in a digital delivery environment;
- the ability to develop successful business models for the secure delivery of filmed entertainment products in a digital environment;
- risks associated with foreign currency exchange rates;
- with respect to feature films, the risk that marketing costs associated with theatrical film releases in a highly competitive marketplace will increase;
- with respect to television programming, increased competition in viewership for broadcast programming due to the increasing number of cable and pay television services;
- with respect to home video, the threat that an impending format war over the next generation of high definition DVD product might prevent a smooth transition from the current DVD product to the next generation, thereby fragmenting and diminishing the potential market while harming current DVD sales as the industry and consumers wait to see which format or formats will prevail;

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MANAGEMENT'S DISCUSSION AND ANALYSIS
OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION — (Continued)**

- the risk that domestic DVD sales growth will slow resulting from a reduced expansion in the number of new DVD households, as DVD player penetration approaches maturation; and
- the ability to maintain an ad supported commercial television model in the face of challenges posed by increased consumer usage of digital video recorders or other technologies that change the nature of the advertising and other markets for television products.

For Time Warner's network businesses:

- increased competition from large media companies whose increasing scale could result in competitive advantages, including in advertising sales, promotions, programming and other areas;
- greater than expected newsgathering, programming or production costs;
- increased resistance by cable and satellite distributors to wholesale price increases;
- the negative impact on premium programmers of greater than anticipated basic cable rate increases to consumers;
- increased regulation of distribution agreements;
- the sensitivity of network advertising to economic cycles and to new media technologies;
- the negative impact of further consolidation of multiple-system cable operators;
- theft and unlawful distribution of content by means of interception of cable and satellite transmissions or Internet peer-to-peer file sharing;
- the impact of digital video recorders or other technologies that change the nature of television advertising;
- the development of new technologies that alter the role of programming networks and services; and
- greater than expected fragmentation of consumer viewership, as well as the possible loss of viewers, as a result of the increased number of programming services and the increased popularity of alternatives to television.

For Time Warner's publishing businesses:

- declines in spending levels by advertisers and consumers;
- the ability in a challenging environment to continue to develop new profitable sources of circulation;
- substantial postal rate increases expected during the first half of 2006;
- further increases in paper prices;
- increased costs and business disruption resulting from instability in the newsstand distribution channel;
- increased competition from new magazine entrants may have an impact on its most profitable magazines, including *People*;
- risks associated with changes in foreign currency exchange rates;

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MANAGEMENT'S DISCUSSION AND ANALYSIS
OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION — (Continued)**

- changes in government regulation of direct marketing;
- receipt of information identifying debit card purchasers which may require changes in payment acceptance procedures for such purchasers, which could decrease subscription renewals; and
- the introduction and increased popularity over the long term of alternative technologies for the distribution of news and information.

For Time Warner generally, achieving the Company's financial objectives, including growth in operations, maintaining financial ratios and a strong balance sheet, could be adversely affected by decreased liquidity in the capital markets, including any reduction in the ability to access either the capital markets for debt securities or bank financings, failure to meet earnings expectations, significant acquisitions such as the pending Adelphia acquisition or other transactions such as the proposed redemption of Comcast's interests in TWC Inc. and TWE, economic slowdowns, the impact of terrorist acts and hostilities in Iraq and elsewhere in the world, increased expenses as a result of the securities litigation pending against Time Warner, as well as the risk of costs associated with judgments in or additional settlements of such matters, and changes in the Company's plans, strategies and intentions. In addition, lower than expected valuations associated with the cash flows and revenues at its segments may result in its inability to realize the value of recorded intangibles and goodwill at those segments.

TIME WARNER INC.
Item 4. CONTROLS AND PROCEDURES

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

The Company, under the supervision and with the participation of its management, including the Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of the Company's "disclosure controls and procedures" (as such term is defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act")) as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective in timely making known to them material information relating to the Company and the Company's consolidated subsidiaries required to be disclosed in the Company's reports filed or submitted under the Exchange Act. The Company has investments in certain unconsolidated entities. As the Company does not control these entities, its disclosure controls and procedures with respect to such entities are necessarily substantially more limited than those it maintains with respect to its consolidated subsidiaries. The Company began consolidating the financial results of AOL, effective March 31, 2004 pursuant to the requirements of FASB Interpretation No. 46 (Revised), "Consolidation of Variable Interest Entities." Because the Company does not control AOL, the Company's disclosure controls and procedures with respect to information regarding AOL also are more limited than those for consolidated subsidiaries the Company controls.

Changes in Internal Control Over Financial Reporting

There have not been any changes in the Company's internal control over financial reporting during the quarter ended June 30, 2005 that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

TIME WARNER INC.
CONSOLIDATED BALANCE SHEET
(Unaudited)

	June 30, 2005	December 31, 2004
	(millions, except per share amounts)	
ASSETS		
Current assets		
Cash and equivalents	\$ 7,592	\$ 6,139
Restricted cash	150	150
Receivables, less allowances of \$1.966 and \$2.109 billion	5,001	5,512
Inventories	1,638	1,737
Prepaid expenses and other current assets	1,006	920
Total current assets	15,387	14,458
Noncurrent inventories and film costs	4,454	4,415
Investments, including available-for-sale securities	3,438	4,703
Property, plant and equipment, net	13,200	13,094
Intangible assets subject to amortization, net	3,689	3,892
Intangible assets not subject to amortization	39,698	39,656
Goodwill	39,745	39,667
Other assets	2,976	3,273
Total assets	<u>\$122,587</u>	<u>\$123,158</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 1,030	\$ 1,339
Participations payable	2,284	2,580
Royalties and programming costs payable	1,168	1,018
Deferred revenue	1,599	1,653
Debt due within one year	1,188	1,672
Other current liabilities	7,673	6,468
Current liabilities of discontinued operations	40	50
Total current liabilities	14,982	14,780
Long-term debt	19,361	20,703
Deferred income taxes	14,339	14,943
Deferred revenue	730	749
Mandatorily convertible preferred stock	—	1,500
Other liabilities	4,898	4,160
Noncurrent liabilities of discontinued operations	7	38
Minority interests	5,650	5,514
Commitments and contingencies (Note 10)		
Shareholders' equity		
Series LMCN-V common stock, \$0.01 par value, 87.2 and 105.7 million shares outstanding	1	1
Time Warner common stock, \$0.01 par value, 4.604 and 4.483 billion shares outstanding	46	45
Paid-in-capital	157,934	156,252
Accumulated other comprehensive income (loss), net	(370)	106
Accumulated deficit	(94,991)	(95,633)
Total shareholders' equity	62,620	60,771
Total liabilities and shareholders' equity	<u>\$122,587</u>	<u>\$123,158</u>

See accompanying notes.

TIME WARNER INC.
CONSOLIDATED STATEMENT OF OPERATIONS
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	2004	2005	2004
	(millions, except per share amounts)			
Revenues:				
Subscription	\$ 5,618	\$ 5,486	\$ 11,110	\$ 10,800
Advertising	2,020	1,846	3,667	3,293
Content	2,816	3,237	5,899	6,354
Other	290	291	551	598
Total revenues ^(a)	10,744	10,860	21,227	21,045
Costs of revenues ^(a)	(6,249)	(6,342)	(12,249)	(12,313)
Selling, general and administrative ^(a)	(2,571)	(2,515)	(5,099)	(4,960)
Amortization of intangible assets	(152)	(157)	(302)	(311)
Legal reserves related to securities litigation	(3,000)	—	(3,000)	—
Restructuring costs	(11)	2	(23)	2
Asset impairments	—	(10)	(24)	(10)
Gains on disposal of assets, net	8	—	18	1
Operating income (loss)	(1,231)	1,838	548	3,454
Interest expense, net ^(a)	(324)	(383)	(670)	(787)
Other income, net	989	33	1,100	64
Minority interest expense, net	(72)	(62)	(131)	(118)
Income (loss) before income taxes, discontinued operations and cumulative effect of accounting change	(638)	1,426	847	2,613
Income tax benefit (provision)	317	(544)	(205)	(1,019)
Income (loss) before discontinued operations and cumulative effect of accounting change	(321)	882	642	1,594
Discontinued operations, net of tax	—	(105)	—	110
Income (loss) before cumulative effect of accounting change	(321)	777	642	1,704
Cumulative effect of accounting change, net of tax	—	—	—	34
Net income (loss)	\$ (321)	\$ 777	\$ 642	\$ 1,738
Basic income (loss) per common share before discontinued operations and cumulative effect of accounting change	\$ (0.07)	\$ 0.19	\$ 0.14	\$ 0.35
Discontinued operations	—	(0.02)	—	0.02
Cumulative effect of accounting change	—	—	—	0.01
Basic net income (loss) per common share	\$ (0.07)	\$ 0.17	\$ 0.14	\$ 0.38
Average basic common shares	4,683.1	4,561.7	4,636.6	4,555.4
Diluted income (loss) per common share before discontinued operations and cumulative effect of accounting change	\$ (0.07)	\$ 0.19	\$ 0.14	\$ 0.34
Discontinued operations	—	(0.02)	—	0.02
Cumulative effect of accounting change	—	—	—	0.01
Diluted net income (loss) per common share	\$ (0.07)	\$ 0.17	\$ 0.14	\$ 0.37
Average diluted common shares	4,683.1	4,700.7	4,725.6	4,698.1

^(a) Includes the following income (expenses) resulting from transactions with related companies:

Revenues	\$ 57	\$ 47	\$ 116	\$ 109
Costs of revenues	(74)	(62)	(139)	(122)
Selling, general and administrative	10	9	18	16
Interest income, net	8	6	15	11

See accompanying notes.

TIME WARNER INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
Six Months Ended June 30,
(Unaudited)

	2005	2004
	(millions)	
OPERATIONS		
Net income ^(a)	\$ 642	\$ 1,738
Adjustments for noncash and nonoperating items:		
Cumulative effect of accounting change, net of tax	—	(34)
Depreciation and amortization	1,611	1,588
Amortization of film costs	1,462	1,518
Asset impairments	24	10
Gain on investments and other assets, net	(1,074)	(54)
Equity in income of investee companies, net of cash distributions	(33)	(7)
Legal reserves related to securities litigation	3,000	—
Changes in operating assets and liabilities, net of acquisitions ^(b)	(2,158)	(1,463)
Adjustments relating to discontinued operations	(11)	10
Cash provided by operations ^(c)	<u>3,463</u>	<u>3,306</u>
INVESTING ACTIVITIES		
Investments and acquisitions, net of cash acquired	(258)	(213)
Capital expenditures and product development costs	(1,448)	(1,341)
Investment proceeds from available-for-sale securities	976	40
Other investment proceeds	368	2,632
Cash provided (used) by investing activities	<u>(362)</u>	<u>1,118</u>
FINANCING ACTIVITIES		
Borrowings	1,203	1,489
Debt repayments	(3,037)	(2,865)
Proceeds from exercise of stock options	158	224
Principal payments on capital leases	(67)	(102)
Other	95	16
Cash used by financing activities	<u>(1,648)</u>	<u>(1,238)</u>
INCREASE IN CASH AND EQUIVALENTS	1,453	3,186
CASH AND EQUIVALENTS AT BEGINNING OF PERIOD	<u>6,139</u>	<u>3,040</u>
CASH AND EQUIVALENTS AT END OF PERIOD	<u>\$ 7,592</u>	<u>\$ 6,226</u>

(a) For the six months ended June 30, 2004, includes net income from discontinued operations of \$110 million.

(b) For the six months ended June 30, 2005, includes a \$300 million payment related to the government investigations.

(c) For the six months ended June 30, 2005, includes an approximate \$36 million use of cash related to changing the fiscal year end of certain international operations from November 30 to December 31.

See accompanying notes.

TIME WARNER INC.
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
Six Months Ended June 30,
(Unaudited)

	<u>2005</u>	<u>2004</u>
	(millions)	
BALANCE AT BEGINNING OF PERIOD	\$ 60,771	\$ 56,213
Net income	642	1,738
Other comprehensive loss	<u>(476)</u>	<u>(33)</u>
Comprehensive income ^(a)	166	1,705
Conversion of mandatorily convertible preferred stock	1,500	
Other ^(b)	<u>183</u>	<u>375</u>
BALANCE AT END OF PERIOD	<u>\$ 62,620</u>	<u>\$ 58,293</u>

^(a) Comprehensive income (loss) was \$(780) million and \$745 million for the three months ended June 30, 2005 and 2004, respectively.

^(b) For the six months ended June 30, 2005, primarily includes approximately \$200 million for shares issued pursuant to stock option and other benefit plans (including the related income tax benefit of approximately \$19 million) and an approximate \$23 million net loss related to changing the fiscal year end of certain international operations from November 30 to December 31 (including the related income tax benefit of approximately \$9 million). For the six months ended June 30, 2004, includes approximately \$325 million for shares issued pursuant to stock option and other benefit plans (including the related income tax benefit of approximately \$55 million).

See accompanying notes.

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

1. DESCRIPTION OF BUSINESS, RECENT TRANSACTIONS AND BASIS OF PRESENTATION

Description of Business

Time Warner Inc. ("Time Warner" or the "Company") is a leading media and entertainment company, whose businesses include interactive services, cable systems, filmed entertainment, television networks and publishing. Time Warner classifies its business interests into five reportable segments: *AOL*: consisting principally of interactive services; *Cable*: consisting principally of interests in cable systems that provide video programming, high-speed data and Digital Phone services; *Filmed Entertainment*: consisting principally of feature film, television and home video production and distribution; *Networks*: consisting principally of cable television and broadcast networks; and *Publishing*: consisting principally of magazine and book publishing. Financial information for Time Warner's various reportable segments is presented in Note 7.

Recent Transactions

Legal Reserves Related to Securities Litigation

The Company has reached an agreement in principle for the settlement of the securities class action lawsuits included in the matters consolidated under the caption *In re: AOL Time Warner Inc. Securities & "ERISA" Litigation* and described in the Company's Annual Report on Form 10-K for the year ended December 31, 2004 (the "2004 Form 10-K"). The tentative settlement is reflected in a Memorandum of Understanding dated as of July 29, 2005 between the lead plaintiff and the Company. Under the proposed settlement, \$2.4 billion will be paid by Time Warner into a settlement fund for the members of the class represented in the action. In addition, the \$150 million previously paid by Time Warner into a fund in connection with the settlement of the investigation by the U.S. Department of Justice ("DOJ") will be made available to the class, and Time Warner will use its best efforts to have the \$300 million it previously paid in connection with the settlement of its Securities and Exchange Commission ("SEC") investigation transferred to the settlement fund for the class. The proposed settlement is subject to completion of final documentation and preliminary and final court approval as well as other conditions. At this time, there can be no assurance that these conditions will be met and that the settlement of the securities class action litigation will receive preliminary or final court approval. Ernst & Young also has agreed to a settlement in this litigation matter and will pay \$100 million.

In connection with reaching the agreement in principle on the securities class action litigation, the Company has established a reserve of \$2.4 billion. Although the Company has reached an agreement in principle to settle the primary securities class action, other related litigation remains pending, including shareholder derivative actions, lawsuits alleging ERISA violations and securities actions brought by individual shareholders. The Company has established an additional reserve totaling \$600 million in connection with the remaining related securities litigation matters pending against the Company. This \$600 million amount represents the Company's current best estimate of its potential financial exposure in these matters. The aggregate \$3 billion reserve established, however, does not consider any future insurance recoveries under existing insurance policies because the Company cannot reliably estimate the amount of recovery at this time (Note 10).

Common Stock Repurchase Program

On July 29, 2005, Time Warner's Board of Directors authorized a common stock repurchase program that allows Time Warner to repurchase, from time to time, up to \$5 billion of common stock over a two-year period. Purchases for the stock repurchase program may be made from time to time on the open market and in privately negotiated transactions. Size and timing of these purchases will be based on a number of factors including price and business and market conditions.

Common Stock Dividend

As previously announced, the Company will start paying a regular quarterly cash dividend of \$0.05 per share on its common stock, beginning in the third quarter of this year.

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

Investment in Google Inc.

In May 2004, America Online, Inc. ("America Online" or "AOL") exercised a warrant for approximately \$22 million and received approximately 7.4 million shares of Series D Preferred Stock of Google Inc. ("Google"). Each of these shares converted automatically into shares of Google's Class B common stock immediately prior to the closing of Google's initial public offering on August 24, 2004. In connection with this offering, America Online converted approximately 2.4 million shares of its Google Class B common stock into an equal number of shares of Google's Class A common stock. Such Class A shares were sold in the offering for \$195 million, net of the underwriters' discounts and commissions, and the Company recorded a gain of approximately \$188 million in the third quarter of 2004. Beginning in March, the Company entered into agreements to sell its remaining 5.1 million shares at an average share price of approximately \$185. The sales under such agreements settled on May 3, 2005, and the Company received total cash consideration of approximately \$940 million, resulting in a gain of approximately \$925 million recognized in the second quarter of 2005, which is included as a component of Other income, net.

Adelphia/Comcast

Adelphia Acquisition Agreement

On April 20, 2005, a subsidiary of the Company, Time Warner NY Cable LLC ("TW NY"), and Comcast Corporation ("Comcast") each reached separate definitive agreements to, collectively, acquire substantially all the assets of Adelphia Communications Corporation ("Adelphia") for a total of \$12.7 billion in cash (of which TW NY will pay \$9.2 billion and Comcast will pay the remaining \$3.5 billion) and 16% of the common stock of Time Warner Cable Inc. ("TWC Inc.").

At the same time that Comcast and TW NY entered into the Adelphia agreements, Comcast, TWC Inc. and/or their respective affiliates entered into agreements providing for the redemption of Comcast's interests in TWC Inc. and Time Warner Entertainment Company, L.P. ("TWE") (the "TWC Inc. Redemption Agreement" and the "TWE Redemption Agreement," respectively, and, collectively, the "TWC Inc. and TWE Redemption Agreements"). Specifically, Comcast's 17.9% interest in TWC Inc. will be redeemed in exchange for stock of a subsidiary of TWC Inc. holding cable systems serving approximately 587,000 subscribers (as of December 31, 2004), as well as approximately \$1.9 billion in cash. In addition, Comcast's 4.7% interest in TWE will be redeemed in exchange for interests in a subsidiary of TWE holding cable systems serving approximately 168,000 subscribers (as of December 31, 2004), as well as approximately \$133 million in cash. TWC Inc., Comcast and their respective subsidiaries will also swap certain cable systems to enhance their respective geographic clusters of subscribers ("Cable Swaps").

After giving effect to the transactions, TWC Inc. will gain systems passing approximately 7.5 million homes (as of December 31, 2004), with approximately 3.5 million basic subscribers. TWC Inc. will then manage a total of approximately 14.4 million basic subscribers. Time Warner will own 84% of TWC Inc.'s common stock, which will become publicly traded at the time of closing, and own a \$2.9 billion indirect economic interest in TW NY, a subsidiary of TWC Inc.

These transactions are subject to customary regulatory review and approvals, including Hart-Scott-Rodino antitrust approval, Federal Communications Commission and local franchise approvals, as well as, in the case of the Adelphia acquisition, the Adelphia bankruptcy process, which involves approvals by the bankruptcy court having jurisdiction over Adelphia's Chapter 11 case and Adelphia's creditors. An amended plan of reorganization was filed with the bankruptcy court by Adelphia on June 25, 2005. Closing of the Adelphia acquisition is expected during the first half of 2006.

TIME WARNER INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
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The purchase of Adelphia's assets is not dependent on the occurrence of the Cable Swaps and redemption transactions between Time Warner and Comcast. Furthermore, if Comcast fails to obtain certain necessary governmental authorizations, TW NY has agreed that it will also acquire the cable operations of Adelphia that would have been acquired by Comcast, with the purchase price payable in cash or TWC Inc. stock at the Company's discretion.

Amendments to Existing Arrangements

In addition to entering into the agreements to purchase substantially all of Adelphia's assets, the TWC Inc. and TWE Redemption Agreements and Cable Swaps described above, the Company and Comcast amended certain pre-existing agreements. The objective of these amendments is to terminate these agreements contingent upon the completion of the transactions provided for in the TWC Inc. and TWE Redemption Agreements, described above. A brief description of these amendments is as follows:

Registration Rights Agreement. In conjunction with the restructuring of TWE completed in 2003 (the "TWE Restructuring"), TWC Inc. granted Comcast and certain affiliates registration rights related to the shares of TWC Inc. Class A common stock acquired by Comcast in the TWE Restructuring. In connection with the entry into the TWC Inc. and TWE Redemption Agreements, Comcast generally has agreed not to exercise or pursue registration rights with respect to the TWC Inc. Class A common stock owned by it until such date as the TWC Inc. Redemption Agreement described above is terminated in accordance with its terms.

Tolling and Optional Redemption Agreement. On April 20, 2005, a subsidiary of TWC Inc., Comcast and certain of its affiliates entered into an amendment (the "Second Tolling Amendment") to the Tolling and Optional Redemption Agreement, dated as of September 24, 2004, and previously amended on February 17, 2005. Pursuant to the Second Tolling Amendment, the parties agreed that if the TWC Inc. Redemption Agreement terminates, TWC Inc. will redeem 23.8% of Comcast's 17.9% ownership of TWC Inc. Class A common stock in exchange for 100% of the common stock of a TWC Inc. subsidiary that will own certain cable systems serving approximately 148,000 basic subscribers (as of December 31, 2004) plus approximately \$422 million in cash.

A more complete description of the proposed transactions and amendments to existing agreements described above may be found in the Company's Current Reports on Form 8-K, each dated April 20, 2005 and filed with the SEC on April 21, 2005 and April 27, 2005.

Alternate Tolling and Optional Redemption Agreement. On May 31, 2005, a subsidiary of TWC Inc., Comcast and certain of its affiliates and a trust established for the benefit of Comcast entered into the Alternate Tolling and Optional Redemption Agreement (the "Alternate Tolling Amendment"). Pursuant to the Alternate Tolling Amendment, the parties agreed that if the TWC Inc. Redemption Agreement terminates, but the TWE Redemption Agreement is not terminated, TWC Inc. will redeem 23.8% of Comcast's 17.9% ownership of TWC Inc. Class A common stock in exchange for 100% of the common stock of a TWC Inc. subsidiary which will own certain cable systems serving approximately 148,000 basic subscribers (as of December 31, 2004) plus approximately \$422 million in cash.

Basis of Presentation

Reclassifications

Certain reclassifications have been made to the prior year financial information to conform to the June 30, 2005 presentation.

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Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles ("GAAP") 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 accounting for asset impairments, allowances for doubtful accounts, film ultimate revenues, video and magazine returns, business combinations, pensions and other postretirement benefits, income taxes and contingencies.

Interim Financial Statements

The accompanying consolidated financial statements are unaudited however, in the opinion of management, contain all the adjustments (consisting of those of a normal recurring nature) considered necessary to present fairly the financial position and the results of operations and cash flows for the periods presented in conformity with GAAP applicable to interim periods. The accompanying consolidated financial statements should be read in conjunction with the audited consolidated financial statements of Time Warner included in the Company's 2004 Form 10-K.

Income (Loss) Per Common Share

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

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

	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
	(millions, except per share amounts)			
Income (loss) before discontinued operations and cumulative effect of accounting change — basic and diluted	\$ <u>(321)</u>	\$ <u>882</u>	\$ <u>642</u>	\$ <u>1,594</u>
Average number of common shares outstanding — basic	4,683.1	4,561.7	4,636.6	4,555.4
Dilutive effect of stock options, restricted shares and restricted stock units ^(a)	—	53.7	47.8	57.4
Dilutive effect of mandatorily convertible preferred stock	—	85.3	41.2	85.3
Average number of common shares outstanding — diluted	<u>4,683.1</u>	<u>4,700.7</u>	<u>4,725.6</u>	<u>4,698.1</u>
Income (loss) per common share before discontinued operations and cumulative effect of accounting change:				
Basic	\$ <u>(0.07)</u>	\$ <u>0.19</u>	\$ <u>0.14</u>	\$ <u>0.35</u>
Diluted	\$ <u>(0.07)</u>	\$ <u>0.19</u>	\$ <u>0.14</u>	\$ <u>0.34</u>

(a) For the three months ended June 30, 2005, the average number of diluted common shares outstanding excludes 44.0 million of stock options, restricted shares and restricted stock units that if included would be anti-dilutive.

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

As previously disclosed by the Company, the SEC and the DOJ had been conducting investigations into the accounting and disclosure practices of the Company. Those investigations focused on advertising transactions, principally involving the Company's America Online segment, the methods used by the America Online segment to report its subscriber numbers and the accounting related to the Company's interest in AOL Europe prior to January 2002.

The Company and its subsidiary, AOL, entered into a settlement with the DOJ in December 2004 that provided for a deferred prosecution arrangement for a two-year period. In addition, on March 21, 2005, the Company announced that the SEC has approved the Company's proposed settlement, which resolves the SEC's investigation of the Company.

Under the terms of the settlement with the SEC, the Company agreed, without admitting or denying the SEC's allegations, to be enjoined from future violations of certain provisions of the securities laws and to comply with the cease-and-desist order issued by the SEC to AOL in May 2000. The settlement also required the Company to:

- Pay a \$300 million penalty, which will be used for a Fair Fund, as authorized under the Sarbanes-Oxley Act;
- Adjust its historical accounting for Advertising revenues in certain transactions with Bertelsmann, A.G. that were improperly or prematurely recognized, primarily in the second half of 2000, during 2001 and during 2002; as well as adjust its historical accounting for transactions involving three other AOL customers where there were Advertising revenues recognized in the second half of 2000 and during 2001;
- Adjust its historical accounting for its investment in and consolidation of AOL Europe; and
- Agree to the appointment of an independent examiner, who will either be or hire a certified public accountant. The independent examiner will review whether the Company's historical accounting for transactions with 17 counterparties identified by the SEC staff, principally involving online advertising revenues and including three cable programming affiliation agreements with related advertising elements, was in conformity with GAAP, and provide a report to the Company's audit and finance committee of its conclusions within 180 days of being engaged. The transactions that would be reviewed were entered into between June 1, 2000 and December 31, 2001, including subsequent amendments thereto, and involved online advertising and related transactions for which revenue was principally recognized before January 1, 2002.

The Company paid the \$300 million penalty in March 2005; however, it will not be able to deduct the penalty for income tax purposes, be reimbursed or indemnified for such payment through insurance or any other source, or use such payment to setoff or reduce any award of compensatory damages to plaintiffs in related securities litigation pending against the Company. As described above, in connection with the proposed settlement of the primary securities class action, the Company has agreed to use its best efforts to have the \$300 million transferred to the settlement fund for the class represented in the action. The historical accounting adjustments were reflected in the restatement of the Company's financial results for each of the years ended December 31, 2000 through December 31, 2003, which were included in the Company's 2004 Form 10-K.

The independent examiner has begun its review, which is expected to be completed by the end of the year. Depending on the independent examiner's conclusions, a further restatement might be necessary. It is also possible that, so long as there are unresolved issues associated with the Company's financial statements, the effectiveness of any registration statement of the Company or its affiliates may be delayed.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
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Stock-Based Compensation

In December 2004, the Financial Accounting Standards Board ("FASB") issued FASB Statement of Financial Accounting Standards ("Statement") No. 123 (Revised), "Share-Based Payment" ("FAS 123R"). FAS 123R requires all companies to measure compensation costs for all share-based payments (including employee stock options) at fair value and recognize such costs in the statement of operations. As a result, the application of the provisions of FAS 123R will have a significant impact on Operating Income before Depreciation and Amortization, Operating Income, net income and earnings per share. In April 2005, the SEC amended the compliance dates for FAS 123R from fiscal periods beginning after June 15, 2005 to fiscal years beginning after June 15, 2005. The Company will continue to account for share-based compensation using the intrinsic value method set forth in Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25") until the Company's adoption of FAS 123R beginning January 1, 2006.

In accordance with APB 25 and related interpretations, compensation expense 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. The compensation costs related to stock options recognized by the Company pursuant to APB 25 were minimal. If a company measures share-based compensation using APB 25, it must also disclose what the impact would have been if it had measured share-based compensation using the fair value of the equity award on the date it is granted as provided in FAS 123, the predecessor of FAS 123R.

The Company recognizes compensation expense pursuant to the methods specified in FASB Interpretation No. 28, "Accounting for Stock Appreciation Rights and Other Variable Stock Option Award Plans," for its stock option incentive plans under APB 25 and in the FAS 123 pro forma disclosure that follows. Had compensation cost for Time Warner's stock option incentive plans been determined based on the fair value method set forth in FAS 123, Time Warner's net income and basic and diluted net income per common share would have been changed to the following pro forma amounts:

	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
	(millions, except per share amounts)			
Net income (loss), as reported	\$ (321)	\$ 777	\$ 642	\$ 1,738
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	<u>(40)</u>	<u>(79)</u>	<u>(114)</u>	<u>(151)</u>
Pro forma net income (loss)	<u>\$ (361)</u>	<u>\$ 698</u>	<u>\$ 528</u>	<u>\$ 1,587</u>
Basic net income (loss) per share:				
As reported	<u>\$ (0.07)</u>	<u>\$ 0.17</u>	<u>\$ 0.14</u>	<u>\$ 0.38</u>
Pro forma	<u>\$ (0.08)</u>	<u>\$ 0.15</u>	<u>\$ 0.11</u>	<u>\$ 0.35</u>
Diluted net income (loss) per share:				
As reported	<u>\$ (0.07)</u>	<u>\$ 0.17</u>	<u>\$ 0.14</u>	<u>\$ 0.37</u>
Pro forma	<u>\$ (0.08)</u>	<u>\$ 0.15</u>	<u>\$ 0.11</u>	<u>\$ 0.34</u>

For purposes of these disclosures for the 2005 period, the Company has refined certain of its valuation approaches and inputs and believes such refinements are consistent with valuation techniques required under FAS 123R. As guidance and interpretations in the area of equity-based compensation evolve, the Company will continually assess its methodologies and processes in this area to ensure compliance with FAS 123R. Before the first quarter of 2005, the Company estimated the expected term of an option by computing the average period of time

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such options would remain outstanding from the grant date to the exercise date. The historical expected term was previously computed by segregating the employee base into two groups (senior executives and all other employees). Beginning in the first quarter of 2005, the Company began to use historical exercise patterns of previously granted options in relation to stock price movements to derive an employee behavioral pattern used to forecast expected exercise patterns. In evaluating expected employee exercise behavior, the Company separated employees into four groups based on the number of options they were granted. The weighted average expected term assumption used for the second quarter of 2005 was 4.79 years from the date of grant as compared to 3.60 years from the date of grant for the second quarter of 2004. In addition, historically during 2004, the volatility assumption was calculated using an average of historic and implied volatilities. Beginning in the first quarter of 2005, the Company determined the volatility assumption using implied volatilities based primarily on traded Time Warner options. The weighted average volatility assumption used for the second quarter of 2005 was 27.7% as compared to a weighted average volatility of 34.0% for the second quarter of 2004. Had the Company used the methodologies employed in 2004 to estimate stock option valuation assumptions, the weighted average fair value of an option granted in 2005 would have increased by approximately 1%.

Historically, the Company recognized pro forma stock-based compensation expense related to retirement-age-eligible employees over the award's contractual vesting period. During the first quarter of 2005, based on recent accounting interpretations, the Company recorded a charge related to the accelerated amortization of the fair value of options granted in prior periods to certain retirement-age-eligible employees with no subsequent substantive service requirement (e.g., no substantive non-compete agreement). As a result, pro forma stock-based compensation expense for the six months ended June 30, 2005 reflects approximately \$20 million, net of tax, related to the accelerated amortization of the fair value of options granted in prior years to certain retirement-age-eligible employees with no subsequent substantive service requirement. In May 2005, the staff of the SEC announced that companies that previously followed the contractual vesting period approach must continue following that approach prior to adopting FAS 123R and apply the recent accounting interpretation to new grants that have retirement eligibility provisions only upon adoption of FAS 123R. As a result, pro forma stock-based compensation expense related to awards granted subsequent to March 31, 2005 has been determined using the contractual vesting period. For the three and six months ended June 30, 2005, the impact of applying the contractual vesting period approach as compared to the approach noted in the recent accounting interpretations is not significant.

Conditional Asset Retirement Obligations

In March 2005, the FASB issued FASB Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations — an Interpretation of FASB Statement No. 143 ("FIN 47"). FIN 47 clarifies the timing of liability recognition for legal obligations associated with the retirement of a tangible long-lived asset when the timing and/or method of settlement are conditional on a future event. FIN 47 is effective for Time Warner no later than December 31, 2005. The application of FIN 47 is not expected to have a material impact on the Company's consolidated financial statements.

Accounting Changes and Error Corrections

In May 2005, FASB issued FASB Statement 154, "Accounting Changes and Error Corrections — a replacement of APB Opinion No. 20 and FASB Statement No. 3" ("FAS 154"). FAS 154 changes the requirements for the accounting for and reporting of a change in accounting principle. The provisions of FAS 154 require, unless impracticable, retrospective application to prior periods' financial statements of (1) all voluntary changes in accounting principles and (2) changes required by a new accounting pronouncement, if a specific transition is not provided. FAS 154 also requires that a change in depreciation, amortization, or depletion method for long-lived, non-financial assets be accounted for as a change in accounting estimate, which requires prospective application of the new method. FAS 154 is effective for all accounting changes made in fiscal years beginning after December 15, 2005.

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2. SALE OF MUSIC SEGMENT

On March 1, 2004, the Company sold its Warner Music Group ("WMG") recorded music and Warner/Chappell music publishing operations to a private investment group ("Investment Group") for approximately \$2.6 billion in cash and an option to reacquire a minority interest in the operations sold. The Company has presented the results of operations and financial condition of the former music operations as discontinued operations in the accompanying consolidated financial statements. As of June 30, 2005, there were \$47 million of liabilities associated with the former music operations, recorded on the Company's balance sheet. The liabilities were principally related to severance payments to former employees of the music operations, which were retained by Time Warner.

Financial information of the music operations and adjustments to the initial estimates of the assets sold and liabilities assumed included in discontinued operations in the accompanying consolidated statement of operations for the three and six months ended June 30, 2004, is as follows (millions):

	Three Months Ended June 30, 2004	Six Months Ended June 30, 2004
Total revenues	\$ —	\$ 780
Pretax loss	(93)	(16)
Income tax (expense) benefit	(12)	126
Net income (loss)	(105)	110

As part of the sale of the WMG operations, the Company retained an option to reacquire a minority interest in the WMG recorded music and music publishing business. This option was accounted for in accordance with FASB Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities." In the first quarter of 2005, the Company entered into an agreement with WMG pursuant to which WMG agreed to a cash purchase of the Company's option at the time of the WMG public offering at a price based on the initial public offering price per share, net of any underwriters' discounts. As a result of the estimated public offering price range, the Company adjusted the value of the option in the first quarter of 2005 from \$85 million to \$165 million and, accordingly, recorded a gain of \$80 million in Other income, net. In the second quarter of 2005, WMG's registration statement was declared effective at a reduced price from its initial estimated range, and the Company received approximately \$138 million from the sale of its option. As a result of these events, for the three and six months ended June 30, 2005, the Company recorded a \$27 million loss and a \$53 million net gain, respectively, related to this option, which are recorded in Other income, net, in the accompanying consolidated statement of operations.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
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3. INVENTORIES AND FILM COSTS

Inventories and film costs consist of:

	June 30, 2005	December 31, 2004
	(millions)	
Programming costs, less amortization	\$ 2,730	\$ 2,599
Videocassettes, DVDs, books, paper and other merchandise	483	522
Film costs — Theatrical:		
Released, less amortization	1,028	893
Completed and not released	249	60
In production	902	843
Development and pre-production	55	51
Film costs — Television:		
Released, less amortization	204	493
Completed and not released	40	191
In production	395	494
Development and pre-production	6	6
Total inventories and film costs ^(a)	6,092	6,152
Less: current portion of inventory ^(b)	(1,638)	(1,737)
Total noncurrent inventories and film costs	<u>\$ 4,454</u>	<u>\$ 4,415</u>

(a) Does not include \$3.028 billion and \$3.137 billion of net film library costs as of June 30, 2005 and December 31, 2004, respectively, which are included in intangible assets subject to amortization in the accompanying consolidated balance sheet.

(b) Current inventory as of June 30, 2005 and December 31, 2004, is comprised primarily of programming inventory at the Networks segment (\$1.152 billion and \$1.215 billion, respectively), books, magazines, paper and other merchandise at the Publishing segment (\$230 million and \$199 million, respectively), DVDs, and videocassettes at the Filmed Entertainment segment (\$248 million and \$318 million, respectively) and general merchandise at the AOL segment (\$8 million and \$5 million, respectively).

4. MANDATORILY CONVERTIBLE PREFERRED STOCK

At December 31, 2004, the Company had outstanding one share of its Series A mandatorily convertible preferred stock, par value \$0.10 per share, face value of \$1.5 billion (the "Series A Preferred Stock"), held by a trust for the benefit of Comcast, that was issued on March 31, 2003, as part of the TWE Restructuring. In accordance with the terms of the stock, on March 31, 2005, the Series A Preferred Stock was automatically converted into 83,835,883 shares of common stock of the Company, valued at \$1.5 billion, and such amount was reclassified to equity in the accompanying consolidated balance sheet. Prior to the conversion, an estimate of the number of shares of common stock issuable upon the conversion of the Series A Preferred Stock based on the fair market value of the common stock at the end of the applicable period was included only in the calculation of the Company's diluted earnings per share. Following the issuance of the common stock upon the conversion of the Series A Preferred Stock, the shares issued are included in the calculation of both the basic and diluted earnings per share.

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5. SHAREHOLDERS' EQUITY

At June 30, 2005, shareholders' equity of Time Warner included 87.2 million shares of Series LMCN-V common stock and 4.604 billion shares of common stock (net of approximately 82 million shares of common stock held in treasury). The outstanding shares of common stock include the 83,835,883 shares of common stock issued upon conversion of the one share of Series A Preferred Stock on March 31, 2005. Time Warner is authorized to issue up to 750 million shares of preferred stock, up to 25 billion shares of common stock and up to 1.8 billion shares of additional classes of common stock, including Series LMCN-V common stock. Shares of Series LMCN-V common stock have substantially identical rights as shares of Time Warner's common stock, except that shares of Series LMCN-V common stock have limited voting rights and are nonredeemable. The holders of Series LMCN-V common stock are entitled to 1/100 of a vote per share on the election of directors and do not have any other voting rights, except as required by law or with respect to limited matters, including amendments to the terms of the Series LMCN-V common stock adverse to such holders. The Series LMCN-V common stock is not transferable, except in limited circumstances, and is not listed on any securities exchange. Each share of Series LMCN-V common stock is convertible into one share of Time Warner common stock at any time, assuming certain restrictive provisions have been met. During the first six months of 2005, approximately 18.5 million shares of LMCN-V common stock were converted into an equal number of shares of common stock.

6. GOODWILL

A summary of changes in the Company's goodwill for the six months ended June 30, 2005 by reportable segment is as follows (millions):

	December 31, 2004	Acquisitions & Adjustments ^(a)	Impairment ^(b)	June 30, 2005
AOL	\$ 3,027	\$ (9)	\$ (24)	\$ 2,994
Cable	1,921	(2)	—	1,919
Filmed Entertainment	5,218	(1)	—	5,217
Networks	20,626	1	—	20,627
Publishing	8,875	113	—	8,988
Total	<u>\$ 39,667</u>	<u>\$ 102</u>	<u>\$ (24)</u>	<u>\$39,745</u>

- (a) Includes \$111 million at the Publishing segment related to the preliminary purchase price allocation for the acquisition of the remaining ownership interest in Essence Communications Partners.
- (b) Relates to the \$24 million impairment charge of America Online Latin America, Inc. ("AOLA") goodwill in the first quarter of 2005.

7. SEGMENT INFORMATION

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

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
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Three Months Ended June 30, 2005

	<u>Subscription</u>	<u>Advertising</u>	<u>Content</u> (millions)	<u>Other</u>	<u>Total</u>
Revenues					
AOL	\$1,734	\$ 320	\$ —	\$ 43	\$ 2,097
Cable	2,221	136	—	—	2,357
Filmed Entertainment	—	2	2,585	49	2,636
Networks	1,374	861	215	39	2,489
Publishing	421	742	169	170	1,502
Intersegment elimination	(132)	(41)	(153)	(11)	(337)
Total revenues	<u>\$5,618</u>	<u>\$2,020</u>	<u>\$2,816</u>	<u>\$290</u>	<u>\$10,744</u>

Three Months Ended June 30, 2004

	<u>Subscription</u>	<u>Advertising</u>	<u>Content</u> (millions)	<u>Other</u>	<u>Total</u>
Revenues					
AOL	\$1,902	\$ 221	\$ —	\$ 54	\$ 2,177
Cable	1,990	126	—	—	2,116
Filmed Entertainment	—	2	3,043	46	3,091
Networks	1,303	817	224	34	2,378
Publishing	423	716	126	178	1,443
Intersegment elimination	(132)	(36)	(156)	(21)	(345)
Total revenues	<u>\$5,486</u>	<u>\$1,846</u>	<u>\$3,237</u>	<u>\$291</u>	<u>\$10,860</u>

Six Months Ended June 30, 2005

	<u>Subscription</u>	<u>Advertising</u>	<u>Content</u> (millions)	<u>Other</u>	<u>Total</u>
Revenues					
AOL	\$ 3,508	\$ 631	\$ —	\$ 91	\$ 4,230
Cable	4,348	255	—	—	4,603
Filmed Entertainment	—	5	5,536	109	5,650
Networks	2,716	1,543	468	47	4,774
Publishing	802	1,313	297	330	2,742
Intersegment elimination	(264)	(80)	(402)	(26)	(772)
Total revenues	<u>\$11,110</u>	<u>\$3,667</u>	<u>\$5,899</u>	<u>\$551</u>	<u>\$21,227</u>

Six Months Ended June 30, 2004

	<u>Subscription</u>	<u>Advertising</u>	<u>Content</u> (millions)	<u>Other</u>	<u>Total</u>
Revenues					
AOL	\$ 3,821	\$ 435	\$ —	\$112	\$ 4,368
Cable	3,924	235	—	—	4,159
Filmed Entertainment	—	5	5,962	111	6,078
Networks	2,537	1,451	508	77	4,573
Publishing	777	1,237	235	341	2,590
Intersegment elimination	(259)	(70)	(351)	(43)	(723)
Total revenues	<u>\$10,800</u>	<u>\$3,293</u>	<u>\$6,354</u>	<u>\$598</u>	<u>\$21,045</u>

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

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

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

These intersegment transactions are recorded by each segment at estimated fair value as if the transactions were with third parties and, therefore, impact segment performance. While intersegment transactions are treated like third-party transactions to determine segment performance, the revenues (and corresponding expenses or assets recognized by the segment that is counterparty to the transaction) are eliminated in consolidation and, therefore, do not themselves impact consolidated results. Additionally, transactions between divisions within the same reporting segment (e.g., a transaction between HBO and Turner Broadcasting System, Inc. within the Networks segment) are eliminated in arriving at segment performance and, therefore, do not themselves impact segment results. Revenues recognized by Time Warner's segments on intersegment transactions are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	2004	2005	2004
	(millions)		(millions)	
Intersegment Revenues (a)				
AOL	\$ 5	\$ 15	\$ 11	\$ 30
Cable	10	12	20	26
Filmed Entertainment	136	146	378	334
Networks	163	152	321	295
Publishing	23	20	42	38
Total intersegment revenues	<u>\$337</u>	<u>\$345</u>	<u>\$772</u>	<u>\$723</u>

(a) Intersegment revenues include intercompany Advertising revenues of \$41 million and \$36 million for the three months ended June 30, 2005 and 2004, respectively, and \$80 million and \$70 million for the six months ended June 30, 2005 and 2004, respectively.

TIME WARNER INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
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	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	2004	2005	2004
	(millions)		(millions)	
Operating Income (Loss) before Depreciation and Amortization				
AOL ^(a)	\$ 558	\$ 487	\$ 1,076	\$ 976
Cable	900	817	1,722	1,567
Filmed Entertainment	219	417	629	829
Networks ^(b)	635	661	1,422	1,396
Publishing ^(c)	348	357	523	527
Corporate ^(d)	(3,104)	(112)	(3,206)	(276)
Intersegment elimination	22	10	(7)	23
Total Operating Income (Loss) before Depreciation and Amortization	\$ (422)	\$2,637	\$ 2,159	\$5,042

(a) For the three and six months ended June 30, 2005, includes an approximate \$5 million gain related to the sale of a building and a \$3 million and \$5 million gain, respectively, from the resolution of a previously contingent gain related to the 2004 sale of Netscape Security Solutions. For the six months ended June 30, 2005, includes a \$24 million noncash impairment charge related to goodwill associated with AOL. For the three and six months ended June 30, 2004, includes a \$10 million impairment charge related to a building that was held for sale.

(b) For the six months ended June 30, 2004, includes an approximate \$7 million loss related to the sale of the winter sports teams.

(c) For the six months ended June 30, 2005, includes an \$8 million gain related to the collection of a loan made in conjunction with the Company's 2003 sale of Time Life Inc., which was previously fully reserved due to concerns about recoverability. For the six months ended June 30, 2004, includes an \$8 million gain related to the sale of a building.

(d) For the three and six months ended June 30, 2005, includes \$3 billion in legal reserves related to securities litigation. For the three and six months ended June 30, 2004, includes \$14 million and \$67 million, respectively, of costs associated with the relocation from the Company's former corporate headquarters, of which approximately \$3 million of this charge was reversed in the first quarter of 2005, as updated estimates indicate certain costs would no longer be incurred.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	2004	2005	2004
	(millions)		(millions)	
Depreciation of Property, Plant and Equipment				
AOL	\$(143)	\$(170)	\$ (290)	\$ (340)
Cable	(386)	(355)	(762)	(701)
Filmed Entertainment	(30)	(25)	(60)	(49)
Networks	(57)	(51)	(112)	(100)
Publishing	(31)	(33)	(66)	(63)
Corporate	(10)	(8)	(19)	(24)
Total depreciation of property, plant and equipment	\$(657)	\$(642)	\$(1,309)	\$(1,277)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	2004	2005	2004
	(millions)		(millions)	
Amortization of Intangible Assets				
AOL	\$ (47)	\$ (41)	\$ (94)	\$ (83)
Cable	(19)	(19)	(39)	(37)
Filmed Entertainment	(52)	(53)	(104)	(106)
Networks	(8)	(8)	(12)	(11)
Publishing	(26)	(36)	(53)	(74)
Total amortization of intangible assets	\$(152)	\$(157)	\$(302)	\$(311)

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
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	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	2004	2005	2004
	(millions)		(millions)	
Operating Income (Loss)				
AOL ^(a)	\$ 368	\$ 276	\$ 692	\$ 553
Cable	495	443	921	829
Filmed Entertainment	137	339	465	674
Networks ^(b)	570	602	1,298	1,285
Publishing ^(c)	291	288	404	390
Corporate ^(d)	(3,114)	(120)	(3,225)	(300)
Intersegment elimination	22	10	(7)	23
Total operating income (loss)	<u>\$ (1,231)</u>	<u>\$ 1,838</u>	<u>\$ 548</u>	<u>\$ 3,454</u>

(a) For the three and six months ended June 30, 2005, includes an approximate \$5 million gain related to the sale of a building and a \$3 million and \$5 million gain, respectively, from the resolution of a previously contingent gain related to the 2004 sale of Netscape Security Solutions. For the six months ended June 30, 2005, includes a \$24 million noncash impairment charge related to goodwill associated with AOL. For the three and six months ended June 30, 2004, includes a \$10 million impairment charge related to a building that was held for sale.

(b) For the six months ended June 30, 2004, includes an approximate \$7 million loss related to the sale of the winter sports teams.

(c) For the six months ended June 30, 2005, includes an \$8 million gain related to the collection of a loan made in conjunction with the Company's 2003 sale of Time Life Inc., which was previously fully reserved due to concerns about recoverability. For the six months ended June 30, 2004, includes an \$8 million gain related to the sale of a building.

(d) For the three and six months ended June 30, 2005, includes \$3 billion in legal reserves related to securities litigation. For the three and six months ended June 30, 2004, includes \$14 million and \$67 million, respectively, of costs associated with the relocation from the Company's former corporate headquarters, of which approximately \$3 million of this charge was reversed in the first quarter of 2005, as updated estimates indicate certain costs would no longer be incurred.

	June 30, 2005	December 31, 2004
	(millions)	
Assets		
AOL	\$ 5,840	\$ 7,175
Cable	43,187	43,165
Filmed Entertainment	16,815	17,924
Networks	33,430	33,042
Publishing	14,088	14,012
Corporate	9,227	7,840
Total assets	<u>\$122,587</u>	<u>\$123,158</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
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8. BENEFIT PLANS

Time Warner and certain of its subsidiaries have both funded and unfunded noncontributory defined benefit pension plans covering a majority of domestic employees and, to a lesser extent, have various defined benefit plans covering international employees. Pension benefits are based on formulas that reflect the employees' years of service and compensation during their employment period and participation in the plans. Time Warner uses a December 31 measurement date for the majority of its plans. The components of the net periodic benefit costs recognized are as follows (millions):

	Domestic		International		Domestic		International	
	Three Months Ended June 30,				Six Months Ended June 30,			
	2005	2004	2005	2004	2005	2004	2005	2004
Service cost	\$ 35	\$ 32	\$ 5	\$ 7	\$ 67	\$ 60	\$ 10	\$ 12
Interest cost	43	40	8	7	85	78	17	15
Expected return on plan assets	(55)	(44)	(11)	(9)	(104)	(87)	(21)	(18)
Amounts amortized	16	15	2	—	29	27	4	2
Net periodic benefit costs	<u>\$ 39</u>	<u>\$ 43</u>	<u>\$ 4</u>	<u>\$ 5</u>	<u>\$ 77</u>	<u>\$ 78</u>	<u>\$ 10</u>	<u>\$ 11</u>
Contributions	\$ 4	\$ 3	\$ 4	\$ 5	\$ 9	\$ 8	\$ 8	\$ 10

After considering the funded status of the Company's defined benefit plans, movements in benchmark interest rates, investment performance and related tax consequences, the Company may choose to make contributions to its defined benefit pension plans. Currently, there are no minimum required contributions for domestic funded plans and no discretionary or noncash contributions are planned. For domestic unfunded plans, contributions will continue to be made to the extent benefits are paid and are included in the table above. Expected benefit payments for domestic unfunded plans for 2005 is approximately \$19 million.

9. MERGER AND RESTRUCTURING COSTS*Merger Costs*

In connection with the merger of America Online and Historic TW Inc. ("Historic TW") ("America Online-Historic TW Merger"), the Company reviewed its operations and implemented several plans to restructure the operations of both companies ("restructuring plans"). As part of the restructuring plans, the Company accrued a restructuring liability of approximately \$1.031 billion during 2001. These restructuring accruals relate to costs to exit and consolidate certain activities of Historic TW, as well as costs to terminate employees across various Historic TW business units.

As of June 30, 2005, out of the remaining liability of \$33 million, \$9 million was classified as a current liability, with the remaining \$24 million classified as a long-term liability in the accompanying consolidated balance sheet. Amounts are expected to be paid through 2012.

TIME WARNER INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
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Selected information relating to the restructuring costs included in the allocation of the cost to acquire Historic TW is as follows (millions):

	<u>Employee Termination</u>	<u>Other Exit Costs</u>	<u>Total</u>
Initial accruals	<u>\$619</u>	<u>\$412</u>	<u>\$1,031</u>
Restructuring liability as of December 31, 2003	\$ 28	\$ 36	\$ 64
Cash paid — 2004 ^(a)	(14)	(7)	(21)
Noncash reductions — 2004 ^(b)	(2)	(3)	(5)
Restructuring liability as of December 31, 2004	12	26	38
Cash paid — 2005 ^(c)	(4)	(1)	(5)
Restructuring liability as of June 30, 2005	<u>\$ 8</u>	<u>\$ 25</u>	<u>\$ 33</u>

(a) Of the \$21 million paid in 2004, \$4 million was paid for the three months ended June 30, 2004 and \$12 million was paid for the six months ended June 30, 2004.

(b) Noncash reductions represent adjustments to the restructuring accrual, with a corresponding reduction in goodwill, as actual costs related to employee terminations and other exit costs were less than originally estimated. Of the \$5 million in noncash reductions in 2004, no reductions were made during the three and six months ended June 30, 2004.

(c) Of the \$5 million paid in 2005, \$2 million was paid during the second quarter.

Restructuring Costs

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

2005 Restructuring Costs

For the three and six months ended June 30, 2005, the Company incurred restructuring costs of \$13 million and \$30 million, respectively, primarily associated with the early retirement of certain senior executives at the Cable segment. These changes are part of TWC Inc.'s broader plans to simplify its organization and enhance its customer focus. TWC Inc. is in the process of executing this reorganization and expects to incur additional costs associated with this reorganization as it is implemented throughout 2005. For both the three and six months ended June 30, 2005, payments of \$3 million have been made against this accrual.

As of June 30, 2005, out of the remaining liability of \$27 million, \$9 million was classified as a current liability, with the remaining \$18 million classified as a long-term liability in the accompanying consolidated balance sheet. Amounts are expected to be paid through 2011.

2004 Restructuring Costs

For the year ended December 31, 2004, the Company incurred restructuring costs of \$55 million related to employee terminations at the AOL segment. The number of employees terminated was 861 (770 domestic and 91 internationally). During the first quarter of 2005, the Company incurred additional restructuring costs of \$3 million related to the AOL segment as a result of changes in estimates of previously established restructuring accruals.

As of June 30, 2005, out of the remaining liability of \$7 million, \$4 million was classified as a current liability, with the remaining \$3 million classified as a long-term liability in the accompanying consolidated balance sheet. Amounts are expected to be paid through 2013.

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Selected information relating to the 2004 restructuring costs is as follows (millions):

	<u>Employee Terminations</u>
2004 accruals	\$ 55
Cash paid – 2004 ^(a)	(5)
Remaining liability as of December 31, 2004	50
Net additional accrual	1
Cash paid – 2005 ^(b)	(44)
Remaining liability as of June 30, 2005	<u>\$ 7</u>

^(a) Of the \$5 million paid in 2004, no payments were made for the three and six months ended June 30, 2004.

^(b) Of the \$44 million paid in 2005, \$4 million was paid during the second quarter.

2003 Restructuring Costs

For the year ended December 31, 2003, the Company incurred restructuring costs related to various employee and contractual terminations of \$109 million, including \$52 million at the AOL segment, \$21 million at the Networks segment, \$21 million at the Publishing segment and \$15 million at the Cable segment. Employee termination costs occurred across each of the segments and ranged from senior executives to line personnel. The number of employees terminated was 974 and all of the terminations had occurred by the end of the first quarter of 2004.

As of June 30, 2005, out of the remaining liability of \$14 million, \$6 million was classified as a current liability, with the remaining liability of \$8 million classified as a long-term liability in the accompanying consolidated balance sheet. Amounts are expected to be paid through 2010.

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

	<u>Employee Terminations</u>	<u>Other Exit Costs</u>	<u>Total</u>
2003 accruals	\$ 64	\$ 45	\$109
Cash paid — 2003	(17)	(1)	(18)
Remaining liability as of December 31, 2003	47	44	91
Cash paid — 2004 ^(a)	(42)	(4)	(46)
Noncash reductions — 2004 ^(b)	(2)	(3)	(5)
Remaining liability as of December 31, 2004	3	37	40
Cash paid — 2005 ^(c)	(3)	(15)	(18)
Noncash reductions – 2005 ^(b)	—	(8)	(8)
Remaining liability as of June 30, 2005	<u>\$ —</u>	<u>\$ 14</u>	<u>\$ 14</u>

^(a) Of the \$46 million paid in 2004, \$5 million was paid for the three months ended June 30, 2004 and \$45 million was paid for the six months ended June 30, 2004.

^(b) Net noncash reductions reflect changes in estimates of previously established restructuring accruals. Of the \$5 million noncash reductions in 2004, no reductions were made for the three and six months ended June 30, 2004. Of the \$8 million noncash reductions in 2005, no reductions were made during the second quarter.

^(c) Of the \$18 million paid in 2005, \$5 million was paid during the second quarter.

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2002 Restructuring Costs

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

As of June 30, 2005, out of the remaining liability of \$18 million, \$6 million was classified as a current liability, with the remaining liability of \$12 million classified as a long-term liability in the accompanying consolidated balance sheet. Amounts are expected to be paid through 2010.

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

	<u>Employee Terminations</u>	<u>Other Exit Costs</u>	<u>Total</u>
Initial accruals	<u>\$ 92</u>	<u>\$235</u>	<u>\$327</u>
Remaining liability as of December 31, 2003	\$ 52	\$ 10	\$ 62
Cash paid — 2004 ^(a)	(17)	(6)	(23)
Noncash reductions — 2004 ^(b)	(12)	—	(12)
Remaining liability as of December 31, 2004	23	4	27
Cash paid — 2005 ^(c)	(7)	(2)	(9)
Remaining liability as of June 30, 2005	<u>\$ 16</u>	<u>\$ 2</u>	<u>\$ 18</u>

^(a) Of the \$23 million paid in 2004, \$4 million was paid for the three months ended June 30, 2004 and \$17 million was paid for the six months ended June 30, 2004.

^(b) During the second quarter of 2004, a \$12 million severance accrual, initially established in 2002, was reversed in connection with the settlement of that accrual with the issuance of options to purchase stock of the Company. The obligation related to the option issuance was valued at \$10 million and was reflected in shareholders' equity.

^(c) Of the \$9 million paid in 2005, \$3 million was paid during the second quarter.

Other Charges

In connection with relocating its Corporate headquarters, the Company recorded certain exit costs at the date various floors of the former headquarters facility were no longer being occupied by employees of the Company. During the first six months of 2004, the Company recorded a \$67 million charge (\$14 million in the second quarter of 2004). In the third quarter of 2004, \$14 million was reversed as a result of an agreement having been finalized to lease a portion of the space to the AOL segment. Of the net \$53 million charge taken in 2004, approximately \$26 million related to a noncash write-off of an intangible asset recorded in connection with the America Online — Historic TW Merger, representing the favorable terms of the lease relative to market rates at that time. In the first quarter of 2005, the Company reversed approximately \$3 million of this charge, as updated estimates indicated certain costs would no longer be incurred. The remaining amount primarily related to the accrual of the expected loss on the sub-lease of the building, which is expected to be incurred over the remaining term of the lease of approximately nine years, and represents the present value of such obligations.

Through June 30, 2005, payments and other miscellaneous adjustments of \$18 million were made against this liability. Of the remaining \$6 million accrual at June 30, 2005, \$2 million of the liability is classified as current, with the remaining liability of \$4 million classified as long-term in the accompanying balance sheet.

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10. COMMITMENTS AND CONTINGENCIES

Securities Matters

Consolidated Securities Class Action

As of August 1, 2005, 31 shareholder class action lawsuits have been filed naming as defendants the Company, certain current and former executives of the Company and, in several instances, America Online. These lawsuits were filed in U.S. District Courts for the Southern District of New York, the Eastern District of Virginia, the Eastern District of Texas and the Southern District of Florida. The complaints purport to be made on behalf of certain shareholders of the Company and allege that the Company made material misrepresentations and/or omissions of material fact in violation of Section 10(b) of the Securities Exchange Act of 1934 (the "Exchange Act"), Rule 10b-5 promulgated thereunder, and Section 20(a) of the Exchange Act. Plaintiffs claim that the Company failed to disclose America Online's declining advertising revenues and that the Company and America Online inappropriately inflated advertising revenues in a series of transactions. Certain of the lawsuits also allege that certain of the individual defendants and other insiders at the Company improperly sold their personal holdings of Time Warner stock, that the Company failed to disclose that the America Online-Historic TW Merger was not generating the synergies anticipated at the time of the announcement of the merger and, further, that the Company inappropriately delayed writing down more than \$50 billion of goodwill. The lawsuits seek an unspecified amount in compensatory damages. All of these lawsuits have been centralized in the U.S. District Court for the Southern District of New York for coordinated or consolidated pretrial proceedings (along with the federal derivative lawsuits and certain lawsuits brought under the Employee Retirement Income Security Act ("ERISA") described below) under the caption *In re AOL Time Warner Inc. Securities and "ERISA" Litigation*. Additional lawsuits filed by individual shareholders have also been consolidated for pretrial proceedings.

The Minnesota State Board of Investment ("MSBI") has been designated lead plaintiff for the consolidated securities actions and filed a consolidated amended complaint on April 15, 2003, adding additional defendants including additional officers and directors of the Company, Morgan Stanley & Co., Salomon Smith Barney Inc., Citigroup Inc., Banc of America Securities LLC and JP Morgan Chase & Co. Plaintiffs also added additional allegations, including that the Company made material misrepresentations in its registration statements and joint proxy statement-prospectus related to the America Online-Historic TW Merger and in its registration statements pursuant to which debt securities were issued in April 2001 and April 2002, allegedly in violation of Section 11 and Section 12 of the Securities Act of 1933. On July 14, 2003, the defendants filed a motion to dismiss the consolidated amended complaint. On May 5, 2004, the district court granted in part the defendants' motion, dismissing all claims with respect to the registration statements pursuant to which debt securities were issued in April 2001 and April 2002 and certain other claims against other defendants, but otherwise allowing the remaining claims against the Company and certain other defendants to proceed. On August 11, 2004, the court granted MSBI's motion to file a second amended complaint. On July 30, 2004, defendants filed a motion for summary judgment on the basis that plaintiffs cannot establish loss causation for any of their claims, and thus plaintiffs do not have any recoverable damages. That motion is pending. On April 8, 2005, MSBI moved for leave to file a third amended complaint to add certain new factual allegations and four additional individual defendants. That motion is also pending.

The Company has reached an agreement in principle with MSBI for the settlement of the consolidated securities actions. The tentative settlement is reflected in a Memorandum of Understanding dated as of July 29, 2005 between the lead plaintiff and the Company. Under the proposed settlement, \$2.4 billion will be paid by Time Warner into a settlement fund for the members of the class represented in the action. In addition, the \$150 million previously paid by Time Warner into a fund in connection with the settlement of the investigation by the DOJ will be made available to the class, and Time Warner will use its best efforts to have the \$300 million it previously paid in connection with the settlement of its SEC investigation transferred to the settlement fund for the class. The proposed settlement is subject to completion of final documentation and preliminary and final court approval as well

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as other conditions. At this time, there can be no assurance that these conditions will be met and that the settlement of the securities class action litigation will receive preliminary or final court approval. In connection with reaching the agreement in principle on the securities class action, the Company has established a reserve of \$2.4 billion. The reserve established does not consider any future insurance recoveries under existing insurance policies because the Company cannot reliably estimate the amount of recovery at this time. Ernst & Young also has agreed to a settlement in this litigation matter and will pay \$100 million.

Other Related Securities Litigation Matters

In addition to the reserve established in connection with the agreement in principle regarding the settlement of the consolidated securities class action, the Company has established an additional reserve totaling \$600 million in connection with the remaining related securities litigation matters pending against the Company. This \$600 million amount represents the Company's current best estimate of its potential financial exposure in these matters, which are described immediately below. The reserve established does not consider any future insurance recoveries under existing insurance policies because the Company cannot reliably estimate the amount of recovery at this time.

As of August 1, 2005, three putative class action lawsuits have been filed alleging violations of ERISA in the U.S. District Court for the Southern District of New York on behalf of current and former participants in the Time Warner Savings Plan, the Time Warner Thrift Plan and/or the TWC Savings Plan (the "Plans"). Collectively, these lawsuits name as defendants the Company, certain current and former directors and officers of the Company and members of the Administrative Committees of the Plans. The lawsuits allege that the Company and other defendants breached certain fiduciary duties to plan participants by, *inter alia*, continuing to offer Time Warner stock as an investment under the Plans, and by failing to disclose, among other things, that the Company was experiencing declining advertising revenues and that the Company was inappropriately inflating advertising revenues through various transactions. The complaints seek unspecified damages and unspecified equitable relief. The ERISA actions have been consolidated as part of the *In re AOL Time Warner Inc. Securities and "ERISA" Litigation* described above. On July 3, 2003, plaintiffs filed a consolidated amended complaint naming additional defendants, including TWE, certain current and former officers, directors and employees of the Company and Fidelity Management Trust Company. On September 12, 2003, the Company filed a motion to dismiss the consolidated ERISA complaint. On March 9, 2005, the court granted in part, and denied in part, the Company's motion to dismiss. The court dismissed two individual defendants and TWE for all purposes, dismissed other individuals with respect to claims plaintiffs had asserted involving the TWC Savings Plan, and dismissed all individuals who were named in a claim asserting that their stock sales had constituted a breach of fiduciary duty to the Plans. The Company filed an answer to the consolidated ERISA complaint on May 20, 2005. The Company intends to defend against these lawsuits vigorously.

As of August 1, 2005, 11 shareholder derivative lawsuits have been filed naming as defendants certain current and former directors and officers of the Company, as well as the Company as a nominal defendant. Three have been filed in New York State Supreme Court for the County of New York, four have been filed in the U.S. District Court for the Southern District of New York and four have been filed in the Court of Chancery of the State of Delaware for New Castle County. The complaints allege that defendants breached their fiduciary duties by causing the Company to issue corporate statements that did not accurately represent that America Online had declining advertising revenues, that the America Online-Historic TW Merger was not generating the synergies anticipated at the time of the announcement of the merger, and that the Company inappropriately delayed writing down more than \$50 billion of goodwill, thereby exposing the Company to potential liability for alleged violations of federal securities laws. The lawsuits further allege that certain of the defendants improperly sold their personal holdings of Time Warner securities. The lawsuits request that (i) all proceeds from defendants' sales of Time Warner common stock, (ii) all expenses incurred by the Company as a result of the defense of the shareholder class actions discussed above and (iii) any improper salaries or payments, be returned to the Company. The four lawsuits filed in the Court of Chancery for the State of Delaware for New Castle County have been consolidated under the caption, *In re AOL Time Warner Inc. Derivative Litigation*. A consolidated complaint was filed on March 7, 2003 in that action, and on June 9, 2003, the Company filed a notice of motion to dismiss the consolidated complaint. On May 2, 2003, the three lawsuits filed in New York State Supreme Court for the County of New York were dismissed on *forum non conveniens* grounds and plaintiffs' time to appeal has expired. The four lawsuits pending in the U.S. District Court for the Southern District of New York have been centralized for coordinated or consolidated pre-trial proceedings with the securities and ERISA lawsuits described above under the caption *In re AOL Time Warner Inc. Securities*

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and “ERISA” Litigation. On October 6, 2004, plaintiffs filed an amended consolidated complaint in three of these four cases. The Company intends to defend against these lawsuits vigorously.

On July 1, 2003, *Stichting Pensioenfonds ABP v. AOL Time Warner Inc. et al.* was filed in the U.S. District Court for the Southern District of New York against the Company, current and former officers, directors and employees of the Company and Ernst & Young LLP. Plaintiff alleges that the Company made material misrepresentations and/or omissions of material fact in violation of Section 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder, Section 11, Section 12, Section 14(a) and Rule 14a-9 promulgated thereunder, Section 18 and Section 20(a) of the Exchange Act. The complaint also alleges common law fraud and negligent misrepresentation. The plaintiff seeks an unspecified amount of compensatory and punitive damages. This lawsuit has been consolidated for coordinated pretrial proceedings under the caption *In re AOL Time Warner Inc. Securities and “ERISA” Litigation* described above. On July 16, 2004, plaintiff filed an amended complaint adding certain institutional defendants, including Historic TW, and certain current directors of the Company. On November 22, 2004, the Company filed a motion to dismiss the complaint. The Company intends to defend against this lawsuit vigorously.

On November 11, 2002, Staro Asset Management, LLC filed a putative class action complaint in the U.S. District Court for the Southern District of New York on behalf of certain purchasers of Reliant 2.0% Zero-Premium Exchangeable Subordinated Notes for alleged violations of the federal securities laws. Plaintiff is a purchaser of subordinated notes, the price of which was purportedly tied to the market value of Time Warner stock. Plaintiff alleges that the Company made misstatements and/or omissions of material fact that artificially inflated the value of Time Warner stock and directly affected the price of the notes. Plaintiff seeks compensatory damages and/or rescission. This lawsuit has been consolidated for coordinated pretrial proceedings under the caption *In re AOL Time Warner Inc. Securities and “ERISA” Litigation* described above. The Company intends to defend against this lawsuit vigorously.

On April 14, 2003, *Regents of the University of California et al. v. Parsons et al.*, was filed in California Superior Court, County of Los Angeles, naming as defendants the Company, certain current and former officers, directors and employees of the Company, Ernst & Young LLP, Citigroup Inc., Salomon Smith Barney Inc. and Morgan Stanley & Co. Plaintiffs allege that the Company made material misrepresentations in its registration statements related to the America Online-Historic TW Merger and stock option plans in violation of Sections 11 and 12 of the Securities Act of 1933. The complaint also alleges common law fraud and breach of fiduciary duties under California state law. Plaintiffs seek disgorgement of alleged insider trading proceeds and restitution for their stock losses. Three related cases have been filed in California Supreme Court and have been coordinated in the County of Los Angeles. On January 26, 2004, certain individuals filed motions to dismiss for lack of personal jurisdiction. On September 10, 2004, the Company filed a motion to dismiss plaintiffs’ complaints and certain individual defendants (who had not previously moved to dismiss plaintiffs’ complaints for lack of personal jurisdiction) filed a motion to dismiss plaintiffs’ complaints. On April 22, 2005, the court granted certain motions to dismiss for lack of personal jurisdiction and denied certain motions to dismiss for lack of personal jurisdiction. The Company intends to defend against these lawsuits vigorously.

On May 23, 2003, *Treasurer of New Jersey v. AOL Time Warner Inc. et al.*, was filed in the Superior Court of New Jersey, Mercer County, naming as defendants the Company, certain current and former officers, directors and employees of the Company, Ernst & Young LLP, Citigroup Inc., Salomon Smith Barney, Morgan Stanley, JP Morgan Chase and Banc of America Securities. The complaint is brought by the Treasurer of New Jersey and purports to be made on behalf of the State of New Jersey, Department of Treasury, Division of Investments (the “Division”) and certain funds administered by the Division. Plaintiff alleges that the Company made material misrepresentations in its registration statements in violation of Sections 11 and 12 of the Securities Act of 1933. Plaintiff also alleges violations of New Jersey state law for fraud and negligent misrepresentation. Plaintiffs seek an unspecified amount of damages. On October 29, 2003, the Company moved to stay the proceedings or, in the alternative, dismiss the complaint. Also on October 29, 2003, all named individual defendants moved to dismiss the

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complaint for lack of personal jurisdiction. The parties have agreed to stay this action and to coordinate discovery proceedings with the securities and ERISA lawsuits described above under the caption *In re AOL Time Warner Inc. Securities and "ERISA" Litigation*. The Company intends to defend against this lawsuit vigorously.

On July 18, 2003, *Ohio Public Employees Retirement System et al. v. Parsons et al.* was filed in Ohio, Court of Common Pleas, Franklin County, naming as defendants the Company, certain current and former officers, directors and employees of the Company, Citigroup Inc., Salomon Smith Barney Inc., Morgan Stanley & Co. and Ernst & Young LLP. Plaintiffs allege that the Company made material misrepresentations in its registration statements in violation of Sections 11 and 12 of the Securities Act of 1933. Plaintiffs also allege violations of Ohio law, breach of fiduciary duty and common law fraud. Plaintiffs seek disgorgement of alleged insider trading proceeds, restitution and unspecified compensatory damages. On October 29, 2003, the Company moved to stay the proceedings or, in the alternative, dismiss the complaint. Also on October 29, 2003, all named individual defendants moved to dismiss the complaint for lack of personal jurisdiction. On October 8, 2004, the court granted in part the Company's motion to dismiss plaintiffs' complaint; specifically, the court dismissed plaintiffs' common law claims but otherwise allowed plaintiffs' remaining statutory claims against the Company and certain other defendants to proceed. The Company intends to defend against this lawsuit vigorously.

On July 18, 2003, *West Virginia Investment Management Board v. Parsons et al.* was filed in West Virginia, Circuit Court, Kanawha County naming as defendants the Company, certain current and former officers, directors and employees of the Company, Citigroup Inc., Salomon Smith Barney Inc., Morgan Stanley & Co., and Ernst & Young LLP. Plaintiff alleges the Company made material misrepresentations in its registration statements in violation of Sections 11 and 12 of the Securities Act of 1933. Plaintiff also alleges violations of West Virginia law, breach of fiduciary duty and common law fraud. Plaintiff seeks disgorgement of alleged insider trading proceeds, restitution and unspecified compensatory damages. On May 27, 2004, the Company filed a motion to dismiss the complaint. Also on May 27, 2004, all named individual defendants moved to dismiss the complaint for lack of personal jurisdiction. The Company intends to defend against this lawsuit vigorously.

On January 28, 2004, *McClure et al. v. AOL Time Warner Inc. et al.* was filed in the District Court of Cass County, Texas (purportedly on behalf of several purchasers of Company stock) naming as defendants the Company and certain current and former officers, directors and employees of the Company. Plaintiffs allege that the Company made material misrepresentations in its registration statements in violation of Sections 11 and 12 of the Securities Act of 1933. Plaintiffs also allege breach of fiduciary duty and common law fraud. Plaintiffs seek unspecified compensatory damages. On May 8, 2004, the Company filed a general denial and a motion to dismiss for improper venue. Also on May 8, 2004, all named individual defendants moved to dismiss the complaint for lack of personal jurisdiction. The Company intends to defend against this lawsuit vigorously.

On February 24, 2004, *Commonwealth of Pennsylvania Public School Employees' Retirement System et al. v. Time Warner Inc. et al.* was filed in the Court of Common Pleas of Philadelphia County naming as defendants the Company, certain current and former officers, directors and employees of the Company, America Online, Historic TW, Morgan Stanley & Co., Inc., Citigroup Global Markets Inc., Banc of America Securities LLC, J.P. Morgan Chase & Co and Ernst & Young LLP. Plaintiffs had previously filed a request for a writ of summons notifying defendants of commencement of an action. Plaintiffs allege that the Company made material misrepresentations in its registration statements in violation of Sections 11 and 12 of the Securities Act of 1933. Plaintiffs also allege violations of Pennsylvania law, breach of fiduciary duty and common law fraud. The plaintiffs seek unspecified compensatory and punitive damages. Plaintiffs dismissed the four investment banks from the complaint in exchange for a tolling agreement. The remaining parties have agreed to stay this action and to coordinate discovery proceedings with the securities and ERISA lawsuits described above under the caption *In re AOL Time Warner Inc. Securities and "ERISA" Litigation*. Plaintiffs filed an amended complaint on June 14, 2005. The Company intends to defend against this lawsuit vigorously.

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On April 1, 2004, *Alaska State Department of Revenue et al. v. America Online, Inc. et al.* was filed in Superior Court in Juneau County, Alaska naming as defendants the Company, certain current and former officers, directors and employees of the Company, America Online, Historic TW, Morgan Stanley & Co., Inc., and Ernst & Young LLP. Plaintiffs allege that the Company made material misrepresentations in its registration statements in violation of Alaska law and common law fraud. The plaintiffs seek unspecified compensatory and punitive damages. On July 26, 2004, all named individual defendants moved to dismiss the complaint for lack of personal jurisdiction. On August 13, 2004, the Company filed a motion to dismiss plaintiffs' complaint. The Company intends to defend against this lawsuit vigorously.

On November 15, 2002, the California State Teachers' Retirement System filed an amended consolidated complaint in the U.S. District Court for the Central District of California on behalf of a putative class of purchasers of stock in Homestore.com, Inc. ("Homestore"). Plaintiff alleges that Homestore engaged in a scheme to defraud its shareholders in violation of Section 10(b) of the Exchange Act. The Company and two former employees of its America Online division were named as defendants in the amended consolidated complaint because of their alleged participation in the scheme through certain advertising transactions entered into with Homestore. Motions to dismiss filed by the Company and the two former employees were granted on March 7, 2003, and a final judgment of dismissal was entered on March 8, 2004. On April 7, 2004, plaintiff filed a notice of appeal in the Ninth Circuit Court of Appeals; that appeal was fully briefed as of January 10, 2005. The Company intends to defend against this lawsuit vigorously.

On April 30, 2004, a second amended complaint was filed in the U.S. District Court for the District of Nevada on behalf of a putative class of purchasers of stock in PurchasePro.com, Inc. ("PurchasePro"). Plaintiffs allege that PurchasePro engaged in a scheme to defraud its shareholders in violation of Section 10(b) of the Exchange Act. The Company and four former officers and employees were added as defendants in the second amended complaint and are alleged to have participated in the scheme through certain advertising transactions entered into with PurchasePro. Three similar putative class actions had previously been filed against the Company, America Online and certain former officers and employees, and have been consolidated with the Nevada action. On February 17, 2005, the Judge in the consolidated action granted the Company's motion to dismiss the second amended complaint with prejudice. On September 13, 2004, in a related matter, PurchasePro filed an adversary proceeding against the Company in the U.S. Bankruptcy Court for the District of Nevada alleging fraudulent conveyance and unjust enrichment in connection with PurchasePro warrants issued to the Company. On December 15, 2004, the Bankruptcy Court granted the Company's motion to dismiss the complaint without prejudice. On January 26, 2005, PurchasePro filed an amended complaint. On March 18, 2005, PurchasePro filed a second amended complaint, and on June 29, 2005, the Bankruptcy Court denied the Company's motion to dismiss the second amended complaint. The Company filed a motion for reconsideration on July 11, 2005. That motion is pending. The Company intends to defend against these lawsuits vigorously.

Government Investigations

As previously disclosed by the Company, the SEC and the DOJ had been conducting investigations into the accounting and disclosure practices of the Company. Those investigations focused on advertising transactions, principally involving the Company's America Online segment, the methods used by the America Online segment to report its subscriber numbers and the accounting related to the Company's interest in AOL Europe prior to January 2002.

The Company and its subsidiary, AOL, entered into a settlement with the DOJ in December 2004 that provided for a deferred prosecution arrangement for a two-year period. In addition, on March 21, 2005, the Company announced that the SEC has approved the Company's proposed settlement, which resolves the SEC's investigation of the Company.

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Under the terms of the settlement with the SEC, the Company agreed, without admitting or denying the SEC's allegations, to be enjoined from future violations of certain provisions of the securities laws and to comply with the cease-and-desist order issued by the SEC to AOL in May 2000. The settlement also required the Company to:

- Pay a \$300 million penalty, which will be used for a Fair Fund, as authorized under the Sarbanes-Oxley Act;
- Adjust its historical accounting for Advertising revenues in certain transactions with Bertelsmann A.G. that were improperly or prematurely recognized, primarily in the second half of 2000, during 2001 and during 2002; as well as adjust its historical accounting for transactions involving three other AOL customers where there were Advertising revenues recognized in the second half of 2000 and during 2001;
- Adjust its historical accounting for its investment in and consolidation of AOL Europe; and
- Agree to the appointment of an independent examiner, who will either be or hire a certified public accountant. The independent examiner will review whether the Company's historical accounting for transactions with 17 counterparties identified by the SEC staff, principally involving online advertising revenues and including three cable programming affiliation agreements with related advertising elements, was in conformity with GAAP, and provide a report to the Company's audit and finance committee of its conclusions within 180 days of being engaged. The transactions that would be reviewed were entered into between June 1, 2000 and December 31, 2001, including subsequent amendments thereto, and involved online advertising and related transactions for which revenue was principally recognized before January 1, 2002.

The Company paid the \$300 million penalty in March 2005; however, it will not be able to deduct the penalty for income tax purposes, be reimbursed or indemnified for such payment through insurance or any other source, or use such payment to setoff or reduce any award of compensatory damages to plaintiffs in related securities litigation pending against the Company. As described above, in connection with the proposed settlement of the primary securities class action, the Company has agreed to use its best efforts to have the \$300 million transferred to the settlement fund for the class represented in the action. The historical accounting adjustments were reflected in the restatement of the Company's financial results for each of the years ended December 31, 2000 through December 31, 2003, which were included in the Company's 2004 Form 10-K.

The independent examiner has begun its review, which is expected to be completed at the end of the year. Depending on the independent examiner's conclusions, a further restatement might be necessary. It is also possible that, so long as there are unresolved issues associated with the Company's financial statements, the effectiveness of any registration statement of the Company or its affiliates may be delayed.

Other Matters

On August 18, 2004, The Saul Zaentz Company filed a complaint in California Superior Court, County of Los Angeles, against New Line Cinema Corporation, a wholly owned subsidiary of the Company ("New Line"), for alleged breach of contract, declaratory relief and other claims. New Line and plaintiff are parties to a license agreement concerning rights in and to literary works written by J.R.R. Tolkien titled *The Hobbit* and *The Lord of the Rings*. The complaint alleges, among other things, that New Line owes royalties to plaintiff based on a percentage of gross receipts received by New Line's international subdistributors from its motion picture "The Lord of the Rings: The Fellowship of the Rings." On September 27, 2004, New Line filed an answer and cross-complaint for breach of contract and declaratory relief against plaintiff. The Company has reached an agreement to settle the case on terms that will not have a material adverse impact on the Company's financial condition or results of operations.

Warner Bros. (South) Inc. ("WBS"), a wholly owned subsidiary of the Company, is litigating numerous tax cases in Brazil. WBS currently is the theatrical distribution licensee for Warner Bros. in Brazil and acts as a service provider to the Warner Bros. home video licensee. All of the ongoing tax litigation involves WBS' distribution activities prior to January 2004, when WBS conducted both theatrical and home video distribution. Much of the tax

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litigation stems from WBS' position that in distributing videos to rental retailers, it was conducting a distribution service, subject to a municipal service tax, and not the "industrialization" or sale of videos, subject to Brazilian federal and state VAT-like taxes. Both the federal tax authorities and the State of Sao Paulo, where WBS is based, have challenged this position. In some additional tax cases, WBS, often together with other film distributors, is challenging the imposition of taxes on royalties remitted outside of Brazil and the constitutionality of certain taxes. The Company intends to defend all of these various tax cases vigorously, but is unable to predict the outcome of these suits.

As of August 1, 2005, 22 putative consumer class action suits have been filed in various state and federal courts naming as defendants the Company or America Online. Plaintiffs allege that America Online violated various consumer protection laws by charging members for services or goods without authorization, including unauthorized secondary accounts offered in connection with America Online's "Spin-Off a Second Account" ("SOSA") program, and/or by continuing to charge members for services after receiving requests for cancellation. Motions to dismiss have been denied in *O'Leary v. America Online, Inc.*, which was filed in the Circuit Court for St. Clair County, Illinois, and *White v. America Online, Inc.*, which was filed in the Circuit Court for Madison County, Illinois. Eleven class actions involving SOSA accounts have been transferred by the Judicial Panel on Multidistrict Litigation to the U.S. District Court for the Central District of California for consolidated or coordinated pretrial proceedings (*In re America Online Spin-Off Accounts Litigation*), and the Company's motion to dismiss that complaint has been denied. On January 5, 2004, the SOSA case pending in the Superior Court of Washington, Spokane County, titled *Dix v. ICT Group and America Online*, was dismissed without prejudice based on the forum selection clause set forth in the plaintiffs' Member Agreement with AOL. On February 17, 2005, the Washington Court of Appeals reversed the lower court's dismissal; the Company intends to file a motion for reconsideration of the Court of Appeals' decision. On October 12, 2004, the SOSA case pending in the Court of Common Pleas of Hamilton County, Ohio, titled *Robert Schwartz v. America Online, Inc.*, was dismissed based on the forum selection clause and that dismissal is now final. *McCall v America Online, Inc.*, the SOSA case which was pending in the Superior Court of Cape May County, New Jersey, has been voluntarily dismissed. America Online has filed or will file motions to dismiss in the remaining cases. On April 7, 2005, the Circuit Court for St. Clair County, Illinois entered orders that permit an amended filing and consolidation of several cases and preliminarily approve a proposed nationwide class settlement. The proposed settlement is immaterial to the Company. Plaintiff in the consolidated action has since obtained an injunction from the California district court that purports to bar the parties from seeking final approval of that settlement. America Online has filed an expedited appeal of this decision before the U.S. Court of Appeals for the Ninth Circuit, which is now pending.

On May 24, 1999, two former AOL Community Leader volunteers filed *Hallissey et al. v. America Online, Inc.* in the U.S. District Court for the Southern District of New York. This lawsuit was brought as a collective action under the Fair Labor Standards Act ("FLSA") and as a class action under New York state law against America Online and AOL Community, Inc. The plaintiffs allege that, in serving as Community Leader volunteers, they were acting as employees rather than volunteers for purposes of the FLSA and New York state law and are entitled to minimum wages. On December 8, 2000, defendants filed a motion to dismiss on the ground that the plaintiffs were volunteers and not employees covered by the FLSA. The motion to dismiss is pending. A related case was filed by several of the *Hallissey* plaintiffs in the U.S. District Court for the Southern District of New York alleging violations of the retaliation provisions of the FLSA. This case has been stayed pending the outcome of the *Hallissey* motion to dismiss. Three related class actions have been filed in state courts in New Jersey, California and Ohio, alleging violations of the FLSA and/or the respective state laws. The New Jersey and Ohio cases were removed to federal court and subsequently transferred to the U.S. District Court for the Southern District of New York for consolidated pretrial proceedings with *Hallissey*. The California action was remanded to California state court, and on January 6, 2004 the court denied plaintiffs' motion for class certification. Plaintiffs appealed the trial court's denial of their motion for class certification to the California Court of Appeals. On May 26, 2005, a three-justice panel of the California Court of Appeals unanimously affirmed the trial court's order denying class certification. The plaintiffs have filed a petition for review in the California Supreme Court. The Company intends to defend against these lawsuits

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vigorously. The Company is unable to predict the outcome of these suits or reasonably estimate a range of possible loss.

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

On October 7, 2003, *Kim Sevier and Eric M. Payne vs. Time Warner Inc. and Time Warner Cable Inc.*, a putative nationwide consumer class action, was filed in the U.S. District Court for the Southern District of New York, and on October 23, 2003, *Heidi D. Knight v. Time Warner Inc. and Time Warner Cable Inc.*, also a putative nationwide consumer class action, was filed in the same court. In each case, the plaintiffs allege that defendants unlawfully tie the provision of high-speed cable Internet service to leases of cable modem equipment, because they do not provide a discount to customers who provide their own cable modems, in violation of Section 1 of the Sherman Act and the New York Donnelly Act, and, further, that defendants' conduct resulted in unjust enrichment. On November 19, 2003, the court ordered plaintiffs' complaints to be consolidated. Plaintiffs filed their amended consolidated class action complaint on December 17, 2003, seeking compensatory damages, disgorgement, attorneys' fees and injunctive and declaratory relief. On February 6, 2004, the Company moved to compel arbitration and to stay the matter pending arbitration or, alternatively, to dismiss the case; the court denied this motion on April 19, 2004, and the Company filed a notice to appeal the decision on arbitration to the U.S. Court of Appeals for the Second Circuit. On March 7, 2005, the Second Circuit remanded the case to the district court so that the parties may seek approval of a proposed classwide settlement. The district court granted preliminary approval of the settlement on May 18, 2005. The proposed settlement is immaterial to the Company.

On June 16, 1998, plaintiffs in *Andrew Parker and Eric DeBrauwere, et al. v. Time Warner Entertainment Company, L.P. and Time Warner Cable* filed a purported nationwide class action in U.S. District Court for the Eastern District of New York claiming that TWE sold its subscribers' personally identifiable information and failed to inform subscribers of their privacy rights in violation of the Cable Communications Policy Act of 1984 and common law. The plaintiffs are seeking damages and declaratory and injunctive relief. On August 6, 1998, TWE filed a motion to dismiss, which was denied on September 7, 1999. On December 8, 1999, TWE filed a motion to deny class certification, which was granted on January 9, 2001 with respect to monetary damages, but denied with respect to injunctive relief. On June 2, 2003, the U.S. Court of Appeals for the Second Circuit vacated the District Court's decision denying class certification as a matter of law and remanded the case for further proceedings on class certification and other matters. On May 4, 2004, plaintiffs filed a motion for class certification, which the Company has opposed. Recently, this lawsuit has been settled in principle on terms that are immaterial to the Company.

In the normal course of business, the Company's tax returns are subject to examination by various domestic and foreign taxing authorities. Such examinations may result in future tax and interest assessments on the Company. In instances where the Company believes that it is probable that it will be assessed, it has accrued a liability. The Company does not believe that these liabilities are material, individually or in the aggregate, to its financial condition or liquidity. Similarly, the Company does not expect the final resolution of tax examinations to have a material impact on the Company's financial results.

The costs and other effects of pending or future litigation, governmental investigations, legal and administrative cases and proceedings (whether civil or criminal), settlements, judgments and investigations, claims and changes in those matters (including those matters described above), and developments or assertions by or against the Company

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relating to intellectual property rights and intellectual property licenses, could have a material adverse effect on the Company's business, financial condition and operating results.

11. ADDITIONAL FINANCIAL INFORMATION

Cash Flows

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

	Six Months Ended June 30,	
	2005	2004
	(millions)	
Cash payments made for interest	\$ (808)	\$ (847)
Interest income received	99	42
Cash interest expense, net	<u>\$ (709)</u>	<u>\$ (805)</u>
Cash payments made for income taxes	\$ (308)	\$ (292)
Income tax refunds received	47	25
Cash taxes, net	<u>\$ (261)</u>	<u>\$ (267)</u>

Interest Expense, Net

Interest expense, net, consists of:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	2004	2005	2004
	(millions)		(millions)	
Interest income	\$ 88	\$ 45	\$ 163	\$ 94
Interest expense	(412)	(428)	(833)	(881)
Total interest expense, net	<u>\$ (324)</u>	<u>\$ (383)</u>	<u>\$ (670)</u>	<u>\$ (787)</u>

Other Income, Net

Other income, net, consists of:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	2004	2005	2004
	(millions)		(millions)	
Investment gains, net	\$ 982	\$ 10	\$ 1,005	\$ 46
Gain (loss) on WMG option	(27)	—	53	—
Income on equity method investees	36	26	47	32
Losses on accounts receivable securitization programs	(9)	(4)	(16)	(9)
Miscellaneous	7	1	11	(5)
Total other income, net	<u>\$ 989</u>	<u>\$ 33</u>	<u>\$ 1,100</u>	<u>\$ 64</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
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Other Current Liabilities

Other current liabilities consist of:

	June 30, 2005	December 31, 2004
		(millions)
Accrued expenses (a)	\$6,619	\$5,050
Accrued compensation	923	1,261
Accrued income taxes	131	157
Total other current liabilities	<u>\$7,673</u>	<u>\$6,468</u>

(a) At June 30, 2005, includes \$3.150 billion in legal reserves related to securities litigation and the DOJ settlement. At December 31, 2004, amount includes \$150 million in legal reserves related to the DOJ settlement.

TIME WARNER INC.
SUPPLEMENTARY INFORMATION
CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

America Online, Inc. ("America Online"), Historic TW Inc. ("Historic TW"), Time Warner Companies, Inc. ("TW Companies") and Turner Broadcasting System, Inc. ("TBS" and, together with America Online, Historic TW and TW Companies, the "Guarantor Subsidiaries") are wholly-owned subsidiaries of Time Warner Inc. ("Time Warner"). Time Warner, America Online, Historic TW, TW Companies and TBS have fully and unconditionally, jointly and severally, and directly or indirectly, guaranteed all of the outstanding publicly traded indebtedness of each other. Set forth below are condensed consolidating financial statements of Time Warner, including each of the Guarantor Subsidiaries, presented for the information of each company's public debtholders. The following condensed consolidating financial statements present the results of operations, financial position and cash flows of (i) America Online, Historic TW, TW Companies and TBS (in each case, reflecting investments in its consolidated subsidiaries under the equity method of accounting), (ii) the direct and indirect non-guarantor subsidiaries of Time Warner and (iii) the eliminations necessary to arrive at the information for Time Warner on a consolidated basis. There are no restrictions on Time Warner's ability to obtain funds from any of its wholly-owned subsidiaries through dividends, loans or advances. During the second quarter of 2005, Time Warner transferred goodwill reported as part of the Time Warner Corporate legal entity to the respective divisional legal entities to conform to its segment reporting. The result of this transfer was to reduce goodwill at Time Warner by approximately \$1.8 billion, with a corresponding increase in goodwill at Non-Guarantor Subsidiaries. These condensed consolidating financial statements should be read in conjunction with the accompanying consolidated financial statements of Time Warner.

Consolidating Statement of Operations
For The Three Months Ended June 30, 2005

	Time Warner	America Online	Historic TW	TW Companies	TBS (millions)	Non-Guarantor Subsidiaries	Eliminations	Time Warner Consolidated
Revenues	\$ —	\$1,391	\$ —	\$ —	\$ 290	\$ 9,097	\$ (34)	\$10,744
Costs of revenues	—	(649)	—	—	(161)	(5,470)	31	(6,249)
Selling, general and administrative	(11)	(461)	(11)	(5)	(54)	(2,032)	3	(2,571)
Amortization of intangible assets	—	(8)	—	—	—	(144)	—	(152)
Legal reserves related to securities litigation	(3,000)	—	—	—	—	—	—	(3,000)
Restructuring costs	—	3	—	—	—	(14)	—	(11)
Gains (losses) on disposal of assets, net	—	10	—	—	—	(2)	—	8
Operating income (loss)	(3,011)	286	(11)	(5)	75	1,435	—	(1,231)
Equity in pretax income (loss) of consolidated subsidiaries	2,470	55	1,261	1,168	248	—	(5,202)	—
Interest income (expense), net	(111)	(3)	(22)	(191)	(20)	22	1	(324)
Other income (expense), net	14	934	(28)	—	32	136	(99)	989
Minority interest expense, net	—	—	—	—	—	(72)	—	(72)
Income (loss) before income taxes	(638)	1,272	1,200	972	335	1,521	(5,300)	(638)
Income tax benefit (provision)	317	(497)	(409)	(323)	(126)	(536)	1,891	317
Net income (loss)	\$ (321)	\$ 775	\$ 791	\$ 649	\$ 209	\$ 985	\$ (3,409)	\$ (321)

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CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Unaudited)

Consolidating Statement of Operations
For The Three Months Ended June 30, 2004

	Time Warner	America Online	Historic TW	TW Companies	TBS (millions)	Non-Guarantor Subsidiaries	Eliminations	Time Warner Consolidated
Revenues	\$ —	\$1,558	\$ —	\$ —	\$ 271	\$ 9,097	\$ (66)	\$10,860
Costs of revenues	—	(812)	—	—	(148)	(5,437)	55	(6,342)
Selling, general and administrative	(12)	(514)	(12)	(6)	(61)	(1,913)	3	(2,515)
Amortization of intangible assets	—	(8)	—	—	—	(149)	—	(157)
Restructuring costs	—	2	—	—	—	—	—	2
Asset impairments	—	(10)	—	—	—	—	—	(10)
Operating income (loss)	(12)	216	(12)	(6)	62	1,598	(8)	1,838
Equity in pretax income (loss) of consolidated subsidiaries	1,588	35	1,381	1,196	334	—	(4,534)	—
Interest income (expense), net	(158)	(16)	(24)	(138)	(13)	(39)	5	(383)
Other income (expense), net	8	14	(2)	—	38	88	(113)	33
Minority interest expense, net	—	—	—	—	—	(62)	—	(62)
Income (loss) before income taxes and discontinued operations	1,426	249	1,343	1,052	421	1,585	(4,650)	1,426
Income tax benefit (provision)	(544)	(99)	(508)	(402)	(154)	(599)	1,762	(544)
Income (loss) before discontinued operations	882	150	835	650	267	986	(2,888)	882
Discontinued operations, net of tax	(105)	—	(105)	(105)	—	(105)	315	(105)
Net income (loss)	\$ 777	\$ 150	\$ 730	\$ 545	\$ 267	\$ 881	\$ (2,573)	\$ 777

TIME WARNER INC.
SUPPLEMENTARY INFORMATION
CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Unaudited)

Consolidating Statement of Operations
For The Six Months Ended June 30, 2005

	Time Warner	America Online	Historic TW	TW Companies	TBS (millions)	Non-Guarantor Subsidiaries	Eliminations	Time Warner Consolidated
Revenues	\$ —	\$ 2,813	\$ —	\$ —	\$ 551	\$ 17,927	\$ (64)	\$ 21,227
Costs of revenues	—	(1,304)	—	—	(252)	(10,749)	56	(12,249)
Selling, general and administrative	(22)	(946)	(22)	(10)	(93)	(4,018)	12	(5,099)
Amortization of intangible assets	—	(16)	—	—	—	(286)	—	(302)
Legal reserves related to securities litigation	(3,000)	—	—	—	—	—	—	(3,000)
Restructuring costs	—	10	—	—	—	(33)	—	(23)
Asset impairments	—	—	—	—	—	(24)	—	(24)
Gains (losses) on disposal of assets, net	—	8	—	—	1	9	—	18
Operating income (loss)	(3,022)	565	(22)	(10)	207	2,826	4	548
Equity in pretax income (loss) of consolidated subsidiaries	4,086	72	2,528	2,228	604	—	(9,518)	—
Interest income (expense), net	(243)	(8)	(44)	(362)	(39)	25	1	(670)
Other income (expense), net	26	942	52	—	74	243	(237)	1,100
Minority interest expense, net	—	—	—	—	—	(131)	—	(131)
Income (loss) before income taxes	847	1,571	2,514	1,856	846	2,963	(9,750)	847
Income tax benefit (provision)	(205)	(576)	(901)	(643)	(331)	(1,077)	3,528	(205)
Net income (loss)	\$ 642	\$ 995	\$ 1,613	\$ 1,213	\$ 515	\$ 1,886	\$ (6,222)	\$ 642

TIME WARNER INC.
SUPPLEMENTARY INFORMATION
CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Unaudited)

Consolidating Statement of Operations
For The Six Months Ended June 30, 2004

	Time Warner	America Online	Historic TW	TW Companies	TBS (millions)	Non-Guarantor Subsidiaries	Eliminations	Time Warner Consolidated
Revenues	\$ —	\$ 3,115	\$ —	\$ —	\$ 498	\$ 17,526	\$ (94)	\$ 21,045
Costs of revenues	—	(1,614)	—	—	(235)	(10,547)	83	(12,313)
Selling, general and administrative	(30)	(1,022)	(30)	(14)	(86)	(3,781)	3	(4,960)
Amortization of intangible assets	—	(17)	—	—	—	(294)	—	(311)
Restructuring costs	—	2	—	—	—	—	—	2
Asset impairments	—	(10)	—	—	—	—	—	(10)
Gains (losses) on disposal of assets, net	—	—	—	—	(7)	8	—	1
Operating income (loss)	(30)	454	(30)	(14)	170	2,912	(8)	3,454
Equity in pretax income (loss) of consolidated subsidiaries	2,948	36	2,514	2,038	724	—	(8,260)	—
Interest income (expense), net	(319)	(34)	(46)	(263)	(29)	(101)	5	(787)
Other income (expense), net	14	60	(3)	(1)	67	165	(238)	64
Minority interest expense, net	—	—	—	—	—	(118)	—	(118)
Income (loss) before income taxes, discontinued operations and cumulative effect of accounting change	2,613	516	2,435	1,760	932	2,858	(8,501)	2,613
Income tax benefit (provision)	(1,019)	(214)	(934)	(677)	(355)	(1,095)	3,275	(1,019)
Income (loss) before discontinued operations and cumulative effect of accounting change	1,594	302	1,501	1,083	577	1,763	(5,226)	1,594
Discontinued operations, net of tax	110	—	110	110	—	110	(330)	110
Income (loss) before cumulative effect of accounting change	1,704	302	1,611	1,193	577	1,873	(5,556)	1,704
Cumulative effect of accounting change, net of tax	34	34	—	—	—	34	(68)	34
Net income (loss)	\$ 1,738	\$ 336	\$ 1,611	\$ 1,193	\$ 577	\$ 1,907	\$ (5,624)	\$ 1,738

TIME WARNER INC.
SUPPLEMENTARY INFORMATION
CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Unaudited)

Consolidating Balance Sheet
June 30, 2005

	Time Warner	America Online	Historic TW	TW Companies	TBS (millions)	Non- Guarantor Subsidiaries	Eliminations	Time Warner Consolidated
ASSETS								
Current assets								
Cash and equivalents	\$ 6,966	\$ 2	\$ (2)	\$ 66	\$ 36	\$ 524	\$ —	\$ 7,592
Restricted cash	—	150	—	—	—	—	—	150
Receivables, net	16	171	—	—	—	4,814	—	5,001
Inventories	—	4	—	—	4	1,630	—	1,638
Prepaid expenses and other current assets	54	125	25	—	9	793	—	1,006
Total current assets	7,036	452	23	66	49	7,761	—	15,387
Noncurrent inventories and film costs	—	—	—	—	—	4,454	—	4,454
Investments in amounts due to and from consolidated subsidiaries	80,981	1,030	76,162	63,523	17,740	—	(239,436)	—
Investments, including available-for-sale securities	22	158	268	—	368	4,187	(1,565)	3,438
Property, plant and equipment, net	560	952	—	—	133	11,555	—	13,200
Intangible assets subject to amortization, net	—	25	—	—	—	3,664	—	3,689
Intangible assets not subject to amortization	—	—	—	—	641	39,057	—	39,698
Goodwill	—	1,477	—	—	2,626	35,642	—	39,745
Other assets	1,098	284	619	—	23	1,955	(1,003)	2,976
Total assets	<u>\$89,697</u>	<u>\$ 4,378</u>	<u>\$77,072</u>	<u>\$63,589</u>	<u>\$21,580</u>	<u>\$108,275</u>	<u>\$(242,004)</u>	<u>\$122,587</u>
LIABILITIES AND SHAREHOLDERS' EQUITY								
Current liabilities								
Accounts payable	\$ 9	\$ 22	\$ —	\$ —	\$ 1	\$ 998	\$ —	\$ 1,030
Participations payable	—	—	—	—	—	2,284	—	2,284
Royalties and programming costs payable	—	16	—	—	—	1,152	—	1,168
Deferred revenue	—	313	—	—	—	1,286	—	1,599
Debt due within one year	1,000	79	—	—	—	109	—	1,188
Other current liabilities	3,441	863	76	147	96	3,160	(110)	7,673
Current liabilities of discontinued operations	—	—	—	—	—	40	—	40
Total current liabilities	4,450	1,293	76	147	97	9,029	(110)	14,982
Long-term debt	8,973	126	1,486	4,742	319	4,718	(1,003)	19,361
Debt due (from) to affiliates	(1,003)	—	—	—	1,647	1,003	(1,647)	—
Deferred income taxes	14,339	801	13,538	12,068	1,550	13,618	(41,575)	14,339
Deferred revenue	—	—	—	—	—	730	—	730
Other liabilities	318	56	966	156	247	3,934	(779)	4,898
Noncurrent liabilities of discontinued operations	—	—	—	—	—	7	—	7
Minority interests	—	—	—	—	—	6,988	(1,338)	5,650
Shareholders' equity								
Due (to) from Time Warner and subsidiaries	—	(2,720)	(2,654)	(4,932)	(4,395)	(13,184)	27,885	—
Other shareholders' equity	62,620	4,822	63,660	51,408	22,115	81,432	(223,437)	62,620
Total shareholders' equity	62,620	2,102	61,006	46,476	17,720	68,248	(195,552)	62,620
Total liabilities and shareholders' equity	<u>\$89,697</u>	<u>\$ 4,378</u>	<u>\$77,072</u>	<u>\$63,589</u>	<u>\$21,580</u>	<u>\$108,275</u>	<u>\$(242,004)</u>	<u>\$122,587</u>

TIME WARNER INC.
SUPPLEMENTARY INFORMATION
CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Unaudited)

Consolidating Balance Sheet
December 31, 2004

	Time Warner	America Online	Historic TW	TW Companies	TBS (millions)	Non-Guarantor Subsidiaries	Eliminations	Time Warner Consolidated
ASSETS								
Current assets								
Cash and equivalents	\$ 5,568	\$ 12	\$ (1)	\$ 84	\$ (15)	\$ 491	\$ —	\$ 6,139
Restricted cash	—	150	—	—	—	—	—	150
Receivables, net	30	201	—	(2)	(7)	5,290	—	5,512
Inventories	—	3	—	—	5	1,729	—	1,737
Prepaid expenses and other current assets	50	113	—	—	4	753	—	920
Total current assets	5,648	479	(1)	82	(13)	8,263	—	14,458
Noncurrent inventories and film costs	—	—	—	—	—	4,415	—	4,415
Investments in amounts due to and from consolidated subsidiaries	79,253	860	84,668	72,077	17,646	—	(254,504)	—
Investments, including available-for-sale securities	19	1,175	381	—	397	4,149	(1,418)	4,703
Property, plant and equipment, net	538	1,085	—	—	107	11,364	—	13,094
Intangible assets subject to amortization, net	—	38	—	—	—	3,854	—	3,892
Intangible assets not subject to amortization	—	—	—	—	641	39,015	—	39,656
Goodwill	1,795	1,477	—	—	2,795	33,600	—	39,667
Other assets	1,165	331	653	—	23	2,156	(1,055)	3,273
Total assets	<u>\$88,418</u>	<u>\$5,445</u>	<u>\$85,701</u>	<u>\$72,159</u>	<u>\$21,596</u>	<u>\$106,816</u>	<u>\$(256,977)</u>	<u>\$123,158</u>
LIABILITIES AND SHAREHOLDERS' EQUITY								
Current liabilities								
Accounts payable	\$ 8	\$ 96	\$ —	\$ —	\$ 2	\$ 1,233	\$ —	\$ 1,339
Participations payable	—	—	—	—	—	2,580	—	2,580
Royalties and programming costs payable	—	21	—	—	2	995	—	1,018
Deferred revenue	—	371	—	—	—	1,282	—	1,653
Debt due within one year	1,000	112	—	502	2	56	—	1,672
Other current liabilities	909	897	17	184	129	4,341	(9)	6,468
Current liabilities of discontinued operations	—	—	—	—	—	50	—	50
Total current liabilities	1,917	1,497	17	686	135	10,537	(9)	14,780
Long-term debt	10,024	154	1,483	4,752	320	5,026	(1,056)	20,703
Debt due (from) to affiliates	(1,056)	—	—	—	1,647	1,056	(1,647)	—
Deferred income taxes	14,943	(175)	15,118	13,349	1,849	15,198	(45,339)	14,943
Deferred revenue	—	2	—	—	—	747	—	749
Mandatorily convertible preferred stock	1,500	—	—	—	—	—	—	1,500
Other liabilities	319	65	689	—	13	3,074	—	4,160
Noncurrent liabilities of discontinued operations	—	—	20	—	—	18	—	38
Minority interests	—	—	—	—	—	6,981	(1,467)	5,514
Shareholders' equity								
Due (to) from Time Warner and subsidiaries	—	(454)	(1,544)	(4,700)	(3,963)	(23,018)	33,679	—
Other shareholders' equity	60,771	4,356	69,918	58,072	21,595	87,197	(241,138)	60,771
Total shareholders' equity	<u>60,771</u>	<u>3,902</u>	<u>68,374</u>	<u>53,372</u>	<u>17,632</u>	<u>64,179</u>	<u>(207,459)</u>	<u>60,771</u>
Total liabilities and shareholders' equity	<u>\$88,418</u>	<u>\$5,445</u>	<u>\$85,701</u>	<u>\$72,159</u>	<u>\$21,596</u>	<u>\$106,816</u>	<u>\$(256,977)</u>	<u>\$123,158</u>

TIME WARNER INC.
SUPPLEMENTARY INFORMATION
CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Unaudited)

Consolidating Statement of Cash Flows
For The Six Months Ended June 30, 2005

	Time Warner	America Online	Historic TW	TW Companies	TBS (millions)	Non- Guarantor Subsidiaries	Eliminations	Time Warner Consolidated
OPERATIONS								
Net income (loss)	\$ 642	\$ 995	\$ 1,613	\$ 1,213	\$ 515	\$ 1,886	\$(6,222)	\$ 642
Adjustments for noncash and nonoperating items:								
Depreciation and amortization	19	267	—	—	16	1,309	—	1,611
Amortization of film costs	—	—	—	—	—	1,462	—	1,462
Asset impairments	—	—	—	—	—	24	—	24
Gain on investments and other assets, net	—	(930)	(52)	—	—	(92)	—	(1,074)
Excess (deficiency) of distributions over equity in pretax income of consolidated subsidiaries	(4,086)	(71)	(2,529)	(2,227)	(604)	—	9,517	—
Equity in income (losses) of investee companies, net of cash distributions	—	(2)	—	—	2	(33)	—	(33)
Legal reserves related to securities litigation	3,000	—	—	—	—	—	—	3,000
Changes in operating assets and liabilities, net of acquisitions	2,798	548	1,957	1,729	588	(881)	(8,897)	(2,158)
Adjustments relating to discontinued operations	—	—	—	—	—	(11)	—	(11)
Cash provided (used) by operations	2,373	807	989	715	517	3,664	(5,602)	3,463
INVESTING ACTIVITIES								
Investments and acquisitions, net of cash acquired	—	(4)	(18)	—	10	(246)	—	(258)
Advances to parents and consolidated subsidiaries	(52)	(35)	—	(4)	—	—	91	—
Capital expenditures and product development costs	(36)	(181)	—	—	(43)	(1,188)	—	(1,448)
Investment proceeds from available-for-sale-securities	—	940	—	—	—	36	—	976
Other investment proceeds	—	4	138	—	—	226	—	368
Cash provided (used) by investing activities	(88)	724	120	(4)	(33)	(1,172)	91	(362)
FINANCING ACTIVITIES								
Borrowings	—	—	—	—	—	1,203	—	1,203
Debt repayments	(1,000)	(1)	—	(500)	—	(1,536)	—	(3,037)
Change due to/from parent	(53)	(1,477)	(1,110)	(229)	(431)	(2,211)	5,511	—
Proceeds from exercise of stock options	158	—	—	—	—	—	—	158
Principal payments on capital leases	—	(63)	—	—	(2)	(2)	—	(67)
Other	8	—	—	—	—	87	—	95
Cash provided (used) by financing activities	(887)	(1,541)	(1,110)	(729)	(433)	(2,459)	5,511	(1,648)
INCREASE (DECREASE) IN CASH AND EQUIVALENTS	<u>1,398</u>	<u>(10)</u>	<u>(1)</u>	<u>(18)</u>	<u>51</u>	<u>33</u>	<u>—</u>	<u>1,453</u>
CASH AND EQUIVALENTS AT BEGINNING OF PERIOD	<u>5,568</u>	<u>12</u>	<u>(1)</u>	<u>84</u>	<u>(15)</u>	<u>491</u>	<u>—</u>	<u>6,139</u>
CASH AND EQUIVALENTS AT END OF PERIOD	<u>\$ 6,966</u>	<u>\$ 2</u>	<u>\$ (2)</u>	<u>\$ 66</u>	<u>\$ 36</u>	<u>\$ 524</u>	<u>\$ —</u>	<u>\$ 7,592</u>

TIME WARNER INC.
SUPPLEMENTARY INFORMATION
CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Unaudited)

Consolidating Statement of Cash Flows
For The Six Months Ended June 30, 2004

	Time Warner	America Online	Historic TW	TW Companies	TBS (millions)	Non- Guarantor Subsidiaries	Eliminations	Time Warner Consolidated
OPERATIONS								
Net income (loss)	\$ 1,738	\$ 336	\$ 1,611	\$ 1,193	\$ 577	\$ 1,907	\$ (5,624)	\$ 1,738
Adjustments for noncash and nonoperating items:								
Cumulative effect of accounting change, net of tax	(34)	(34)	—	—	—	(34)	68	(34)
Depreciation and amortization	24	315	—	—	12	1,237	—	1,588
Amortization of film costs	—	—	—	—	—	1,518	—	1,518
Asset impairments	—	10	—	—	—	—	—	10
Gain on investments and other assets, net	—	(48)	—	—	—	(6)	—	(54)
Excess (deficiency) of distributions over equity in pretax income of consolidated subsidiaries	(2,949)	(36)	(2,513)	(2,038)	(724)	—	8,260	—
Equity in (income) losses of investee companies, net of cash distributions	—	(5)	—	—	(5)	3	—	(7)
Changes in operating assets and liabilities, net of acquisitions	4,589	123	5,041	4,730	678	900	(17,524)	(1,463)
Adjustments relating to discontinued operations	—	—	—	—	—	10	—	10
Cash provided (used) by operations	3,368	661	4,139	3,885	538	5,535	(14,820)	3,306
INVESTING ACTIVITIES								
Investments and acquisitions, net of cash acquired	—	4	—	—	(5)	(212)	—	(213)
Advances to parents and consolidated subsidiaries	(22)	—	(2)	(5)	(42)	—	71	—
Capital expenditures and product development costs	(96)	(177)	—	—	(57)	(1,011)	—	(1,341)
Investment proceeds from available-for-sale-securities	—	37	—	—	—	3	—	40
Other investment proceeds	—	29	—	—	8	2,595	—	2,632
Cash provided (used) by investing activities	(118)	(107)	(2)	(5)	(96)	1,375	71	1,118
FINANCING ACTIVITIES								
Borrowings	—	—	—	—	—	1,489	—	1,489
Debt repayments	—	(136)	—	(28)	(450)	(2,251)	—	(2,865)
Change due to/from parent	22	(259)	(4,138)	(3,892)	(13)	(6,469)	14,749	—
Proceeds from exercise of stock options	224	—	—	—	—	—	—	224
Principal payments on capital leases	—	(98)	—	—	—	(4)	—	(102)
Other	16	—	—	—	—	—	—	16
Cash provided (used) by financing activities	262	(493)	(4,138)	(3,920)	(463)	(7,235)	14,749	(1,238)
INCREASE (DECREASE) IN CASH AND EQUIVALENTS	<u>3,512</u>	<u>61</u>	<u>(1)</u>	<u>(40)</u>	<u>(21)</u>	<u>(325)</u>	<u>—</u>	<u>3,186</u>
CASH AND EQUIVALENTS AT BEGINNING OF PERIOD	<u>2,208</u>	<u>(39)</u>	<u>(1)</u>	<u>89</u>	<u>52</u>	<u>731</u>	<u>—</u>	<u>3,040</u>
CASH AND EQUIVALENTS AT END OF PERIOD	<u>\$ 5,720</u>	<u>\$ 22</u>	<u>\$ (2)</u>	<u>\$ 49</u>	<u>\$ 31</u>	<u>\$ 406</u>	<u>\$ —</u>	<u>\$ 6,226</u>

Part II. Other Information

Item 1. Legal Proceedings.

Securities Matters

Reference is made to the shareholder class action lawsuits described on page 38 of the Company's Annual Report on Form 10-K for the year ended December 31, 2004 (the "2004 Form 10-K"). On April 8, 2005, the lead plaintiff, Minnesota State Board of Investment ("MSBI"), moved for leave to file a third amended complaint to add certain new factual allegations and four additional individual defendants. That motion is pending. The Company has reached an agreement in principle with MSBI for the settlement of the consolidated securities actions. The tentative settlement is reflected in a Memorandum of Understanding dated as of July 29, 2005 between the lead plaintiff and the Company. Under the proposed settlement, \$2.4 billion will be paid by Time Warner into a settlement fund for the members of the class represented in the action. In addition, the \$150 million previously paid by Time Warner into a fund in connection with the settlement of the investigation by the Department of Justice will be made available to the class, and Time Warner will use its best efforts to have the \$300 million it previously paid in connection with the settlement of its SEC investigation transferred to the settlement fund for the class. The proposed settlement is subject to completion of final documentation and preliminary and final court approval as well as other conditions. At this time, there can be no assurance that these conditions will be met and that the settlement of the securities class action litigation will receive preliminary or final court approval. In connection with reaching the agreement in principle on the securities class action, the Company has established a reserve of \$2.4 billion. The reserve established does not consider any future insurance recoveries under existing insurance policies because the Company cannot reliably estimate the amount of recovery at this time. Ernst & Young also has agreed to a settlement in this litigation matter and will pay \$100 million.

Reference is made to the shareholder derivative, ERISA and individual securities matters described on pages 39-42 of the 2004 Form 10-K. In addition to the reserve established in connection with the agreement in principle regarding the settlement of the consolidated securities class action, the Company has established an additional reserve totaling \$600 million in connection with these remaining related securities litigation matters pending against the Company. This \$600 million amount represents the Company's current best estimate of its potential financial exposure in these matters. The reserve established does not consider any future insurance recoveries under existing insurance policies because the Company cannot reliably estimate the amount of recovery at this time.

Reference is made to the putative ERISA class action lawsuits described on page 39 of the 2004 Form 10-K. The Company filed an answer to the consolidated ERISA complaint on May 20, 2005.

Reference is made to the lawsuit filed by the Commonwealth of Pennsylvania Public School Employees' Retirement System et al. described on page 41 of the 2004 Form 10-K. Plaintiffs filed an amended complaint on June 14, 2005.

Reference is made to the lawsuits filed on behalf of purchasers of stock in PurchasePro.com, Inc. ("PurchasePro") described on page 42 of the 2004 Form 10-K. On June 29, 2005, the U.S. Bankruptcy Court for the District of Nevada denied the Company's motion to dismiss the second amended complaint filed by PurchasePro. The Company filed a motion for reconsideration on July 11, 2005. That motion is pending.

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Other Matters

Reference is made to the lawsuit filed by The Saul Zaentz Company described on page 43 of the 2004 Form 10-K. The Company has reached an agreement to settle the case on terms that will not have a material adverse impact on the Company's financial condition or results of operations.

Reference is made to the putative consumer class action suits described on page 44 of the 2004 Form 10-K. Plaintiff in the consolidated action has since obtained an injunction from the California district court that purports to bar the parties from seeking final approval of that settlement. America Online has filed an expedited appeal of this decision before the U.S. Court of Appeals for the Ninth Circuit, which is now pending.

Reference is made to the lawsuit filed by Hallissey et al. described on page 44 of the 2004 Form 10-K. On May 26, 2005, a three-justice panel of the California Court of Appeals unanimously affirmed the trial court's order denying class certification. The Plaintiffs have filed a petition for review in the California Supreme Court.

Reference is made to the lawsuit filed by Kim Sevier and Eric M. Payne, a putative nationwide consumer class action, described on page 45 of the 2004 Form 10-K. The district court granted preliminary approval of the proposed classwide settlement on May 18, 2005.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

Conversion of Shares of Series LMCN-V Common Stock

On May 25, 2005, the Company issued 9,070,395 shares of Common Stock upon conversion by wholly owned subsidiaries of Liberty Media Corporation (collectively, "Liberty") of an aggregate of 9,070,395 shares of the Company's Series LMCN-V Common Stock ("LMCN-V Stock") held by Liberty. As instructed by Liberty, the Company delivered the shares of Common Stock to a financial institution in connection with a stock loan arrangement entered into by Liberty. According to Liberty, the stock loan is related to its existing hedging activity. Pursuant to the stock loan agreement, the financial institution may return the shares to Liberty at any time and must return the shares to Liberty upon Liberty's request, at which time the shares of Common Stock must be converted back into LMCN-V Stock. During the term of the stock loan, Liberty has no right to vote the loaned Common Stock or direct the voting of the Common Stock by the party to which the stock is loaned and cannot, directly or indirectly, influence or attempt to influence the voting of the Common Stock by such party. As a result of this conversion, the number of issued and outstanding shares of Common Stock increased by 9,070,395 and the number of issued and outstanding shares of LMCN-V Stock decreased by the same amount. The calculations of the Company's basic and diluted earnings per share are not affected by this conversion because the issued and outstanding shares of LMCN-V Stock have historically been included in such per share calculations. In connection with the issuance of Common Stock upon conversion of the LMCN-V Stock, the Company relied on the exemption from registration afforded by Section 3(a)(9) of the Securities Act of 1933, as amended.

Company Purchases of Equity Securities

The following table provides information about purchases by the Company during the quarter ended June 30, 2005 of equity securities registered by the Company pursuant to Section 12 of the Exchange Act.

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased (1)	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans Programs	Maximum Number of Shares that May Yet Be Purchased Under or the Plans or Programs
April 1, 2005 — April 30, 2005	25,634	\$17.50	0	0
May 1, 2005 — May 31, 2005	38	\$17.66	0	0
June 1, 2005 — June 30, 2005	17,046	\$17.02	0	0
Total	42,718	\$17.31	0	0

- (1) These shares represent shares of Common Stock that are tendered by employees to the Company to satisfy the employees' tax withholding obligations in connection with the vesting of awards of restricted stock. Such shares are repurchased by the Company based on their fair market value on the vesting date.

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

The Annual Meeting of Stockholders of the Company was held on May 20, 2005 (the "2005 Annual Meeting"). The following matters were voted on at the 2005 Annual Meeting:

- (i) The following individuals were elected directors of the Company for terms expiring in 2006:

	<u>Votes For (1)</u>	<u>Votes Withheld</u>	<u>Broker Non-Votes</u>
James L. Barksdale	4,093,912,219.31	79,611,394	0
Stephen F. Bollenbach	3,960,706,378.31	212,817,235	0
Stephen M. Case	3,896,828,910.31	276,694,703	0
Frank J. Caufield	4,087,224,688.31	86,298,925	0
Robert C. Clark	4,003,824,736.31	169,698,877	0
Jessica P. Einhorn	4,107,754,040.31	65,769,573	0
Miles R. Gilburne	3,991,427,479.31	182,096,134	0
Carla A. Hills	3,985,789,129.31	187,734,484	0
Reuben Mark	4,080,921,395.31	92,602,218	0
Michael A. Miles	4,052,699,288.31	120,824,325	0
Kenneth J. Novack	3,987,771,954.31	185,751,659	0
Richard D. Parsons	4,062,759,451.31	110,764,162	0
R.E. Turner	4,095,286,924.31	78,236,689	0
Francis T. Vincent, Jr.	3,970,960,938.31	202,562,675	0
Deborah C. Wright	4,107,303,282.31	66,220,331	0

- (1) Fractional share numbers are due to the shares of Series LMCN-V Common Stock of the Company, each of which entitles the holder thereof to 1/100 of a vote per share on the election of directors.

- (ii) Ratification of appointment of Ernst & Young LLP as independent auditors of the Company:

<u>Votes For</u>	<u>Votes Against</u>	<u>Abstentions</u>	<u>Broker Non-Votes</u>
3,991,273,712	154,803,467	26,483,280	0

- (iii) Stockholder proposal regarding pay disparity:

<u>Votes For</u>	<u>Votes Against</u>	<u>Abstentions</u>	<u>Broker Non-Votes</u>
230,587,084	3,114,488,340	52,926,675	774,558,360

Item 6. Exhibits.

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

TIME WARNER INC.
SIGNATURE

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

Date August 3, 2005

TIME WARNER INC.
(Registrant)

/s/ Wayne H. Pace
Wayne H. Pace
Executive Vice President and Chief Financial Officer

EXHIBIT INDEX

Pursuant to Item 601 of Regulation S-K

<u>Exhibit No.</u>	<u>Description of Exhibit</u>
10.1	Asset Purchase Agreement, dated as of April 20, 2005 (the "Asset Purchase Agreement"), between Adelphia Communications Corporation and Time Warner NY Cable LLC (incorporated herein by reference to Exhibit 99.1 to Time Warner's Current Report on Form 8-K dated April 20, 2005 and filed with the Securities and Exchange Commission on April 27, 2005 (the "April 27 Form 8-K")).
10.2	Letter Agreement, dated June 2, 2005, between Adelphia Communications Corporation and Time Warner NY Cable LLC, related to the extension of the deadline set forth in the Asset Purchase Agreement to file various documents with the U.S. Bankruptcy Court for the Southern District of New York (the "Bankruptcy Court").
10.3	Letter Agreement, dated June 17, 2005, between Adelphia Communications Corporation and Time Warner NY Cable LLC, related to the extension of the deadline set forth in the Asset Purchase Agreement to file various documents with the Bankruptcy Court.
10.4	Letter Agreement, dated June 24, 2005, between Adelphia Communications Corporation and Time Warner NY Cable LLC, related to, among other things, various conditions set forth in the Asset Purchase Agreement and the filing of the Second Amended Disclosure Statement with the Bankruptcy Court.
10.5	Amendment No. 1 to the Asset Purchase Agreement, dated June 24, 2005, between Adelphia Communications Corporation and Time Warner NY Cable LLC.
10.6	TWC Redemption Agreement, dated as of April 20, 2005 (the "TWC Redemption Agreement"), by and among Comcast Cable Communications Holdings, Inc., MOC Holdco II, Inc., TWE Holdings I Trust, TWE Holdings II Trust, Comcast Corporation, Cable Holdco II Inc., Time Warner Cable Inc., TWE Holding I LLC and Time Warner Inc. (incorporated herein by reference to Exhibit 99.2 to the April 27 Form 8-K).
10.7	TWE Redemption Agreement, dated as of April 20, 2005 (the "TWE Redemption Agreement"), by and among Comcast Cable Communications Holdings, Inc., MOC Holdco I, LLC, TWE Holdings I Trust, Comcast Corporation, Cable Holdco III LLC, Time Warner Entertainment Company, L.P., Time Warner Cable Inc. and Time Warner Inc. (incorporated herein by reference to Exhibit 99.3 to the April 27 Form 8-K).
10.8	Exchange Agreement, dated as of April 20, 2005 (the "Exchange Agreement"), by and among Comcast Corporation, Comcast Cable Communications Holdings, Inc., Comcast of Georgia, Inc., TCI Holdings, Inc., Time Warner Cable Inc., Time Warner NY Cable LLC and Urban Cable Works of Philadelphia, L.P. (incorporated herein by reference to Exhibit 99.4 to the April 27 Form 8-K).
10.9	Amendment Number 2, dated as of April 20, 2005, to the Tolling and Optional Redemption Amendment dated as of September 24, 2004, as amended by Amendment Number 1 dated as of February 17, 2005 (the "Tolling Agreement"), by and among Comcast Cable Communications Holdings, Inc., MOC Holdco II, Inc., TWE Holdings I Trust, TWE Holdings II Trust, Comcast Corporation, Cable Holdco Inc., Time Warner Cable Inc. and Time Warner Inc. (incorporated herein by reference to Exhibit 99.5 to the April 27 Form 8-K).
10.10	Letter Agreement, dated May 10, 2005, among Comcast Corporation, Time Warner Cable Inc. and TWE

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<u>Exhibit No.</u>	<u>Description of Exhibit</u>
	Holdings II Trust, related to the extension of various deadlines set forth in the Tolling Agreement.
10.11	Letter Agreement, dated June 1, 2005, among Cable Holdco Inc., Cable Holdco II Inc., Cable Holdco III LLC, Comcast Corporation, Comcast Cable Communications Holdings, Inc., Comcast of Georgia, Inc., MOC Holdco I, LLC, MOC Holdco II, Inc., TCI Holdings, Inc., Time Warner Inc., Time Warner Cable Inc., Time Warner NY Cable LLC, Time Warner Entertainment Company, L.P., TWE Holdings I LLC, TWE Holdings I Trust, TWE Holdings II Trust and Urban Cable Works of Philadelphia, L.P., related to the amendment of various provisions of the Tolling Agreement, the TWC Redemption Agreement, the TWE Redemption Agreement and the Exchange Agreement.
10.12	Alternate Tolling and Optional Redemption Agreement, dated as of May 31, 2005, among Comcast Cable Communications Holdings, Inc., MOC Holdco II, Inc., TWE Holdings II Trust, Cable Holdco Inc., Time Warner Cable Inc. and the other parties named therein.
10.13	TKCCP Agreement, dated as of April 20, 2005, by and between Time Warner Cable Inc. and Comcast Corporation (incorporated herein by reference to Exhibit 99.6 to the April 27 Form 8-K).
10.14	Contribution Agreement, dated as of April 20, 2005, between Time Warner NY Cable LLC and American Television and Communications Corporation (incorporated herein by reference to Exhibit 99.7 to the April 27 Form 8-K).
10.15	Form of By-laws of Time Warner Cable Inc., as proposed to be amended (incorporated herein by reference to Exhibit 99.8 to the April 27 Form 8-K).
10.16	Form of Amended and Restated Certificate of Incorporation of Time Warner Cable Inc., as proposed to be amended (incorporated herein by reference to Exhibit 99.9 to the April 27 Form 8-K).
10.17	Parent Agreement, dated as of April 20, 2005, among Time Warner Cable Inc., Time Warner NY Cable LLC and Adelphia Communications Corporation (incorporated herein by reference to Exhibit 99.10 to the April 27 Form 8-K).
10.18	Letter Agreement, dated April 20, 2005, among Time Warner NY Cable LLC, Comcast Corporation and Adelphia Communications Corporation, related to the requirement of Time Warner NY Cable LLC, in certain circumstances, to acquire from Adelphia those systems that otherwise would have been acquired by Comcast (incorporated herein by reference to Exhibit 99.11 to the April 27 Form 8-K).
10.19	Shareholder Agreement, dated as of April 20, 2005, between Time Warner Inc. and Time Warner Cable Inc. (incorporated herein by reference to Exhibit 99.12 to the April 27 Form 8-K).
10.20	First Amendment, dated April 28, 2005, to Employment Agreement between Time Warner Inc. and Wayne H. Pace (incorporated herein by reference to Exhibit 10.1 to Time Warner's Current Report on Form 8-K dated April 28, 2005).
31.1	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, with respect to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2005.
31.2	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, with respect to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2005.
32	Certification of Principal Executive Officer and Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, with respect to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2005. †

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

EXHIBIT 10.2

Time Warner NY Cable LLC
c/o Time Warner Cable Inc.
290 Harbor Drive
Stamford, CT 06902-6732

June 2, 2005

Adelphia Communications Corporation
5619 DTC Parkway
Greenwood Village, CO 80111
Attn: Brad Sonnenberg

Ladies and Gentlemen:

Reference is made to the Asset Purchase Agreement between Time Warner NY Cable LLC, a Delaware limited liability company ("TWNY"), and Adelphia Communications Corporation, a Delaware corporation ("Adelphia"), dated as of April 20, 2005 (the "TWNY Purchase Agreement"). Capitalized terms used but not otherwise defined herein shall have the respective meanings ascribed to them in the TWNY Purchase Agreement.

Adelphia and TWNY hereby agree to extend until June 20, 2005 the deadline set forth in the first sentence of Section 5.13(a) of the TWNY Purchase Agreement to file with the Bankruptcy Court the Disclosure Statement, the Disclosure Statement Motion and the Plan.

This letter agreement may be executed in one or more counterparts, each of which shall be deemed an original, and all of which shall constitute one and the same letter agreement.

This letter agreement shall be governed by and construed in accordance with the TWNY Purchase Agreement.

Please confirm your agreement with the foregoing by signing and returning a copy of this agreement to the undersigned.

Very truly yours,

TIME WARNER NY CABLE LLC

By: /s/ Satish R. Adige

Name: Satish R. Adige
Title: Senior Vice President,
Investments

Agreed and Acknowledged:

ADELPHIA COMMUNICATIONS CORPORATION

By: /s/ Brad M. Sonnenberg

Name: Brad M. Sonnenberg
Title: Executive Vice President and
General Counsel

Cc:

Legal Department
Time Warner Cable Inc.
Attn: General Counsel

Time Warner Inc.
Attn: General Counsel

Paul, Weiss, Rifkind, Wharton & Garrison LLP Attn: Kelley D. Parker and Robert B. Schumer

Sullivan & Cromwell LLP
Attn: Alexandra D. Korry

EXHIBIT 10.3

Time Warner NY Cable LLC
c/o Time Warner Cable Inc.
290 Harbor Drive
Stamford, CT 06902-6732

June 17, 2005

Adelphia Communications Corporation
5619 DTC Parkway
Greenwood Village, CO 80111
Attn: Brad Sonnenberg

Ladies and Gentlemen:

Reference is made to the Asset Purchase Agreement between Time Warner NY Cable LLC, a Delaware limited liability company ("TWNY"), and Adelphia Communications Corporation, a Delaware corporation ("Adelphia"), dated as of April 20, 2005 (the "TWNY Purchase Agreement"). Capitalized terms used but not otherwise defined herein shall have the respective meanings ascribed to them in the TWNY Purchase Agreement.

Adelphia and TWNY hereby agree to extend until June 24, 2005 the deadline set forth in the first sentence of Section 5.13(a) of the TWNY Purchase Agreement to file with the Bankruptcy Court the Disclosure Statement, the Disclosure Statement Motion and the Plan.

This letter agreement may be executed in one or more counterparts, each of which shall be deemed an original, and all of which shall constitute one and the same letter agreement.

This letter agreement shall be governed by and construed in accordance with the TWNY Purchase Agreement.

Please confirm your agreement with the foregoing by signing and returning a copy of this agreement to the undersigned.

Very truly yours,

TIME WARNER NY CABLE LLC

By: /s/ Satish R. Adige

Name: Satish R. Adige

Title: Senior Vice President,
Investments

Agreed and Acknowledged:

ADELPHIA COMMUNICATIONS CORPORATION

By: /s/ Brad M. Sonnenberg

Name: Brad Sonnenberg

Title: EVP/GC

Cc:

Legal Department
Time Warner Cable Inc.
Attn: General Counsel

Time Warner Inc.
Attn: General Counsel

Paul, Weiss, Rifkind, Wharton & Garrison LLP Attn: Kelley D. Parker and Robert B. Schumer

Sullivan & Cromwell LLP
Attn: Alexandra D. Korry

EXHIBIT 10.4

Time Warner NY Cable LLC
c/o Time Warner Cable Inc.
290 Harbor Drive
Stamford, CT 06902-6732

June 24, 2005

Adelphia Communications Corporation
5619 DTC Parkway
Greenwood Village, CO 80111
Attn: Brad Sonnenberg

Ladies and Gentlemen:

Reference is made to the Asset Purchase Agreement between Time Warner NY Cable LLC, a Delaware limited liability company ("TWNY"), and Adelphia Communications Corporation, a Delaware corporation ("Adelphia"), dated as of April 20, 2005, as amended on the date hereof (the "TW Purchase Agreement"). Capitalized terms used but not otherwise defined herein shall have the respective meanings ascribed to them in the TW Purchase Agreement.

1. Timing of Effectiveness of the Plan and the Closing. The parties hereto agree that the condition set forth in Section 6.1(a) of the TW Purchase Agreement with respect to the effectiveness of the Plan, shall be satisfied by the Plan becoming effective contemporaneously with the Closing.

2. Assumption of Effectiveness. In determining whether Sections 6.1(f), 6.2(a), 6.2(b) (except for covenants to the extent related to Adelphia's obligations to use commercially reasonable efforts to fulfill the conditions precedent to its obligations under the TW Purchase Agreement), 6.2(d) (to the extent relating to 6.2(a) and 6.2(b) (except for covenants to the extent related to Adelphia's obligations to use commercially reasonable efforts to fulfill the conditions precedent to its obligations under the TW Purchase Agreement)) and 6.2(e) of the TW Purchase Agreement have been satisfied, the parties hereto shall assume that the Plan is effective in accordance with its terms and shall assume that any other plan of reorganization relating to any Managed Cable Entity or any other Transferred Asset as to which the only condition to its effectiveness that has not been satisfied or waived is the Closing is effective in accordance with its terms.

3. Consent to Plan and Disclosure Statement. TWNY hereby acknowledges that the Plan, all exhibits attached thereto, the Disclosure Statement (except for the sections of the Disclosure Statement describing the Plan to the extent such description is inconsistent with the Plan; it being understood that

TWNY shall promptly following the date hereof inform Adelphia of any such inconsistency it identifies) and the Disclosure Statement Motion (each of which is attached hereto) are acceptable in form and substance to TWNY and otherwise satisfy the requirements of the fourth sentence of Section 5.13(a) of the TW Purchase Agreement to the extent relating to the Plan, the exhibits attached thereto, the Disclosure Statement (except for the sections of the Disclosure Statement describing the Plan to the extent such description is inconsistent with the Plan) and the Disclosure Statement Motion. TWNY consents to the filing of such documents with the Bankruptcy Court. Adelphia hereby agrees to waive the conditions set forth in Sections 13.01(f), 13.01(g) and 13.02(b) of the Plan in order to effect the confirmation or effectiveness, as applicable, of the Plan, if so requested by TWNY, if the failure to so waive such condition(s) would reasonably be expected to materially delay or impair the Transaction. Adelphia hereby acknowledges and agrees that with respect to the conditions set forth in Sections 13.01(a), 13.01(b) and 13.01(c) of the Plan, if so requested by TWNY, it will exercise its discretion in a reasonable manner. The foregoing shall not prejudice either party's position with respect to Adelphia's waiver obligations, if any, in respect of any provision of Sections 13.01 and 13.02 of the Plan that is not addressed in this paragraph.

4. *Reservation of Rights.* It is understood and agreed that the filing of the Plan and TWNY's consent thereto are without prejudice to Adelphia's rights to amend the Plan and TWNY's right to consent or to withhold consent to any amendment (and the absence or presence of any provision of the Plan as filed shall not be taken into account in determining such rights of Adelphia or TWNY), in each case, in accordance with applicable provisions of the TW Purchase Agreement.

5. *Issuance of Parent Capital Stock.* TWNY acknowledges that in connection with the Transaction it currently intends to cause Parent to effect a stock dividend and distribute approximately 999,999 shares of Parent Capital Stock in respect of each share of Parent Capital Stock outstanding as of the record date for such dividend. TWNY further acknowledges and agrees that in the event that the number of shares of Parent Capital Stock to be issued at the Closing is changed it shall use its commercially reasonable efforts to cause the initial pricing of such shares to be in a reasonable range in light of the current intended share price and then prevailing market conditions.

This letter agreement may be executed in one or more counterparts, each of which shall be deemed an original, and all of which shall constitute one and the same letter agreement.

This letter agreement shall be governed by and construed in accordance with the TW Purchase Agreement.

Please confirm your agreement with the foregoing by signing and returning a copy of this agreement to the undersigned.

Very truly yours,

TIME WARNER NY CABLE LLC

By: /s/ Satish R. Adige

Name: Satish R. Adige
Title: Sr. V.P., Investments

Agreed and Acknowledged:

ADELPHIA COMMUNICATIONS CORPORATION

By: /s/ Brad M. Sonnenberg

Name: Brad Sonnenberg
Title: Executive Vice President, General Counsel and Secretary

Acknowledged and approved:

COMCAST CORPORATION

By: /s/ Robert S. Pick

Name: Robert S. Pick
Title: Senior Vice President

EXHIBIT 10.5

**AMENDMENT NO. 1 TO ASSET PURCHASE AGREEMENT BETWEEN
ADELPHIA COMMUNICATIONS CORPORATION AND
TIME WARNER NY CABLE LLC**

This Amendment, dated June 24, 2005 (this "Amendment"), amends the Asset Purchase Agreement, between Adelphia Communications Corporation ("Seller") and Time Warner NY Cable LLC ("Buyer"), dated as of April 20, 2005 (the "TW Purchase Agreement"). Capitalized terms used but not otherwise defined herein shall have the respective meanings ascribed to them in the TW Purchase Agreement.

WHEREAS, the parties hereto desire to amend the TW Purchase Agreement pursuant to Section 9.2 thereof to clarify certain provisions contained therein.

NOW, THEREFORE, in consideration of the foregoing, the parties hereto, intending to be legally bound, hereby agree as follows:

1. Section 9.5 of the TW Purchase Agreement shall be amended by inserting immediately following the phrase "cause each and every Debtor, including each that is an Asset Transferring Subsidiary hereunder," the phrase, "but in each case excluding any Debtor that is a Transferred Joint Venture Entity (as such term is defined in the Friendco Purchase Agreement)", and adding at the end of such Section the sentence, "Nothing in this Section 9.5 is intended to supersede the provisions of paragraphs 4 and 5 of the Bankruptcy Court's order of April 21, 2005 entitled 'Supplemental Order.'"

2. Section 5.13(b) of the TW Purchase Agreement shall be amended by: (a) deleting the phrase: "70 days" in the first sentence of such Section and substituting for it the phrase: "80 days"; (b) deleting the word: "seventieth" in each place it appears in the first sentence of such Section and substituting for it, in each case, the word: "eightieth"; (c) deleting the phrase: "40 days" in the second sentence of such Section and substituting for it the phrase: "50 days"; and (d) deleting the phrase: "20 days" in the third sentence of such Section and substituting for it the phrase, "30 days".

3. Section 5.13(c) of the TW Purchase Agreement shall be amended by deleting the phrase: "70 days" in the first sentence of such Section and substituting for it the phrase: "80 days".

4. Section 5.13(d) of the TW Purchase Agreement shall be amended by: (a) deleting the phrase: "70 days" in the second sentence of such Section and

substituting for it the phrase: "80 days" and (b) deleting the word:
"seventieth" in the second sentence of such Section and substituting for it the word: "eightieth".

Except as specifically amended by this Amendment, the TW Purchase Agreement will remain in full force and effect and is hereby ratified and confirmed. This Amendment shall be construed as one with the TW Purchase Agreement, and the TW Purchase Agreement shall, where the context requires, be read and construed so as to incorporate this Amendment.

This Amendment may be executed in one or more counterparts, each of which shall be deemed an original, and all of which shall constitute one and the same Amendment.

This Amendment shall be governed by and construed in accordance with the TW Purchase Agreement.

IN WITNESS WHEREOF, the parties have executed or caused this Amendment to be executed as of the date first written above.

ADELPHIA COMMUNICATIONS CORPORATION

By: /s/ Brad Sonnenberg

Name: Brad Sonnenberg

Title: Executive Vice President,
General Counsel and Secretary

TIME WARNER NY CABLE LLC

By: /s/ Satish R. Adige

Name: Satish R. Adige

Title: Sr. V.P., Investments

Acknowledged and approved:

COMCAST CORPORATION

By: /s/ Robert S. Pick

Name: Robert S. Pick

Title: Senior Vice President

EXHIBIT 10.10

**TIME WARNER CABLE INC.
290 HARBOR DRIVE
STAMFORD, CT 06902**

May 10, 2005

COMCAST CORPORATION

1500 Market Street
Philadelphia, PA 19102
Attention: Larry Smith

TWE HOLDINGS II TRUST

801 West Street, 2nd Floor
Wilmington, DE 19801
Attention: Edith E. Holiday

Ladies and Gentlemen:

Reference is made to that certain Tolling and Optional Redemption Agreement, dated as of September 24, 2004, as amended from time to time (the "AGREEMENT"), by and among Comcast Corporation, a Pennsylvania corporation, Time Warner Cable Inc., a Delaware corporation, TWE Holdings II Trust, a Delaware statutory trust, and the other parties named therein. Capitalized terms used herein and not otherwise defined shall have the respective meanings assigned to them in the Agreement.

The parties hereto agree on behalf of themselves and their respective Affiliates that the (i) first 20 day period referred to in the second sentence of Section 7.20(a) of the Agreement shall be extended to 23 days, (ii) 15 day period referred to in the first sentence of Section 7.20(c) of the Agreement (as previously extended by the parties to 20 days) shall be further extended to 23 days, and (iii) 15 day period referred to in the second sentence of Section 7.20(d) of the Agreement shall be extended to 23 days.

Any amendment of this letter agreement must be in writing. This letter agreement may be executed in several counterparts, each of which shall constitute an original and all of which, when taken together, shall constitute one agreement. Each party hereto confirms that any facsimile copy of such party's executed counterpart of this letter agreement (or its signature page thereof) shall be deemed to be an executed original thereof.

THE VALIDITY, PERFORMANCE, AND ENFORCEMENT OF THIS LETTER AGREEMENT SHALL BE GOVERNED BY THE LAWS OF THE STATE OF NEW YORK, WITHOUT GIVING EFFECT TO THE PRINCIPLES OF CONFLICTS OF LAW OF SUCH STATE.

IN WITNESS WHEREOF, the undersigned has executed this letter agreement as of the day and year first above written.

COMCAST CORPORATION

By: /s/ Robert S. Pick

Name: Robert S. Pick
Title: Senior Vice President

TIME WARNER CABLE INC.

By: /s/ David E. O'Hayre

Name: David E. O'Hayre
Title: EVP, Investments

TWE HOLDINGS II TRUST

By: /s/ Edith E. Holiday

Name: Edith E. Holiday, solely in
her capacity as Operating Trustee

EXHIBIT 10.11

TIME WARNER CABLE INC.
290 HARBOR DRIVE
STAMFORD, CT 06902

June 1, 2005

Comcast Corporation
1500 Market Street
Philadelphia, PA 19102
Attention: Larry Smith

TWE Holdings I Trust
TWE Holdings II Trust
c/o Edith E. Holiday
801 West Street
2nd Floor
Wilmington, DE 19801

Ladies and Gentlemen:

Reference is made to that certain Tolling and Optional Redemption Agreement, dated as of September 24, 2004, as amended from time to time (the "TOLLING AGREEMENT"), by and among Comcast Cable Communications Holdings, Inc. ("COMCAST CABLE"), a Delaware corporation, MOC Holdco II, Inc., a Delaware corporation, TWE Holdings II Trust, a Delaware statutory trust, Cable Holdco Inc., a Delaware corporation, TWE Holding I LLC, a Delaware limited liability company, Time Warner Cable Inc., a Delaware corporation ("TWC"), and the other parties named therein. Capitalized terms used herein and not otherwise defined shall have the respective meanings assigned to them in the Tolling Agreement.

Reference is made to that certain Redemption Agreement, dated as of April 20, 2005, as amended from time to time (the "TWC REDEMPTION AGREEMENT"), by and among Comcast Cable, TWC and the other parties named therein.

Reference is made to that certain Redemption Agreement, dated as of April 20, 2005, as amended from time to time (the "TWE REDEMPTION AGREEMENT"), by and among Comcast Cable, Time Warner Entertainment Company, L.P., a Delaware limited partnership, and the other parties named therein.

Reference is made to that certain Exchange Agreement, dated as of April 20, 2005, as amended from time to time (the "EXCHANGE AGREEMENT"), by and among

Comcast Corporation ("COMCAST"), a Pennsylvania corporation, TWC and the other parties named therein.

(A) The relevant parties hereto agree (on behalf of themselves and their respective Affiliates) that the Tolling Agreement is hereby amended as follows:

(i) The definition of the term "Permitted Lien" in Section 1.1 of the Tolling Agreement shall be amended by replacing the reference therein to "Schedule 1.1(c)" with a reference to "Schedule 1.1(e)".

(ii) The following definition shall be added in the appropriate alphabetical order in Section 1.1 of the Tolling Agreement:

"Specified Division" means the division of Time Warner Cable specified on Schedule 1.1(f)."

(iii) Section 7.3(a) of the Tolling Agreement shall be deleted and replaced with the following:

"With respect to the Transferred Systems numbered (1), (5), (6) and

(7) on Schedule A, by no later than 45 days after the earlier of (i) September 30, 2005 and (ii) termination of the TWC Redemption Agreement prior to the Closing (as defined in the TWC Redemption Agreement) occurring, Comcast Trust, Comcast Subsidiary and Time Warner Cable shall provide each other with all necessary documentation to allow filing of FCC Forms 394 with respect to such Transferred Systems Franchises. Comcast Trust, Comcast Subsidiary and Time Warner Cable shall use commercially reasonable efforts to cooperate with one another and file with the applicable Governmental Authority FCC Forms 394 for each of the Transferred System Franchises with respect to the Transferred Systems numbered (1), (5), (6) and (7) on Schedule A which requires the consent of such Governmental Authority in connection with the transactions contemplated by this Agreement, no later than 60 days after the earlier of

(i) September 30, 2005 and (ii) termination of the TWC Redemption Agreement prior to the Closing (as defined in the TWC Redemption Agreement) occurring. In the event that on or prior to September 30, 2005 the condition set forth in Section 8.1(l) shall not have been satisfied, Time Warner Cable, Comcast Trust and Comcast Subsidiary shall discuss in good faith whether the filing of FCC Forms 394 with respect to the Transferred Systems numbered (1), (5), (6) and (7) on Schedule A, as of the time period contemplated by the preceding sentence, is advisable and whether such time period should be extended. With respect to the Transferred Systems numbered (2), (3) and (4) on Schedule A, Comcast Trust, Comcast Subsidiary and Time Warner Cable agree that the requirement to make FCC Form 394 filings to be made with respect to such Transferred Systems shall be satisfied by the filings made with respect to such Transferred Systems pursuant to Section 7.3(a) of the TWE Redemption Agreement and that such filings shall appropriately reflect the

possibility of such Transferred Systems being transferred pursuant to this Agreement."

(iv) The 30 day period referred to in the first sentence of Section 7.6 of the Tolling Agreement shall be extended to 37 days.

(v) The words "(or, with respect to the Designated Systems, the Amendment Date)" shall be added after the words "the date hereof" in Sections 3.1(a), 3.1(c), 3.1(l)(i), 3.1(l)(ii), 3.1(l)(iv), 7.1(d) and 7.22.

(vi) TWE Holding I LLC, a Delaware limited liability company shall added as a party to the Tolling Agreement, effective as of the Amendment Date (as defined in the Tolling Agreement).

(vii) The words "TWC or TWC" in Section 6.11(a)(xii) shall be replaced by the words "TWC or TWE".

(viii) The disclosure letter referenced in the second sentence of Section 1.3 will be deemed to contain, as of the Amendment Date, the disclosure attached as Exhibit 2.

(B) The relevant parties hereto agree (on behalf of themselves and their respective Affiliates) that the TWC Redemption Agreement is hereby amended as follows:

(i) The 30 day period referred to in the first sentence of Section 7.6 of the TWC Redemption shall be extended to 37 days.

(ii) The words "Issuer Securities (as defined in the Registration Rights Agreement)" in Section 2.3(b)(ii) shall be replaced by "its Equity Securities (as defined in the TWC Adelpia Agreement)".

(C) The relevant parties hereto agree (on behalf of themselves and their respective Affiliates) that the TWE Redemption Agreement is hereby amended as follows:

(i) The 30 day period referred to in the first sentence of Section 7.6 of the TWE Redemption shall be extended to 37 days.

(D) The relevant parties hereto agree that the Exchange Agreement is hereby amended as follows:

(i) The 30 day period referred to in the first sentence of Section 6.5 of the Exchange Agreement shall be extended to 37 days.

(ii) Section 11.17 of the Exchange Agreement shall be restated in its entirety to read as follows:

"Section 11.17 Additional Parties. Immediately following the Adelphia Closing and prior to the Closing, Comcast shall cause each Transferred Joint Venture Entity that will be a Transferor (each a "Transferred Joint Venture Party") to become a party to this Agreement. Upon such joinder, but not before, each Transferred Joint Venture Party shall be considered a "Comcast Transferor" and a "Comcast Party", and each Transferred Joint Venture Entity shall be considered a "Comcast Participant", "Comcast Group Member" and Affiliate of the other Comcast Group Members, as relevant, in each case, for all purposes of this Agreement. The parties hereto agree that none of Comcast or any of its Affiliates shall have any Liability under this Agreement or any Transaction Document with respect to any Transferred Joint Venture Entity until such time as the Transferred Joint Venture Parties become parties to this Agreement and, in such event, only with respect to events, conditions or circumstances first arising thereafter. The parties agree to execute an appropriate amendment to this Agreement adding the Transferred Joint Venture Parties to this Agreement in accordance with the foregoing."

(iii) Notwithstanding any provision of the Exchange Agreement to the contrary, the cable communications system serving the Town of Wells, Vermont (Vermont PSB) (the "WELLS SYSTEM") and the cable communications system serving the Town of Milan, New Hampshire (the "MILAN SYSTEM") shall be treated in the Exchange Agreement in accordance with the principles set forth in Exhibit 1 hereto.

* * * * *

Any amendment of this letter agreement must be in writing. This letter agreement may be executed in several counterparts, each of which shall constitute an original and all of which, when taken together, shall constitute one agreement. Each party hereto confirms that any facsimile copy of such party's executed counterpart of this letter agreement (or its signature page thereof) shall be deemed to be an executed original thereof.

THE VALIDITY, PERFORMANCE, AND ENFORCEMENT OF THIS LETTER AGREEMENT SHALL BE GOVERNED BY THE LAWS OF THE STATE OF NEW YORK, WITHOUT GIVING EFFECT TO THE PRINCIPLES OF CONFLICTS OF LAW OF SUCH STATE.

IN WITNESS WHEREOF, each of the undersigned has executed this letter agreement as of the day and year first above written.

CABLE HOLDCO INC.

By: /s/ Satish Adige

Name: Satish Adige

Title: SVP, Investments

CABLE HOLDCO II INC.

By: /s/ Satish Adige

Name: Satish Adige

Title: SVP, Investments

CABLE HOLDCO III LLC

By: /s/ Satish Adige

Name: Satish Adige

Title: SVP, Investments

COMCAST CORPORATION

By: /s/ Robert S. Pick

Name: Robert S. Pick

Title: Senior Vice President

**COMCAST CABLE
COMMUNICATIONS HOLDINGS, INC.**

By: /s/ Robert S. Pick

Name: Robert S. Pick

Title: Senior Vice President

COMCAST OF GEORGIA, INC.

By: /s/ Robert S. Pick

Name: Robert S. Pick
Title: Senior Vice President

MOC HOLDCO I, LLC

By: /s/ James P. McCue

Name: James P. McCue
Title: President

MOC HOLDCO II, INC.

By: /s/ James P. McCue

Name: James P. McCue
Title: President

TCI HOLDINGS, INC.

By: /s/ Robert S. Pick

Name: Robert S. Pick
Title: Senior Vice President

TIME WARNER INC.

By: /s/ Robert Marcus

Name: Robert Marcus
Title: SVP

TIME WARNER CABLE INC.

By: /s/ Satish Adige

Name: Satish Adige
Title: SVP, Investments

TIME WARNER NY CABLE LLC

By: /s/ Satish Adige

Name: Satish Adige
Title: SVP, Investments

TIME WARNER ENTERTAINMENT COMPANY, L.P.

By: /s/ Satish Adige

Name: Satish Adige
Title: SVP, Investments

TWE HOLDINGS I LLC

By: /s/ Satish Adige

Name: Satish Adige
Title: SVP, Investments

TWE HOLDINGS I TRUST

By: /s/ Edith E. Holiday

Name: Edith E. Holiday, solely in her
capacity as Operating Trustee

TWE HOLDINGS II TRUST

By: /s/ Edith E. Holiday

Name: Edith E. Holiday, solely in her
capacity as Operating Trustee

URBAN CABLE WORKS OF
PHILADELPHIA, L.P.,

By Time Warner Entertainment Company,
L.P., Manager

By: /s/ Satish Adige

Name: Satish Adige

Title: SVP, Investments

EXHIBIT 1

Capitalized terms used but not defined in this Exhibit 1 shall have the meanings set forth in the Exchange Agreement.

- Except as set forth below, the Wells System shall be deemed to be part of the Group 1 Business and the Milan System shall be deemed to be part of the Group 2 Business (in each case, as defined in the TWC/Adelphia Purchase Agreement) for all purposes of the Exchange Agreement.

- Notwithstanding the foregoing:

- For purposes of determining the Capital Expenditure Adjustment Amount and the Subscriber Adjustment Amount in respect of TWC/Adelphia Newco 3, the Wells System shall be disregarded and the Milan System shall be deemed to be part of the Group 1 Business held by TWC/Adelphia Newco 3 (provided that the foregoing shall not apply for purposes of clause (ii)(B)(y) of the definition of "Subscriber Adjustment Amount" in Section 1.1 of the Exchange Agreement).

- For purposes of determining the Net Liabilities Adjustment Amount in respect of TWC/Adelphia Newco 3:

- If the Closing occurs on the same date as the Adelphia Closing, the Wells System shall be disregarded and the Milan System shall be deemed to be part of the Group 1 Business held by TWC/Adelphia Newco 3; provided that if the difference between the Net Liability Amount (as defined below) for the Wells System and the Net Liability Amount for the Milan System is material relative to each other, the parties shall adjust the amount payable in respect of the Exchange of TWC/Adelphia Newco 3 in order to equitably account for such difference. "Net Liability Amount" means an amount equal to the Current Assets minus the Total Liabilities (in each case, as defined in the TWC/Adelphia Purchase Agreement and as determined pursuant to Section 2.6 of the TWC/Adelphia Purchase Agreement for purposes of determining the Final Adjustment Amount (as defined therein) thereunder) attributable to the Wells System or the Milan System, as applicable.

- If the Closing occurs on any date after the date of the Adelphia Closing, the Net Liabilities Adjustment Amount shall be determined in accordance with the terms of the Exchange Agreement (i.e., to reflect that the Wells System is held by TWC/Adelphia Newco 3 and the Milan System has been retained by the TWC Group).

- The parties will act in good faith in connection with all matters relating to the adjustment amounts applicable to the Wells System and the Milan System under the Exchange Agreement and the TWC/Adelphia Purchase Agreement.

- If an indemnification claim is made under the TWC/Adelphia Purchase Agreement with respect to the Wells System or the Milan System, the parties will appropriately allocate any limitations on recoveries resulting from any caps, deductibles and thresholds.

EXHIBIT 10.12

EXECUTION COPY

ALTERNATE TOLLING AND OPTIONAL REDEMPTION AGREEMENT

DATED AS OF MAY 31, 2005

BY AND AMONG

COMCAST CABLE COMMUNICATIONS HOLDINGS, INC.,

MOC HOLDCO II, INC.,

TWE HOLDINGS II TRUST,

CABLE HOLDCO INC.,

TIME WARNER CABLE INC.

AND

THE OTHER PARTIES NAMED HEREIN

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A Form of Second Stage Bringdown Certificate

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C Form of GP Redemption and Amendment Agreement

D Protective Election Legend

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ALTERNATE TOLLING AND OPTIONAL REDEMPTION AGREEMENT

This ALTERNATE TOLLING AND OPTIONAL REDEMPTION AGREEMENT (this "Agreement"), dated as of May 31, 2005 and effective as of September 24, 2004, is by and among Comcast Cable Communications Holdings, Inc., a Delaware corporation ("Comcast"), MOC Holdco II, Inc., a Delaware corporation ("Comcast Subsidiary"), TWE Holdings I Trust, a Delaware statutory trust ("Comcast Trust I"), but solely for purposes of Section 2.1(b)(iv), TWE Holdings II Trust, a Delaware statutory trust ("Comcast Trust"), Comcast Corporation, a Pennsylvania corporation ("Comcast Parent"), but solely for purposes of Section 2.3 and the last sentence of Section 12.5, Cable Holdco Inc., a Delaware corporation ("Holdco"), TWE Holding I LLC, a Delaware limited liability company ("TWE Holdco I") and Time Warner Cable Inc., a Delaware corporation ("Time Warner Cable") and Time Warner Inc., a Delaware corporation, but solely for purposes of the last sentence of Section 12.5. Capitalized terms used herein and not otherwise defined shall have the respective meanings assigned to them in Article 1.

RECITALS

A. Comcast Trust, Time Warner Inc., a Delaware corporation ("Time Warner"), and Time Warner Cable are parties to that certain Registration Rights Agreement, dated as of March 31, 2003, as amended on the date hereof (the "Registration Rights Agreement").

B. The parties entered into the Tolling and Optional Redemption Agreement, dated as of September 24, 2004, as amended by Amendment No. 1, dated as of February 17, 2005, by Amendment No. 2, dated as of the Amendment Date, and the letter agreement dated May 10, 2005 (as so amended, and as further amended from time to time, the "Tolling Agreement"), by and among Comcast, Comcast Subsidiary, Comcast Trust, Holdco, TWE Holdco I, Time Warner Cable and, for certain limited purposes Comcast Trust I, Comcast Parent and Time Warner Inc., a Delaware corporation.

C. Time Warner Cable, Comcast Parent, Comcast Trust and Comcast Trust I have agreed pursuant to the Alternate Tolling Transaction Letter to enter into this Agreement.

D. The parties have agreed that from and after the date hereof until the Tolling Termination Date Comcast Trust will not exercise its demand registration rights under the Registration Rights Agreement.

E. Time Warner Cable indirectly through one or more of its Subsidiaries owns and operates the cable communications systems serving the communities identified on Schedule A (the "Transferred Systems").

F. Comcast Trust has agreed to toll its demand registration rights under the Registration Rights Agreement, and Time Warner Cable has agreed, at the option of Comcast Subsidiary, to (i) transfer to Holdco the Transferred Assets and (ii)

transfer all of the issued and outstanding securities of Holdco to Comcast Trust or Comcast Subsidiary in exchange for and in redemption of the Redemption Securities.

G. The parties intend that, for federal Income Tax purposes, (i) the Holdco Transaction and TWC Redemption shall be governed by Sections 355, 361(c) and 368(a)(1)(D) of the Internal Revenue Code of 1986 (the "Code"), (ii) that all of the shares of Holdco shall qualify as "qualified property" for purposes of Section 355(c)(2) and 361(c) of the Code and (iii) that no share of Holdco constitutes "other property" for purposes of Section 355(a)(3)(B) of the Code.

H. The parties have entered into this Agreement effective as of September 24, 2004. As used in this Agreement, the parties intend that the phrases "the date hereof" and "the date of this Agreement", and any substantially similar phrase, shall be deemed to refer to September 24, 2004.

AGREEMENTS

In consideration of the mutual covenants and promises set forth in this Agreement, the parties hereto agree as follows:

ARTICLE 1 DEFINITIONS

Section 1.1 Terms Defined in this Section. In addition to terms defined elsewhere in this Agreement, the following terms with initial capital letters, when used in this Agreement, shall have the meanings set forth below:

"Actually Realized" shall have the meaning set forth below. For purposes of this Agreement, (i) a Tax cost shall be treated as Actually Realized by any Person at the time at which the amount of Taxes payable by such Person is increased above the amount of Taxes that such Person would be required to pay (or the Refund to which such Person is entitled is reduced below the Refund to which such Person otherwise would have been entitled) but for such incremental Tax cost, and (ii) a Tax benefit shall be treated as Actually Realized by any Person at the time at which the amount of Taxes payable by such Person is reduced below the amount of Taxes that such Person would be required to pay (or the Refund to which such Person is entitled is increased above the Refund to which such Person otherwise would have been entitled) but for such incremental Tax benefit.

"Actuarial Amount" means an amount equal to the present value, as of the last day of the calendar month immediately prior to the Closing Date, of the aggregate actuarially determined cost of providing coverage (including administrative fees associated therewith) under the applicable long-term disability, retiree medical or retiree life plan as contemplated by Section 3.1(g)(v), less the portion of such amount (if any) that is provided by recipient contributions, calculated in good faith by Time Warner Cable's enrolled actuaries utilizing reasonable actuarial methods and assumptions consistent with GAAP, which calculation and assumptions shall be subject to the review and approval by Comcast Subsidiary's designated actuaries, such approval not to be unreasonably withheld or delayed.

"Affiliate" means, with respect to any Person, any other Person directly or indirectly controlling, controlled by or under common control with such Person as of the date on which, or at any time during the period for which, the determination of affiliation is being made; provided, that for purposes of this definition and the definition of "Controlled Affiliate", "control" (including with correlative meanings, the terms "controlled by" and "under common control with"), as used with respect to any Person, shall mean the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities or other equity securities, by Contract or otherwise provided, further, that solely for purposes of the definitions of "Affiliate" and "Controlled Affiliate", Comcast Trust (and its Controlled Affiliates) will be deemed to be controlled by Comcast and any Person who controls Comcast. For purposes of this Agreement, (i) Comcast and

Comcast Trust and Comcast Subsidiary, on the one hand, and Time Warner Cable, on the other hand, shall not be deemed to be Affiliates of one another, (ii) after the Closing Time Warner Cable, on the one hand, and Holdco, on the other hand, shall not be deemed to be Affiliates of one another and (iii) prior to the completion of the Closing Comcast and its Affiliates, on the one hand, and Holdco, on the other hand, shall not be deemed to be Affiliates of one another.

"Affiliated Group" means any affiliated, consolidated, combined or unitary group for Tax purposes under any federal, state, local or foreign law (including regulations promulgated thereunder) including (without limitation) any affiliated group within the meaning of Section 1504(a) of the Code.

"Alternate Transaction Letter" means the letter agreement dated the Amendment Date, as amended from time to time, among Time Warner Cable, Comcast Parent, Comcast Trust and Comcast Trust I, regarding this Agreement.

"Amendment Date" means April 20, 2005.

"Applicable Taxes" means Taxes that are Assumed Liabilities.

"Applicable Tax Return" shall mean any Tax Return relating to Applicable Taxes.

"Authorization" means any waiver, amendment, consent, approval, license, franchise, permit (including construction permits), certificate, exemption, variance or authorization of, expiration or termination of any waiting period requirement (including pursuant to the HSR Act) or other action by, or notice, filing, registration, qualification, declaration or designation with, any Person (including any Governmental Authority).

"Balance Sheet Date" means June 30, 2004 or, to the extent relating to a Designated System, December 31, 2004.

"Base Interest Rate" means the rate of interest charged in respect of borrowings by Time Warner Cable under its senior bank credit facilities.

"Business Day" means any day other than a Saturday or Sunday or a day on which banks in New York, New York are authorized or required to be closed.

"Cable Act" means Title VI of the Communications Act, 47 U.S.C. Section 521, et seq.

"Cash Amount" means an amount of cash equal to (i) \$422,000,000 plus (ii) an amount equal to the Estimated Closing Adjustment Amount (which may be a positive or a negative number) minus (iii) the Actuarial Amount (but only if Comcast Subsidiary or its Affiliate shall have made the request referred to in Section 3.1(g)(v)).

"Class A Common Stock" means the Class A Common Stock, par value \$0.01 per share, of Time Warner Cable.

"Closing Date" means the date on which the Closing occurs.

"Closing Time" means, with respect to each Transferred System, 11:59 p.m., local time in the location of such Transferred System, on the Closing Date.

"Comcast Benefit Plan" means any plan, program, arrangement or agreement that is a pension, profit-sharing, savings, retirement, employment, consulting, severance pay, termination, executive compensation, incentive compensation, deferred compensation, bonus, stock purchase, stock option, phantom stock or other equity-based compensation, change-in-control, retention, salary continuation, vacation, sick leave, disability, death benefit, group insurance, hospitalization, medical, dental, life (including all individual life insurance policies as to which Comcast Subsidiary or any of its ERISA Affiliates is the owner, the beneficiary, or both), Code Section 125 "cafeteria" or "flexible" benefit, employee loan, educational assistance or fringe benefit plan, program, policy or arrangement whether written or oral, including, without limitation, any (i) "employee benefit plan" within the meaning of Section 3(3) of ERISA or (ii) other employee benefit plan, agreement, program, policy, arrangement or payroll practice, whether or not subject to ERISA (including any funding mechanism therefor now in effect or required in the future as a result of the transactions contemplated by this Agreement or otherwise) which Comcast Subsidiary or any of its ERISA Affiliates maintains or contributes to or in respect of which Comcast Subsidiary or any of its ERISA Affiliates has any obligation to maintain or contribute, or have any direct or indirect liability, whether contingent or otherwise, with respect to which any employee or former employee of Comcast Subsidiary or any of its ERISA Affiliates has any present or future right to benefits.

"Comcast Parties" means Comcast, Comcast Subsidiary and Comcast Trust.

"Communications Act" means the Communications Act of 1934.

"Confidentiality Agreements" means (i) the letter agreement dated November 9, 2004, as amended, between Time Warner and Comcast Parent and (ii) the letter agreement dated August 26, 2004 between Time Warner Cable and Comcast, in each case regarding confidential information of Time Warner and its Affiliates.

"Contract" means any written agreement, 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.

"Controlled Affiliate" means, with respect to any Person, any Affiliate of such Person that is controlled by such Person.

"Designated Systems" means the Transferred Systems serving the communities identified in Schedule 1.1(a).

"Digital Subscriber" means a paying customer who has been installed and receives any level of video service offered by a Transferred System and received via digital technology, including without limitation, the digital guide tier, the digital basic tier, digital sports tiers and digital movie tiers.

"DMA" means a geographic area established by Nielsen Media Research for the purpose of rating the viewership of commercial television stations.

"Environmental Law" means any Legal Requirement whether now or hereafter in effect concerning the environment, including Legal Requirements relating to emissions, discharges, releases or threatened releases of Hazardous Substances into the environment, air (including both ambient and within buildings and other structures), surface water, ground water or land or otherwise relating to the manufacture, processing, distribution, use, treatment, storage, presence, disposal, transport or handling of Hazardous Substances.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended.

"ERISA Affiliate" means, as to any Person, any trade or business, whether or not incorporated, which together with such Person would be deemed a single employer within the meaning of Section 4001 of ERISA.

"Excluded SMATV Acquisition" means in respect to the Transferred Systems any SMATV Acquisition consummated after the Amendment Date and prior to the Closing Time in respect of which the Total SMATV Consideration (A) exceeds \$2,500,000 or (B) exceeds \$3,700,000 when aggregated with the Total SMATV Consideration paid in all previous such SMATV Acquisitions consummated after the Amendment Date and prior to the Closing Time.

"Excluded Tax Liabilities" means all Income Taxes relating to or arising out of, or resulting from the ownership or operation of the Transferred Systems for taxable periods, or portions thereof, ending on or prior to the Closing, other than Income Taxes suffered by Comcast or any of its Affiliates as a partner in TWE.

"FCC" means the Federal Communications Commission.

"FCC Trust Requirements" means rules, regulations, orders, requirements, or procedures adopted by the FCC in Applications for Consent to the Transfer of Control of Licenses from Comcast Corporation and AT&T Corp., Transferors, to AT&T Comcast Corporation, Transferee, Memorandum Opinion & Order, 17 FCC Rcd 23,246 (2002), and the trust agreements adopted pursuant to Section III of Appendix B of that order, including any related clarifications, amendments, modifications, and waivers authorized or approved by the FCC.

"Franchise" shall have the meaning assigned to such term in Section 602(9) of the Communications Act.

"Franchising Authority" shall have the meaning assigned to such term in Section 602(10) of the Communications Act.

"GAAP" means generally accepted accounting principles in the United States in effect from time to time applied on a consistent basis.

"GAAP Adjustments" means with respect to the preparation of any relevant financial statement, the exclusion of the items described in the proviso to the second sentence of Section 6.11(a) (other than clauses (v), (vii), (xi) and (xii) of such proviso) in each case consistent with the practices used in preparation of the Transferred System Financial Statements.

"Governmental Authority" means (a) the United States of America, (b) any state, commonwealth, territory or possession of the United States of America and any political subdivision thereof (including counties, municipalities, provinces, parishes and the like), (c) any foreign (as to the United States of America) sovereign entity and any political subdivision thereof and (d) any court, quasi-governmental authority, tribunal, department, commission, board, bureau, agency, authority or instrumentality of any of the foregoing.

"GP Redemption" means the transactions contemplated by the GP Redemption and Amendment Agreement.

"GP Redemption and Amendment Agreement" means the GP Redemption and Amendment Agreement, in the form attached hereto as Exhibit C, as amended from time to time; provided that any such amendments which would adversely affect Comcast Trust or its Affiliates are approved by Comcast Trust.

"Hazardous Substances" means (a) any pollutant, contaminant, waste or chemical or any toxic, radioactive, ignitable, corrosive or otherwise hazardous substance, waste or material, (b) any "hazardous waste" as defined by the Resource Conservation and Recovery Act of 1976 (RCRA) (42 U.S.C. Sections 6901 et seq.); (c) any "hazardous substance" as defined by the Comprehensive Environmental Response, Compensation and Liability Act of 1980 (CERCLA) (42 U.S.C. Sections 9601, et. seq.); (d) any substance regulated by the Toxic Substances Control Act of 1976 (TSCA) (15 U.S.C. Section 2601 et seq.); (e) asbestos or asbestos-containing material of any kind or character; (f) polychlorinated biphenyls; (g) any substance the presence, use, treatment, storage or disposal of which is prohibited by or regulated under any Legal Requirement; and (h) any other substance which by any Legal Requirement requires special handling, reporting or notification of or to any Governmental Authority in its collection, storage, use, treatment, presence or disposal.

"High Speed Data Subscriber" means a customer who subscribes to at least the lowest level of Internet service offered by a Transferred System, excluding courtesy accounts.

"Holdco Transaction Liabilities" means any and all Liabilities of Holdco arising under Section 3.4 or Article 11 of this Agreement.

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

"Income Taxes" means any Tax which is based upon, measured by, or computed by reference to net income or profits (including alternative minimum Tax) in the case of Time Warner Cable and its subsidiaries with respect to any payments in respect of Taxes that are governed by the Time Warner Tax Matters Agreement, Income Taxes shall mean any amounts payable by or to Time Warner Cable under the Time Warner Tax Matters Agreement.

"Individual Subscriber" means, as of any given date, the aggregate of all of the following Subscribers (or Retained Subscribers, as the case may be): (a) private residential customer accounts that are billed by individual unit (regardless of whether such accounts are in single family homes or in individually billed units in apartment houses and other multi-unit buildings) (excluding "second connects" or "additional outlets," as such terms are commonly understood in the cable industry), each of which shall be counted as one Individual Subscriber, (b) bulk bill residential accounts not billed by individual unit, such as apartment houses and multi-family homes, provided each unit in such apartment house or multi-family home shall be counted as one Individual Subscriber and (c) commercial bulk accounts such as hotels, motels and restaurants, provided each commercial account shall count as one Individual Subscriber; provided that, in all such cases, Individual Subscribers shall not include any free accounts.

"Judgment" means any judgment, judicial decision, writ, order, injunction, award or decree of or by any Governmental Authority or any arbitration panel or authority whose decision is binding and enforceable.

"Leased Property" means the premises demised under the Leases.

"Legal Requirement" means applicable common law and any statute, ordinance, code, law, rule, regulation, order, technical or other written standard, requirement or procedure enacted, adopted, promulgated, applied or followed by, or any agreement entered into by, any Governmental Authority, including any Judgment.

"Liabilities" means any and all liabilities, losses, charges, indebtedness, demands, actions, damages, obligations, payments, costs and expenses, bonds, indemnities and similar obligations, covenants, and other liabilities, including all Contractual obligations, whether due or to become due, absolute or contingent, inchoate or otherwise, matured or unmatured, liquidated or unliquidated, accrued or unaccrued, known or unknown, determined or determinable, whenever arising, and including those arising under any Legal Requirement, in each case, whether or not recorded or reflected or required to be recorded or reflected on the books and records or financial statements of any Person.

"Lien" means, with respect to any property or asset, any security agreement, financing statement filed with any Governmental Authority, conditional sale agreement, capital lease or other title retention agreement relating to such property or asset, any lease, consignment or bailment given for purposes of security, any right of first refusal, equitable interest, lien, mortgage, indenture, pledge, option, charge, encumbrance, adverse interest, constructive trust or other trust, claim, attachment, exception to or defect in title or other ownership interest (including reservations, rights of entry, possibilities of reverter, encroachments, survey defects, easements, rights-of-way, restrictive covenants, leases and licenses) of any kind, which otherwise constitutes an interest in or claim against property, whether arising pursuant to any Legal Requirement, any Contract or otherwise.

"Litigation" means any claim, action, suit, proceeding, arbitration, investigation, hearing or other activity or procedure that could result in a Judgment, and any notice of any of the foregoing.

"Local Retransmission Consent Agreement" means any retransmission consent agreement that covers a signal carried by a Transferred System that does not also cover a signal carried by a Time Warner Cable Retained Cable System.

"Losses" means any claims, losses, damages, penalties, costs and expenses, including interest which may be imposed in connection therewith, expenses of investigation, reasonable fees and disbursements of counsel and other experts and the reasonable 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 shall in no event include incidental, punitive or consequential damages except to the extent required to be paid to a third party. For the avoidance of doubt, an item that is included in the definition of "Losses" shall be included regardless of whether it arises as a result of the negligence, strict liability or any other liability under any theory of law or equity of, or violation of any Law.

"Master Pre-Closing Liabilities" means all Liabilities of Time Warner Cable and its Affiliates arising out of, resulting from or associated with the use, ownership or operation of the Excluded Assets described in clauses (i), (ii), (vi), (vii), (viii), or (ix) (except, with respect to clause (ix), to the extent related to inventory included in the definition of "Excluded Assets" pursuant to clause (xiii) thereof) in each case to the extent such Liability primarily relates to goods or services provided to or used by the Transferred Business prior to Closing in the ordinary course of business consistent with past practice; provided that the amount of such Liabilities (in total and for each of the categories described above) is identified to Comcast Subsidiary in writing from Time Warner Cable on or prior to the date that is 60 days after Closing.

"Material Adverse Effect" means a material adverse effect on the business, assets, operations or condition (financial or otherwise) of the Transferred Systems taken as a whole, excluding any such effect to the extent resulting from or arising in connection with: (i) except to the extent relating to Section 6.3, the execution of

this Agreement and the announcement thereof; (ii) changes or conditions generally affecting the cable television industry; (iii) changes in the economy or financial markets in general; (iv) changes in general regulatory, political or national security (e.g., changes resulting from military conflicts or acts of foreign or domestic terrorism) conditions; (v) changes in the business, operations or conditions of Time Warner Cable that similarly affect the Time Warner Cable Retained Cable Systems, taken as a whole; or (vi) as described on Schedule 1.1(b).

"Option Commencement Date" means December 1, 2004.

"Option Expiration Date" means the earlier of (i) the date that is 40 days following the Amendment Date and (ii) the Option Decision Date; provided that if Time Warner Cable does not comply in all material respects with its obligations under Section 7.20, the Option Expiration Date shall be the later of such dates.

"Original Systems" means the Transferred Systems serving the communities identified in Schedule 1.1(d).

"Party" or "party" means either Comcast, Comcast Trust, Comcast Subsidiary, Holdco or Time Warner Cable.

"Permitted Lien" means (a) any Lien securing Taxes, assessments and governmental charges not yet due and payable or being contested in good faith (and for which adequate accruals or reserves have been established), (b) any zoning law or ordinance or any similar Legal Requirement, (c) any right reserved to any Governmental Authority, including any Franchising Authority, to regulate the affected property, (d) as to all Owned Property and Real Property Interests, any Lien (other than Liens securing indebtedness or arising out of the obligation to pay money) which does not individually or in the aggregate with one or more other Liens interfere in any material respect with the right or ability to own, use, enjoy or operate the Owned Property or Real Property Interests as they are currently being used or operated, or to convey good and indefeasible fee simple title to the same (with respect to Owned Property), (e) in the case of Leased Property, any right of any lessor or any Lien granted by any lessor of Leased Property or by any other party having an interest in such leased property which is superior to that which is demised under the applicable Lease (or to which the fee interest in Leased Property or any other interest superior to that which is demised under the applicable Lease is otherwise subject), (f) any materialmen's, mechanic's, workmen's, repairmen's or other like Liens arising in the ordinary course of business, (g) any Lien described on Schedule 1.1(e) and (h) non-material leases, subleases, licenses or sublicenses in favor of third parties; provided, that "Permitted Liens" shall not include any Lien (other than any Lien described in clause (e) above) (i) in the case of a non-monetary claim, which is reasonably likely to prevent or interfere in any material respect with the conduct of the business of the affected Transferred System as it is currently being conducted or (ii) in the case of a monetary claim or debt, including those described in clauses (a), (d) and (f) above, except to the extent the same is reflected in the Closing Net Liabilities Amount used in calculating the Final Adjustment Amount.

"Person" means any human being, Governmental Authority, corporation, limited liability company, general or limited partnership, joint venture, trust, association or unincorporated entity of any kind.

"Redemption Securities" means 42.602 shares of Class A Common Stock owned by Comcast Trust (as such number may be appropriately adjusted to reflect any stock dividends, subdivisions, splits, combinations or other similar events relating to the capital stock of Time Warner Cable).

"Refund" shall mean, with respect to any Person, any refund of Income Taxes including any reduction in Income Tax liabilities by means of a credit, offset or otherwise.

"Retained Subscriber" means a paying customer who subscribes to at least the lowest level of video programming offered by a Time Warner Cable Retained Cable System.

"Second Stage Bringdown Certificate" means the certificate to be delivered by Time Warner Cable in the form attached hereto as Exhibit A.

"Second Stage Documents" means (i) any Contract, list or other item (and all material information relating thereto that is available to Time Warner Cable) added to the Schedules for Sections 6.3(c), 6.3(f) or 6.5 pursuant to Section 7.20 and (ii) any other documents or other information to be provided by Time Warner Cable pursuant to Section 7.20(d).

"Service Area" means any geographic area in which the Transferred Systems are authorized to provide cable television service pursuant to a Transferred Systems Franchise or in which such Transferred Systems provide cable television service for which a Franchise or other Authorization is not required pursuant to applicable Legal Requirements.

"SMATV Acquisition" means any acquisition, within or within close geographical proximity to the Service Area of a Transferred System, of multi-channel video subscribers from a private cable communications system operator (including any owner of a Dwelling, a "SMATV Seller") in respect of any one or more apartment houses or multi-unit buildings, complexes or private communities, hotels or motels or similar facilities (each a "Dwelling") pursuant to which any payment is required to be made to the SMATV Seller to transfer or terminate its existing cable service agreement with the owner or manager of such Dwelling or, if the SMATV Seller is the owner of the Dwelling, to terminate the owner's provision of cable services to the Dwelling; provided that the payment, in the ordinary course of business, of door fees, commissions, revenue sharing and similar amounts to any owner or manager of any Dwelling in connection with the provision of multi-channel video service to such Dwelling shall not constitute a SMATV Acquisition.

"SMATV Purchase Price Per Subscriber" means, in respect of any SMATV Acquisition, the Total SMATV Consideration payable in respect of such

SMATV Acquisition divided by the number of Individual Subscribers acquired pursuant to such SMATV Acquisition.

"Specified Division" means the division of Time Warner Cable specified on Schedule 1.1(f).

"Specified Launch Support Liabilities" means any Liabilities of Time Warner Cable and its Affiliates under agreements with third parties in effect (and on the terms in effect) as of the date hereof (or, with respect to the Designated Systems, the Amendment Date), to repay launch support payments received by Time Warner Cable or its Affiliates prior to the date hereof (or, with respect to the Designated Systems, the Amendment Date), up to a maximum of

(i) \$783,000 in the aggregate with respect to the Original Systems and (ii) \$1,428,000 in the aggregate with respect to the Designated Systems, in each case arising out of, resulting from or associated with any failure by the Transferred Systems to continue to carry after Closing any channels for which launch support payments were received by Time Warner Cable or its Affiliates prior to the date hereof (or, with respect to the Designated Systems, the Amendment Date), but only to the extent such Liabilities result from either the deletion of the applicable channel, change in channel placement of the applicable channel, or the transfer of such channel to a different tier of service, in any such case after the Closing Date and prior to the fifth anniversary of the date hereof (or, with respect to the Designated Systems, the Amendment Date).

"SSBC Systems" means the Transferred Systems serving the communities identified in Schedule 1.1(i).

"Straddle Period" shall mean any taxable period that begins on or before, and ends after, the Closing Date.

"Subscriber" means a paying customer who subscribes to at least the lowest level of video programming offered by a Transferred System.

"Subsidiary" means, with respect to any Person, any entity of which securities or other ownership interests having ordinary voting power to elect a majority of the board of directors or other body performing similar functions are at any time directly or indirectly owned by such Person.

"Subsidiary Transfers" means the transfers by the Transferring Persons of the Transferred Systems to Time Warner Cable.

"Taxes" means all levies and assessments of any kind or nature imposed by any Governmental Authority, including all income, sales, use, ad valorem, value added, franchise, severance, net or gross proceeds, withholding, payroll, employment, F.I.C.A., excise or property taxes, levies, and any payment required to be made to any state abandoned property administrator or other public official pursuant to an abandoned property, escheat or similar law, together with any interest thereon and any penalties, additions to tax or additional amounts applicable thereto and, in the case of Time Warner

Cable, any amounts payable by or to Time Warner Cable under the Time Warner Tax Matters Agreement.

"Tax Matters Agreement" means the Holdco Tax Matters Agreement, by and between Time Warner, Time Warner Cable, Comcast Parent, Comcast and Holdco substantially in the form attached hereto as Exhibit B, as such agreement may be modified pursuant to Section 7.11 of this Agreement or as such Agreement may be amended after the Closing, and any successor agreement.

"Tax Law" means the Code, final, temporary or proposed Treasury regulations, published pronouncements of the U.S. Treasury Department or Internal Revenue Service, published court decisions or other relevant binding legal authority.

"Tax Return" shall mean any report, return or other information (including any attached schedules or any amendments to such report, return or other information) required to be supplied to or filed with a Governmental Authority with respect to any Tax, including (without limitation) an information return, claim for refund, amended return, declaration, or estimated Tax return, in connection with the determination, assessment, collection or administration of any Tax.

"Telephony Subscriber" means a customer who subscribes to at least the lowest level of telephone service offered by a Transferred System, excluding courtesy accounts.

"Time Warner Cable Benefit Plan" means any plan, program, arrangement or agreement that is a pension, profit-sharing, savings, retirement, employment, consulting, severance pay, termination, executive compensation, incentive compensation, deferred compensation, bonus, stock purchase, stock option, phantom stock or other equity-based compensation, change-in-control, retention, salary continuation, vacation, sick leave, disability, death benefit, group insurance, hospitalization, medical, dental, life (including all individual life insurance policies as to which Time Warner Cable or any of its Affiliates is the owner, the beneficiary, or both), Code Section 125 "cafeteria" or "flexible" benefit, employee loan, educational assistance or fringe benefit plan, program, policy or arrangement whether written or oral, including, without limitation, any (i) "employee benefit plan" within the meaning of Section 3(3) of ERISA or (ii) other employee benefit plan, agreement, program, policy, arrangement or payroll practice, whether or not subject to ERISA (including any funding mechanism therefor now in effect or required in the future as a result of the transactions contemplated by this Agreement or otherwise) which Time Warner Cable or any of its Affiliates maintains or contributes to or in respect of which Time Warner Cable or any of its Affiliates has any obligation to maintain or contribute, or have any direct or indirect liability, whether contingent or otherwise, with respect to which any Transferred System Employee has any present or future right to benefits.

"Time Warner Cable Required Consents" means (a) any and all consents, authorizations and approvals (other than any approval of any Franchising Authority consent) the failure of which to obtain in connection with the GP Redemption, Subsidiary

Transfers, Holdco Transaction, TWC Redemption and/or Comcast Subsidiary Transfer would, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect and (b) any other consents, authorizations and approvals set forth on Schedule 6.3 and designated thereon as Time Warner Cable Required Consents.

"Time Warner Cable Retained Cable Systems" means all cable communications systems operated directly or indirectly by Time Warner Cable and its Affiliates (in each case to the extent the results of such systems are included in the consolidated results of Time Warner Cable) at the Closing other than the Transferred Systems and any systems acquired after the date hereof.

"Time Warner Tax Matters Agreement" means the Tax Matters Agreement, by and between Time Warner and Time Warner Cable, dated as of March 31, 2003, as such agreement may be amended from time to time and any successor agreement; provided, however, that for purposes of this Agreement, no such amendment or successor agreement shall be taken into account unless it was made or entered into with the consent of Comcast Subsidiary, not to be unreasonably withheld or delayed.

"Tolling Termination Date" means the Amendment Date.

"Total SMATV Consideration" means, in respect of any SMATV Acquisition, the total consideration payable to the SMATV Seller and its Affiliates in respect of such SMATV Acquisition plus the amount of any net liabilities assumed by the acquiror.

"Transaction Documents" means (i) the instruments and documents described in Sections 9.2 and 9.3 which are being executed and delivered by or on behalf of Comcast Trust, Comcast Subsidiary, Comcast Trust I, Holdco or Time Warner Cable, as the case may be, or any Affiliate of any of them in connection with this Agreement or the transactions contemplated hereby, (ii) the instruments and documents required to effect the Comcast Subsidiary Transfer, if applicable and (iii) the Second Stage Bringdown Certificate.

"Transactions" means the GP Redemption, the Subsidiary Transfers, the Holdco Transaction and the TWC Redemption.

"Transferable Service Area" means a Service Area with respect to which: (a) no Franchise or similar Authorization is required or issued for the provision of cable television service in such Service Area, (b) no consent of a Franchising Authority is necessary for the transfer of any Transferred Systems Franchise for such Service Area in connection with the consummation of the transactions contemplated by this Agreement, (c) if a consent of a Franchising Authority is necessary for the transfer of any Transferred Systems Franchise for such Service Area in connection with the consummation of the transactions contemplated by this Agreement, an effective consent or approval (on terms reasonably satisfactory to Comcast Subsidiary) has been obtained (and is in effect) or (d) if a consent of a Franchising Authority is necessary for the transfer of any Transferred Systems Franchise for such Service Area in connection with the consummation of the

transactions contemplated by this Agreement, the applicable Franchising Authority does not expressly deny a request for approval to transfer such Systems Franchise within the 120--day review period provided under FCC regulation (plus such extensions of time as are mutually agreed upon by Comcast Subsidiary and Time Warner Cable). Any Service Area in which a Person has a Transferred Systems Option that has not been waived in respect of the transactions contemplated by this Agreement and the Transaction Documents shall not be considered a Transferable Service Area.

"Transferred Business" means the businesses conducted with the Transferred Assets, including the operation of the Transferred Systems.

"Transferred System Employee" means any individual who, as of the consummation of the Holdco Transaction, either (a) (x) is then a current or former employee of (including any full-time, part-time, temporary employee or an individual in any other employment relationship with), or then on a leave of absence (including, without limitation, paid or unpaid leave, disability, medical, personal, or any other form of authorized leave) from, Time Warner Cable or any of its Subsidiaries and (y) who is, or at the time of termination of employment was, primarily employed in connection with the Transferred Systems by Time Warner Cable or any of its Subsidiaries, or (b) has been designated by mutual written agreement of Comcast and Time Warner Cable as a Transferred System Employee prior to the Closing Date. Unless the context clearly indicates otherwise, "Transferred System Employee" shall include any person claiming benefits or rights under or through any Transferred System Employee, including the dependents or beneficiaries of any Transferred System Employee.

"TWC Participant" means each Transferring Person and Holdco.

"TWC Redemption Agreement" means the Redemption Agreement dated as of April 20, 2005, as amended from time to time, by and among Comcast, Comcast Subsidiary, Comcast Trust, Cable Holdco II Inc., a Delaware corporation, Time Warner Cable and the other parties named therein.

"TWE" means Time Warner Entertainment Company, L.P., a Delaware limited partnership.

"TWE Redemption Agreement" means the Redemption Agreement, dated April 20, 2005, as amended from time to time, by and among TWE, Comcast, MOC Holdco I, LLC, a Delaware limited liability company, Comcast Trust I, Cable Holdco III LLC, and the other parties named therein.

"Variable Expense Item" means the items identified as variable expense items on the 2004 Operating Budget and the 2005 Operating Budget (consistent in type with the items so identified in the 2005 Operating Budget), as applicable.

"\$" means the U.S. dollar.

Section 1.2 Other Definitions. The following terms are defined in the Section or Exhibit indicated:

TERM	SECTION OR EXHIBIT
338(h) (10) Election	7.24 (a)
2004 Budgets	7.1 (i)
2004 Capital Budget	7.1 (i)
2004 Operating Budget	7.1 (i)
2005 Budgets	7.1 (i)
2005 Capital Budget	7.1 (i)
2005 Operating Budget	7.1 (i)
Accounting Referee	2.5 (c)
Affirmative Third Party Firm Determination	7.24 (b)
Agreement	Preamble
Adjustment Payment	2.5 (f) (i)
Assumed Liabilities	2.2
Books and Records	2.1 (c) (vii)
Cap	11.4 (a)
CARS	2.1 (c) (iv)
Closing	9.1 (a)
Closing Adjustment Amount	2.5 (d)
Closing Net Liabilities Amount	2.5 (g)
Closing Net Liabilities Adjustment Amount	2.5 (g)
COBRA	3.1 (i)
Code	Recitals
Comcast	Preamble
Comcast 401(k) Plan	3.1 (e)
Comcast Balance Sheet	5.6
Comcast Health or Welfare Plan	3.1 (g) (iii)
Comcast Parent	Preamble
Comcast Reimbursement Plan	3.1 (h)
Comcast Statement	2.5 (a)
Comcast Subsidiary	Preamble
Comcast Subsidiary Transfer	2.1 (b) (iii)
Comcast Transferred System Employees	3.1 (a)

Comcast Trust	Preamble
Comcast Trust I	Preamble
Comcast Trust Releasing Parties	11.8
Confidential Information	7.4(a)
Delayed Transfer Asset	2.1(e)(i)
Delivery Date	2.5(a)
Designated Offices	7.20(a)
Designated Relative Percentage Amount	2.5(h)
Designated Retained Base Subscriber Number	2.5(h)
Designated Retained Percentage	2.5(h)
Designated Transferred Base Subscriber Number	2.5(h)
Designated Transferred Closing Subscriber Number	2.5(h)
Designated Transferred Percentage	2.5(h)
Determination	7.24(b)
Determination Deadline	7.24(b)
Diligence Request Date	7.4(c)
Disclosure Letter	1.3
ERISA Group Liabilities	6.15(b)
Estimated Closing Adjustment Amount	2.4
Estimated Closing Net Liabilities Adjustment Amount	2.4
Estimated Subscriber Adjustment Amount	2.4
Exchange Act	4.3
Excluded Assets	2.1(d)
Excluded Liabilities	2.2
Excluded Transferred Cash	2.1(d)
Final Closing Adjustment Amount	2.5(d)
Franchise Matter	11.3
Good Faith Notice	7.20(b)
Guaranteed Parties	11.11(a)

Guaranteed Obligations	11.11(a)
Holdco	Preamble
Holdco Adjustment Payment	2.5(f)(i)
Holdco Indemnification Payment	11.10(a)
Holdco Indemnified Liabilities	6.15(b)
Holdco Shares	2.1(b)(ii)
Holdco Transaction	2.1(b)(i)
Indemnification Payment	11.10(a)
Indemnatee	11.3
Indemnitor	11.3
Joint Determination	7.24(b)
Knowledge	1.3
Leases	6.10
Option	2.1(a)
Option Decision Date	7.20(a)
Option Exercise Date	2.1(a)(i)
Option Exercise Notice	2.1(a)(i)
Original Relative Percentage Amount	2.5(h)
Original Retained Base Subscriber Number	2.5(h)
Original Retained Percentage	2.5(h)
Original Transferred Base Subscriber Number	2.5(h)
Original Transferred Closing Subscriber Number	2.5(h)
Original Transferred Percentage	2.5(h)
Outside Closing Date	10.1(a)
Owned Property	2.1(c)(ii)
POFS	7.1(h)(ii)
Post Closing Consent	7.8
Previous Request	2.3(a)
QSP	7.24(b)
Rate Regulatory Matter	7.10(d)
Real Property Interests	2.1(c)(ii)

Registration Rights Agreement	Recitals
Retained Closing Subscriber Number	2.5(h)
Required Threshold	8.1(h)
Retained Employees	3.1(a)
Securities Act	4.3
Selected Employees	3.1(g)(v)
Subscriber Adjustment Amount	2.5(h)
Surveys	7.6(a)
Taking	12.16(b)
Tangible Personal Property	2.1(c)(i)
Third Party Firm	7.24(b)
Threshold Damage Requirement	11.4(a)
Time Warner	Recitals
Time Warner Cable	Preamble
Time Warner Cable Adjustment Payment	2.5(f)(i)
Time Warner Cable FCC Counsel Opinion	8.1(j)
Time Warner Cable 401(k) Plan	3.1(e)
Time Warner Cable Health or Welfare Plan	3.1(g)(i)
Time Warner Cable Indemnification Payment	11.10(a)
Time Warner Cable Marks	3.2
Time Warner Cable Statement	2.5(a)
Time Warner Cable Reimbursement Plan	3.1(h)
Time Warner Cable Pension Plans	3.1(f)
Time Warner Cable Released Parties	11.8(a)
Time Warner Cable Title Policies	8.1(o)
Title Commitment Notice	7.6(a)
Title Commitments	7.6(a)
Title Company	7.6(a)
Title Defect	7.6(a)
Tolling Agreement	Preamble
Transferred Assets	2.1(c)
Transferred Systems	Recitals

Transferred Systems Contracts	2.1(c)(v)
Transferred Systems Financial Statements	6.11(a)
Transferred Systems Franchises	2.1(c)(iii)
Transferred Systems Licenses	2.1(c)(iv)
Transferred Systems Option	6.19
Transferring Person	6.1
Transitional Services	7.9
TWC Redemption	2.1(b)(ii)
TWE Holdco I	Preamble
WARN	3.1(j)

Section 1.3 Rules of Construction. References to one or more schedules or Schedules shall be references to schedules included in that separate disclosure letter (the "Disclosure Letter") delivered by Time Warner Cable to Comcast Trust and Comcast Subsidiary on May 31, 2005 (and deemed to have been delivered on the Amendment Date) in connection with this Agreement, as such Schedules may be updated pursuant to Sections 7.11 and 7.20 (but, in such case, subject to the provisions of such Sections). It is understood that the representations and warranties set forth in Articles 4 and 5 are qualified by the disclosure letter delivered by Comcast Subsidiary to Time Warner Cable on the Amendment Date in connection with the Tolling Agreement, which disclosure letter will be deemed to have also been delivered in connection with this Agreement, mutatis mutandis. Unless otherwise expressly provided in this Agreement: (a) accounting terms used in this Agreement shall have the meaning ascribed to them under GAAP; (b) words used in this Agreement, regardless of the gender used, shall be deemed and construed to include any other gender, masculine, feminine, or neuter, as the context requires; (c) the word "include" or "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; (h) references to a "day" or number of "days" (without the explicit qualification "Business") shall be interpreted as a reference to a calendar day or number of calendar days; and (i) the phrases "the date hereof" and "the date of this Agreement", and any substantially similar phrase, shall be deemed to refer to September 24, 2004. "Knowledge" (whether or not capitalized) and words of similar import, when used with reference to Time Warner Cable, means the actual knowledge of a particular matter of any of the individuals listed on Schedule 1.3(A), and, from and after delivery of the Second Stage Bringdown Certificate but solely with respect to Sections 6.3(c), 6.3(f) and 6.5 and solely to the extent such Sections relate to the SSBC Systems, the additional

individuals identified on Schedule 1.3(B). This Agreement shall be interpreted on the basis that it was effective on September 24, 2004.

ARTICLE 2

OPTION EXERCISE; REDEMPTIONS; TOLLING

Section 2.1 Option; Redemptions.

(a) Option.

(i) Notwithstanding anything to the contrary set forth herein, in no event shall any party hereto have any obligation to consummate the transactions contemplated to occur at the Closing, including the GP Redemption, the Holdco Transaction and the TWC Redemption, unless and until Comcast Subsidiary shall deliver a written notice (the "Option Exercise Notice") to Time Warner Cable during the period commencing on the Option Commencement Date and expiring at 5:00 p.m. (NYT) on the Option Expiration Date specifying that it is irrevocably exercising its option (the "Option") to cause such transactions to be consummated in accordance with the terms and conditions herein set forth. The delivery of the Option Exercise Notice (as defined under the Tolling Agreement) shall be deemed to be a delivery of the Option Exercise Notice under this Agreement. The date on which the Option Exercise Notice, if any, is received by Time Warner Cable is herein referred to as the "Option Exercise Date." For the avoidance of doubt, TWC acknowledges that the Option Exercise Notice (as defined in the Tolling Agreement) was delivered to TWC on May 20, 2005.

(ii) The Option shall be non-transferable and is solely for the benefit of Comcast Subsidiary.

(iii) The Option, if not yet exercised, shall automatically terminate and be null and void and of no further force or effect at 5:00 p.m. (NYT) on the Option Expiration Date (so long as prior thereto Comcast Subsidiary did not deliver the Option Exercise Notice in accordance with Sections 2.1(a)(i) and 12.4).

(iv) From and after the Option Exercise Date, if any, consummation of the transactions contemplated by this Agreement shall be subject to the satisfaction of the conditions set forth in Sections 8.1, 8.2 and 9.1.

(v) The valid exercise of the Option (as defined in the Tolling Agreement) will be deemed a valid exercise of the Option hereunder.

(b) GP Redemption; Holdco Transaction; TWC Redemption. Subject to the terms and conditions set forth in this Agreement, including exercise of the Option:

(i) Subject to Section 2.1(e), prior to the consummation of the Holdco Transaction, (a) pursuant to the terms and conditions of the GP Redemption and Amendment Agreement, the GP Redemption shall be effected and (b) the Subsidiary Transfers shall be effected. Subject to Section 2.1(e), following the

consummation of the GP Redemption and the Subsidiary Transfers and prior to the consummation of the TWC Redemption, (a) Time Warner Cable shall (or shall cause its Affiliates to) assign, transfer, convey and deliver to Holdco and Holdco shall accept from Time Warner Cable (and its Affiliates), all of its (and their) right, title and interest in and to the Transferred Assets and (b) Holdco shall assume and agree to pay and discharge, as and when they become due, the Assumed Liabilities. The transactions contemplated by clauses (a) and (b) of the immediately preceding sentence are referred to together as the "Holdco Transaction" and shall be consummated pursuant to one or more Bills of Sale and Assignment and Instrument of Assumption in form and substance reasonably acceptable to Time Warner Cable and Comcast Subsidiary, and such other instruments of transfer or assignment as may be reasonably necessary to effect the Holdco Transaction, in each case in form and substance satisfactory to Comcast Subsidiary. For the avoidance of doubt, both the GP Redemption and the Holdco Transaction shall take place prior to the Closing.

(ii) At the Closing, (a) Time Warner Cable shall transfer to Comcast Trust (or, if such transfer would be permitted under applicable FCC Trust Requirements, to Comcast Subsidiary) all outstanding securities of Holdco (the "Holdco Shares") in exchange for and in complete redemption of the Redemption Securities and (b) Comcast Trust shall deliver to Time Warner Cable a stock certificate evidencing the Redemption Securities which shall be in definitive form and registered in the name of Comcast Trust, in proper form for transfer and, if requested by Time Warner Cable, execute, acknowledge and deliver a stock power or such other customary instruments of transfer as Time Warner Cable may reasonably request. The transactions contemplated by the preceding sentence are referred to as the "TWC Redemption."

(iii) If the Holdco Shares are delivered to Comcast Trust (rather than Comcast Subsidiary) pursuant to Section 2.1(b)(ii), then immediately after such transaction, Comcast Trust will transfer the Holdco Shares to Comcast Subsidiary (the "Comcast Subsidiary Transfer"). For purposes of Section 2.1(e)(i) and all Authorizations required or obtained in connection with the transactions contemplated by this Agreement at the Closing, the Comcast Subsidiary Transfer will be considered as part of such transactions so that such Authorizations will allow such transfer.

(iv) Each of the parties hereto hereby agrees that its execution of this Agreement shall constitute its consent and approval of the GP Redemption, the Holdco Transaction, the TWC Redemption and the Comcast Subsidiary Transfer, if any, for all purposes. Without limiting the foregoing, Comcast Trust I hereby agrees to execute and deliver the GP Redemption and Amendment Agreement at such time prior to the Closing as Time Warner Cable shall request.

(c) Transferred Assets. "Transferred Assets" means the Cash Amount, an amount of cash equal to the cash excluded from Excluded Assets pursuant to clause (iv) of the definition thereof (other than the Cash Amount) and all of Time Warner Cable's and its Affiliates' right, title and interest in the assets and properties, real and personal, tangible and intangible, owned, held for use, leased, licensed or used by Time Warner Cable or its Affiliates primarily in the operation of the Transferred Systems as of the Closing Time (that are not Excluded Assets), which Cash Amount and right, title and interest shall be owned by Holdco as of

the Closing (other than as contemplated by Section 2.1(e)(i)). The Transferred Assets shall include the following types of assets and properties:

- (i) **Tangible Personal Property.** All tangible personal property, including towers, tower equipment, aboveground and underground cable, distribution systems, headend equipment, line amplifiers, microwave equipment, converters, testing equipment, motor vehicles, office equipment, furniture, fixtures, supplies, inventory and other physical assets (the "Tangible Personal Property"), including the Tangible Personal Property described on Schedule 2.1(c)(i);
- (ii) **Real Property.** All fee interests in real property (including improvements thereon) (the "Owned Property"), including the interests described as Owned Property on Schedule 2.1(c)(ii)), and all leases, easements, rights of access and other interests (not including fee interests) in real property (the "Real Property Interests"), including the Real Property Interests described on Schedule 2.1(c)(ii);
- (iii) **Franchises.** All franchises and similar authorizations or similar permits issued by any Governmental Authority, (the "Transferred Systems Franchises"), including the Transferred Systems Franchises described on Schedule 2.1(c)(iii);
- (iv) **Licenses.** All cable television relay service ("CARS"), business radio and other licenses, authorizations, consents or permits issued by the FCC or any other Governmental Authority (other than the Transferred Systems Franchises) (the "Transferred Systems Licenses"), including the Transferred Systems Licenses described on Schedule 2.1(c)(iv);
- (v) **Contracts.** All pole line or joint line agreements, underground conduit agreements, crossing agreements, bulk service, commercial service or multiple dwelling agreements, access agreements, system specific programming agreements or signal supply agreements, agreements with community groups, commercial leased access agreements, capacity license agreements, partnership, joint venture or other similar agreements or arrangements, advertising representation and interconnect agreements, and other Contracts (including all Contracts in respect of Real Property Interests) (the "Transferred Systems Contracts"), including the Transferred Systems Contracts described on Schedule 2.1(c)(v);
- (vi) **Accounts Receivable and Current Assets.** All subscriber, trade and other accounts receivable (including advertising accounts receivable) and pre paid expense items;
- (vii) **Books and Records.** 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 of the Transferred Systems, signal and program carriage and dealings with

Governmental Authorities, including all reports filed by or on behalf of Time Warner Cable (or its Affiliates) with the FCC and statements of account filed by or on behalf of Time Warner Cable (or its Affiliates) with the U.S. Copyright Office (the "Books and Records"); and

(viii) Insurance and Condemnation Proceeds. All rights to insurance and condemnation proceeds received or receivable after Closing in respect of any Assumed Liabilities, all insurance and condemnation proceeds (to the extent not already expended by Time Warner Cable to restore or replace the lost, damaged or condemned asset, which replacement asset shall be a Transferred Asset) received or receivable in respect of any asset damaged, lost or condemned after the Balance Sheet Date and which if not so damaged, lost or condemned would have been a Transferred Asset and all insurance and condemnation proceeds received or receivable in respect of business interruption of the Transferred Systems to the extent relating to any period after Closing, in each case on an effective after-tax basis as if TWE is, instead of being a partnership, a stand-alone corporation;

in the case of each of the foregoing, if such property is owned, held for use, leased, licensed or used primarily in the operation of the Transferred Systems and then only to the extent of Time Warner Cable's and its Affiliates' right, title and interest therein.

For the avoidance of doubt, and subject to Section 2.1(e), the parties intend that to the fullest extent permitted all record and beneficial ownership interests of Time Warner Cable and its Affiliates in the Transferred Assets will be transferred to Holdco in the Holdco Transaction and if any Transferring Person holds beneficial ownership in assets of the type described above while another Transferring Person holds record ownership in such assets, all of such ownership interests would be transferred to Holdco in the Holdco Transaction.

(d) Excluded Assets. Notwithstanding anything to the contrary set forth herein, all right, title and interest of Time Warner Cable and its Affiliates in, to and under the following (collectively, the "Excluded Assets"), in each case regardless of whether related to the Transferred Systems, shall not be transferred to Holdco pursuant to the Holdco Transaction and shall be retained directly or indirectly by Time Warner Cable from and after the Closing:

(i) any and all cable programming services agreements (including cable guide contracts but excluding system specific programming agreements listed on Schedule 2.1(c)(v)) and any payments received or to be received with respect thereto; (ii) any and all insurance policies and rights and claims thereunder other than the matters described in Section 2.1(c)(viii); (iii) letters of credit and any stocks, bonds (other than surety bonds), certificates of deposit and similar investments; (iv) any and all cash and cash equivalents (including cash received as advance payments by subscribers in the ordinary course of business and held by Time Warner Cable or its Affiliates as of the Closing Time, but excluding cash in an amount equal to the amount of cash received as (A) subscriber deposits, (B) the cash insurance and condemnation proceeds described in Section 2.1(c)(viii), (C) petty cash on-hand, if any, (D) any cash referred to in Section 12.16, (E) cash received as advance payments from subscribers that are not received in the ordinary course of business, (F) cash

proceeds (on an effective after-tax basis as if TWE is instead of being a partnership, stand alone corporation) of any exercise of a Transferred System Option and (G) the Cash Amount (clauses (B) (except to the extent relating to an Assumed Liability), (D), (E), (F) and (G), the "Excluded Transferred Cash"));

(v) any and all patents, copyrights, trademarks, trade names, service marks, service names, logos and similar proprietary rights, including the "Time Warner Cable" or "Road Runner" name and any derivations thereof (subject to Section 3.2 and excluding those items (other than those incorporating the "Time Warner" or "Road Runner" name) owned, licensed, used or held for use exclusively in connection with the operation of the Transferred Systems); (vi) any and all Contracts for subscriber billing services and any equipment leased with respect to the provision of services under such Contracts (subject to Section 7.9);

(vii) any and all Contracts relating to national advertising sales representation; (viii) any and all agreements with Road Runner Holdco LLC or any other Internet service provider; (ix) any and all Contracts pursuant to which Time Warner Cable or any of its Affiliates procures goods or services for both the Transferred Systems and the Time Warner Cable Retained Cable Systems; (x) any and all retransmission consent agreements, except as provided in Section 7.5 with respect to certain Local Retransmission Consent Agreements as elected by Comcast Subsidiary; (xi) any and all agreements governing or evidencing an obligation of Time Warner Cable or any of its Affiliates for borrowed money;

(xii) the assets described on Schedule 2.1(d); (xiii) any surplus inventory in excess of amounts of inventory held consistent with Specified Division practice (or, in the case of the Monroe cable systems, Time Warner Cable Retained Cable System practice); (xiv) any and all Authorizations of Governmental Authorities to provide telephony service held, directly or indirectly, by Time Warner Cable or any of its Affiliates; (xv) any and all assets relating to the Time Warner Cable 401(k) Plan and the Time Warner Cable Pension Plans; (xvi) any and all account books of original entry, general ledgers, and financial records used in connection with the Transferred Systems; (xvii) any assets of the type that would be excluded from financial statements by reason of the GAAP Adjustments; and (xviii) any intercompany account receivable created to record cash swept from the Transferred Systems prior to Closing (except to the extent such cash would be excluded from the definition of "Excluded Assets" pursuant to clause

(iv) above and such cash amount is not otherwise transferred to Holdco in the Holdco Transaction); provided, that Time Warner Cable shall, at Comcast Subsidiary's request and expense, provide copies of, or information contained in, such books, records and ledgers referred to in clause (xvi) above (other than information pertaining to programming agreements that are not Transferred System-specific programming or, to the extent necessary to protect the legitimate legal, business and/or confidentiality concerns of Time Warner Cable but taking into account Holdco's and Comcast Subsidiary's need for such information, other information that is competitively sensitive, is subject to confidentiality restrictions or that contains trade secrets or other sensitive information) to the extent reasonably requested by Holdco or Comcast Subsidiary after the Closing Date.

(e) Authorizations and Consents.

(i) If and to the extent that the transfer or assignment from TWE to TWE Holdco I, from any Transferring Person to Time Warner Cable or

from Time Warner Cable or any of its Affiliates to Holdco (or any successor thereof) of any Transferred Asset (or following such transfer or assignment, the transfer of Holdco Shares to Comcast Trust or Comcast Subsidiary, or from Comcast Trust to Comcast Subsidiary, as the case may be) would be a violation of applicable Legal Requirements with respect to such Transferred Asset, require any Authorization with respect to such Transferred Asset or otherwise adversely affect the rights of the applicable transferee thereunder then the transfer or assignment to Time Warner Cable or Holdco, as applicable, of such Transferred Asset (each a "Delayed Transfer Asset") shall be automatically deemed deferred and any such purported transfer or assignment shall be null and void until such time as all legal impediments are removed and/or such Authorizations have been made or obtained. Notwithstanding the foregoing, any such Delayed Transfer Asset shall be deemed a Transferred Asset for purposes of determining whether any Liability is an Assumed Liability.

(ii) If the transfer or assignment of any Transferred Asset intended to be transferred or assigned hereunder is not consummated prior to or at the Closing, whether as a result of the provisions of Section 2.1(e) or for any other reason, then Time Warner Cable (or its Affiliate) shall thereafter, directly or indirectly, hold such Transferred Asset for the use and benefit, insofar as reasonably possible and not prohibited under the terms of any applicable Contract, of Holdco (at the expense of Holdco). In addition, Time Warner Cable shall take or cause to be taken such other actions as may be reasonably requested by Holdco in order to place Holdco, insofar as reasonably possible, in the same position as if such Transferred Asset had been transferred as contemplated hereby and so that all the benefits and burdens relating to such Transferred Assets including possession, use, risk of loss, potential for gain, and dominion, control and command over such Transferred Asset, are to inure from and after the Closing to Holdco. To the extent permitted by Legal Requirements and to the extent otherwise permissible in light of any required Authorization, Holdco shall be entitled to, and shall be responsible for, the management of any Transferred Assets not yet transferred to it as a result of this Section 2.1(e) and the parties agree to use reasonable commercial efforts to cooperate and coordinate with respect thereto. For the avoidance of doubt, Time Warner Cable will cause TWE and each other Transferring Person to comply with the provisions hereof as if TWE or such other Transferring Person were a party hereto to the extent any Transferred Asset was intended to be, but was not, transferred in the GP Redemption, Subsidiary Transfers or the Holdco Transaction, as applicable.

(iii) If and when the Authorizations, the absence of which caused the deferral of transfer of any Transferred Asset pursuant to this Section 2.1(e), are obtained, the transfer of the applicable Transferred Asset to Holdco shall automatically and without further action be effected in accordance with the terms of this Agreement and the applicable Transaction Documents.

(iv) Neither Time Warner Cable nor any Affiliate thereof shall be obligated, in connection with the foregoing, to expend any money unless the necessary funds are advanced by Holdco, other than reasonable out-of-pocket expenses, attorneys' fees and recording or similar fees, all of which shall be promptly

reimbursed by Holdco except as otherwise specifically provided in this Agreement, including for this purpose Section 3.4.

(v) Prior to the Holdco Transaction, Time Warner Cable shall deliver to Holdco a list identifying, in reasonable detail and to Time Warner Cable's knowledge, the Delayed Transfer Assets and the Authorizations required therefor.

(vi) The parties hereto further agree (A) that any Delayed Transferred Assets referred to in this Section 2.1(e) shall be treated for all Income Tax purposes as assets of Holdco (or any successor thereof) and

(B) not to report or take any Tax position (on a Tax Return or otherwise) inconsistent with such treatment (unless required by a change in applicable Tax law or a good faith resolution of a contest, provided that if such a resolution would result in Time Warner Cable taking a position that is inconsistent with any reporting position required to be taken under the Tax Matters Agreement the provisions of the Tax Matters Agreement shall apply).

Section 2.2 Assumed Liabilities. At the Closing and except as otherwise provided for herein, Holdco shall assume, and, from and after the Closing, Holdco shall pay, discharge and perform as and when due, all (a) Liabilities of Time Warner Cable and its Affiliates to the extent arising out of, resulting from or associated with the ownership and operation of the Transferred Assets and/or the Transferred Business prior to Closing, or the transfer of such Transferred Assets and/or Transferred Business at Closing, including all Master Pre-Closing Liabilities, but in each case only to the extent such Liabilities are reflected in the Closing Net Liabilities Amount used to calculate the Final Closing Adjustment Amount and (b) all Liabilities to the extent relating to, arising out of or resulting from the ownership and operation of the Transferred Assets and/or the Transferred Business after the Closing, including all Specified Launch Support Liabilities, (clauses (a) and (b)) collectively, the "Assumed Liabilities". The Assumed Liabilities shall not include (i) Excluded Tax Liabilities, (ii) Liabilities set forth on Schedule 2.2, (iii) Liabilities for long-term debt (including the current portion thereof), (iv) Liabilities to the extent arising out of, resulting from or associated with the use, ownership or operation of the Excluded Assets other than Master Pre-Closing Liabilities and Specified Launch Support Liabilities,

(v) any Liabilities of Time Warner Cable or its Affiliates other than Assumed Liabilities, (vi) any Liabilities of the type that would be excluded from financial statements by reason of the GAAP Adjustments or (vii) any intercompany payable created to record cash lent to the Transferred Systems prior to Closing (clauses (i) through (vii) collectively, "Excluded Liabilities").

Section 2.3 Registration Rights Agreement.

(a) Comcast Trust and Time Warner Cable each hereby acknowledge and agree that any request by Comcast Trust for a demand registration under the Registration Rights Agreement prior to the date hereof (the "Previous Request") will be treated for all purposes as if it had not been made. Unless and until a subsequent request for a demand registration is delivered on or after the Tolling

Termination Date to Time Warner Cable in accordance with the Registration Rights Agreement, Time Warner Cable will not be required to take any action under the Registration Rights Agreement in respect of any request for a demand registration thereunder.

(b) Except as set forth in Section 2.3 of the TWC Redemption Agreement, Comcast Trust hereby agrees on behalf of itself and its Controlled Affiliates that it shall not exercise (or cause to be exercised) (or make any request with respect thereto) any of its demand registration rights under the Registration Rights Agreement with respect to any "Registrable Securities" (as defined in the Registration Rights Agreement) beneficially owned by it or any of its Controlled Affiliates or otherwise prior to the Tolling Termination Date. The foregoing shall be deemed to amend, modify and supplement the Registration Rights Agreement; provided, that, it is acknowledged and agreed by Time Warner Cable that nothing contained in this Section 2.3 shall be deemed a revocation by Comcast Trust for purposes of Section 4.1(c) of the Registration Rights Agreement.

(c) Comcast Trust hereby agrees that it will not from and after the date hereof until the Tolling Termination Date transfer or otherwise dispose of any Registrable Securities to any Person unless prior to such transfer or disposition (and as a condition thereto) such Person agrees in writing to be bound by this Section 2.3 as if a party hereto and delivers a written acknowledgment of the same to Time Warner Cable (including with respect to any subsequent transfers or dispositions).

(d) In its capacity as the ultimate indirect beneficiary of the Comcast Trust, Comcast Parent hereby expressly acknowledges and approves of the agreement made by Comcast Trust in this Section 2.3.

Section 2.4 Estimated Closing Adjustment Amount. No later than two Business Days prior to the Closing Date, Time Warner Cable will deliver to Comcast Trust and Comcast Subsidiary a good faith estimate of the Subscriber Adjustment Amount (the "Estimated Subscriber Adjustment Amount"), if any, and a good faith estimate of the Closing Net Liabilities Adjustment Amount (the "Estimated Closing Net Liabilities Adjustment Amount"), if any, together with appropriate documentation supporting such estimates. The sum of the Estimated Subscriber Adjustment Amount and the Estimated Closing Net Liabilities Adjustment Amount is referred to herein as the "Estimated Closing Adjustment Amount" and may be a positive or a negative amount.

Section 2.5 Final-Closing Adjustment Amount.

(a) No later than ninety (90) days following the Closing Date (the "Delivery Date"), (i) Comcast Subsidiary will deliver to Time Warner Cable (A) its determination of the Closing Net Liabilities Amount for Holdco and based on the foregoing, the Closing Net Liabilities Adjustment Amount, (B) its determination of the Transferred Closing Subscriber Number and the Transferred Base Subscriber Number and (C) appropriate documentation supporting such determinations (the "Comcast

Statement") and (ii) Time Warner Cable will deliver to Comcast Subsidiary (A) its determination of the Retained Closing Subscriber Number and the Retained Base Subscriber Number and (B) appropriate documentation supporting such determinations (the "Time Warner Cable Statement"). Each such statement shall be prepared in good faith in accordance with this Agreement based on the books and records of the Transferred Systems held by Holdco or based on the books and records of the Time Warner Cable Retained Cable Systems held by Time Warner Cable, as the case may be.

(b) If Time Warner Cable disagrees with any item in the Comcast Statement delivered pursuant to Section 2.5(a)(i), Time Warner Cable may, within ninety (90) days after the Delivery Date, deliver a notice to Comcast Subsidiary disagreeing with such item and setting forth Time Warner Cable's calculation of such item, together with appropriate documentation supporting such determination. Any such notice of disagreement shall specify those items or portions thereof as to which Time Warner Cable disagrees, and Time Warner Cable shall be deemed to have agreed with all other items and portions of items contained in the Comcast Statement delivered to it pursuant to Section 2.5(a)(i). If Comcast Subsidiary disagrees with any item in the Time Warner Cable Statement delivered pursuant to Section 2.5(a)(ii), Comcast Subsidiary may, within ninety (90) days after the Delivery Date, deliver a notice to Time Warner Cable disagreeing with such item and setting forth Time Warner Cable's calculation of such item, together with appropriate documentation supporting such determination. Any such notice of disagreement shall specify those items or portions thereof as to which Comcast Subsidiary disagrees, and Comcast Subsidiary shall be deemed to have agreed with all other items and portions of items contained in the Time Warner Cable Statement delivered to it pursuant to Section 2.5(a)(ii). Any such notice shall be prepared in good faith in accordance with this Agreement based on the books and records of the Transferred Systems held by Holdco or the Time Warner Cable Retained Cable Systems, as the case may be.

(c) If a notice of disagreement shall be duly delivered pursuant to Section 2.5(b), Time Warner Cable and Comcast Subsidiary shall, during the thirty (30) days following such delivery, use their commercially reasonable efforts to reach agreement on the disputed items and amounts. If during such period, Time Warner Cable and Comcast Subsidiary are unable to reach such agreement, they shall promptly jointly retain a nationally recognized accounting firm that is not the principal independent accountant of either Comcast Parent or Time Warner Cable's ultimate parent (the "Accounting Referee") to resolve the disputed items or amounts. In making its determinations of the propriety of items and amounts, the Accounting Referee shall consider only those items (or portions thereof) or amounts as to which Time Warner Cable and Comcast Subsidiary disagree and, with respect to each item (or portion thereof) or amount, shall select a number within the range of the dispute between Time Warner Cable and Comcast Subsidiary. The Accounting Referee shall deliver to Time Warner Cable and Comcast Subsidiary, as promptly as practicable (but, in any event, within thirty (30) days after submission of the dispute to it), a report setting forth its resolution of the disputed items and amounts and based thereon (and on the items (or portions thereof) and amounts not in dispute) the Closing Adjustment Amount. Such report shall be final and binding upon Time Warner Cable and Comcast Subsidiary. The

costs of the Accounting Referee shall be shared equally by Time Warner Cable and Comcast Subsidiary. Holdco and Time Warner Cable will, and will cause their Affiliates and independent accountants to, cooperate and assist each other and the Accounting Referee in conducting their respective reviews of the amounts referred to in this Section 2.5, including without limitation, making available to the extent necessary any books, records, work papers and personnel.

(d) As used herein, the term "Final Closing Adjustment Amount" means, with respect to any determination of the Closing Adjustment Amount (as defined below): (1) if no notice of disagreement is delivered by either party in accordance with Section 2.5(b) with respect to the other party's determination of an element used to calculate the Closing Adjustment Amount, the Closing Adjustment Amount calculated based on the amounts in the Comcast Statement and the Time Warner Cable Statement; (2) if either party delivers a notice of disagreement in accordance with Section 2.5(b) and the parties reach agreement on all disputed items within 30 days following such delivery, the Closing Adjustment Amount as determined in accordance with such agreement; or (3) if either party delivers a notice of disagreement in accordance with Section 2.5(b) and the parties fail to reach agreement within 30 days, the Closing Adjustment Amount as calculated based on the undisputed amounts in the Comcast Statement and Time Warner Cable Statement and with respect to disputed items, as determined by the Accounting Referee. As used herein, the term "Closing Adjustment Amount" means the sum of the Subscriber Adjustment Amount and the Closing Net Liabilities Amount.

(e) If the Final Closing Adjustment Amount exceeds the Estimated Closing Adjustment Amount, Time Warner Cable will pay to Holdco the amount of such excess. If the Estimated Closing Adjustment Amount exceeds the Final Closing Adjustment Amount, Holdco will pay to Time Warner Cable the amount of such excess. Any payment pursuant to this Section 2.5(e) shall be made in cash at a mutually convenient time and place within three (3) days following the determination of the Final Closing Adjustment Amount. The amount of any payment to be made pursuant to this Section 2.5(e) shall bear interest from and including the Closing Date to and including the date of payment at the Base Interest Rate.

(f) Tax Treatment of Adjustment Payments and Interest.

(i) For all Tax purposes (unless required by a change in applicable Tax law or a good faith resolution of a contest) the parties hereto agree to treat and to cause their respective Affiliates to treat any payment pursuant to Section 2.5(e) to Holdco by Time Warner Cable (a "Time Warner Cable Adjustment Payment") or to Time Warner Cable by Holdco (a "Holdco Adjustment Payment" and, each, an "Adjustment Payment") as (x) with respect to a Time Warner Cable Adjustment Payment, a contribution by Time Warner Cable to Holdco occurring immediately prior to the Closing, and (y) with respect to a Holdco Adjustment Payment, an adjustment to the Cash Amount transferred by Time Warner Cable to Holdco pursuant to the Holdco Transaction occurring immediately prior to the Closing.

(ii) Notwithstanding Section 2.5(f)(i) above, any Adjustment Payments that represent interest payable under Section 2.5(e) hereof shall be treated for all Tax purposes (unless required by a change in applicable Tax law or a good faith resolution of a contest), as (1) deductible to the payor and (2) taxable to the payee.

(g) As used herein, the term "Closing Net Liabilities Adjustment Amount" means the excess, if any, of the Closing Net Liabilities Amount over \$15,000,000. The "Closing Net Liabilities Amount" shall equal the amount of all Liabilities of Holdco (other than the Holdco Transaction Liabilities) as of the Closing (after giving effect to the Closing), less the amount of all current assets (other than inventory and the Excluded Transferred Cash) of Holdco as of the Closing (after giving effect to the Closing), in each case as would be reflected on the face of a balance sheet (excluding any footnotes thereto) prepared in accordance with GAAP; provided that, if Comcast Subsidiary or one of its Affiliates shall have made the request provided in the first sentence of Section 3.1(g)(v), the Actuarial Amount shall be treated as a Liability on the face of such balance sheet prepared in accordance with GAAP for purposes of this calculation and if Comcast Subsidiary or any of its Affiliates has not made such request the Liabilities assumed by Comcast Subsidiary pursuant to the last sentence of Section 3.1(g)(v) shall be treated as a Liability on the face of such balance sheet prepared in accordance with GAAP for purposes of this calculation. The Closing Net Liabilities Amount shall be deemed to include (without duplication) assets or Liabilities of Comcast Subsidiary or its Affiliates or Holdco conveyed or assumed (as applicable) pursuant to Section 3.1, to the extent such assets or Liabilities would be reflected on the face of a balance sheet of the Transferred Business (excluding any footnotes thereto) prepared in accordance with GAAP as of the Closing Time, but without giving effect to the Closing. Current assets shall include, but shall not be limited to, all cash and cash equivalents (including the cash paid to Comcast Subsidiary pursuant to Section 3.1(h) but excluding the Excluded Transferred Cash), prepaid expenses, funds on deposit with third parties, and accounts receivable other than (i) the portion of any account receivable resulting from cable, telephony, data or Internet service sales that is sixty (60) days or more past due as of the Closing Date, (ii) the portion of any national agency account receivable resulting from advertising sales that is one hundred and twenty (120) days or more past due as of the Closing Date, (iii) any non-national agency account receivable resulting from advertising sales any portion of which is ninety (90) days or more past due as of the Closing Date, (iv) accounts receivable from customers whose accounts are inactive as of the Closing Date or (v) any accounts receivable that have not arisen from a bona fide transaction in the ordinary course of business. For purposes of making the foregoing "past due" calculations, the billing statements of a Transferred System will be deemed to be due and payable consistent with ordinary accounting practice. Current Assets shall include the total SMATV Consideration paid in respect of any Excluded SMATV Acquisition. For the avoidance of doubt, Liabilities shall include, but are not limited to, the Actuarial Amount (if Comcast Subsidiary or any of its Affiliates shall have made the request provided in the first sentence of Section 3.1(g)(v)), Specified Launch Support Liabilities, accounts payable, accrued expenses (including all accrued vacation time, sick days, other accrued paid time off, copyright fees, programming expenses, Applicable Taxes, franchise fees and other license fees or charges), capitalized lease obligations, Contract obligations that are due and payable (including lease obligations), due and

payable obligations that are subject to materialmen's, mechanic's and similar Liens, Liabilities with respect to unearned income and advance payments (including subscriber prepayments and deposits for converters, encoders, cable television service and related sales) and interest, if any, required to be paid on advance payments.

(h) "Subscriber Adjustment Amount" means an amount (which may be positive or negative) equal to the sum of the (A) product of (x) \$3,500 times

(y) the Original Relative Percentage Amount times (z) the Original Transferred Base Subscriber Number plus (B) (x) \$3,500 times (y) the Designated Relative Percentage Amount times (z) the Designated Transferred Base Subscriber Number. As used herein, the term "Original Relative Percentage Amount" means an amount (which shall be expressed as a percentage and may be positive or negative) equal to (i) the Original Retained Percentage (as defined below) minus (ii) the Original Transferred Percentage (as defined below). As used herein, the term "Original Retained Percentage" means a fraction (expressed as a percentage) the numerator of which is the number of Individual Subscribers of the Time Warner Cable Retained Cable Systems as of the Closing Date (the "Retained Closing Subscriber Number") and the denominator of which is the number of Individual Subscribers of the Time Warner Cable Retained Cable Systems as of July 31, 2004 (the "Original Retained Base Subscriber Number"). As used herein, the term "Original Transferred Percentage" means a fraction (expressed as a percentage) the numerator of which is (A) the number of Individual Subscribers of the Original Systems as of the Closing Date minus (B) the number of Individual Subscribers of the Original Systems acquired pursuant to any Excluded SMATV Acquisition (the "Original Transferred Closing Subscriber Number") and the denominator of which is the number of Individual Subscribers of such Original Systems as of July 31, 2004 (the "Original Transferred Base Subscriber Number"). As used herein, the term "Designated Relative Percentage Amount" means an amount (which shall be expressed as a percentage and may be positive or negative) equal to (iii) the Designated Retained Percentage (as defined below) minus (iv) the Designated Transferred Percentage (as defined below). As used herein, the term "Designated Retained Percentage" means a fraction (expressed as a percentage) the numerator of which is Retained Closing Subscriber Number and the denominator of which is the number of Individual Subscribers of the Time Warner Cable Retained Cable Systems as of December 31, 2004 (the "Designated Retained Base Subscriber Number"). As used herein, the term "Designated Transferred Percentage" means a fraction (expressed as a percentage) the numerator of which is (A) the number of Individual Subscribers of the Designated Systems as of the Closing Date minus (B) the number of Individual Subscribers of the Designated Systems acquired pursuant to any Excluded SMATV Acquisition (the "Designated Transferred Closing Subscriber Number") and the denominator of which is the number of Individual Subscribers of such Designated Systems as of December 31, 2004 (the "Designated Transferred Base Subscriber Number").

ARTICLE 3 RELATED MATTERS

Section 3.1 Employees.

- (a) Employees. Each Transferred System Employee who is an employee of Time Warner Cable or one of its Subsidiaries as of immediately prior to the Holdco Transaction, including individuals on leave of absence, short-term disability and long-term disability, shall become an employee of Holdco as of the consummation of the Holdco Transaction. Employees who commence employment with Holdco in accordance with the preceding sentence shall be referred to herein as "Comcast Transferred System Employees." For the avoidance of doubt, if any employee holding the job title as of the date hereof (or, with respect to the Designated Systems, the Amendment Date) listed on Schedule 3.1(l) (i) (as previously identified by name to Comcast Subsidiary by Time Warner Cable) remains employed by Time Warner Cable or its Affiliates on the Closing Date as permitted by Section 3.1(l) hereof, such employee shall not be a Comcast Transferred System Employee. For purposes of this Article 3, "Transferred System Employees" shall not include those employees holding the job titles as of the date hereof (or, with respect to the Designated Systems, the Amendment Date) listed on Schedule 3.1(a) (as previously identified by name to Comcast Subsidiary by Time Warner Cable) (such employees, the "Retained Employees") and none of Holdco, Comcast Subsidiary or any of their respective Affiliates shall have any obligation or Liability with respect to any of the Retained Employees. Holdco (or its Affiliates as of the Closing) shall take such actions as are reasonably necessary to effectuate the transfer of employment described in this Section 3.1(a), including, without limitation, making a general offer of employment to each such Transferred System Employee. The parties hereto shall not take any action that is not otherwise permitted under this Article 3 that would interfere with such employees becoming employed by Holdco as of the consummation of the Holdco Transaction. Immediately following the Closing, Comcast shall cause the Comcast Transferred System Employees to be paid base salary or wage rates no less than those rates provided to such employees immediately prior to the consummation of the Holdco Transaction and to be provided benefit plan participation at levels no less favorable than those applicable to similarly situated employees of Comcast Subsidiary or its Affiliates at the time of the Closing. As of the Closing, Holdco shall have no employees other than employees who are primarily employed in connection with the Transferred Systems.
- (i) Holdco shall recognize, as to each Comcast Transferred System Employee, the period of service (without duplication of benefits) with Time Warner Cable and any of its Affiliates (other than Holdco) prior to the Closing under all Time Warner Cable Benefit Plans to the extent so recognized by Time Warner Cable and its Affiliates prior to the Holdco Transaction. In addition, Holdco shall recognize, as to each Comcast Transferred System Employee, all vacation, sick days and other paid time off accrued by such Comcast Transferred System Employee but unused as of the consummation of the Holdco Transaction, in each case to the extent such amounts are reflected in the Closing Net Liabilities Amount used in calculating the Final Adjustment Amount.
- (ii) Notwithstanding any provision in this Agreement to the contrary, the parties hereto agree that, except to the extent used in connection with the funding of any Time Warner Cable Benefit Plan that is continued by Time Warner Cable or any of its Affiliates (other than Holdco), as of the consummation of the Holdco Transaction the parties hereto shall cause to be transferred to or held for the benefit of

Holdco their interests in all life, medical and other insurance policies to the extent relating to Transferred System Employees.

(iii) Subject to obtaining any necessary consents and except as provided in Section 7.2(h) or as otherwise provided in this Agreement, as of the consummation of the Holdco Transaction, Time Warner Cable and its Affiliates (other than Holdco) shall assign to Holdco, and Holdco shall assume, (A) all rights, obligations and Liabilities of Time Warner Cable and its Affiliates (other than Holdco) (x) under all employment agreements, unfunded compensation arrangements and employee related insurance policies and (y) for benefits accrued and payable now and in the future under all Time Warner Cable Benefit Plans, and (B) all other employment-related rights, obligations and Liabilities, in each case to the extent relating to Transferred System Employees (other than Liabilities relating to or arising under the "Time Warner Cable 401(k) Plan", the "Time Warner Cable Pension Plans" (each as defined below), the Time Warner Cable Excess Benefit Pension Plan and any equity-based compensation plans maintained by Time Warner Cable or its Affiliates) (such Liabilities shall be included in the meaning of Assumed Liabilities). With respect to the period prior to Closing, any such Liabilities shall only be assumed to the extent reflected in the Closing Net Liabilities Amount used in calculating the Final Adjustment Amount.

(iv) The parties hereto agree that, except to the extent that sponsorship of a funded Time Warner Cable Benefit Plan is continued by Time Warner Cable or any of its Affiliates (other than Holdco) and except as provided in Section 7.2(h) or as otherwise provided in this Agreement, the Transferred Assets shall include any monies, contracts or other funds relating to the participation of any Transferred System Employees in any Time Warner Cable Benefit Plan, in each case to the extent such amounts, monies, contracts or other funds are reflected in the Closing Net Liabilities Amount used in calculating the Final Adjustment Amount.

(v) Subject to any required notification, as of the consummation of the Holdco Transaction, the parties agree to take such action, and to cause their Affiliates to take such action, as is necessary to cause Holdco to succeed to the rights and obligations of Time Warner Cable and its Affiliates (other than Holdco), including its rights and obligations with respect to any "multiemployer plan" (as defined in Section 3(37) of ERISA), under any collective bargaining agreement (if any so exist) to the extent such agreement covers Transferred System Employees.

(b) Continued Employment with Holdco.

(i) Effective as of the Closing, all Comcast Transferred System Employees shall continue to be employees of Holdco and shall cease to be employees of Time Warner Cable or any of its Subsidiaries. Effective as of the Closing, Time Warner Cable shall discontinue providing benefits to Comcast Transferred System Employees under all Time Warner Cable Benefit Plans except as otherwise required by law or as contemplated under this Agreement.

(c) Severance-Related Liabilities. Comcast Subsidiary and Holdco shall be responsible for all Liabilities with respect to any Comcast Transferred System Employee in connection with the termination of such employee's employment on or after the Closing, and any Liability for WARN and severance payments and benefits under the TWC Severance Pay Plan or any individual employment or severance arrangement, each, in accordance with its terms, applicable to a Transferred System Employee who rejects the general offer of employment made pursuant to Section 3.1(a). Notwithstanding the foregoing, Comcast Subsidiary and its Affiliates shall have no Liability with respect to the termination of employment of the employees holding the job titles as of the date hereof (or, with respect to the Designated Systems, the Amendment Date) listed on Schedule 3.1(l)(i), if any such employee is hired by Time Warner Cable or any of its Affiliates as permitted by Section 3.1(l) in the 12 month period following the Closing.

(d) Participation in Benefit Plans. With respect to Comcast Transferred System Employees, compensation and service of such employees with Time Warner Cable and its Affiliates prior to Closing shall be recognized under all applicable Comcast Benefit Plans to the extent so recognized under the corresponding Time Warner Cable Benefit Plans prior to Closing, except to the extent that duplication of benefits would result or as otherwise provided in this Agreement.

(e) Tax-Qualified Defined Contribution Plans. As of and following the Closing, Transferred System Employees shall not be entitled to make contributions to or to benefit from matching or other contributions under the TWC Savings Plan ("Time Warner Cable 401(k) Plan"). None of Comcast Subsidiary, any of its Affiliates or Holdco shall have any Liability with respect to the Time Warner Cable 401(k) Plan, except as may be provided in any other agreement between Time Warner Cable or any of its Affiliates, on the one hand, and Comcast Subsidiary or any of its Affiliates (other than Holdco), on the other. Comcast Transferred System Employees who were participants in the Time Warner Cable 401(k) Plan immediately prior to the Closing shall become participants in a defined contribution pension plan qualified under Section 401(a) of the Code and meeting the requirements of Section 401(k) of the Code established or maintained by Comcast Subsidiary or its Affiliates (the "Comcast 401(k) Plan") as of the Closing; provided, that any Comcast Transferred System Employee with less than 6 months of service with Time Warner Cable or any of its Affiliates immediately prior to Closing will only become a participant in the Comcast 401(k) Plan after completing 6 months of combined continuous service with Time Warner Cable or any of its Affiliates (other than Holdco) and Holdco or any of its Affiliates (other than Time Warner Cable). Comcast Subsidiary or its Affiliates shall cause the Comcast 401(k) Plan to accept cash eligible rollover distributions (as defined in Section 402(c)(4) of the Code) by Comcast Transferred System Employees with respect to account balances distributed to them on or after the Closing Date by the Time Warner Cable 401(k) Plan.

(f) Tax-Qualified Defined Benefit Plans. As of the Closing, the Transferred System Employees shall cease accruing benefits under the Time Warner Cable Pension Plan, and the Time Warner Cable Union Pension Plan (collectively, the "Time Warner Cable Pension Plans"). None of Comcast Subsidiary, any of its Affiliates

or Holdco shall have any Liability with respect to the Time Warner Cable Pension Plans or the Time Warner Cable Excess Benefit Pension Plan except as may be provided in any other agreement between Time Warner Cable or any of its Affiliates, on the one hand, and Comcast Subsidiary or any of its Affiliates (other than Holdco), on the other.

(g) Health and Welfare Plans.

(i) All Liabilities relating to, arising out of, or resulting from health and welfare coverage or claims incurred by or on behalf of each Transferred System Employee under any Time Warner Cable Benefit Plan that is a health or welfare plan within the meaning of Section 3(1) of ERISA (each a "Time Warner Cable Health or Welfare Plan") prior to the Closing shall be Liabilities of Holdco or one of its Affiliates to the extent such Liabilities are reflected in the Closing Net Liabilities Amount used in calculating the Final Adjustment Amount.

(ii) Other than as required by COBRA, each Transferred System Employee shall cease to participate in any Time Warner Cable Health or Welfare Plan as of the Closing.

(iii) Each Comcast Transferred System Employee who, after the recognition of service provided for in Section 3.1(d) satisfies the eligibility requirements under the applicable Comcast Benefit Plan that is a health or welfare plan within the meaning of Section 3(1) of ERISA (each, a "Comcast Health or Welfare Plan"), shall be (A) entitled to enroll, effective as of the Closing, as a newly-eligible employee of Comcast Subsidiary or one of its Affiliates in the Comcast Health or Welfare Plans then available to similarly situated employees of Comcast Subsidiary or any of its Affiliates and (B) eligible to elect such coverage and benefit options as may then be available or provided under the terms of the Comcast Health or Welfare Plans to new employees of Comcast Subsidiary or any of its Affiliates. All compensation, benefit elections, deductible payments, payments toward the applicable out-of-pocket maximums and other benefit-affecting determinations affecting Comcast Transferred System Employees that, as of immediately prior to the Closing, were recognized under any Time Warner Cable Health or Welfare Plan with respect to the plan year in which the Closing occurs shall receive full recognition, credit and validity and be taken into account under the corresponding Comcast Health or Welfare Plan as of the Closing with respect to that same plan year.

(iv) With respect to any Comcast Transferred System Employee and his or her dependents (if any) who were covered under any Time Warner Cable Health or Welfare Plan immediately prior to the Closing, Comcast Subsidiary shall take, or cause to be taken, the appropriate actions reasonably necessary to ensure that the proof of insurability requirements (if any) and the preexisting condition exclusions (if any) applicable to new enrollees under the corresponding Comcast Health or Welfare Plan (if any) are waived with respect to such Comcast Transferred System Employee, to the extent that such requirements and exclusions were waived under any similar corresponding Time Warner Cable Health or Welfare Plan.

(v) Upon the written request of Comcast Subsidiary or one of its Affiliates delivered to Time Warner Cable at least 60 days prior to the expected Closing Date, Time Warner Cable shall, or shall cause its Affiliates to, permit those Transferred System Employees on long-term disability or who are receiving retiree life or retiree medical benefits at the time of the Closing and who are listed on a Schedule 3.1(g)(v) (the "Selected Employees"), such Schedule 3.1(g)(v) to be updated ten Business Days prior to the expected Closing Date, to continue to receive such coverage under the applicable long-term disability, retiree medical or retiree life plan, as applicable, sponsored or maintained by Time Warner Cable or its Affiliates and the Actuarial Amount shall be determined and taken into account as provided in Section 1.1 in the definition of "Cash Amount" and as provided in Section 2.5(g) in the definition of "Closing Net Liabilities Amount". If Comcast Subsidiary or one of its Affiliates makes the request provided in the first sentence of this Section 3.1(g)(v), except for the payment of the Actuarial Amount, any Liability associated with any long-term disability, retiree life or retiree medical benefits, as applicable, relating to or in connection with the Selected Employees shall not be an Assumed Liability and shall be included in the meaning of Excluded Liabilities. If Comcast Subsidiary or one of its Affiliates does not make the request provided in the first sentence of this Section 3.1(g)(v), Comcast Subsidiary shall assume all Liabilities associated with any long-term disability, retiree life or retiree medical benefits relating to or in connection with the Selected Employees and such Liabilities shall be reflected in the Closing Net Liabilities Amount used in calculating the Final Adjustment Amount.

(h) Reimbursement Account Plans. To the extent any Comcast Transferred System Employee made contributions to any Time Warner Cable Benefit Plan that is a reimbursement account plan, such as a health care or dependent care reimbursement plan ("Time Warner Cable Reimbursement Plan"), during the calendar year in which the Closing occurs, such Comcast Transferred System Employee shall be permitted to file claims for reimbursement under a Comcast Benefit Plan that is a comparable reimbursement account plan ("Comcast Reimbursement Plan") for qualifying expenses incurred during the calendar year in which the Closing occurs, including periods prior to the Closing, for a total amount not to exceed the amount elected by such Comcast Transferred System Employee for that year under such plan. Account balances, whether positive or negative, shall be transferred and assigned to the appropriate Comcast Reimbursement Plan by Time Warner Cable or an Affiliate, as applicable. As soon as practicable following the Closing, Time Warner Cable shall pay to Comcast Subsidiary a cash amount (which amount shall be deemed to constitute a current asset of Holdco for purposes of Section 2.5(g)) equal to the aggregate positive balances as of the Closing Date of each flexible spending account of each Comcast Transferred System Employee under the applicable Time Warner Cable Reimbursement Plan. Comcast Subsidiary shall assume all obligations of Time Warner Cable with respect to each Transferred System Employee under the applicable Time Warner Cable Reimbursement Plan.

(i) COBRA. Comcast Subsidiary shall, or shall cause, each Comcast Transferred System Employee and each "qualified beneficiary" (as defined in Title X of the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended, and as codified in Section 4980B of the Code and ERISA Sections 601 through 608

("COBRA")) of each Comcast Transferred System Employee, who elects continued group health plan coverage under COBRA or incurs a "qualifying event" (as defined in COBRA) on or after the Closing, to be offered COBRA coverage on and after the Closing under a Comcast Health or Welfare Plan. Time Warner Cable and its Affiliates (other than Holdco) shall retain all obligations and Liabilities with respect to Transferred System Employees who elected continued group plan coverage under COBRA or incurred a "qualifying event" prior to the Closing.

(j) WARN Compliance. Comcast Subsidiary and Holdco shall be responsible for any Liability arising under the Worker Adjustment and Retraining Notification Act and any similar state or local laws (collectively, "WARN") with respect to the termination of employment of Comcast Transferred System Employees on or after the Closing. During the period prior to the Closing, the parties agree to cooperate with each other in order to comply with WARN, including, but not limited to, Holdco or its Affiliates providing to Transferred System Employees and any applicable governmental entities or other required persons (on behalf of itself and Comcast Subsidiary) any notice and other requirements under WARN.

(k) Workers' Compensation Liabilities. Comcast Subsidiary and Holdco shall be responsible for all workers' compensation Liabilities relating to, arising out of, or resulting from any claim incurred for a compensable injury sustained by a Comcast Transferred System Employee on or after the Closing and, to the extent reflected in the Closing Net Liabilities Amount used in calculating the Final Adjustment Amount, before Closing.

(l) Non-Solicit Provisions.

(i) Except for the employees holding the job titles as of the date hereof (or, with respect to the Designated Systems, the Amendment Date) listed on Schedule 3.1(l)(i) (as previously identified by name to Comcast Subsidiary by Time Warner Cable), from the date of this Agreement (or, with respect to the Designated Systems, the Amendment Date) until the first anniversary of the Closing neither Time Warner Cable nor any of its Subsidiaries will solicit any Transferred System Employees (other than for the benefit of the Transferred Systems or with the prior written consent of Comcast Subsidiary, in each case, prior to the Closing or to comply with the provisions set forth in Section 3.1(a)).

(ii) Except for the employees holding the job titles as of the date hereof (or, with respect to the Designated Systems, the Amendment Date) listed on Schedule 3.1(l)(i) (as previously identified by name to Comcast Subsidiary by Time Warner Cable), from the Amendment Date until the first anniversary of the Closing neither Time Warner Cable nor any of its Subsidiaries will hire any Transferred System Employees (other than for the benefit of the Transferred Systems or with the prior written consent of Comcast Subsidiary, in each case, prior to the Closing or to comply with the provisions set forth in Section 3.1(a)).

(iii) Notwithstanding the foregoing, advertising through mass media in which an offer of employment, if any, is available to the general public, such as magazines, newspapers and sponsorships of public events shall not be prohibited by this Section 3.1(l). Solely for purposes of this Section 3.1(l), Transferred System Employees shall in no event include the beneficiary or dependent of any Transferred System Employee unless such beneficiary or dependent is otherwise a Transferred System Employee.

(iv) From the Closing Date until the first anniversary of the Closing, neither Comcast Subsidiary nor any of its Affiliates will hire any Retained Employees.

(v) Time Warner Cable or its Affiliates shall make available to Comcast Subsidiary or its Affiliates for consultation and transitional services Retained Employees and those employees holding the job titles as of the date hereof (or, with respect to the Designated Systems, the Amendment Date) listed on Schedule 3.1(l)(i) (if hired or retained by Time Warner Cable or its Affiliates as permitted by this Section 3.1(l)), as reasonably requested by Comcast Subsidiary or its Affiliates. The provision of any such services shall be in accordance with the terms of Section 7.9 hereof and shall not unreasonably interfere with the performance of any such employee's duties to Time Warner Cable or its Affiliates.

(vi) Solely for purposes of this Section 3.1(l), "Transferred System Employee" shall be applied so as to include any individual who as of any relevant date (which shall include the period from the date hereof (or, with respect to employees of the Designated Systems, the Amendment Date) through the Closing Date) would be a Transferred System Employee if the Closing Date occurred on such date.

(m) Confidentiality and Proprietary Information. No provision of this Section 3.1 shall be deemed to release any individual for any violation of a plan, policy, agreement or guideline regarding non-competition or pertaining to confidential or proprietary information of Time Warner Cable or any of its Affiliates or otherwise relieve any individual of his or her obligations under such guideline or any such plan, program or arrangement.

(n) No Implied Rights or Third Party Beneficiaries. The parties hereto hereby acknowledge and agree that no provision of this Agreement shall be construed to create any right, or accelerate entitlement, to any compensation or benefit whatsoever on the part of any Transferred System Employee, Retained Employee or other future, present, or former employee of Comcast Subsidiary, Holdco, Time Warner Cable, or any of their respective Affiliates, under any Comcast Benefit Plan or Time Warner Cable Benefit Plan or otherwise. Without limiting the generality of the foregoing: (i) except as expressly provided in this Agreement, nothing in this Agreement shall preclude Comcast Subsidiary or any of its Affiliates, at any time after the Closing, from amending, merging, modifying, terminating, eliminating, reducing or otherwise altering in any respect any Comcast Benefit Plan, any benefit under any such plan or any

trust, insurance policy or funding vehicle related to any Comcast Benefit Plan; and (ii) except as expressly provided in this Agreement, nothing in this Agreement shall preclude Time Warner Cable or any of its Affiliates, at any time from amending, merging, modifying, terminating, eliminating, reducing, or otherwise altering in any respect any Time Warner Cable Benefit Plan, any benefit under any such plan or any trust, insurance policy or funding vehicle related to any Time Warner Cable Benefit Plan. Nothing in this Section 3.1 or elsewhere in this Agreement shall be deemed to make any employee of the parties a third party beneficiary of this Section 3.1 or any rights relating hereto.

(o) Collective Bargaining. To the extent any provision of this Agreement is contrary to the provisions of any collective bargaining agreement to which Time Warner Cable or any of its Subsidiaries is a party as of the date hereof (or, with respect to the Designated Systems, the Amendment Date) that covers Transferred System Employees or Retained Employees, the terms of such collective bargaining agreement shall prevail. Should any provision of this Agreement be deemed to relate to a topic determined by an appropriate authority to be a mandatory subject of collective bargaining with respect to the Transferred System Employees, Comcast Subsidiary or Time Warner Cable or any of their respective Subsidiaries may be obligated to bargain with the union representing affected employees concerning those subjects. Comcast Subsidiary and its Subsidiaries shall be responsible for Liabilities with respect to any obligations to any collective bargaining unit that represents as of the date hereof (or, with respect to the Designated Systems, the Amendment Date) Transferred System Employees to the extent consistent with Comcast's rights and responsibilities under applicable labor law. If Time Warner Cable or any of its Affiliates acquires a duty to bargain with any labor organization with respect to Transferred System Employees, then Time Warner Cable or its Affiliates shall

(i) give prompt written notice of such development to Comcast Subsidiary and

(ii) not enter into any contract with such labor organization that contains a successor clause or otherwise purports to bind Comcast Trust, Comcast Subsidiary, Holdco (after the Closing) or any of their Affiliates in any way, without the prior written consent of Comcast Subsidiary.

Section 3.2 Use of Names and Logos. For a period of 150 days after Closing, Holdco shall be entitled to use the trademarks, trade names, service marks, service names, logos and similar proprietary rights of Time Warner Cable and its Affiliates to the extent incorporated in or on the Transferred Assets (collectively, the "Time Warner Cable Marks"), provided, that

(a) Comcast Subsidiary and Holdco acknowledge that the Time Warner Cable Marks belong to Time Warner Cable and its Affiliates, and that neither Comcast Subsidiary nor Holdco shall acquire any rights therein during or pursuant to such 150-day period; (b) all such Transferred Assets shall be used in a manner consistent with the use made by Time Warner Cable and its Affiliates of such Transferred Assets prior to Closing; (c) Comcast Subsidiary shall exercise reasonable efforts to remove all Time Warner Cable Marks from the Transferred Assets as soon as reasonably practicable following Closing; and (d) the use of the Time Warner Cable Marks during such period shall inure to the benefit of Time Warner Cable and, to the extent any goodwill in the Time Warner Cable Marks is deemed to accrue during such period, to Holdco or its Affiliates, then Comcast Subsidiary agrees to cause Holdco to assign all such goodwill to Time Warner Cable; provided, that Holdco shall indemnify

and hold harmless Time Warner Cable for any Liabilities arising from or otherwise relating to Holdco's use of the Time Warner Cable Marks. Upon expiration of such 150-day period, Comcast Subsidiary shall cause Holdco to remove all Time Warner Cable Marks from the Transferred Assets and destroy all unused letterhead, checks, business-related forms, preprinted form contracts, product literature, sales literature, labels, packaging material and any other materials displaying the Time Warner Cable Marks within ten Business Days and shall provide Time Warner Cable with a written certification that it destroyed any and all such materials. Notwithstanding the foregoing, Comcast Subsidiary and Holdco shall not be required to remove or discontinue using any such proprietary rights that are affixed to converters or other items located in customer homes or properties such that prompt removal is impracticable for Comcast Subsidiary and Holdco; provided, that Comcast Subsidiary and Holdco shall remove or discontinue such proprietary rights promptly upon the return of such converters or other items to their possession.

Section 3.3 Transfer Laws. The parties hereto each waive compliance with Legal Requirements relating to bulk transfers applicable to the transactions contemplated hereby.

Section 3.4 Transfer Taxes and Fees. All sales, use, transfer and similar taxes or assessments, including transfer fees and similar assessments for Transferred System Franchises, Transferred System Licenses and Transferred System Contracts, arising from or payable by reason of or otherwise related to the Holdco Transaction, the GP Redemption, the Subsidiary Transfers and the TWC Redemption, shall be paid one-half by Holdco and one-half by Time Warner Cable (it being understood and agreed that if any such payable is satisfied by a party or any Affiliate thereof, then promptly after the later of (x) the Closing and (y) the demand of the paying party, the other party shall reimburse the paying party for one-half of any such amounts paid by the paying party).

ARTICLE 4 COMCAST TRUST'S REPRESENTATIONS AND WARRANTIES

Comcast Trust represents and warrants to Time Warner Cable, as of the date of this Agreement and as of Closing, as follows:

Section 4.1 Organization and Qualification of Comcast Trust. Comcast Trust is a statutory trust duly organized, validly existing and in good standing under the laws of the State of Delaware and has all requisite trust power and authority to own the Redemption Securities.

Section 4.2 Authority. Subject to the FCC Trust Requirements, Comcast Trust has all requisite power and authority under the terms of its declaration of trust to execute, deliver and perform this Agreement and the Transaction Documents to be executed and delivered by Comcast Trust and to consummate the transactions contemplated hereby and thereby. The execution, delivery and performance of this Agreement and the consummation of the transactions contemplated hereby by Comcast

Trust have been, and in the case of the Transaction Documents to be executed and delivered by Comcast Trust and the consummation of the transactions contemplated thereby, shall at Closing have been duly and validly authorized, subject to the FCC Trust Requirements, by all necessary trust action on the part of Comcast Trust. This Agreement has been duly and validly executed and delivered by Comcast Trust and is, and in the case of the Transaction Documents to be executed and delivered by Comcast Trust, when so executed and delivered shall be, subject to the FCC Trust Requirements, the valid and binding obligation of Comcast Trust, enforceable against Comcast Trust in accordance with their terms, except as the same may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or similar laws now or hereafter in effect relating to the enforcement of creditors' rights generally or by principles governing the availability of equitable remedies.

Section 4.3 No Conflict; Required Consents. Subject to compliance with the HSR Act, the FCC Trust Requirements, the Securities Act of 1933 (the "Securities Act") and the Securities Exchange Act of 1934 (the "Exchange Act") and except for Authorizations to be obtained by Time Warner Cable or its Affiliates, the execution, delivery and performance by Comcast Trust of this Agreement and the Transaction Documents to be executed and delivered by Comcast Trust do not and shall not: (a) conflict with or violate any provision of the certificate of trust or declaration of trust of Comcast Trust; (b) to the knowledge of Comcast Trust's operating trustee violate any provision of any material Legal Requirement; (c) without regard to requirements of notice, lapse of time, elections of other Persons or any combination thereof, conflict with, violate, result in a breach of, constitute a default under or give rise to any third party's right(s) of first refusal or similar right under any Contract to which Comcast Trust is a party relating to the Redemption Securities; or (d) to the knowledge of Comcast Trust's operating trustee require any material consent, approval or authorization of, or filing of any certificate, notice, application, report or other document with, any Governmental Authority or other Person.

Section 4.4 Litigation. (i) There is no Litigation pending or, to Comcast Trust's knowledge, threatened, by or before any Governmental Authority or private arbitration tribunal, against or involving the assets of Comcast Trust or any of its Controlled Affiliates; and (ii) other than the FCC Trust Requirements, there is no Judgment requiring Comcast Trust or any of its Controlled Affiliates to take any action of any kind, in either case, which could adversely affect in any material respect the ability of Comcast Trust or any of its Controlled Affiliates to perform their respective obligations under this Agreement or the other Transaction Documents.

Section 4.5 Ownership of Redemption Securities. Comcast Trust owns of record and, subject to the terms of its declaration of trust, beneficially, and has good and valid title to, free and clear of any Liens (other than restrictions imposed by federal and state securities Laws, pursuant to the declaration of trust of Comcast Trust, under agreements with Time Warner Cable or its Affiliates or by the FCC Trust Requirements) and Comcast Trust shall own immediately prior to Closing of record and, subject to the terms of its declaration of trust, beneficially, and will have good and valid title to, free and clear of any Liens (other than restrictions imposed by federal and state

securities Laws, pursuant to the declaration of trust of Comcast Trust, under agreements with Time Warner Cable or its Affiliates or by the FCC Trust Requirements) all of the Redemption Securities. In the TWC Redemption, Comcast Trust will transfer to Time Warner Cable valid title to the Redemption Securities free and clear of any Liens, other than restrictions imposed by federal and state securities laws.

Section 4.6 Brokers. There is no investment banker, broker, finder or other intermediary who has been retained by or is authorized to act on behalf of Comcast Trust who might be entitled to any fee or commission from Time Warner Cable or its Affiliates in connection with the transactions contemplated by this Agreement.

ARTICLE 5 COMCAST SUBSIDIARY'S REPRESENTATIONS AND WARRANTIES

Comcast Subsidiary represents and warrants to Time Warner Cable, as of the date of this Agreement and as of Closing, as follows:

Section 5.1 Organization and Qualification of Comcast Subsidiary. Comcast Subsidiary is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware.

Section 5.2 Authority. Comcast Subsidiary has all requisite corporate power and authority to execute, deliver and perform this Agreement and the Transaction Documents to be executed and delivered by Comcast Subsidiary and to consummate the transactions contemplated hereby and thereby. The execution, delivery and performance of this Agreement and the consummation of the transactions contemplated hereby by Comcast Subsidiary have been, and in the case of the Transaction Documents to be executed and delivered by Comcast Subsidiary and the consummation of the transactions contemplated thereby, shall at Closing have been duly and validly authorized by all necessary corporate action on the part of Comcast Subsidiary. This Agreement has been duly and validly executed and delivered by Comcast Subsidiary and is, and in the case of the Transaction Documents to be executed and delivered by Comcast Subsidiary, when so executed and delivered shall be, the valid and binding obligation of Comcast Subsidiary, enforceable against Comcast Subsidiary in accordance with their terms, except as the same may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or similar laws now or hereafter in effect relating to the enforcement of creditors' rights generally or by principles governing the availability of equitable remedies.

Section 5.3 No Conflict; Required Consents. Subject to compliance with the HSR Act, the FCC Trust Requirements, the Securities Act and the Exchange Act and except for Authorizations to be obtained by Time Warner Cable or its Affiliates, the execution, delivery and performance by Comcast Subsidiary and Comcast Trust of this Agreement and the Transaction Documents to be executed and delivered by Comcast Subsidiary and/or Comcast Trust do not and shall not: (a) conflict with or violate any provision of the certificate of incorporation or bylaws of Comcast Subsidiary or the certificate of trust or declaration of trust of Comcast Trust; (b) violate any

provision of any material Legal Requirement; or (c) require any material consent, approval or authorization of, or filing of any certificate, notice, application, report or other document with, any Governmental Authority or other Person.

Section 5.4 Litigation. (i) There is no Litigation pending or, to Comcast Subsidiary's knowledge, threatened, by or before any Governmental Authority or private arbitration tribunal, against or involving the assets of Comcast Subsidiary or any of its Affiliates; and (ii) other than the FCC Trust Requirements, there is no Judgment requiring Comcast Subsidiary or any of its Affiliates to take any action of any kind, in either case, which could adversely affect in any material respect the ability of Comcast Subsidiary or any of its Affiliates to perform their respective obligations under this Agreement or any of the other Transaction Documents.

Section 5.5 Brokers. There is no investment banker, broker, finder or other intermediary who has been retained by or is authorized to act on behalf of Comcast and/or Comcast Subsidiary who might be entitled to any fee or commission from Time Warner Cable or its Affiliates in connection with the transactions contemplated by this Agreement.

Section 5.6 Comcast Balance Sheet. Comcast has provided to Time Warner Cable an internal unaudited consolidated balance sheet of Comcast and its Subsidiaries as of June 30, 2004 (the "Comcast Balance Sheet"). The Comcast Balance Sheet was prepared in accordance with GAAP (except for the absence of required footnotes) and fairly presents in all material respects the consolidated financial condition of Comcast and its Subsidiaries as of the date indicated therein, except that (i) the current and deferred income tax accounts were derived from the general ledgers of the Comcast unaudited consolidated balance sheet but do not reflect tax consolidation and allocation adjustments necessary to present Comcast's balance sheet on a stand alone basis and (ii) "due to related parties, net" is included as a component of stockholder's equity.

Section 5.7 Tolling. The FCC Trust Requirements do not prohibit, and no consent of any Governmental Authority is required with respect to, the agreements of Comcast Trust and of Comcast Parent pursuant to Section 2.3 (including the tolling of registration rights pursuant thereto).

ARTICLE 6 TIME WARNER CABLE'S REPRESENTATIONS AND WARRANTIES

Time Warner Cable represents and warrants to Comcast Trust and Comcast Subsidiary, as of the date of this Agreement (or, with respect to the Designated Systems, the Amendment Date) (subject, in each case, to Section 7.20 with respect to Sections 6.3(c), 6.3(f) and 6.5, to the extent such Sections relate to the SSBC Systems) and as of Closing, as follows:

Section 6.1 Organization and Qualification of Time Warner Cable. Time Warner Cable is a corporation duly organized, validly existing and in good

standing under the laws of the State of Delaware. Time Warner Cable and each Affiliate of Time Warner Cable that holds Transferred Assets or is otherwise a participant in any of the transactions referred to in Section 2.1(b)(i) (each, a "Transferring Person") has all requisite corporate or other entity power and authority to own and lease the Transferred Assets and to conduct the Transferred Business as currently conducted.

Section 6.2 Authority. Each of Time Warner Cable and Holdco has all requisite corporate power and authority to execute, deliver and perform this Agreement and the Transaction Documents to be executed and delivered by it and to consummate the transactions contemplated hereby and thereby. Each Transferring Person has all requisite corporate or other power and authority to execute, deliver and perform the Transaction Documents to be executed and delivered by such Transferring Person and to consummate the transactions contemplated thereby. The execution, delivery and performance of this Agreement and the consummation of the transactions contemplated hereby by Time Warner Cable and Holdco have been, and in the case of the Transaction Documents to be executed and delivered by Time Warner Cable or any TWC Participant and the consummation of the transactions contemplated thereby, shall at Closing have been duly and validly authorized by all necessary corporate or other entity action on the part of Time Warner Cable and each such TWC Participant. This Agreement has been duly and validly executed and delivered by Time Warner Cable and Holdco and is, and in the case of the Transaction Documents to be executed and delivered by Time Warner Cable or any TWC Participant, when so executed and delivered shall be, the valid and binding obligation of Time Warner Cable or such TWC Participant, enforceable against Time Warner Cable or such TWC Participant, as applicable, in accordance with their terms, except as the same may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or similar laws now or hereafter in effect relating to the enforcement of creditors' rights generally or by principles governing the availability of equitable remedies.

Section 6.3 No Conflict; Required Consents. Except as described on Schedules 6.3 and 6.19, and subject to compliance with the HSR Act, the Securities Act and the Exchange Act and except for Authorizations required from, by or with the relevant Franchising Authorities in respect of the Franchises for the Transferred Systems, Authorizations required from, by or with the FCC in connection with a change of control of the holder and/or assignment of the Transferred System Licenses, Authorizations from state public utility commissions having jurisdiction over the assets of Transferred Systems, and Authorizations to be obtained by Comcast Subsidiary or its Affiliates, the execution, delivery and performance by Time Warner Cable and Holdco of this Agreement and the Transaction Documents to be executed and delivered by Time Warner Cable and Holdco, and the execution, delivery and performance by each Transferring Person of the Transaction Documents to be executed and delivered by such Transferring Person, do not and shall not: (a) conflict with or violate any provision of the certificate of incorporation or by-laws or other organizational or governing documents of Time Warner Cable, Holdco or any Transferring Person; (b) violate any provision of any material Legal Requirement; (c) without regard to requirements of notice, lapse of time, elections of other Persons or any combination thereof, conflict with, violate, result in a breach of, constitute a default under or give rise to any third party's right (s) of first

refusal or similar right or right of cancellation or termination, or accelerate or permit the acceleration of the performance required by or adversely effect the rights or obligations of Time Warner Cable, Holdco or any Transferring Person under any Transferred Systems Contract, Transferred Systems Franchise or Transferred Systems License; (d) result in the creation or imposition of any Lien against or upon any of the Transferred Assets other than a Permitted Lien;

(e) require any material consent, approval or authorization of, or filing of any certificate, notice, application, report or other document with, any Governmental Authority; or (f) require any consent, approval or authorization of, or filing of any certificate, notice, application, report or other document with, any Person (other than any Governmental Authority), in the case of clauses

(c), (d) and (f) with only such exceptions as would not individually or in the aggregate reasonably be expected to have a Material Adverse Effect or materially delay or prevent the consummation of the transactions contemplated hereby.

Section 6.4 Sufficiency of Assets; Title.

(a) Except for items included in the Excluded Assets or as described on Schedule 6.4(a), (i) the Transferred Assets are all of the assets of Time Warner Cable or its Affiliates owned, used or held for use primarily in connection with the operation of the Transferred Systems, and (ii) the right, title and interest in the Transferred Assets conveyed to Holdco pursuant to the Holdco Transaction shall be sufficient to permit Holdco to operate the Transferred Systems substantially as they are being operated by Time Warner Cable and its Affiliates immediately prior to the Holdco Transaction and in compliance with all material Legal Requirements and, except where the failure to do so would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect, in compliance with all contractual requirements that comprise part of the Assumed Liabilities. At the Closing, Holdco will have good and marketable title to (or in the case of assets that are leased, valid leasehold interests in) the tangible Transferred Assets free and clear of any Liens, other than Permitted Liens (disregarding clause (d) of the definition thereof), except where the failure to do so would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect. Notwithstanding the foregoing, the representation contained in the immediately preceding sentence shall not apply with respect to any Owned Property or Leased Property with respect to which Time Warner Cable has delivered a Title Policy, or a Title Commitment to deliver a Title Policy, as provided in Section 8.1.

(b) Except as described on Schedule 6.4(b), the Tangible Personal Property and improvements on Owned Property and real property subject to Real Property Interests are in all material respects adequate for their present uses.

Section 6.5 Transferred System Franchises, Transferred System Licenses, Transferred Systems Contracts, Owned Property and Real Property Interests.

(a) Except as described on Schedules 2.1(c)(ii), 2.1(c)(iii), 2.1(c)(iv), 2.1(c)(v) or Schedule 6.5(a) and except for the Excluded Assets, neither Time Warner Cable nor any of its Affiliates is bound or affected by any of the following that relate wholly or primarily to the Transferred Assets or the Transferred Systems: (i) leases

of real or material personal property; (ii) Franchises, and similar authorizations for the operation of Transferred Systems, or Contracts of substantially equivalent effect; (iii) other licenses, authorizations, consents or permits of the FCC or, to the extent material, any other Governmental Authority; (iv) all Authorizations of Governmental Authorities to provide telephony services held, directly or indirectly, by Time Warner Cable or its Affiliates and used in connection with the operation of any Transferred Systems;

(v) material crossing Contracts, easements, rights of way or access Contracts;

(vi) pole line or joint line Contracts or underground conduit Contracts; (vii) bulk service, commercial service or multiple-dwelling unit access Contracts which individually provide for payments by or to Time Warner Cable or its Affiliates in any twelve month period exceeding \$50,000; (viii) system-specific programming Contracts, system-specific signal supply Contracts and Local Retransmission Consent

Agreements; (ix) any Contract with the FCC or any other Governmental Authority relating to the operation or construction of the Transferred Systems that are not fully reflected in the Transferred Systems Franchises, or any Contracts with community groups or similar third parties

restricting or limiting the types of programming that may be shown on any of the Transferred Systems; (x) any partnership, joint venture or other similar Contract or arrangement; (xi) any Contract with Time Warner Cable or any of its Affiliates; (xii) any Contract that limits the

freedom of the Transferred Systems to compete in any line of business or with any Person or in any area or which would so limit the freedom of Holdco, Comcast Subsidiary, Comcast Trust or any of their Affiliates after the Closing Date; (xiii) any Contract relating to the use by third

parties of Transferred Assets to provide, or the provision by the Transferred Systems of, telephone, Internet or data services other than

Contracts with subscribers of any such services; (xiv) any advertising representation or interconnect Contract; (xv) any Contract with any employee employed primarily in connection with the Transferred Systems; (xvi) any Contract granting any Person the right to use any portion

of the cable television system plant included in the Transferred Assets; (xvii) any Contract that is not the subject of any other clause of this Section 6.5(a) that shall remain effective for more than one year after Closing (except those Contracts that may be terminated upon no more

than 30 days' notice without penalty and subscription agreements with residential subscribers to provide cable service); or (xviii) any Contract other than those described in any other clause of this

Section 6.5(a) which individually provides for payments by or to Time Warner Cable in any twelve month period exceeding \$500,000 or is otherwise material to the Transferred Systems.

(b) Time Warner Cable has prior to the date hereof (or, with respect to the Designated Systems, the Amendment Date) provided or otherwise made available (or, with respect to the SSBC Systems, will as part of delivery of the Second Stage Documents provide or otherwise make available) to Comcast Trust and Comcast Subsidiary true and complete copies of each of the Transferred Systems Franchises, Transferred Systems Licenses and Transferred Systems Contracts described on any of Schedules 2.1(c)(ii) (to the extent in the possession of Time Warner Cable or its Affiliates), 2.1(c)(iii), 2.1(c)(iv), 2.1(c)(v) and Schedule 6.5(a) (excluding Local Retransmission Consent Agreements and system-specific programming contracts), together with true and complete copies of (i) any notices alleging continuing non compliance with the requirements of any Transferred Systems Franchise, (ii) in each case any amendments to any of the items on any such Schedule (in the case of the items on

Schedule 2.1(c)(ii), to the extent in the possession of Time Warner Cable or its Affiliates), (iii) in the case of oral Real Property Interests listed on Schedule 2.1(c)(ii) or oral Transferred Systems Contracts listed on Schedule 2.1(c)(v), true and complete written summaries thereof and (iv) each document in the possession of Time Warner Cable or its Affiliates evidencing or insuring Time Warner Cable's or its Affiliates' ownership of the Owned Property. Except as described in Schedule 6.5(b) and except as would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect: (i) Time Warner Cable and each of its Affiliates are in compliance with each of the Transferred Systems Franchises, Transferred Systems Licenses and Transferred Systems Contracts; (ii) Time Warner Cable and its Affiliates have fulfilled when due, or have taken all action necessary to enable them to fulfill when due, all of their obligations under each of the Transferred Systems Franchises, Transferred Systems Licenses and Transferred Systems Contracts; (iii) there has not occurred any default (without regard to lapse of time or to the giving of notice or both) by Time Warner Cable or any of its Affiliates and, to the knowledge of Time Warner Cable, there has not occurred any default (without regard to lapse of time or the giving of notice, or both) by any other Person, under any of the Transferred Systems Franchises, Transferred Systems Licenses and Transferred Systems Contracts; and (iv) the Transferred Systems Franchises, Transferred Systems Licenses and Transferred Systems Contracts are valid and binding agreements and are in full force and effect.

(c) Schedule 2.1(c)(iii) lists the date on which each Transferred Systems Franchise shall expire.

(d) Except as described on Schedules 2.1(c)(iii), 2.1(c)(iv) or Schedule 6.5(d), there are no applications relating to any Transferred Systems Franchise or Transferred Systems Licenses pending before any Governmental Authority that are material to any of such Transferred Systems. Except as described on Schedule 6.5(d), neither Time Warner Cable nor any of its Affiliates has received, nor do any of them have notice that they shall receive, from any Governmental Authority a preliminary assessment that a Transferred Systems Franchise should not be renewed as provided in Section 626(c)(1) of the Communications Act. Except as described on Schedule 6.5(d), neither Time Warner Cable, nor any of its Affiliates nor any Governmental Authority has commenced or requested the commencement of an administrative proceeding concerning the renewal of a Transferred Systems Franchise as provided in Section 626(c)(1) of the Communications Act. Except as described on Schedule 6.5(d), Time Warner Cable and its Affiliates have timely filed notices of renewal in accordance with the Communications Act with all Governmental Authorities with respect to each Transferred Systems Franchise expiring within 30 months of the date of this Agreement. Except as described on Schedule 6.5(d), such notices of renewal have been filed pursuant to the formal renewal procedures established by Section (a) of the Communications Act. To Time Warner Cable's knowledge, there exist no facts or circumstances that make it likely that any Transferred Systems Franchise shall not be renewed or extended on commercially reasonable terms. Except as described on Schedule 6.5(d), as of the date hereof (or, with respect to the Designated Systems, the Amendment Date), no Governmental Authority has commenced, or given notice that it intends to commence, a proceeding to revoke or suspend a Transferred Systems Franchise.

Section 6.6 Employee Benefits. A true and complete list of the Time Warner Cable Benefit Plans is set forth in Schedule 6.6. Except as set forth on Schedule 6.6, none of Time Warner Cable, any of its ERISA Affiliates, any Time Warner Cable Benefit Plan other than a multiemployer plan (as defined in Section 3(37) of ERISA), or to the knowledge of Time Warner Cable, any Time Warner Cable Benefit Plan that is a multiemployer plan (as defined in Section 3(37) of ERISA) is in material violation of any provision of ERISA with respect to a Time Warner Cable Benefit Plan. No material "reportable event" (as defined in Sections 4043(c) of ERISA), "accumulated funding deficiency" (as defined in Section 302 of ERISA) or "withdrawal liability" (as determined under Section 4201 et seq. of ERISA) has occurred or exists and is continuing with respect to any Time Warner Cable Benefit Plan other than a multiemployer plan (as defined in Section 3(37) of ERISA) or, to the knowledge of Time Warner Cable, any Time Warner Cable Benefit Plan that is a multiemployer plan (as defined in Section 3(37) of ERISA). After the Closing, none of Holdco, Comcast Subsidiary or any of their respective ERISA Affiliates shall be required, under ERISA, the Code or any collective bargaining agreement, to establish, maintain or continue any Time Warner Cable Benefit Plan currently maintained by Time Warner Cable or any of its ERISA Affiliates. Except as set forth in Schedule 6.6, since the Balance Sheet Date, there has been no change in the Time Warner Cable Benefit Plans or level of compensation provided the Transferred System Employees that would materially increase the cost of operating the Transferred Systems.

Section 6.7 Litigation. Except as set forth in Schedule 6.7, (i) there is no Litigation pending or, to Time Warner Cable's knowledge, threatened, by or before any Governmental Authority or private arbitration tribunal, against Time Warner Cable or any of its Affiliates; and (ii) there is no Judgment requiring Time Warner Cable or any of its Affiliates to take any action of any kind with respect to the Transferred Assets or the operation of the Transferred Systems, or to which Time Warner Cable or any of its Affiliates (with respect to the Transferred Systems), the Transferred Systems or the Transferred Assets are subject or by which they are bound or affected, in the case of clauses (i) and (ii), which could, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect or materially delay or prevent the consummation of the transactions contemplated by this Agreement and the other Transaction Documents. For the avoidance of doubt, this Section 6.7 shall have no application with respect to Taxes of Time Warner Cable or any of its Affiliates.

Section 6.8 Transferred Systems Information. Schedule 6.8 sets forth a true and complete description in all material respects of the following information.

(a) as of the Balance Sheet Date, the approximate number of miles of plant, aerial and underground and the technical capacity of such plant expressed in MHz, included in the Transferred Assets;

(b) as of the date set forth on such Schedule (which shall be no earlier than the Balance Sheet Date), the number of Individual Subscribers, Digital Subscribers, Telephony Subscribers and High Speed Data Subscribers served by the Transferred Systems;

(c) as of the date set forth on such Schedule (which shall be no earlier than the Balance Sheet Date), the approximate number of homes passed by each of the Transferred Systems as reflected in Time Warner Cable's system records for such date;

(d) as of the date hereof (or, with respect to the Designated Systems, the Amendment Date), a description of basic and optional or tier services available from each of the Transferred Systems and the rates charged by Time Warner Cable for each;

(e) as of the hereof (or, with respect to the Designated Systems, the Amendment Date), the stations and signals carried by each of the Transferred Systems and the channel position of each such signal and station; and

(f) [Intentionally Omitted]

(g) the municipalities served by each of the Transferred Systems and the community identification numbers of such municipalities.

Section 6.9 Compliance with Legal Requirements. Except as set forth on Schedule 6.9, the Transferred Assets include all material Authorizations of, by or with any Governmental Authority that are necessary for the lawful conduct of the Transferred Systems as currently conducted and each of the material Authorizations is in full force and effect in all material respects. Except as set forth on Schedule 6.9, the Transferred Systems are, and have been, operated in compliance in all material respects with all material Legal Requirements and Authorizations, and, to the knowledge of Time Warner Cable, none of the Transferred Systems are under investigation with respect to or have been threatened to be charged with or given written notice of any material violation of any material Legal Requirement or Authorization.

Section 6.10 Real Property. Schedule 2.1(c)(ii) sets forth all leases included in the Real Property Interests (the "Leases", and each such lease, a "Lease") and all ownership interests in real property included in the Owned Property and all other material Real Property Interests. The Owned Property and Real Property Interests include all leases, fee interests, material easements, material access agreements and other material real property interests necessary to operate the Transferred Systems as currently conducted.

Section 6.11 Financial Statements; No Adverse Change; Telephony Budget.

(a) Time Warner Cable has provided to Comcast Trust and Comcast Subsidiary internal unaudited financial statements for the Transferred Systems consisting of balance sheets and statements of operations (i) with respect to the Original Systems, as of and for the 12 months ended December 31, 2003 and as of and for the 6 months ended June 30, 2004 and (ii) with respect to the Designated Systems, as of and for the 12 months ended December 31, 2004 (collectively, the "Transferred Systems Financial Statements"). The Transferred Systems Financial Statements were prepared in

accordance with GAAP (except for the absence of required footnotes) and fairly present in all material respects the financial condition and results of operations of the Transferred Systems as of the dates and for the periods indicated therein; provided that the Transferred System Financial Statements do not reflect the following items, which may have been recorded within the financial results of the Transferred Systems had the Transferred Systems been stand-alone entities during the periods presented: (i) an allocation of a portion of goodwill and identifiable intangible assets, and related amortization expense, arising from recent purchase business combinations, which is recorded at the Time Warner Cable or TWE corporate level; (ii) an allocation of debt and related interest expense recorded at the Time Warner Cable or TWE corporate level; (iii) an allocation of deferred Income Taxes, Income Taxes payable and Income Tax expense recorded at the Time Warner Cable corporate level; (iv) a management fee for services provided by Time Warner Cable corporate entities has not been recorded on the books of the non-TWE systems; (v) certain balance sheet reclasses within current assets and liabilities (e.g. reclassifying debit balances in liability accounts to assets and vice versa); (vi) an allocation of certain advertising revenue that was recorded at the Time Warner Cable or TWE corporate level; (vii) an allocation of music performance royalties paid or payable to BMI, ASCAP and SESAC and programming vendor marketing support receipts or receivables that were recorded at the Time Warner Cable or TWE corporate level; (viii) an allocation of variances between actual pension expense and budgeted pension expense (e.g. the financial results of the Transferred Systems reflect budgeted pension expense); (ix) an allocation of other Time Warner Cable corporate, TWE corporate and divisional overhead that is not specifically identified to a particular cable system; (x) an allocation of certain assets, including routers and other equipment located at regional data centers, related to Time Warner Cable's high-speed data business; (xi) certain expense accruals that are paid by Time Warner Cable or TWE corporate on behalf of the Transferred Systems including the following: (1) programming accruals of approximately one month's service would be reflected as a liability for the Transferred Systems and liabilities in excess of one month are transferred to Time Warner Cable or TWE corporate to be paid; (2) group insurance liabilities are recorded on the balance sheet at Time Warner Cable or TWE corporate; (3) casualty insurance, including workers compensation liabilities are recorded on the balance sheet at Time Warner Cable or TWE corporate; (4) certain property tax and sales and use tax liabilities are recorded on the balance sheet at Time Warner Cable or TWE corporate; and (6) other miscellaneous liabilities related to company-wide costs are recorded on the balance sheet at Time Warner Cable or TWE corporate, which are recorded net in the intercompany payables/receivables line items on the Transferred System trial balances and (xii) third party and payroll payments made by Time Warner Cable and TWE corporate on behalf of the Transferred Systems after the monthly cut-off are not pushed down to the Transferred Systems until the following month (e.g. there is a lag between the time of payment of the liability by TWC or TWE and relieving the third-party liability at the Transferred Systems).

(b) Except as set forth in Schedule 6.11(b), (i) since Balance Sheet Date, there have been no events, circumstances or conditions that, individually or in the aggregate, would reasonably be expected to have a Material Adverse Effect and (ii) since the Balance Sheet Date, the Transferred Systems and the Transferred Assets have

been operated in all material respects only in the ordinary course of business consistent with past practices.

Section 6.12 Employees.

(a) Except as set forth on Schedule 6.12(a), there are no collective bargaining agreements applicable to any Transferred System Employees, and neither Time Warner Cable nor any Affiliate of Time Warner Cable, nor Holdco as of the Closing, has any duty to bargain with any labor organization with respect to any such persons. There are not pending any material unfair labor practice charges against Time Warner Cable or any Affiliate of Time Warner Cable, or any request or demand for recognition, or any petitions filed by a labor organization for representative status, with respect to any Transferred System Employees.

(b) Except as set forth on Schedule 6.12(b), Time Warner Cable and its Affiliates have complied, and Holdco will be in compliance as of the Closing, in all material respects with all applicable Legal Requirements relating to the employment of labor, including WARN, ERISA, continuation coverage requirements with respect to group health plans and those relating to wages, hours, collective bargaining, unemployment insurance, worker's compensation, equal employment opportunity, age, sex, race and disability discrimination, immigration control and the payment and withholding of Taxes except for any non-compliance which would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect. Except as set forth on Schedule 6.12(b), neither Time Warner Cable nor any of its Affiliates is, and Holdco will not be as of the Closing, a party to any material labor or employment dispute involving any of its employees who render services in connection with the Transferred Systems.

(c) Except as described on Schedule 6.12(c), neither Time Warner Cable nor any of its Affiliates has any employment agreements, either written or oral, with any Transferred System Employees and none of the employment agreements listed on Schedule 6.12(c) require Comcast Subsidiary, Holdco or any of their Affiliates to employ any person after Closing.

Section 6.13 Transactions with Affiliates. Except for this Agreement and Transaction Documents to which it is a party, or as set forth on Schedule 6.13, immediately after the Closing, Holdco shall not be bound by any Contract or any other arrangement of any kind whatsoever with, or have any Liability to, Time Warner Cable or any Affiliate thereof.

Section 6.14 Undisclosed Material Liabilities. The Assumed Liabilities will include no Liabilities, and there is no existing condition, situation or set of circumstances which would reasonably be expected to result in such a Liability, other than:

(a) the Liabilities disclosed on Schedule 6.14;

- (b) the Liabilities disclosed in the Transferred Systems Financial Statements;
- (c) the Liabilities arising in the ordinary course of business since the Balance Sheet Date in amounts substantially consistent with past practices (subject to customary cost increases); and
- (d) other Liabilities which, individually or in the aggregate, would not reasonably be expected to have a Material Adverse Effect.

Section 6.15 Holdco; TWE Holdco I.

(a) Holdco is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware and has all corporate powers required to carry on its business as now conducted. Holdco is (or at the Closing will be) duly registered as a foreign corporation in all jurisdictions in which the ownership or leasing of the Transferred Assets or the nature of its activities in connection with the Transferred Systems makes such qualification necessary, with only such exceptions as would not, individually or in the aggregate, result in a Material Adverse Effect. Time Warner Cable owns all of the issued and outstanding capital stock of Holdco, free and clear of all Liens, other than restrictions imposed by applicable federal or state securities Laws. All of such capital stock is duly authorized, validly issued, fully paid and non-assessable, and was issued in compliance in all material respects with all applicable Legal Requirements. There shall be no outstanding options, warrants, rights, commitments, conversion rights, preemptive rights or agreements of any kind to which Time Warner Cable or any of its Affiliates or Holdco is a party or by which any of them is bound which would obligate any of them to issue, deliver, purchase or sell any additional shares of capital stock, units, membership, or other equity or profit interests of any kind in Holdco or any security convertible into or exercisable or exchangeable for any of the foregoing. In the TWC Redemption, Time Warner Cable will transfer to Comcast Trust or Comcast Subsidiary, as the case may be, valid title to the Holdco Shares free and clear of any Liens, other than restrictions imposed by federal and state securities laws.

(b) Prior to the Holdco Transaction, Holdco will have conducted no business or operations and will have no indebtedness and no Liabilities (excluding (i) any Liabilities for Taxes with respect to Holdco's corporate existence, (ii) any Liabilities for Taxes of any member of an Affiliated Group of which Holdco is or was a member on or prior to the Closing Date by reason of Liability under Treasury Regulation Section 1.1502-6, Treasury Regulation Section 1.1502-78 or similar provisions of state, local, provincial or foreign law and (iii) any Liabilities with respect to any employee benefit arrangements ("ERISA Group Liabilities") arising either under the Code or ERISA solely as a result of Holdco having been, at any time on or prior to Closing, a member of a group described in Section 4001(b) of ERISA or Section 414(b), (c), (m) or (o) of the Code (collectively, the "Holdco Indemnified Liabilities"), other than under this Agreement and any Transaction Document to which Holdco is a party.

(c) Prior to the Holdco Transaction, Holdco will not have been party to any Contracts other than this Agreement and any Transaction Document to which Holdco is a party. Holdco has no Subsidiaries.

(d) No ERISA Group Liability has been incurred by Holdco and no ERISA Group Liability is reasonably expected to be asserted against Holdco for periods prior to the Closing.

(e) Prior to the Holdco Transaction, Holdco will not have, and will never have had, any employees, other than unpaid corporate officers with no entitlement to benefits or other compensation that was, is or will be a liability of Holdco.

(f) At the time of the TWC Redemption, Holdco will own the Transferred Assets, subject to the Assumed Liabilities and will have no other assets or Liabilities, except Holdco Indemnified Liabilities and Liabilities under this Agreement and any Transaction Document to which Holdco is a party.

(g) Either (i) TWE Holdco I will be a disregarded entity for federal income tax purposes as of Closing; or (ii) the contribution of assets to TWE Holdco I permitted in the last sentence of Step 3 of the Interim Steps (as defined in the TWC Redemption Agreement), if effectuated, will not impair or materially delay the Holdco Transaction, the TWC Redemption, the GP Redemption or the Subsidiary Transfer, or otherwise adversely affect the Transferred Systems, the Transferred Business, any Transferred Assets, Comcast or any of its Affiliates. TWE Holdings shall be a Transferring Person.

Section 6.16 Insurance. Schedule 6.16 contains a list of all policies of property, fire, casualty, liability, life, workers' compensation, libel and slander, and other forms of insurance of any kind that relate to the Transferred Assets, the Transferred Systems or any of the employees, officers or directors of the Transferred Systems and are maintained by or on behalf of Time Warner Cable or its Affiliates, in each case which are in force as of the date hereof (or, with respect to the Designated Systems, the Amendment Date). All such policies are in full force and effect, all premiums due thereon have been paid by or on behalf of Time Warner Cable, and Time Warner Cable is otherwise in compliance in all material respects with the terms and provisions of such policies (after giving effect to applicable grace or cure periods). After the Closing, the terms of such policies will continue to provide coverage with respect to acts, omissions and events occurring prior to the Closing in accordance with their terms as if the Closing had not occurred. Time Warner Cable has no knowledge of any threatened termination of, material premium increase (other than with respect to customary annual premium increases) with respect to, or material alteration of coverage under, any of such policies.

Section 6.17 Intellectual Property. Except as would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect or as set forth on Schedule 6.17, the Transferred Business, the Transferred Assets and the Transferred Systems do not infringe and have not infringed upon the intellectual

property rights of any Person, or give rise to any rightful claim of any Person for copyright, trademark, service mark, patent, license or other intellectual property right infringement.

Section 6.18 Brokers. There is no investment banker, broker, finder or other intermediary who has been retained by or is authorized to act on behalf of Time Warner Cable or any of its Affiliates who might be entitled to any fee or commission from Comcast Subsidiary or any of its Affiliates in connection with the transactions contemplated by this Agreement.

Section 6.19 Transferred Systems Options. Except as disclosed on Schedule 6.19, none of the Transferred Systems or any material Transferred Assets are subject to any purchase option, right of first refusal or similar arrangement which would be triggered by the sale, transfer or other disposition of such Transferred Systems or Transferred Assets ("Transferred Systems Option").

Section 6.20 Transferred Systems Proprietary Rights. Except as described on Schedule 6.20, there is no material trademark, trade name, service mark, service name or logo, or any application therefor, owned, licensed, used or held for use by Time Warner Cable or any of its Affiliates primarily in connection with the operation of the Transferred Systems.

Section 6.21 Promotional Campaigns. After Closing, Holdco will not be obligated to continue to make promotional offers under any promotional or marketing campaigns or programs initiated or maintained by Time Warner Cable or its Affiliates with respect to the Transferred Systems; provided that, for the avoidance of doubt, individual Subscribers who subscribed for services prior to the Closing and took advantage of any such campaign or promotional offers may be entitled to continue to receive the benefits offered under such campaign or promotion in accordance with its terms after Closing. After Closing, Holdco will not be obligated to pay for any advertisements run or to be run after the Closing under promotional or marketing campaigns or programs initiated or maintained by Time Warner Cable or its Affiliates with respect to the Transferred Systems, other than campaigns initiated with the consent of Comcast Subsidiary.

Section 6.22 Environmental.

(a) Except as described on Schedule 6.22(a), to the knowledge of Time Warner Cable, (i) neither Time Warner Cable nor any of its Affiliates has received any notice, demand, request for information, citation, summons or order relating to any material evaluation or investigation, and (ii) neither Time Warner Cable nor any of its Affiliates is the subject of any pending or threatened material investigation, action, claim, suit, review, complaint, penalty or proceeding of any Governmental Authority or other Person, in each case with respect to the Transferred Assets, the Transferred Systems or Holdco which relate to or arise out of any Environmental Law.

(b) Except as described on Schedule 6.22(b), to the knowledge of Time Warner Cable, no Hazardous Substance has been discharged, disposed of, dumped, injected, pumped, deposited, spilled, leaked, emitted, or released at, on or under any Transferred Asset or in connection with the operation of any Transferred System or of Holdco, except as would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

(c) Except as described on Schedule 6.22(c), neither Time Warner Cable nor any of its Affiliates has received any written notice of, or has any knowledge of circumstances relating to, and, to the knowledge of Time Warner Cable, there are no past events, facts, conditions, circumstances, activities, practices or incidents (including but not limited to the presence, use, generation, manufacture, disposal, release or threatened release of any Hazardous Substances) relating to any Transferred Asset or in connection with the operation of any Transferred System or of Holdco, which could materially interfere with or prevent material compliance with, or which have resulted in or are reasonably likely to give rise to any material liability of any kind whatsoever, whether accrued, contingent, absolute, determined, determinable or otherwise, arising under or relating to any Environmental Law.

(d) Except as set forth on Schedule 6.22(d), to Time Warner Cable's knowledge, no Transferred Asset nor any property to which Hazardous Substances located on or resulting from the use of any Transferred Asset (or from the operation of the Transferred System or Holdco), have been transported, is listed or proposed for listing on the National Priorities List promulgated pursuant to CERCLA, or CERCLIS (as defined in CERCLA) or on any similar federal, state, local or foreign list of sites requiring investigation or cleanup.

(e) Prior to the date hereof (or, with respect to the Designated Systems, the Amendment Date), Time Warner Cable has provided or made available to Comcast Trust and Comcast Subsidiary copies of all material environmental assessments, or other material environmental studies, audits, tests, reviews or other analyses of or relating to the Transferred Assets and/or Transferred Systems.

(f) None of the tangible Transferred Assets (excluding the Cash Amount) are located in New Jersey or Connecticut.

Section 6.23 Taxes. Except as would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect or as set forth on Schedule 6.23:

(a) All material Applicable Tax Returns have been duly and timely filed (taking into account extensions) or, where not so timely filed, are covered under a valid extension that has been obtained therefor and the information set forth on such Tax Returns is true, correct and complete in all material respects.

(b) All Applicable Taxes shown as due on the Applicable Tax Returns referred to in clause (a) have been paid in full.

(c) All deficiencies asserted or assessments made with respect to the Transferred Business as a result of the examinations of any of the Applicable Tax Returns referred to in clause (a) (together with any interest, additions or penalties with respect thereto and any interest in respect of such additions or penalties) have been paid in full.

(d) No issues with respect to the Transferred Business that have been raised in writing by the relevant Governmental Authority in connection with the examination of any of the Applicable Tax Returns referred to in clause (a) are pending.

(e) Schedule 6.23(e) sets forth a list of all jurisdictions (whether foreign or domestic) in which Holdco or any of the Transferred Systems currently file Applicable Tax Returns. No written claim with respect to Applicable Taxes has been made by any Governmental Authority in a jurisdiction where the Transferred Business does not file Applicable Tax Returns that it is or may be subject to taxation by that jurisdiction.

(f) There are no liens for Applicable Taxes upon the assets or properties of the Transferred Business, except for liens for Applicable Taxes not yet due and payable or being contested in good faith by appropriate proceedings.

Section 6.24 Tax Matters Agreement Representations. The representations and warranties set forth in Section 3 of the Tax Matters Agreement in the form attached hereto as Exhibit B are made as of the date hereof as if set forth in full herein.

ARTICLE 7

COVENANTS

Section 7.1 Certain Affirmative Covenants of Time Warner Cable. Except as otherwise expressly contemplated hereunder (including with respect to each of the Transactions) or as Comcast Subsidiary may otherwise consent in writing, which if requested shall not be unreasonably withheld or delayed, between the date of this Agreement, or with respect to the Designated Systems, the Amendment Date (or with respect to Section 7.1(h), the Option Exercise Date, and with respect to Section 7.1(i) (other than clauses (iii) and (iv) thereof), the Amendment Date) and the Closing Time, Time Warner Cable, with respect to each of the Transferred Systems and the Transferred Assets, shall, and shall cause its Affiliates to:

(a) operate or cause to be operated each Transferred System only in the usual, regular and ordinary course and in accordance with applicable material Legal Requirements (including completing line extensions, placing conduit or cable in new developments, fulfilling installation requests and continuing work on existing construction projects);

(b) perform all of its obligations under all of the Transferred Systems Franchises, Transferred Systems Licenses and Transferred Systems Contracts

without material breach or default and pay its Liabilities in the ordinary course of business;

(c) (i) maintain or cause to be maintained (A) the Transferred Assets in adequate condition and repair for their current use, ordinary wear and tear excepted, and (B) in full force and effect policies of insurance with respect to the Transferred Assets and the operation of the Transferred Systems in such amounts and with respect to such risks as are customarily maintained with respect to the Time Warner Cable Retained Cable Systems and (ii) enforce in good faith the rights under insurance policies referred to in (i)(B);

(d) deliver to Comcast Trust and Comcast Subsidiary reasonably promptly true and complete copies of all monthly trial balances, financial statements and Subscriber and other service recipient (including Individual Subscribers, Digital Subscribers, Telephony Subscribers and High Speed Data Subscribers) counts with respect to each Transferred System, management and operating reports and any written reports or data with respect to the operation of any Transferred System prepared by or for Time Warner Cable or its Affiliates at any time from the date hereof (or, with respect to the Designated Systems, the Amendment Date) until Closing;

(e) maintain or cause to be maintained its books, records and accounts with respect to the Transferred Assets and the operation of each Transferred System in the usual, regular and ordinary manner on a basis consistent with past practices;

(f) [Intentionally Omitted]

(g) use commercially reasonable efforts to renew any Transferred System Licenses which expire prior to the Closing Date;

(h) use its commercially reasonable efforts to obtain in writing as promptly as practicable the Time Warner Cable Required Consents and any other consent, authorization or approval necessary or commercially advisable in connection with the transactions contemplated hereunder (and shall deliver to Comcast Trust and Comcast Subsidiary copies of any such Time Warner Cable Required Consents and such other consents, authorizations or approvals as it obtains), in each case in form and substance reasonably satisfactory to Comcast Subsidiary; provided, that (i) Time Warner Cable shall have no obligation to make any payment (other than customary filing fees) to, or agree to any concession to, any Person to obtain any such consent, authorization or approval; and (ii) Time Warner Cable shall afford Comcast Subsidiary the opportunity to review and approve the form of Time Warner Cable Required Consent and such other consents prior to delivery to the party whose consent is sought and Time Warner Cable shall not accept or agree or accede to any modifications or amendments to or in connection with, or any conditions to the transfer of, any of the Transferred Systems Franchises, Transferred Systems Licenses or Transferred Systems Contracts of the Transferred Systems that are not approved in writing by Comcast Subsidiary, which approval shall not be unreasonably withheld or delayed. Time Warner Cable agrees,

upon reasonable prior notice, to allow representatives of Comcast Subsidiary to attend meetings and hearings before applicable Governmental Authorities in connection with the transfer of any Transferred Systems License or Transferred Systems Franchise. Notwithstanding the foregoing, Time Warner Cable shall not have any further obligation to obtain Time Warner Cable Required Consents:

(i) with respect to Contracts relating to pole attachments where the licensing Person shall not consent to an assignment of such license agreement but requires that Holdco enter into a new agreement with such Person on overall terms which are no less favorable to Holdco than the original license agreement was to Time Warner Cable, in which case Time Warner Cable shall cooperate with and assist Comcast Subsidiary and Holdco in obtaining such agreements; and

(ii) for any business radio license or any private operational fixed service ("POFS") microwave license which Time Warner Cable Required Consent could reasonably be expected to be obtained within 120 days after Closing and so long as a conditional temporary authorization (for a business radio license) or a special temporary authorization (for a POFS license) is obtained by Holdco under FCC rules with respect thereto;

(i) (i) use its commercially reasonable efforts to preserve the current business organization of each Transferred System intact, including preserving existing relationships with Governmental Authorities, suppliers, customers and others having business dealings with each Transferred System, unless Comcast Subsidiary requests otherwise, (ii) use commercially reasonable efforts to keep available the services of its employees providing services in connection with each Transferred System, (iii) continue normal marketing, advertising and promotional expenditures with respect to each Transferred System and (iv) (A) prior to January 1, 2005, make capital expenditures in accordance with the August 2004 re-estimated capital budget of each Transferred System set forth on Schedule 7.1(i)(A) (the "2004 Capital Budget") and from January 1, 2005 through December 31, 2005 make capital expenditures in accordance with the 2005 capital budget of each Transferred System set forth on Schedule 7.1(i)(B) (the "2005 Capital Budget"), (B) prior to January 1, 2005, make aggregate expenditures (other than Variable Expense Items) in accordance with the 2004 operating budget for each Transferred System set forth on Schedule 7.1(i)(C) (the "2004 Operating Budget", and together with the 2004 Capital Budget, the "2004 Budgets") and from January 1, 2005 through December 31, 2005 make aggregate expenditures (other than Variable Expense Items) in accordance with the 2005 operating budget for each Transferred System set forth on Schedule 7.1(i)(D) (the "2005 Operating Budget", and together with the 2005 Capital Budget, the "2005 Budgets"), (C) until January 1, 2006, with respect to Transferred Systems included in the Specified Division, make telephony capital and telephony operating expenditures with respect to the Transferred Systems on a non-discriminatory

basis as compared to the Specified Division; provided, however, that, in each case, deviations (positive or negative) in any such expenditures by no more than 5% of the aggregate budgeted amount shall be deemed to be in accordance with the 2004 Budgets or 2005 Budgets, as applicable, and (D) until January 1, 2006, make capital and operating expenditures with respect to the Monroe cable systems on a non-discriminatory basis as compared to the Jackson cable systems; provided, further, that, in any event, deviations (positive or negative) in any expenditures contemplated by the telephony budgets included in any Budget shall be deemed to be in accordance with such Budget so long as Time Warner Cable shall have used commercially reasonable efforts to operate in accordance with such telephony budgets;

(j) except as otherwise provided in this Agreement, Time Warner Cable will use commercially reasonable efforts to promptly notify Comcast Trust and Comcast Subsidiary of any circumstance, event or action by Time Warner Cable or any of its Subsidiaries or otherwise, that becomes known to Time Warner Cable,

(i) which, if known at the date of this Agreement (or, with respect to the Designated Systems, the Amendment Date), would have been required to be disclosed in or pursuant to this Agreement or (ii) the existence, occurrence or taking of which would result in any of its representations and warranties in this Agreement or in any Transaction Document to which it or any Transferring Person is a party not being true and correct in all material respects (or if qualified by materiality or Material Adverse Effect, in all respects) when made or at Closing (unless and to the extent that any such representation or warranty speaks specifically as of an earlier date, in which case, at such earlier date); provided, that any notification provided by Time Warner Cable solely pursuant to this subsection shall not be deemed to update the Schedules to this Agreement under Section 7.11 hereof unless Time Warner Cable expressly specifies that such notification is intended as an update pursuant to Section 7.11;

(k) give or cause to be given to Comcast Subsidiary, and its counsel, accountants and other representatives, (i) as soon as reasonably possible, but in any event prior to the date of submission to the appropriate Governmental Authority, copies of all FCC Forms 1200, 1205, 1210, 1215, 1220 and 1240, and simultaneous with, or as soon as reasonably possible after submission to the appropriate Government Authority, any other FCC Forms required under the regulations of the FCC promulgated under the Cable Act that are prepared with respect to any of the Transferred Systems and (ii) as soon as reasonably possible after filing, copies of all copyright returns filed in connection with any Transferred System; provided, that in the case of clause (i), before any such FCC Forms 1200, 1205, 1210, 1215, 1220 or 1240 are filed, Time Warner Cable and Comcast Subsidiary shall consult in good faith concerning the contents of such forms;

(l) use commercially reasonable efforts to implement all rate changes provided for in the 2004 Operating Budget and the 2005 Operating Budget, as applicable or, with respect to periods after January 1, 2006, rate changes in the ordinary course of business; and

(m) maintain inventory sufficient for the operation of the Transferred Systems in the ordinary course of business for a period of time consistent with the period of time such inventory is maintained for the Specified Division (or in the case of the Monroe cable systems, the period of time such inventory is maintained for the Time Warner Cable Retained Cable System).

Section 7.2 Certain Negative Covenants of Time Warner Cable. Except as otherwise expressly contemplated hereunder (including with respect to the Holdco Transaction) or as Comcast Subsidiary may otherwise consent in writing, which if requested shall not be unreasonably withheld or delayed, between the Amendment Date and the Closing or, with respect to Sections 7.2(d) (to the extent relating to Section 6.24), (h), (j), (k), (m), (n), (o), (p), (q) and (r) (and, to the extent relating to such Sections, Section 7.2(s)), between the date hereof (or, with respect to the Designated Systems, the Amendment Date) and the Closing, Time Warner Cable shall not, and shall cause its Affiliates not to, with respect to any of the Transferred Systems or the Transferred Assets (and, in the case of Section 7.2(d) (and, to the extent relating thereto, Section 7.2(s)), the transactions contemplated hereby):

(a) modify, terminate, renew, suspend or abrogate any material Transferred Systems Contract other than in the ordinary course of business;

(b) modify in any material respect, terminate, renew, suspend or abrogate any Transferred Systems Franchise or material Transferred Systems License;

(c) except as set forth on Schedule 7.2(c), and except for Contracts in respect of SMATV Acquisitions (other than any SMATV Acquisition in which the SMATV Purchase Price Per Subscriber exceeds \$3,500) and renewals and extensions of leases, in each case entered into in the ordinary course of business, enter into any Contract or commitment of any kind relating to the Transferred Systems which would be binding on Holdco after Closing and which (i) would involve an aggregate expenditure or receipt in excess of \$500,000 after Closing; (ii) would have a term in excess of one year after Closing unless terminable without payment or penalty upon 30 days' (or fewer) notice (other than with respect to bulk service, commercial service or multiple dwelling unit access Contracts);

(iii) is not being entered into in the usual regular and ordinary course and in accordance with past practices; (iv) would limit the freedom of Holdco, Comcast or any Affiliate of Comcast to compete in any line of business or with any Person or in any area; (v) relates to the use of the Transferred Assets by third parties to provide telephone or high speed data services; (vi) is not on arm's-length terms; or (vii) is with Time Warner Cable or an Affiliate of Time Warner Cable and is not terminated prior to the Closing without penalty and without liability on the part of Holdco or its Affiliates from and after Closing;

(d) enter into any transaction or take any action that would result in any of its representations and warranties in this Agreement or in any Transaction Document to which it or any of its Affiliates is a party not being true and correct in all material respects (or if qualified by materiality or Material Adverse Effect, in all respects) when made or at Closing (unless and to the extent that any such representation or warranty speaks specifically as of an earlier date, in which case, at such earlier date); provided, however, that with respect to the representation and warranty provided in Section 6.24 hereof, and subject to Section 7.2(p) hereof, Time Warner Cable and its respective Affiliates may enter into any transaction or take any action not otherwise prohibited by this Agreement provided that such transactions or actions would not (i) result in such representation and warranty not being true and correct at Closing, and (ii)

reasonably be expected to (w) cause the Holdco Transaction and the TWC Redemption not to qualify as a reorganization and distribution within the meaning of Sections 368(a)(1)(D), 361(c) and 355 of the Code, (x) cause any of the shares of Holdco not to qualify as "qualified property" for purposes of Section 355(c)(2) and 361(c) of the Code, (y) cause any of the shares of Holdco to constitute "other property" for purposes of Section 355(a)(3) (B) of the Code, or (z) result in Tax consequences to Comcast or any of its Affiliates that are materially worse than the expected Tax consequences of the GP Redemption, Subsidiary Transfers, Holdco Transaction or the TWC Redemption; provided, that, in no case, shall any or all of (I) the Adelpia Transactions (as defined in the TWC Redemption Agreement); provided, that either (i) all members (other than Holdco) of the Affiliated Group for U.S. federal income tax purposes of which TWC is (or would be), as of the date hereof, the common parent remain, immediately after the Closing, members of the Affiliated Group for U.S. federal income tax purposes of which TWC is (or would be) the common parent or (ii) to the extent that any member of the Affiliated Group for U.S. federal income tax purposes of which TWC is (or would be), as of the date hereof, the common parent (other than TWC) is not in existence immediately after the Closing, the assets of such member were transferred to another member of the Affiliated Group for U.S. federal income tax purposes of which TWC is (or would be) the common parent by reason of a transaction in which no gain or loss was recognized, in whole or in part, for U.S. federal income tax purposes, (II) Time Warner Cable ceasing to be a member of the Affiliated Group of which TWX is the parent for federal income tax purposes, (III) members of the Affiliated Group of which TWX is the parent for federal income tax purposes ceasing to own, in the aggregate, stock representing "control" of Time Warner Cable within the meaning of Section 368(c) of the Code, (IV) any change in value (including by reason of changes in the number of Individual Subscribers with respect to any of the Transferred Systems or the Time Warner Cable Retained Cable Systems), from the date hereof to the Closing of any or all of the Transferred Systems or the Time Warner Cable Retained Cable Systems, (V) a fire, theft or other casualty as contemplated in Sections 12.16(a), (VI) a Taking as contemplated in Sections 12.16(b) or (VII) the liquidation for federal income tax purposes of Time Warner Cable West Virginia LLC, a Delaware limited liability company, on or before May 12, 2005, constitute a breach of this Section 7.2(d);

(e) engage in any marketing, subscriber installation or collection practices other than in the ordinary course of business;

(f) except for rate increases provided for in the 2004 Operating Budget or the 2005 Operating Budget, as applicable, or with respect to periods after January 1, 2006, rate changes in the ordinary course of business, change the rate charged for any level of cable television service;

(g) except as required by applicable Legal Requirements and except as set forth on Schedule 7.2(g), add any channels to any Transferred System, or change the channel lineup in any Transferred System or commit to do so in the future (provided that deletions of channels shall not be considered a change in channel lineup);

(h) except for "staying" or "sticking" bonuses to induce such employees to remain with the Transferred Systems and which shall be paid for by Time Warner Cable on or prior to Closing, grant or agree to grant to any employee of the Transferred Systems any increase in (i) wages or bonuses except in the ordinary course of business and consistent with past practices or (ii) any severance, profit sharing, retirement, deferred compensation, insurance or other compensation or benefits, except in the ordinary course of business and consistent with past practices; provided, however, that the foregoing shall not apply to any Retained Employees;

(i) engage in any hiring practices that are materially inconsistent with past practices;

(j) transfer the employment duties of any employee of a Transferred System from such Transferred System to a different business unit or Subsidiary of Time Warner Cable or any of its Affiliates; provided, however, that the foregoing shall not apply to any Retained Employees;

(k) sell, assign, transfer or otherwise dispose of any Transferred Assets except in the ordinary course of business and except for (i) the disposition of obsolete or worn-out equipment, (ii) dispositions with respect to which such Transferred Assets are replaced with assets of at least equal value,

(iii) the Holdco Transaction, or (iv) transfers solely among Time Warner Cable and its Affiliates (whereupon any such transferee would become a "Transferring Person" hereunder); provided, for the avoidance of doubt, that the foregoing clause shall not permit the disposition of any Transferred System other than pursuant to the Transaction;

(l) mortgage, pledge or subject to any material Lien that would survive the Closing, any of the Transferred Assets or the Transferred Systems other than Permitted Liens;

(m) enter into any Transferred System specific programming agreement (other than Local Retransmission Consent Agreements) relating to the Transferred Assets or the Transferred Systems that is not terminated prior to the Closing without penalty and without liability on the part of Holdco or its Affiliates from and after Closing;

(n) make any cost-of-service or hardship election under the Rules and Regulations adopted under the Cable Act;

(o) make any material change to any method of accounting except for any such change required by reason of a concurrent (including any transition period) change in GAAP or applicable law or any change respecting the Specified Division (or in the case of the Monroe cable systems, any change respecting the Time Warner Cable Retained Systems) made in accordance with GAAP; provided, that no such change shall affect the calculation of the Closing Net Liabilities Amount;

(p) make or change in any material respect any Tax election, change any annual Tax accounting period or adopt or change any method of Tax

accounting, file any amended Tax Returns enter into any closing agreement, settle any Tax claim or assessment, surrender any right to claim a Tax Refund, offset or any other reduction in Tax liability or consent to any extension or waiver of the limitations period applicable to any Tax claim or assessment, in each case, in a manner that is inconsistent with the Tax treatment applicable to the Time Warner Cable Retained Cable Systems; or

(q) convert any billing systems used by the Transferred Systems (other than the conversion described on Schedule 7.2(q));

(r) launch cable telephony service in any Transferred System identified on Schedule 7.2(r); or

(s) announce an intention, commit or agree to do any of the foregoing.

Section 7.3 Certain Additional Covenants Regarding Required Consents; HSR Act Filing.

(a) With respect to the Transferred Systems numbered (1), (7), (8) and

(9) on Schedule A, by no later than 45 days after the earlier of (i) September 30, 2005 and (ii) termination of the TWC Redemption Agreement prior to the Closing (as defined in the TWC Redemption Agreement) occurring, Comcast Trust, Comcast Subsidiary and Time Warner Cable shall provide each other with all necessary documentation to allow filing of FCC Forms 394 with respect to such Transferred Systems Franchises. Comcast Trust, Comcast Subsidiary and Time Warner Cable shall use commercially reasonable efforts to cooperate with one another and file with the applicable Governmental Authority FCC Forms 394 for each of the Transferred System Franchises with respect to the Transferred Systems numbered (1), (7), (8) and (9) on Schedule A which requires the consent of such Governmental Authority in connection with the transactions contemplated by this Agreement, no later than 60 days after the earlier of (i) September 30, 2005 and (ii) termination of the TWC Redemption Agreement prior to the Closing (as defined in the TWC Redemption Agreement) occurring. In the event that on or prior to September 30, 2005 the condition set forth in Section 8.1(l) shall not have been satisfied, Time Warner Cable, Comcast Trust and Comcast Subsidiary shall discuss in good faith whether the filing of FCC Forms 394 with respect to the Transferred Systems numbered (1), (7), (8) and (9) on Schedule A, as of the time period contemplated by the preceding sentence, is advisable and whether such time period should be extended. With respect to the Transferred Systems numbered (2), (3), (4), (5) and (6) on Schedule A, Comcast Trust, Comcast Subsidiary and Time Warner Cable agree that the requirement to make FCC Form 394 filings to be made with respect to such Transferred Systems shall be satisfied by the filings made with respect to such Transferred Systems pursuant to Section 7.3(a) of the TWC Redemption Agreement and that such filings shall appropriately reflect the possibility of such Transferred Systems being transferred pursuant to this Agreement.

(b) Subject to Section 7.1(h), from and after the Option Exercise Date, the parties shall use their commercially reasonable efforts to cooperate

with each other in obtaining the Time Warner Cable Required Consents and any other consent, Authorization or approval, including with the relevant franchising authorities in respect of the Transferred Systems Franchises, necessary or commercially advisable with respect to the transactions contemplated hereunder including, to the extent commercially reasonable, the attendance of representatives of Comcast Trust and Comcast Subsidiary at meetings and hearings before applicable Governmental Authorities in connection with the transfer of any Transferred Systems License or Transferred Systems Franchise and by providing appropriate financial statements, insurance certificates and surety bonds required to obtain such Time Warner Cable Required Consents.

(c) The parties shall as soon as practicable after the Option Exercise Date, but in any event no later than 20 Business Days after the Option Exercise Date, complete and file, or cause to be completed and filed, any notification and report required to be filed under the HSR Act with respect to the transactions contemplated by this Agreement and each such filing shall request early termination of the waiting period imposed by the HSR Act. The parties shall use commercially reasonable efforts to respond as promptly as reasonably practicable to any inquiries or requests received from a Governmental Authority for additional information or documentation in connection with antitrust matters. The parties shall use commercially reasonable efforts to overcome any objections which may be raised by any Governmental Authority having jurisdiction over antitrust matters. Each party shall cooperate to prevent inconsistencies between their respective filings and between their respective responses to all such inquiries and requests, and shall furnish to each other such necessary information and reasonable assistance as the other may request in connection with its preparation of necessary filings or submissions under the HSR Act. Notwithstanding the foregoing or anything else in the Agreement to the contrary, neither party shall be required to enter into any consent decree with any Governmental Authority relating to antitrust matters or to sell or hold separate any assets or make any change in operations or activities of the business (or any material assets employed therein) of such party or its Affiliates, if a party determines in good faith that such change would be adverse to the operations or activities of the business (or any material assets employed therein) of such party or any of its Affiliates having significant assets, net worth or revenue. The cost of any filing fees in connection with any required filing pursuant to the HSR Act shall be borne equally by Comcast Subsidiary and Time Warner Cable.

(d) The parties understand and agree that as part of the FCC Trust Requirements the declaration of trust of Comcast Trust may be required to be amended in order to permit the TWC Redemption or the Comcast Subsidiary Transfer, and any such amendment would require approval of the FCC. If such amendment is required, Comcast Trust and Comcast Subsidiary agree to use commercially reasonable efforts to obtain such approval prior to Closing, and if such approval is obtained, Comcast Trust and Comcast Subsidiary will amend the declaration of trust of Comcast Trust to permit the consummation of the transactions contemplated by this Agreement.

Section 7.4 Confidentiality and Publicity.

(a) Unless and until Closing occurs, any non public information that any party may obtain from the other in connection with this Agreement shall be confidential, and following Closing, each party shall keep confidential any non public information that such party may receive from another party in connection with this Agreement unrelated to the Transferred Systems or Transferred Assets and Time Warner Cable and its Affiliates shall keep confidential any non public information in their possession related to the Transferred Systems and Transferred Assets (any such information that a party is required to keep confidential pursuant to this sentence shall be referred to as "Confidential Information"). No party shall disclose any Confidential Information to any other Person (other than its Affiliates and its and its Affiliates' directors, officers and employees, and representatives of its advisers and lenders, in each case, whose knowledge thereof is necessary in order to facilitate the consummation of the transactions contemplated hereby, in which case such party shall be responsible for any breach by any such Person) or use such information to the detriment of the other; provided, that (i) such party may use and disclose any such information once it has been publicly disclosed (other than by such party in breach of its obligations under this Section) or which, to its knowledge, rightfully has come into the possession of such party (other than from the other party), and (ii) to the extent that such party may, in the reasonable judgment of its counsel, be compelled by Legal Requirements to disclose any of such information, such party may disclose such information if it has used commercially reasonable efforts, and has afforded the other the opportunity, to obtain an appropriate protective order, or other satisfactory assurance of confidential treatment, for the information compelled to be disclosed and (iii) such party may use and disclose such information to the extent reasonably necessary to permit such party to file Tax Returns, defend any dispute relating to Taxes, claim any Refund or otherwise provide information to a Governmental Authority in connection with any other Tax Proceeding and (iv) such party may use and disclose such information to the extent necessary to comply with Legal Requirements or any periodic reporting obligations such party may have by virtue of such party or any of its Affiliates having securities listed on a national securities exchange or quotation system. In the event of termination of this Agreement, (A) the obligation set forth in this Section shall continue for a period of two years after such termination, and (B) each party shall use commercially reasonable efforts to cause to be delivered to the other, and to retain no copies of, any documents, work papers or other materials obtained by such party or on its behalf from the other, whether so obtained before or after the execution of this Agreement. For the avoidance of doubt, Comcast Trust may disclose any Confidential Information to Comcast Subsidiary and its Affiliates and their respective representatives.

(b) Each of the parties hereto shall consult with 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 Transferred System Employees concerning this Agreement and the transactions contemplated hereby. Except as required by applicable Legal Requirements or by any national securities exchange or quotation system, no party hereto shall make any such release, announcement or statement without the prior written consent and approval of the other, which shall not be unreasonably withheld. The party receiving a request for a consent shall respond promptly to any such request for consent and approval.

(c) At Comcast's request, which shall be provided to TWC no later than thirty (30) days prior to the expected Closing Date (such date, the "Diligence Request Date"), TWC shall provide Comcast with (i) the most recent consolidated balance sheet for the TWC Affiliated Group (as defined in the Tax Matters Agreement) as of the Diligence Request Date, (ii) a reasonable good faith estimate of the aggregate number of Individual Subscribers of such TWC Affiliated Group (as defined in the Tax Matters Agreement) as of the Diligence Request Date; (iii) summary financial information with respect to any nonconsolidated investments of any member of the TWC Affiliated Group (as defined in the Tax Matters Agreement) as of the Diligence Request Date; and (iv) a reasonable good faith estimate of the aggregate number of Individual Subscribers of the Transferred Systems as of the Diligence Request Date.

Section 7.5 Retransmission Consent Agreements. On or prior to the date which is 45 days prior to the anticipated date of Closing, Time Warner Cable shall deliver to Comcast Trust and Comcast Subsidiary a list of all Local Retransmission Consent Agreements then in effect with respect to the Transferred Systems. By written notice delivered to Time Warner Cable at least 30 days prior to Closing, Comcast Subsidiary may, in its sole discretion, elect to have Holdco assume one or more of the Local Retransmission Consent Agreements, in which case Time Warner Cable shall use commercially reasonable efforts to obtain any required Authorizations for such assumption. The foregoing shall be subject to Section 2.1(e) to the extent any related Authorization is not obtained. Any Local Retransmission Consent Agreements which Comcast Subsidiary elects to have Holdco assume pursuant to this Section 7.5 shall be included in the Transferred Assets. To the extent the provisions of this Section 7.5 conflict with any other provision of this Agreement, the provisions of this Section 7.5 shall control.

Section 7.6 Title Insurance Commitments. Time Warner Cable shall use commercially reasonable efforts to provide to Comcast Subsidiary, within 90 days from the date Time Warner Cable receives the Title Commitment Notice, or, in the case of any Survey, such longer period of time as is necessary to obtain such Survey with the exercise of reasonable diligence, (a) commitments to issue to Holdco title insurance policies ("Title Commitments") in amounts reasonably satisfactory to Comcast Subsidiary issued by a nationally recognized title insurance company (a "Title Company") and containing, to the extent available, legible photocopies of all recorded items described as exceptions therein, committing to insure, subject only to Permitted Liens, fee or a valid leasehold title, as applicable, in Holdco to each parcel of Owned Property or Leased Property designated by Comcast Subsidiary by notice (the "Title Commitment Notice"), provided, that any parcel of Owned Real Property or Leased Property designated in a Title Commitment Notice (as defined in the Tolling Agreement or the TWC Redemption Agreement) will be deemed to have been properly designated in a Title Commitment Notice hereunder) delivered to Time Warner Cable within 37 days following the Option Exercise Date by ALTA extended coverage owner's or leasehold policies of title insurance, or, if ALTA policies are not obtainable in any state, policies in another form reasonably satisfactory to Comcast Subsidiary, and (b) surveys of each parcel of Owned Property or Leased Property designated by Comcast Subsidiary in the Title Commitment Notice ("Surveys"), in such form as is reasonably necessary to obtain

the title insurance to be issued pursuant to the related Title Commitments with the standard printed exceptions relating to survey matters deleted, certified to Holdco, Comcast Subsidiary and to the Title Company with respect to that Owned Property or Leased Property, provided that Time Warner Cable's inability to provide Title Commitments satisfying the foregoing requirements shall not constitute a breach of the foregoing covenant if the Liens, or other matters relating to title, giving rise to such inability would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect. In no event shall Time Warner Cable be obligated to procure a Title Commitment for any Leased Property with respect to which the Lease or a memorandum thereof has not been recorded in the land records of the county in which the Leased Property is located. The cost to obtain such Title Commitments and Surveys and other documents required by the Title Company to issue such policies and Surveys, as well as the cost of title policy premiums, shall be borne by Comcast Subsidiary, except for attorney's fees and other incidental costs incurred by Time Warner Cable in connection with providing such Title Commitments and Surveys and otherwise complying with this Section 7.6. If Comcast Subsidiary notifies Time Warner Cable within 30 days following delivery to Comcast Subsidiary of both the Title Commitments and the Surveys of any Lien (other than a Permitted Lien or a Lien set forth in Schedule 6.4 (a)) which prevents access to or which could prevent or impede in any material way the use or operation of any parcel of Owned Property or Leased Property for which a Title Commitment is required pursuant to this Section 7.6 for the purposes for which it is currently used or operated by Time Warner Cable (each a "Title Defect"), Time Warner Cable shall exercise commercially reasonable efforts, including paying attorney's fees and other incidental costs associated with any such efforts, to (i) remove such Title Defect, or (ii) cause the Title Company to commit to insure over each such Title Defect prior to Closing at customary premium rates without additional premium or charge. If such Title Defect cannot be removed prior to Closing or the Title Company does not commit to insure over such Title Defect prior to Closing, Comcast Subsidiary and Time Warner Cable shall enter into a written agreement containing Time Warner Cable's commitment to use commercially reasonable efforts for 180 days following Closing to remedy the Title Defect following Closing on terms satisfactory to Comcast Subsidiary, in its reasonable discretion. Notwithstanding anything to the contrary contained in this Agreement, in no event shall Time Warner Cable or its Affiliates be required to remove any Liens encumbering the Owned Property and Leased Property except as expressly set forth in this Section 7.6 or to expend any moneys (other than attorneys' fees and other incidental costs as hereinabove set forth) or to incur any obligation in order to remove or cause the insuring over of any Liens (other than pursuant to customary short-form affidavits of title which do not in any event require Time Warner Cable or its Affiliates to make representations or incur obligations more onerous than those made or set forth elsewhere in this Agreement and customary gap indemnities covering Time Warner Cable's or its Affiliates' acts for the period between Closing and the recording of the applicable deed or assignment of lease with respect to such Owned Property or Leased Property), and in no event shall Time Warner Cable or its Affiliates be obligated to commence any Litigation to cause any Title Defects to be removed or insured over, and, without limiting the other provisions of this Section 7.6, in no event shall Time Warner

Cable or its Affiliates be required to give a non-imputation affidavit to the title insurance company.

Section 7.7 Intentionally Omitted.

Section 7.8 Post-Closing Obtaining of Consents. Subsequent to Closing, and subject to Section 2.1(e), Time Warner Cable shall and shall cause its Affiliates to continue to use commercially reasonable efforts to obtain in writing as promptly as possible any Authorization necessary or commercially advisable in connection with the transactions contemplated hereunder which was not obtained on or before Closing (a "Post Closing Consent") in form and substance reasonably satisfactory to Comcast Subsidiary. A true and complete copy of any such Post Closing Consent shall be delivered to each of Comcast Subsidiary and Holdco promptly after it has been obtained.

Section 7.9 Transitional Services.

(a) Time Warner Cable shall provide to Holdco, upon written request from Comcast Subsidiary received by Time Warner Cable no later than 30 days prior to the anticipated date of Closing, such subscriber billing, high speed data, telephony and other services as may be reasonably requested by Comcast Subsidiary in connection with the operation of the Transferred Systems for a commercially reasonable period following Closing to be mutually agreed upon in good faith by Time Warner Cable and Comcast Subsidiary to allow for transition of existing services or establishment of replacement services ("Transitional Services"). Holdco shall promptly reimburse Time Warner Cable for the actual out-of-pocket cost to Time Warner Cable and its Affiliates of providing any Transitional Services. All other terms and conditions for the provision of Transitional Services shall be reasonably satisfactory to both Comcast Subsidiary and Time Warner Cable and subject to applicable Legal Requirements.

(b) Time Warner Cable will, at its expense, rebuild the "HITS" headend for the Transferred System identified on Schedule 7.9 on or before the Closing and, after Closing, Time Warner Cable may, at its option, lease space from Holdco such that Time Warner Cable will continue to have access to a hubsite to be located on properties included in such system, all on terms mutually satisfactory to Time Warner Cable and Comcast Subsidiary to be negotiated in good faith prior to the Closing.

Section 7.10 Cooperation Upon Inquiries as to Rates. Comcast Subsidiary and Time Warner Cable agree as follows:

(a) For a period of 12 months after Closing, Time Warner Cable shall cooperate with and assist Holdco by providing, upon request, all information in Time Warner Cable's or its Affiliates' possession (and not previously provided to Comcast Subsidiary or Holdco) relating directly to the rates set forth in Schedule 6.8 or the then current rates with respect to any Transferred System, if different from the rates set forth on such Schedule, or the rates on any FCC Form 393, 1200, 1205, 1210, 1220,

1235, or 1240 that Holdco may reasonably require to justify such rates 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.

(b) If at any time prior to Closing, any Governmental Authority commences a Rate Regulatory Matter with respect to a Transferred System, Time Warner Cable shall (i) promptly notify Comcast Subsidiary, and (ii) keep Comcast Subsidiary informed as to the progress of any such proceeding. Without the prior written consent of Comcast Subsidiary (after the Amendment Date), which consent shall not be unreasonably withheld or delayed, Time Warner Cable shall not settle any such Rate Regulatory Matter, either before or after Closing, if (A) Holdco or any of its Affiliates would have any obligation under such settlement, or (B) such settlement would reduce the rates permitted to be charged by Holdco or any of its Affiliates after Closing below the rates set forth on Schedule 6.8 or otherwise then in effect. Notwithstanding anything to the contrary herein, after Closing, Holdco shall have the right, at its own expense, to assume control of the defense of any pending Rate Regulatory Matter, to the extent, and only to the extent, that it relates to a Transferred System. If Holdco elects to assume control of the defense of any such Rate Regulatory Matter, Time Warner Cable shall have the right to participate, at its expense, in the defense of such matter. Notwithstanding the provisions set forth in Article 11 of this Agreement, Holdco may settle any such Rate Regulatory Matter only upon Time Warner Cable's prior written consent, which consent shall not be unreasonably withheld or delayed, if Time Warner Cable would have any obligation with respect to such settlement in accordance with Article 11 hereof or otherwise.

(c) If at any time after Closing, any Governmental Authority commences a Rate Regulatory Matter with respect to a Transferred System involving any time period prior to Closing, Comcast Subsidiary shall cause Holdco to (i) promptly notify Time Warner Cable, and (ii) keep Time Warner Cable informed as to the progress of any such proceeding. Time Warner Cable shall have the right to participate, at its expense, in the defense of such matter. Notwithstanding the provisions set forth in Article 11 of this Agreement, Holdco may settle any such Rate Regulatory Matter only upon Time Warner Cable's prior written consent, which consent shall not be unreasonably withheld or delayed, if Time Warner Cable would have any obligation with respect to such settlement in accordance with Article 11 hereof or otherwise.

(d) For purposes hereof, "Rate Regulatory Matter" means any proceeding or investigation with respect to a Transferred 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 Transferred System for programming, equipment, installation, service or otherwise.

(e) If Time Warner Cable or any of its Affiliates is required following Closing pursuant to any Rate Regulatory Matter or any other Legal Requirement, settlement or otherwise to reimburse any Subscribers for any Subscriber payments previously made by it, including fees for cable television service, late fees and similar payments, Comcast Subsidiary shall cause Holdco, at Time Warner Cable's

request, to make such reimbursement through Holdco's billing system on terms specified by Comcast Subsidiary. In such event, Time Warner Cable shall promptly pay to Holdco all such payments made by Holdco through its billing system. Without limiting the foregoing, Comcast Subsidiary shall cause Holdco to provide to Time Warner Cable all information in its possession that is reasonably required by Time Warner Cable in connection with such reimbursement.

Section 7.11 Updated Schedules.

(a) On one or more occasions, Time Warner Cable may, at least five Business Days prior to Closing: (i) supplement Schedule 6.5(a) to reflect leases, franchises, licenses, authorizations, consents, permits, Contracts or commitments which were entered into or obtained between the Amendment Date (or, with respect to the SSBC Systems, the date of delivery of the Second Stage Bringdown Certificate) and the Closing Date not in violation of the terms of this Agreement and are required to be disclosed in Schedule 6.5(a) in order for the representation and warranty contained in Section 6.5(a) to be true, complete and correct or (ii) supplement any other Schedule to this Agreement (other than the Schedules to any of Section 6.1, 6.2, 6.15 or 6.18) or to the Tax Matters Agreement, with additional information to the extent that it reflects events, acts or omissions that first occurred between the date hereof (or, with respect to the Designated Systems, the Amendment Date) and the Closing Date and that are not prohibited by this Agreement to be taken, and that would have been required to be included in one or more Schedules to this Agreement or the Tax Matters Agreement in order for the representations and warranties of Time Warner Cable contained in this Agreement or in the Tax Matters Agreement to be true, complete and correct as of the Closing. Any such supplement to a Schedule pursuant to clause (i) above shall specifically identify each license, Contract or other item being added to Schedule 6.5(a) and any supplement pursuant to clause (ii) above shall be made with reasonable specificity and shall identify, to Time Warner Cable's knowledge, the potential Liability associated with the relevant action, condition or event. Without limitation to Section 7.20, for purposes of determining whether there is any liability on the part of Time Warner Cable following Closing for breaches of its representations and warranties under this Agreement, the Schedules to this Agreement shall be deemed to include only (a) the information contained therein on the date hereof (or, with respect to the Designated Systems, the Amendment Date), (b) to the extent relating to the SSBC Systems information added to the Schedules for Section 6.3(c), 6.3(f) or 6.5 pursuant to Section 7.20 and (c) information added to such Schedules by written supplements to this Agreement delivered in accordance with the first sentence of this Section 7.11; provided, that for purposes of determining the satisfaction of the condition set forth in Section 8.1 (a), any update to the Schedules pursuant to clause (c) of this sentence shall be disregarded.

(b) In addition, if after the date that is the fifth Business Day prior to Closing, but before the Closing, Time Warner Cable first becomes aware of any event, act, occurrence or omission which, if known on the fifth day prior to Closing would have been permitted to be included in a supplement pursuant to clause (ii) of the foregoing paragraph, then Time Warner Cable may make such supplement as provided

above (in which case such supplement shall be deemed to have been made pursuant to clause (ii) of the foregoing paragraph); provided that Time Warner Cable may only utilize the rights in this paragraph on one occasion and, if Comcast Subsidiary elects, upon receipt of any such supplement pursuant to this paragraph, the date of Closing may be delayed until the end of the next succeeding month.

Section 7.12 Commercially Reasonable Efforts; Further Assurances. Subject to the terms and conditions of this Agreement, the parties hereto shall use commercially reasonable efforts to take, or cause to be taken, all actions and to do, or cause to be done, all things necessary or desirable to consummate the transactions contemplated by this Agreement as promptly as practicable. Each of the parties hereto agrees to, and, in the case of Time Warner Cable and Comcast Subsidiary, to cause its Affiliates to, execute and deliver such other documents, certificates, agreements and other writings (including completed transfer tax returns, showing in each case a purchase price or consideration reasonably acceptable to Comcast Subsidiary and Time Warner Cable) and to take such other commercially reasonable actions as may be necessary or desirable in order to evidence, consummate or implement expeditiously the transactions contemplated by this Agreement and to vest in Holdco the same title to the Transferred Assets that Time Warner Cable (together with its Affiliates) had with respect thereto immediately prior to the Transactions.

Section 7.13 Post Closing Access to Personnel Records. After the Closing Date, Time Warner Cable shall, and shall cause its Affiliates to, provide Comcast Subsidiary and Holdco with access to, and the right to make copies or extracts of, pertinent information from the personnel files and records of Time Warner Cable and its Affiliates relating to Transferred System Employees (other than Retained Employees) in connection with litigation, administrative proceedings, payment of Applicable Taxes or any other valid business reason from time to time during normal business hours upon reasonable notice from Comcast Subsidiary or Holdco (i) with respect to matters other than matters relating to Applicable Taxes, for a period not to exceed one year from the Closing Date or (ii) with respect to matters relating to Applicable Taxes, until the expiration of the statute of limitations applicable to such Taxes, in each case except to the extent that Time Warner Cable is required by law to keep such files and records confidential.

Section 7.14 [Intentionally Omitted].

Section 7.15 Tax Returns with respect to Applicable Taxes.

(a) Time Warner Cable shall have exclusive and sole responsibility for the preparation and filing of all Applicable Tax Returns that are required to be filed with any Governmental Authority on or prior to the Closing Date.

(b) Holdco shall prepare and file all Applicable Tax Returns that are required to be filed with any Governmental Authority after the Closing Date. Holdco shall deliver any such Straddle Period Applicable Tax Returns to Time Warner Cable for its review at least 30 days prior to the date on which such Straddle Period

Applicable Tax Return is required to be filed. Except as provided herein, all Straddle Period Applicable Tax Returns shall (unless required by a change in applicable Tax law or a good faith resolution of a contest) be prepared on a basis consistent with the elections, accounting methods, conventions, assumptions and principles of taxation on the most recently filed Applicable Tax Returns of Holdco or a previous owner of the Transferred Systems to the extent relevant to such Transferred Systems. Subject to the foregoing, Time Warner Cable and Holdco shall reasonably cooperate with each other in the preparation and filing of any Straddle Period Applicable Tax Returns.

Section 7.16 Environmental Reports. Following the Amendment Date, Comcast Subsidiary may upon reasonable advance written notice and during normal business hours, at Comcast Subsidiary's expense, perform any environmental site assessments of the Owned Property or Leased Property (subject to the final sentence of this Section 7.16) as Comcast Subsidiary determines, in its sole discretion, to have performed; provided that prior to taking any samples of soil or groundwater for testing, Comcast Subsidiary shall have a reasonable basis for determining that such sampling is appropriate. Time Warner Cable shall cooperate with all reasonable requests of Comcast Subsidiary and its consultants with respect to the conduct of such assessments or sampling. Any assessment performed pursuant to this Section 7.16 shall to the fullest extent practicable be designed so as not to disrupt the business and operations of the Transferred Systems. Any right to perform an assessment pursuant to this Section 7.16 at a Leased Property shall be subject to Time Warner Cable not being prohibited from performing such assessment pursuant to the lease for such Leased Property.

Section 7.17 Certain Notices. Prior to the Closing, Time Warner Cable, with respect to the Transferred Systems, shall cause to be timely filed a request for renewal under Section 626 of the Cable Act with the proper Governmental Authority with respect to Transferred System Franchises that shall expire within 36 months after any date between the date of this Agreement and Closing Date.

Section 7.18 Franchise Expirations. From the Amendment Date until Closing, Time Warner Cable shall, and shall cause its Affiliates to, use commercially reasonable efforts to obtain renewals or valid extensions of any Transferred Systems Franchises which expire on or before June 30, 2008, in the ordinary course of business. Neither Time Warner Cable nor any of its Affiliates shall agree or accede to any material modifications or amendments to or in connection with, or the imposition of any material condition to the renewal or extension of, any of the Transferred System Franchises that are not reasonably acceptable to Comcast Subsidiary. Time Warner Cable agrees, from the Amendment Date until Closing, upon reasonable prior written notice, to allow representatives of Comcast Subsidiary to attend meetings and hearings before applicable Governmental Authorities in connection with the renewal or extension of any Transferred Systems License or Transferred Systems Franchise.

Section 7.19 Insurance. Time Warner Cable will use commercially reasonable efforts to take such actions as are necessary to cause insurance policies of Time Warner Cable and its Affiliates that immediately prior to Closing provide coverage to or with respect to the Transferred Business, the Transferred Assets or

the Transferred Systems to continue to provide such coverage with respect to acts, omissions, and events occurring prior to the Closing in accordance with their terms as if the Closing had not occurred; provided that to the extent Time Warner Cable takes any action with respect to its umbrella insurance policies that similarly effects all of the Time Warner Cable Retained Cable Systems but results in such insurance coverage no longer being available (other than a change denying coverage based upon a Person ceasing to be an Affiliate of Time Warner Cable), Time Warner Cable shall not be deemed to have breached this

Section 7.19 and shall have no liability with respect thereto. Time Warner Cable will give Comcast Subsidiary written notice of the taking of any such action if done during the first 12 months after the Closing prior to or as soon as practicable thereafter. Time Warner Cable shall, and shall cause its Affiliates to, cooperate with and assist Holdco, if Holdco determines to make any claim under any such policy with respect to any pre-Closing act, omission or event. Holdco shall use commercially reasonable efforts to promptly notify Time Warner Cable when it becomes aware of any such claim; provided, that the failure of Holdco to provide such notice shall not relieve Time Warner Cable of its obligations under this Section 7.19, except to the extent that Time Warner Cable's rights under the applicable insurance policy are prejudiced by such failure to give notice.

Section 7.20 Second Stage Review.

(a) The Comcast Parties acknowledge that as of the date hereof, to the extent that the representations and warranties set forth in Sections 6.3(c), 6.3(f) and 6.5 relate to the SSBC Systems, Time Warner Cable has only been required to make good faith efforts to make such representations and warranties true, correct and complete based on the limited information in the possession of Time Warner Cable as of the date hereof without consulting with the Transferred Systems Employees or obtaining any information in the possession of the Transferred Systems. The purpose of this Section 7.20 is that during the 23 day period after receipt of the Good Faith Notice, Time Warner Cable shall have the ability to update the Schedules for Sections 6.3(c), 6.3(f) and 6.5 with respect to the SSBC Systems by delivering the Second Stage Bringdown Certificate and Second Stage Documents, in each case after consultation with the employees of the Transferred Systems Employees, whereupon Comcast Subsidiary will have until 20 days after the receipt of such materials (the "Option Decision Date") to determine whether or not to exercise the Option (in its sole discretion). This

Section 7.20 shall be deemed to qualify each of the representations and warranties set forth in Sections 6.3(c), 6.3(f) and 6.5 in their entirety, but only to the extent such representations and warranties are made as of the date hereof and, in each case, only to the extent such representations and warranties relate to the SSBC Systems. Any update of Schedules made pursuant to this

Section 7.20 shall be made with reasonable specificity, in good faith. No item may be added to a Schedule pursuant to this Section 7.20 if the relevant item was, to Time Warner Cable's knowledge, located in one of the offices of Time Warner Cable identified on Schedule 7.20(a) (such offices, the "Designated Offices") as of the date hereof.

(b) At any time after October 5, 2004, Comcast Subsidiary may deliver to Time Warner Cable a written notice (the "Good Faith Notice") stating that

Comcast Subsidiary intends in good faith to exercise the Option on or prior to the Option Decision Date unless as a result of its diligence review after delivery by Time Warner Cable of the Second Stage Bringdown Certificate and the Second Stage Documents it determines that it is not in its best interest to exercise the Option. For the avoidance of doubt, no more than one Good Faith Notice may be delivered and no Good Faith Notice shall be delivered prior to the termination of the TWC Redemption Agreement. The delivery by Comcast Subsidiary to Time Warner Cable of a Good Faith Notice (as defined in the Tolling Agreement) shall be deemed to be the delivery of a Good Faith Notice under this Agreement.

(c) Time Warner Cable shall, within 23 days of receipt of the Good Faith Notice: (i) deliver to Comcast Trust and Comcast Subsidiary the Second Stage Bringdown Certificate and, concurrent therewith and (ii) provide or otherwise make available to Comcast Trust, Comcast Subsidiary and/or their respective counsel the Second Stage Documents in accordance with this Section 7.20; provided, however, that the delivery of a Second Stage Bringdown Certificate and Second Stage Documents under the Tolling Agreement will also be deemed to be the delivery of a Second Stage Bringdown Certificate and Second Stage Documents for purposes of this Agreement. All information included in the Schedules delivered with the Second Stage Bringdown Certificate shall be deemed to modify the representations and warranties set forth in Sections 6.3(c), 6.3(f) and 6.5, as applicable, as of the date hereof and as of the Closing Date but, in each case, only to the extent such representations and warranties relate to the SSBC Systems.

(d) Comcast Trust and Comcast Subsidiary may, on the Amendment Date, request additional documents relating to the Transferred Business, the Transferred Assets or the Transferred Systems. Any such documents that would reasonably be expected to be material to Comcast Subsidiary's decision as to whether to exercise the Option, and that can be delivered or otherwise made available to Comcast Trust and Comcast Subsidiary by Time Warner Cable's good faith exercise of its commercially reasonable efforts within 23 days of receipt of the Good Faith Notice, shall be so delivered or made available as Second Stage Documents concurrent with the delivery of the Second Stage Bringdown Certificate.

(e) [Intentionally Omitted]

(f) To the extent any representation and warranty in Sections 6.3(c), 6.3(f) and 6.5 relates to any SSBC System and purports to relate to any Second Stage Document, such representation and warranty shall, subject to Section 7.20(g), only be made in the Second Stage Bringdown Certificate and at Closing.

(g) The representations and warranties of Time Warner Cable in the Second Stage Bringdown Certificate will be treated as if they had been representations and warranties of Time Warner Cable in this Agreement for all purposes of this Agreement, including the conditions and indemnities in Articles 8 and 11, respectively.

(h) For the avoidance of doubt, notwithstanding the delivery of the Good Faith Notice, Comcast Subsidiary shall not be required or obligated to exercise the Option, and shall not otherwise be deemed to have exercised the Option, based upon delivery of the Good Faith Notice. The Option will only be exercised as set forth in Section 2.1(a)(i).

Section 7.21 [Intentionally Omitted]

Section 7.22 Promotional Campaigns. Between the date hereof (or, with respect to the Designated Systems, the Amendment Date) and the Closing, Time Warner Cable and its Affiliates shall not initiate any Subscriber campaigns or promotions on a local or regional level with respect to the Transferred Systems, other than (i) any such campaigns or promotions that are on the same terms and conditions (or on terms and conditions that are no less favorable to the Transferred Systems) as subscriber campaigns or promotions undertaken with respect to the relevant Transferred Systems during the year ended December 31, 2004 in the relevant market, (ii) any such campaigns or promotions that are not materially less favorable to the Transferred Systems than campaigns and promotions being conducted with respect to Time Warner Cable Retained Cable Systems on an overall basis, (iii) any such campaigns or promotions that are not materially less favorable to the Transferred Systems than campaigns and promotions being conducted by Comcast and its Affiliates in the same DMA, and (iv) any such campaigns or promotions that are either (x) with respect to campaigns and promotions conducted in an overbuild area, not materially less favorable to the Transferred Systems than the campaigns and promotions being conducted by the applicable overbuilder or RBOC or (y) not materially less favorable to the Transferred Systems than those being conducted by any direct broadcast satellite providers in the same DMA (but only in the relevant market of the relevant campaign or promotion).

Section 7.23 Launch Support. At the Closing, Time Warner Cable shall deliver to Comcast Subsidiary a schedule of the services subject to Specified Launch Support Liabilities and, with respect to each such service, the remaining time period (which shall in no event be later than the fifth anniversary of the date hereof (or, with respect to the Designated Systems, the fifth anniversary of the Amendment Date)) in which an action in respect of any Transferred System could result in an obligation to make a payment in respect of a Specified Launch Support Liability.

Section 7.24 Section 338(h)(10) Election.

(a) Subject to Section 7.24(b), the parties agree jointly to make a timely election under Section 338(h)(10) of the Code and any corresponding or similar elections under state, local or foreign Tax Law (in the state, local or foreign jurisdictions as requested by Comcast) with respect to the TWC Redemption (any such election, a "338(h)(10) Election"); provided, that, for the purpose of making any 338(h)(10) Election, the Internal Revenue Service Forms 8023 and 8883 (or successor forms, or any corresponding forms under state, local or foreign Tax Law in the state, local or foreign jurisdiction requested by Comcast) filed in connection with such election shall state on

the face of each such form that such election is being made as a "protective election" and shall contain the legend set forth in Exhibit D hereto.

(b) If, after the Closing Date but prior to the six month anniversary of the Closing Date, Comcast believes that there has been a change in Tax Law after the date hereof and that by reason of such change in Tax Law (x) the TWC Redemption should not qualify as a tax-free distribution governed by Section 355 of the Code, and (y) the TWC Redemption should constitute a "qualified stock purchase" within the meaning of Section 338(d)(3) of the Code (a "QSP") (any such conclusion, a "Determination"), Comcast shall provide written notice to Time Warner Cable of such Determination. If Time Warner Cable agrees with the Determination, Time Warner Cable shall provide Comcast with written notice of its agreement within 10 days (the "Determination Deadline") of receiving notice of the Determination (such agreement shall constitute a "Joint Determination"). If there has been no Joint Determination by the Determination Deadline, Time Warner Cable and Comcast agree jointly to appoint a law firm that is nationally recognized in matters relating to federal income taxation (any such law firm, a "Third Party Firm") within 7 Business Days of the Determination Deadline. If Time Warner Cable and Comcast cannot agree on the appointment of a Third Party Firm in accordance with the previous sentence, such parties shall request that the President of the Association of the Bar of the City of New York appoint, within 7 days, a Third Party Firm other than a law firm that is regularly employed by either Time Warner Cable or Comcast or any of their respective Affiliates. The Third Party Firm shall be requested to deliver, within 21 days of its appointment, a letter setting forth whether, by reason of the change in Tax Law referred to above, it is its opinion that, (I) the TWC Redemption should not qualify as a tax-free distribution governed by Section 355 of the Code, and (II) the TWC Redemption should constitute a QSP (any affirmative opinion by such Third Party Firm that the items described in (I) and (II) of this sentence have been satisfied, an "Affirmative Third Party Firm Determination"). The fees and expenses of the Third Party Firm shall be borne equally by Time Warner Cable and Comcast.

(c) If, at any time prior to the nine month anniversary of the Closing Date, there shall have been a Joint Determination or an Affirmative Third Party Determination, the parties hereby agree, notwithstanding any other provision of this Agreement or the Transaction Documents, for all Income Tax Purposes (unless required by subsequent change in applicable Tax Law or as a result of a good faith resolution of a contest), (i) not to treat the TWC Redemption as a tax-free distribution governed by Section 355 of the Code, (ii) to treat the TWC Redemption as a QSP, and (iii) that any 338(h)(10) Election shall be filed without regard to the protective election described in the proviso to Section 7.24(a).

Section 7.25 Pre-Closing Access. (a) Prior to the Amendment Date Comcast shall not, and shall not permit any of its Affiliates to, without the prior written consent of Time Warner Cable (i) initiate or maintain contact with any Transferred Systems Employee regarding the transactions contemplated hereby or otherwise related thereto, (ii) access any of the properties, whether owned or leased, of the Transferred Systems and (iii) subject to applicable Legal Requirements disclose the identity of the Transferred Systems to any Person other than any of the officers,

employees, directors and advisors of Comcast or its Affiliates, provided that such officers, employees, directors and advisors are first advised of the confidential nature of such information. Comcast shall be responsible for any breach of such confidentiality obligation on the part of any of its Affiliates or such officers, employees, directors and advisors. No breach of this Section 7.25 shall result in a failure of the condition set forth in Section 8.2(b).

(b) From the Amendment Date until the Closing, subject to applicable law, Time Warner Cable shall, and shall cause its Affiliates to, (i) afford Comcast Subsidiary, Comcast Trust and their respective authorized representatives reasonable access, during regular business hours, upon reasonable advance notice, to the Transferred Systems (including the Transferred Assets and employees), (ii) furnish, or cause to be furnished, to Comcast Subsidiary or Comcast Trust any financial and operating data and other information with respect to such Transferred Systems as Comcast Subsidiary or Comcast Trust from time to time reasonably requests, and (iii) instruct its employees, and its counsel and financial advisors to cooperate with Comcast Subsidiary and Comcast Trust in their reasonable investigation of the Transferred Systems; provided that, in each case, any such access shall be designed so as to not unreasonably disrupt the business and operations of Time Warner Cable or its Affiliates; provided further that in no event shall Comcast Subsidiary or Comcast Trust have access to (A) any information that would reasonably be expected to create Liability under applicable laws, including U.S. antitrust laws, or waive any material legal privilege (provided that, in such latter event, Time Warner Cable and Comcast Subsidiary or Comcast Trust, as the case may be, shall use commercially reasonable efforts to cooperate to permit disclosure of such information in a manner consistent with the preservation of such legal privilege), (B) documents containing competitively sensitive information, trade secrets or other sensitive information (to the extent necessary to protect the legitimate legal, business and/or confidentiality concerns of Time Warner Cable and its Affiliates, but taking into account Comcast Subsidiary's and Comcast Trust's need for such information in connection with the transactions contemplated hereby), (C) any information to the extent such disclosure would reasonably be expected to violate any obligation of Time Warner Cable or its Affiliates with respect to confidentiality so long as, with respect to confidentiality, to the extent specifically requested by Comcast Subsidiary or Comcast Trust, Time Warner Cable has made commercially reasonable efforts to obtain a waiver regarding the possible disclosure from the third party to whom an obligation of confidentiality is owed or (D) any programming records; it being understood that Comcast Subsidiary and Comcast Trust shall conduct any environmental sampling solely in the manner contemplated by Section

7.16. All requests made pursuant to this Section 7.25(b) shall be directed to an executive officer of Time Warner Cable or such Person or Persons as may be designated by Time Warner Cable. All information received pursuant to this

Section 7.25(b) shall, prior to the Closing, be governed by Section 7.4(a) and, to the extent applicable, the terms of the Confidentiality Agreement. No information or knowledge obtained in any investigation by Comcast Subsidiary, Comcast Trust or their respective Affiliates pursuant to this Section 7.25(b) shall affect or be deemed to modify any representation or warranty made by Time Warner Cable or its Affiliates hereunder or under any Transaction Document.

Section 7.26 Ordinary Course from Closing to Closing Time.(a) During the time between the Closing and the Closing Time, Comcast Subsidiary and its Affiliates shall operate or cause to be operated the Transferred Systems and Transferred Assets in the usual, regular and ordinary course and shall not take any action for the purpose of changing the calculation of the Closing Adjustment Amount.

CONDITIONS PRECEDENT

Section 8.1 Conditions to the Comcast Parties' Obligations. The obligations of the Comcast Parties to consummate the transactions contemplated by this Agreement shall be subject to the following conditions, which may be waived by Comcast Subsidiary (provided, that the condition set forth in Section 8.1(m) shall not be waived without the prior written consent of Comcast Trust):

(a) Accuracy of Representations and Warranties. The representations and warranties of Time Warner Cable or any Transferring Person in this Agreement and in any Transaction Document to which Time Warner Cable or any Transferring Person is a party, if qualified by a reference to materiality or Material Adverse Effect, are true and, if not so qualified, are true in all material respects at and as of Closing with the same effect as if made at and as of Closing except to the extent a different date is specified therein, in which case such representation and warranty if qualified by a reference to materiality or Material Adverse Effect shall be true and correct as of such date and, if not so qualified, shall be true and correct in all material respects as of such date.

(b) Performance of Agreements. Time Warner Cable, Holdco and each Transferring Person has performed in all material respects all obligations and agreements and has complied in all material respects with all covenants in this Agreement and in any Transaction Document to which it is a party to be performed and complied with by it at or before Closing.

(c) Officer's Certificate. Comcast Subsidiary has received a certificate executed by an executive officer of Time Warner Cable, dated as of Closing, reasonably satisfactory in form and substance to Comcast Subsidiary, certifying that the conditions specified in Sections 8.1(a) and 8.1(b) have been satisfied, as of Closing.

(d) Legal Proceedings. There is no Legal Requirement, and no Judgment has been entered and not vacated by any Governmental Authority of competent jurisdiction in any Litigation or arising therefrom, which (i) enjoins, restrains, makes illegal or prohibits consummation of the transactions contemplated by this Agreement or by any Transaction Document (other than any such matter having only an immaterial effect and that does not impose criminal liability or penalties) or (ii) requires separation or divestiture by Comcast Trust, Comcast Subsidiary, Holdco or any of their Affiliates of all or any significant portion of the Transferred Assets after Closing or otherwise materially and adversely affects the operation of the Transferred Systems (other than applicable to the cable industry in general), and there is no Litigation pending which was commenced by any Governmental Authority (other than a Franchising Authority) seeking, or which if successful would have the effect of, any of the foregoing, provided

that the failure to obtain a consent relating to a Transferred Systems Franchise shall not be considered to enjoin, restrain, make illegal or prohibit consummation of the transactions contemplated by this Agreement or by any Transaction Document.

(e) HSR Act Waiting Period. The waiting period under the HSR Act with respect to the transactions contemplated by this Agreement has expired or been terminated.

(f) Consents. Comcast Subsidiary has received evidence, in form and substance reasonably satisfactory to it, that all of the Time Warner Cable Required Consents (other than from the Transferred Systems Franchises which are addressed in Section 8.1(h)), have been obtained and are in effect.

(g) Intentionally Omitted.

(h) Franchise Required Consents. The aggregate number of Individual Subscribers served by the Transferred Systems in the Service Areas that are, as of the Closing Time, Transferable Service Areas shall be at least 90% of Individual Subscribers served by the Transferred Systems at such time (the "Required Threshold"); provided that if any portion of the Transferred Systems containing headends are not within such Transferable Service Areas as of the Closing Time, then any other portion of the Transferred Systems served by such headends shall be deemed not to be included in such Transferable Service Areas; provided, further that, if this condition is not satisfied or waived as of the date that all other conditions in Sections 8.1 and 8.2 (except for conditions to be satisfied at Closing that will be satisfied at Closing) have been satisfied or waived, this condition shall be deemed not to have been satisfied until the earlier of (i) the date upon which this condition would be satisfied if the percentage used for the Required Threshold was 100% rather than 90% and (ii) 30 days following the date on which all other conditions in Sections 8.1 and 8.2 (except for conditions to be satisfied at Closing that will be satisfied at Closing) have been satisfied or waived.

(i) GP Redemption and Holdco Transaction. The GP Redemption and the Holdco Transaction shall have been consummated.

(j) Opinion of FCC Counsel. Comcast Subsidiary and Comcast Trust shall have received an opinion of Bryan Cave LLP, special FCC counsel to Time Warner Cable, dated as of Closing, in form and substance reasonably acceptable to Time Warner Cable and Comcast Subsidiary (the "Time Warner Cable FCC Counsel Opinion").

(k) Documents and Records. Time Warner Cable shall have delivered to Holdco all Books and Records. Delivery of the foregoing shall be deemed made to the extent such lists, files and records are then located at any of the offices included in the Owned Property or Leased Property.

(l) Redemption Agreement. The TWC Redemption Agreement shall have been terminated without the closing thereunder occurring.

(m) FCC Approval. Either the transfer of the Holdco Shares to Comcast Subsidiary in the TWC Redemption or the Comcast Subsidiary Transfer shall be permitted under applicable FCC Trust Requirements.

(n) GP Redemption and Amendment Agreement. Each of the parties to the GP Redemption and Amendment Agreement (other than Comcast Trust I) shall have executed and delivered the GP Redemption and Amendment Agreement.

(o) Time Warner Cable Title Policies. Time Warner Cable shall have delivered to Comcast Subsidiary ALTA extended coverage owners' policies of title insurance, or the local equivalent, dated as of the Closing Date and issued by the Title Company (the "Time Warner Cable Title Policies"), insuring, subject only to Permitted Liens, Holdco's fee or leasehold title in each parcel of the Owned Property and Leased Property with respect to which a Title Commitment was required pursuant to Section 7.6 deleting or modifying to the reasonable satisfaction of Comcast Subsidiary the Schedule B standard printed exceptions (other than Permitted Liens, and other than the survey exception or any similar exception with respect to properties for which no survey is obtained, and other than any other exception the deletion of which would require Time Warner Cable to give any affidavit or undertaking which would make representations or impose obligations more onerous than those made or set forth elsewhere in this Agreement), including gap coverage, and deleting or insuring over, subject to Section 7.6, any Title Defects, or irrevocable Title Commitments of the Title Company to issue such Time Warner Cable Title Policies; provided, that Time Warner Cable's inability or failure to provide the Title Policies (or Title Commitments to issue the same) shall not constitute a violation of the condition set forth in this Section 8.1(o) if the Liens, or other matters relating to title, giving rise to such inability would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

(p) Tax Matters Agreement. Subject to any amendments pursuant to Section 7.11, Time Warner, Time Warner Cable and Holdco shall have executed and delivered the Tax Matters Agreement substantially in the form attached as Exhibit B.

(q) Schedule Update. Time Warner Cable shall not have exercised its right to update any Schedule to this Agreement pursuant to clause (ii) of the first sentence of Section 7.11.

Section 8.2 Conditions to Time Warner Cable's Obligations. The obligations of Time Warner Cable to consummate the transactions contemplated by this Agreement shall be subject to the following conditions, which may be waived by Time Warner Cable:

(a) Accuracy of Representations and Warranties. The representations and warranties of Comcast Trust and Comcast Subsidiary in this Agreement and in any Transaction Document to which Comcast Trust or Comcast Subsidiary is a party, if qualified by a reference to materiality, are true and, if not so

qualified, are true in all material respects at and as of Closing with the same effect as if made at and as of Closing, except to the extent a different date is specified therein, in which case such representation and warranty if qualified by a reference to materiality shall be true and correct as of such date and, if not so qualified, shall be true and correct in all material respects as of such date.

(b) Performance of Agreements. Each of Comcast Trust and Comcast Subsidiary has performed in all material respects all obligations and agreements and has complied in all material respects with all covenants in this Agreement and in any Transaction Document to which it is a party to be performed and complied with by it at or before Closing.

(c) Officer's Certificate. (i) Time Warner Cable has received a certificate executed by the operating trustee of Comcast Trust, dated as of Closing, reasonably satisfactory in form and substance to Time Warner Cable, certifying that the conditions specified in Sections 8.2(a) and 8.2(b), in each case solely with respect to Comcast Trust, have been satisfied, as of Closing.

(ii) Time Warner Cable has received a certificate executed by an executive officer of Comcast Subsidiary, dated as of Closing, reasonably satisfactory in form and substance to Time Warner Cable, certifying that the conditions specified in Sections 8.2(a) and 8.2(b), in each case solely with respect to Comcast Subsidiary, have been satisfied, as of Closing.

(d) Legal Proceedings. There is no Legal Requirement, and no Judgment has been entered and not vacated by any Governmental Authority of competent jurisdiction in any Litigation or arising therefrom, which enjoins, restrains, makes illegal or prohibits consummation of the transactions contemplated by this Agreement or by any Transaction Document (other than any such matter having only an immaterial effect and that does not impose criminal liability or penalties), and there is no Litigation pending which was commenced by any Governmental Authority (other than a Franchising Authority) seeking, or which if successful would have the effect of, any of the foregoing, provided that the failure to obtain a consent relating to a Transferred Systems Franchise shall not be considered to enjoin, restrain, make illegal or prohibit consummation of the transactions contemplated by this Agreement or by any Transaction Document.

(e) HSR Act Waiting Period. The waiting period under the HSR Act with respect to the transactions contemplated by this Agreement has expired or been terminated.

(f) Redemption Agreement. The TWC Redemption Agreement shall have been terminated without the closing thereunder occurring.

(g) Tax Matters Agreement. Subject to any amendments pursuant to Section 7.11, Comcast Parent and Comcast shall have executed and delivered the Tax Matters Agreement substantially in the form attached as Exhibit B.

(h) GP Redemption and Amendment Agreement. Comcast Trust I shall have executed and delivered the GP Redemption and Amendment Agreement.

(i) Option Exercise. Comcast Subsidiary shall have validly exercised the Option prior to 5:00 p.m. (NYT) on the Option Expiration Date.

ARTICLE 9

CLOSING

Section 9.1 Closing; Time and Place. Subject to the final sentence of this Section 9.1, the closing of the transactions contemplated by Section 2.1(b) of this Agreement ("Closing") shall take place at a time and location mutually determined by Comcast Subsidiary and Time Warner Cable on the last Business Day of the calendar month in which all conditions set forth in Sections 8.1 and 8.2 have either been satisfied or waived in writing by the party entitled to the benefit of each such condition (except for conditions to be satisfied at Closing that will be satisfied at Closing), unless such conditions have not been so satisfied or waived (except for conditions to be satisfied at Closing that will be satisfied at Closing) by the fifth Business Day preceding the last Business Day of such calendar month, in which case the Closing shall take place on the last Business Day of the next calendar month (or such later date as agreed by the parties). In no event shall the Closing occur prior to the later of (x) July 1, 2005 or (y) the 30th day following the Option Exercise Date.

Section 9.2 Time Warner Cable's Obligations. At Closing, Time Warner Cable shall deliver or cause to be delivered to Holdco or Comcast Trust (or, in the case of item (a), to Comcast Subsidiary, if applicable), as applicable, the following:

(a) Holdco Shares. The Holdco Shares to Comcast Trust or Comcast Subsidiary, as the case may be, which shall be in definitive form, in proper form for transfer and, if requested by Comcast Trust (or Comcast Subsidiary, if applicable), Time Warner Cable shall execute, acknowledge and deliver a stock power or such other customary instruments of transfer as Comcast Trust (or Comcast Subsidiary, if applicable) may reasonably request.

(b) Bill of Sale and Assignment and the Instrument of Assumption. The executed Bill(s) of Sale and Assignment and Instrument of Assumption with respect to the Holdco Transaction in form and substance reasonably acceptable to Time Warner Cable and Comcast Subsidiary and the executed Bill of Sale and Assignment and Instrument of Assumption with respect to the GP Redemption in substantially the form attached to the GP Redemption and Amendment Agreement, and such other instruments of transfer or assignment as may be reasonably necessary to effect the transactions contemplated hereby (excluding those delivered pursuant to Section 9.2(f)).

(c) Lien Releases. Evidence reasonably satisfactory to Comcast Subsidiary that all Liens (other than Permitted Liens) affecting or encumbering

the Transferred Assets have been terminated, released or waived or insured over as contemplated under (and only to the extent required under) Section 7.6 (in the case of the Real Property Interests), as appropriate, or original, executed instruments in form and substance reasonably satisfactory to Comcast Subsidiary effecting such terminations, releases or waivers; provided, that Time Warner Cable's inability or failure to obtain the termination, release, or waiver of any such Liens or to insure over any such Liens shall not constitute a failure to perform the obligations set forth in this Section 9.2(c) if the existence of the Liens would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

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

(e) Power of Attorney for Accounts Receivable. The limited, irrevocable right, in Time Warner Cable's and its Controlled Affiliates' name, place and stead, as Time Warner Cable's and its Controlled Affiliates' attorney-in-fact, to cash, deposit, endorse or negotiate checks received on or after the Closing Date made out to Time Warner Cable and its Controlled Affiliates' in payment for cable services provided by the Transferred Systems and written instructions to Time Warner Cable's and its Controlled Affiliates' lock-box service provider or similar agents to promptly forward to Holdco all such cash, deposits and checks representing accounts receivable of the Transferred Systems that it or they may receive. From and after the Closing, Time Warner Cable and its Controlled Affiliates shall not deposit but shall promptly remit to Holdco any payment received by Time Warner Cable or any of its Controlled Affiliates on or after the Closing Date in respect of any such account receivable.

(f) Deeds and Other Real Estate Transfer Documents. Special warranty deeds conveying to Holdco, subject only to the exceptions reflected on the Time Warner Cable Title Policies (if such Time Warner Cable Title Policies have been obtained, or, if such Time Warner Cable Title Policies have not been obtained, subject only to such exceptions as are consistent with the representation set forth in Section 6.4 hereof), each parcel of the Owned Property, assignments of leases of Real Property and such other documents as may be necessary to convey other Real Property Interests, in each case, in form and substance reasonably satisfactory to Comcast Subsidiary, provided that in no event shall the warranties in such deed create any greater liability or liability to any other Person on the part of the grantor in excess of that provided for under the other provisions of this Agreement.

(g) Time Warner Cable Title Policies. Time Warner Cable Title Policies with such deletions or modifications as are required pursuant to Section 8.1(o).

(h) GP Redemption and Amendment Agreement. The executed GP Redemption and Amendment Agreement by all parties thereto (other than Comcast Trust I).

(i) Tax Matters Agreement. The executed Tax Matters Agreement by all parties thereto (other than Comcast Parent and Comcast).

(j) Officer's Certificate. The executed certificate required by Section 8.1(c).

(k) Other. Such other documents and instruments as may be reasonably necessary to effect the intent of this Agreement and consummate the transactions contemplated hereby.

Section 9.3 Comcast Trust's Obligations. At Closing, Comcast and/or Comcast Trust, as applicable, shall deliver or cause to be delivered to Time Warner Cable the following:

(a) Redemption Securities Stock Certificates. Comcast Trust shall deliver to Time Warner Cable a stock certificate evidencing the Redemption Securities which shall be in definitive form and registered in the name of Comcast Trust, in proper form for transfer and, if requested by Time Warner Cable, execute, acknowledge and deliver a stock power or such other customary instruments of transfer as Time Warner Cable may reasonably request; provided, that upon receipt of the Comcast Trust stock certificate, Time Warner Cable shall reissue Comcast Trust a new stock certificate evidencing the remaining shares of Class A Common Stock owned by Comcast Trust after giving effect to the TWC Redemption.

(b) GP Redemption and Amendment Agreement. The executed GP Redemption and Amendment Agreement by Comcast Trust I.

(c) Tax Matters Agreement. The executed Tax Matters Agreement by all parties thereto (other than Time Warner, Time Warner Cable and Holdco).

(d) Officer's Certificate. The executed certificate required by Section 8.2(c).

(e) Other. Such other documents and instruments as may be reasonably necessary to effect the intent of this Agreement and consummate the transactions contemplated hereby.

ARTICLE 10

TERMINATION AND DEFAULT

Section 10.1 Termination Events. This Agreement may be terminated prior to Closing and the transactions contemplated hereby may be abandoned:

(a) by either Comcast Subsidiary or Time Warner Cable, at any time after the earlier (i) of nine months after the termination of the TWC Redemption Agreement without the Closing (as defined thereunder) occurring and (ii) May 31, 2007 (the earlier of (i) and (ii), the "Outside Closing Date");

(b) at any time, by the mutual agreement of Comcast Subsidiary and Time Warner Cable;

(c) by either Comcast Subsidiary or Time Warner Cable, at any time upon written notice to the other, if the other is in material breach or default of its respective covenants, agreements, representations, or other obligations herein or in any Transaction Document to which such Person or its Affiliates is a party and such breach or default (i) has not been cured within 30 days after receipt of written notice or such longer period as may be reasonably required to cure such breach or default (provided, that the breaching or defaulting party shall be using commercially reasonable efforts to cure such breach or default) or (ii) would not reasonably be expected to be cured prior to the Outside Closing Date; provided, that if any covenant, agreement, representation or other obligation in this Agreement is qualified by a reference to materiality or Material Adverse Effect, such qualifier shall be taken into account without duplication;

(d) automatically without action by any party hereto if the Option shall terminate pursuant to Section 2.1(a)(iii);

(e) by Comcast Subsidiary as provided in Section 12.16;

(f) by Comcast Subsidiary, at any time after April 1, 2005, if by notice to the other parties Comcast Subsidiary irrevocably elects not to exercise the Option; or

(g) automatically without action by any party hereto upon (i) the Closing (as defined in the TWC Redemption Agreement) occurring, (ii) the termination of the TWE Redemption Agreement without the Closing (as defined in the TWE Redemption Agreement) occurring or (iii) the Closing (as defined in the Tolling Agreement) occurring.

Section 10.2 Effects of Termination. If this Agreement is terminated pursuant to Sections 10.1 or 12.16, this Agreement shall become void and of no effect without liability of any party hereto (or any Affiliate, shareholder, director, officer, trustee, employee, agent, consultant or representative of such party) to the other parties hereto, except that (a) the agreements contained in Sections 1.1, 1.2, 2.3 and 7.4, this Section 10.2 and Article 12 (other than Section 12.16) shall survive the termination hereof and (b) no such termination shall relieve any party hereto of any liability or damages resulting from any willful breach by such party of this Agreement.

ARTICLE 11

INDEMNIFICATION

Section 11.1 Indemnification by Time Warner Cable. Subject to Section 11.4, from and after the Closing, Time Warner Cable shall indemnify and hold harmless Holdco from and against any and all Losses suffered by Holdco (which shall be deemed to include any Losses suffered by Holdco or its Affiliates, or by its or their respective officers, directors, trustees, employees, agents or representatives, or 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:

- (a) any representations and warranties made by Time Warner Cable or any Transferring Person in this Agreement or in any Transaction Document (other than the Tax Matters Agreement) to which it is a party not being true and accurate in all respects, when made or at Closing (or, in the case of any representation or warranty made as of a specific date, as of such date) or any failure by Time Warner Cable to perform in all material respects pursuant to Sections 7.1(j), 7.11 and 7.20;
- (b) any failure by Time Warner Cable, or any Transferring Person or, prior to completion of the Closing, Holdco, to perform in all respects any of its covenants, agreements, or obligations in this Agreement (other than pursuant to Sections 7.1(j), 7.11 and 7.20) or in any Transaction Document (other than the Tax Matters Agreement) to which it is a party;
- (c) the Excluded Liabilities;
- (d) the Excluded Assets; or
- (e) the Holdco Indemnified Liabilities.

If, by reason of the claim of any third party relating to any of the matters subject to such indemnification, a Lien is placed or made upon any of the properties or assets owned or leased by Holdco or any other Indemnitee under this Section, in addition to any indemnity obligation of Time Warner Cable under this Section, Time Warner Cable shall furnish a bond sufficient to obtain the prompt release thereof within 10 days after receipt from Holdco of notice thereof.

Section 11.2 Indemnification by Holdco. Subject to Section 11.4, from and after the Closing, Holdco shall indemnify and hold harmless Time Warner Cable from and against any and all Losses suffered by Time Warner Cable (which shall be deemed to include any Losses suffered by Time Warner Cable or its Affiliates, or by its or their respective officers, directors, employees, agents or representatives, or 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:

- (a) any representations and warranties made by Comcast Trust or Comcast Subsidiary in this Agreement or in any Transaction Document (other than the Tax Matters Agreement) to which such Person is a party not being true and accurate in all respects, when made or at Closing (or, in the case of any representation or warranty made as of a specific date, as of such date);
- (b) any failure by Comcast Trust, Comcast Subsidiary or, after Closing, Holdco, to perform in all respects any of its covenants, agreements, or obligations in this Agreement or in any Transaction Document (other than the Tax Matters Agreement) to which such Person is a Party;

(c) the Assumed Liabilities and the Holdco Transaction Liabilities;

(d) other than with respect to the Excluded Liabilities, the ownership and operation of the Transferred Systems or the Transferred Assets after the Closing;

(e) other than with respect to the Excluded Liabilities, any Transferred Asset or any claim or right or any benefit arising thereunder held by Time Warner Cable for the benefit of Holdco pursuant to Section 2.1(e).

If, by reason of the claim of any third party relating to any of the matters subject to such indemnification, a Lien is placed or made upon any of the properties or assets owned or leased by Time Warner Cable or any other Indemnatee under this Section, in addition to any indemnity obligation of Holdco under this Section, Holdco shall furnish a bond sufficient to obtain the prompt release thereof within 10 days after receipt from Time Warner Cable of notice thereof.

Section 11.3 Procedure for Certain Indemnified Claims. Promptly after receipt by a party entitled to indemnification hereunder (the "Indemnatee") of written notice of the assertion or the commencement of any Litigation with respect to any matter referred to in Sections 11.1 or 11.2 or the assertion by any Governmental Authority of a claim of noncompliance under any Franchise relating, in whole or in part, to any pre Closing period (a "Franchise Matter"), the Indemnatee 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; provided, that failure of the Indemnatee to give the Indemnitor notice and keep it reasonably informed 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. The Indemnitor shall be entitled to assume the defense of any such Litigation or Franchise Matter with counsel reasonably satisfactory to the Indemnatee, at the Indemnitor's sole expense; provided that the Indemnitor shall not be entitled to assume or continue control of the defense of any Litigation or Franchise Matter if (i) the Litigation or Franchise Matter relates to or arises in connection with any criminal proceeding, action, indictment, allegation or investigation; (ii) the Litigation or Franchise Matter seeks an injunction or equitable relief against the Indemnatee; or (iii) the Indemnitor has failed to defend or is failing to defend in good faith the Litigation or Franchise Matter. If the Indemnitor assumes the defense of any Litigation or Franchise Matter, (i) it shall not settle the Litigation or Franchise Matter unless the settlement shall include as an unconditional term thereof the giving by the claimant or the plaintiff of a release of the Indemnatee, reasonably satisfactory to the Indemnatee, from all liability with respect to such Litigation or Franchise Matter and (ii) it shall indemnify and hold the Indemnatee harmless from and against any and all Losses caused by or arising out of any settlement or judgment of such claim and may not claim that it does not have an indemnification obligation with respect thereto. If the Indemnitor does not assume the defense of any Litigation or Franchise Matter, the Indemnatee may defend against or settle such claim in such manner and on such terms as it in good faith deems appropriate

and shall be entitled to indemnification in respect thereof in accordance with Section 11.1 or 11.2, as applicable. If the Indemnitor is not entitled to assume the defense or continue to control the defense of any Litigation or Franchise Matter as a result of the proviso in the second sentence of this Section 11.3, the Indemnatee shall not settle the Litigation or Franchise Matter in question if the Indemnitor shall have any obligation as a result of such settlement (whether monetary or otherwise) unless such settlement is consented to in writing by the Indemnitor, such consent not to be unreasonably withheld or delayed. In no event shall the Indemnatee settle any Litigation or Franchise Matter for which the defense thereof is controlled by the Indemnitor absent the consent of the Indemnitor (such consent not to be unreasonably withheld or delayed). Each party shall cooperate, and cause their respective Affiliates to cooperate, in the defense or prosecution of any Litigation or Franchise Matter and shall furnish or cause to be furnished such records, information and testimony, and attend such conferences, discovery proceedings, hearings, trials or appeals, as may be reasonably requested in connection therewith.

Section 11.4 Determination of Indemnification Amounts and Related Matters.

(a) Time Warner Cable shall have no liability under Section 11.1(a) unless the aggregate amount of Losses otherwise subject to its indemnification obligations thereunder exceeds \$5 million (the "Threshold Damage Requirement"), in which case Time Warner Cable shall be liable for the full amount of such Losses including the Losses incurred in reaching the Threshold Damage Requirement; provided, that for purposes of this subsection, the Threshold Damage Requirement shall not apply to any Losses resulting from or arising out of (i) the failure by Time Warner Cable to pay any copyright payments, including interest and penalties thereon, when due or any other breach of Time Warner Cable's representations, warranties, covenants or agreements with respect to copyright payments contained in this Agreement, and (ii) breaches of the representations and warranties in Sections 6.1, 6.2, 6.3, 6.4(a), 6.13, 6.15 and 6.18. The maximum liability of Time Warner Cable under Section 11.1(a) shall not exceed \$50 million (the "Cap"); provided, that the Cap shall not apply to breaches of the representations and warranties in Sections 6.1, 6.2, 6.3, 6.4(a)(i), 6.13, 6.15 and 6.18.

(b) Holdco shall have no liability under Section 11.2(a) unless the aggregate amount of Losses otherwise subject to its indemnification obligations thereunder exceeds the Threshold Damage Requirement, in which case Holdco shall be liable for the full amount of such Losses including the Losses incurred in reaching the Threshold Damage Requirement; provided, that for purposes of this subsection, the Threshold Damage Requirement shall not apply to any Losses resulting from or arising out of breaches of the representations and warranties in Sections 4.1, 4.2, 4.3, 4.5, 4.6, 5.1, 5.2, 5.3, or 5.5. The maximum liability of Holdco in the aggregate under Section 11.2(a) shall not exceed the Cap; provided, that the Cap shall not apply to breaches of the representations and warranties in Sections 4.1, 4.2, 4.3, 4.5, 4.6, 5.1, 5.2, 5.3, or 5.5.

(c) Amounts payable by the Indemnitor to the Indemnatee in respect of any Losses under Sections 11.1 or 11.2 shall be payable by the Indemnitor as incurred by the Indemnatee, and shall bear interest at the Base Interest Rate plus 2% 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.

(d) If the facts and circumstances giving rise to the Loss for which indemnification is sought under Section 11.1(a) also resulted in a Loss to the Time Warner Cable Retained Cable Systems, the Loss for which indemnification is sought under Section 11.1(a) shall only be available (subject to the further limitations in Section 11.4(a)) to the extent such Loss is greater than the proportionate Loss suffered by the Time Warner Cable Retained Cable Systems and the Transferred Systems, where proportionality is based on the percentage that the Redemption Securities represent to the total number of outstanding shares of common stock of Time Warner Cable, in each case immediately prior to giving effect to the Closing; provided that the foregoing shall not apply to the extent the Loss for which indemnification is sought under Section 11.1(a) results from or arises out of a breach of any of the representations and warranties set forth in Sections 6.1, 6.2, 6.3, 6.4(a), 6.5(a), 6.6 (the penultimate sentence only),

6.10 (the first sentence only), 6.12(c), 6.13, 6.15 and 6.18. By way of example only, if the Redemption Securities represent 20% of the total number of outstanding shares of common stock of Time Warner Cable (immediately prior to giving effect to the Closing) and the Losses suffered by the Transferred Systems arising out of certain facts was \$X and the Losses suffered by the Time Warner Cable Retained Cable Systems arising out of those same facts was \$Y, then indemnification would be available under Section 11.1(a) but only in an amount equal to the excess (if any) of (i) \$X over (ii) the sum of \$X and \$Y multiplied by 0.2 (and subject to the further limitations contained in Section 11.4(a)).

(e) The Indemnitor shall not be obligated to indemnify the Indemnitee with respect to any Losses to the extent of any proceeds received in connection with any such Losses by the Indemnitee under any insurance policy of the Indemnitee in effect on the Closing Date (including under any rights under any insurance policies or proceeds that are part of the Transferred Assets). The Indemnitee will use commercially reasonable efforts to claim and recover under such insurance policies.

(f) In determining the amount of any Losses in connection with any inaccuracy of a representation and warranty (but not for purposes of determining whether any such inaccuracy has occurred), any materiality or Material Adverse Effect qualifier in such representation or warranty will be disregarded.

(g) Comcast Subsidiary shall have the right to enforce (on behalf and for the benefit of Holdco and any other Indemnitee pursuant to Section 11.1) the right to indemnification under Section 11.1. Notwithstanding anything to the contrary set forth in this Agreement, to the extent that any Indemnitee pursuant to Section 11.1 is or becomes a shareholder of Time Warner Cable or Time Warner or a limited partner of TWE, indemnification hereunder shall not include Losses suffered by such Indemnitee (or its Affiliates) in its shareholder or limited partner capacity by reason of (i) the indemnities being provided by Time Warner Cable hereunder or (ii) Losses suffered in such capacity in respect of any Excluded Assets, Excluded Liabilities or Holdco Indemnified Liabilities.

Section 11.5 Time and Manner of Certain Claims. The representations and warranties of Comcast Trust, Comcast Subsidiary, Time Warner Cable or any Transferring Person in this Agreement and any Transaction Document to which such Person is a party shall survive Closing for a period of 1 year; provided, that the representations in Section 6.24 shall not survive Closing. Notwithstanding the foregoing: (a) the liability of the parties shall extend beyond the 1-year period following Closing with respect to any claim which has been asserted in a bona fide written notice before the expiration of such 1-year period specifying in reasonable detail the facts and circumstances giving rise to such right; and (b) (i) the representations and warranties of the parties in Sections 4.1, 4.2, 4.3, 4.5, 4.6, 5.1, 5.2, 5.3, 5.5, 6.1, 6.2, 6.3, 6.4(a)(i), 6.13, 6.15 and 6.18 shall survive Closing and shall continue in full force and effect without limitation and (ii) the representations and warranties of Time Warner Cable in Sections 6.22 and 6.23 shall survive until the expiration of the applicable statute of limitations (giving effect to any waiver, mitigation or extension thereof).

Section 11.6 Other Indemnification. The provisions of Sections 11.3, 11.4 and 11.5 shall be applicable to any claim for indemnification made under any other provision of this Agreement, and all references in Sections 11.3, 11.4 and 11.5 to Sections 11.1 and 11.2 shall be deemed to be references to such other provisions of this Agreement.

Section 11.7 Exclusivity. Except as specifically set forth in this Agreement or any Transaction Document and except for claims against a party for breach of any provision of this Agreement or any Transaction Document, each party waives any rights and claims it may have against the other parties to this Agreement, whether in law or in equity, relating to the transactions contemplated hereby. The rights and claims waived by each party include claims for contribution or other rights of recovery arising out of or relating to claims for breach of contract, breach of representation or warranty, negligent misrepresentation and all other claims for breach of duty. After Closing, Article 11 and the Transaction Documents shall provide the exclusive remedy for any misrepresentation or breach of warranty under this Agreement or any Transaction Document, other than any claims sounding in fraud.

Section 11.8 Release.

(a) Except as provided in Section 11.8(b), effective as of the Closing, each of Comcast, Comcast Subsidiary and Comcast Trust does hereby, for itself and each of its wholly owned Subsidiaries and their respective successors and assigns, and all Persons who at any time prior to the Closing have been shareholders, directors, officers, members, agents, trustees or employees of Comcast, Comcast Subsidiary or Comcast Trust or any of their respective Affiliates, predecessors, successors or assigns (in each case, in their respective capacities as such and to the extent it may legally do so) (collectively, the "Comcast Trust Releasing Parties"), remise, release and forever discharge Time Warner Cable and each of its Subsidiaries and Affiliates, their respective predecessors, successors and assigns, and all Persons who at any time prior to the Closing have been shareholders, directors, officers, members, agents, trustees or employees of Time Warner Cable or any of its respective Subsidiaries, Affiliates, predecessors,

successors or assigns (in each case, in their respective capacities as such and to the extent it may legally do so), and their respective heirs, executors, administrators, predecessors, successors and assigns (collectively, the "Time Warner Cable Released Parties"), from any and all Liabilities whatsoever (other than Liabilities based on claims sounding in fraud), whether at law or in equity (including any right of contribution), whether arising under any Contract, by operation of Law or otherwise, existing or arising from any acts or events occurring or failing to occur or alleged to have occurred or to have failed to occur or any conditions existing or alleged to have existed on or before the Closing, whether or not known as of the Closing, related to, arising out of or resulting from Comcast Trust's ownership of the Redemption Securities. Comcast, Comcast Subsidiary and Comcast Trust agree, on behalf of their self and each of the other Comcast Trust Releasing Parties, that they will not assert any claims against any Time Warner Cable Released Party with respect to matters covered by the foregoing release.

(b) Nothing contained in Section 11.8(a) shall impair any right of any Person to enforce this Agreement or any other Transaction Document, in each case in accordance with its terms.

Section 11.9 Indemnification for Income Taxes. Notwithstanding any other provision of this Agreement, the provisions of Sections 11.1 through 11.8 shall not apply to any Liability for Income Taxes, which shall be governed exclusively by the Tax Matters Agreement. For the avoidance of doubt, rights under this Agreement shall provide the exclusive remedies for any breach of the representations and warranties provided in Section 6.24 hereof.

Section 11.10 Tax Treatment of Indemnification Payments.

(a) For all Tax purposes (unless required by a change in applicable Tax law or a good faith resolution of a contest) the parties hereto agree to treat and to cause their respective affiliates to treat any payment (i) to Holdco by Time Warner Cable pursuant to an indemnification, reimbursement or refund obligation provided for in this Agreement (a "Time Warner Cable Indemnification Payment"), or (ii) to Time Warner Cable by Holdco pursuant to an indemnification, reimbursement or refund obligation provided for in this Agreement (a "Holdco Indemnification Payment" and collectively with any Time Warner Cable Indemnification Payment, an "Indemnification Payment") as (x) with respect to a Time Warner Cable Indemnification Payment, a contribution by Time Warner Cable to Holdco occurring immediately prior to the Closing, and (y) with respect to a Holdco Indemnification Payment, an adjustment to the Cash Amount transferred by Time Warner Cable to Holdco pursuant to the Holdco Transaction occurring immediately prior to the Closing.

(b) Notwithstanding Section 11.10(a) above, any Indemnification Payments that represent interest payable under Section 11.4(c) hereof shall be treated for all Tax purposes (unless required by a change in applicable Tax law or a good faith resolution of a contest), as (i) deductible to the Indemnitor and (ii) taxable to the Indemnitee.

(c) The amount of any Loss for which indemnification is provided under this Agreement shall be (i) increased to take account of net Tax cost, if any, incurred by the Indemnatee arising from the receipt or accrual of an Indemnification Payment hereunder, (grossed up for such increase) and (ii) reduced to take account of the net Tax benefit, if any, realized by the Indemnatee arising from incurring or paying such indemnified amount. In computing the amount of any such Tax cost or benefit, (i) the term Indemnatee shall be deemed to include any member of any Affiliated Group of which the Indemnatee is a member, and (ii) the Indemnatee shall be deemed to recognize all other items of income, gain, loss, deduction or credit before recognizing any item arising from the receipt or accrual of any Indemnification Payment hereunder or incurring or paying any indemnified amount hereunder. Any Indemnification Payment hereunder shall initially be made without regard to this Section 11.10(c) and shall be increased or reduced to reflect any such net Tax cost (including gross-up) or net Tax benefit only after the Indemnatee has Actually Realized such cost or benefit. The amount of any increase or reduction hereunder shall be adjusted to reflect any adjustment with respect to the Indemnatee's liability for Taxes, and payments between the parties hereto to reflect such adjustment shall be made. Notwithstanding the above, this Section 11.10(c) shall not apply to interest as described in Section 11.10(b).

Section 11.11 Guaranteed Obligations of Comcast.

(a) From and after the Closing, Comcast hereby agrees to fully and unconditionally guarantee to Time Warner Cable the due and punctual performance, compliance and payment of Holdco, Comcast Trust and Comcast Subsidiary (each, a "Guaranteed Party" and collectively, the "Guaranteed Parties") of each and every covenant, term, condition or other obligation to be performed or complied with by any such party for the benefit of Time Warner Cable (or any Affiliate thereof or any Indemnatee pursuant to Section 11.2) under this Agreement and any Transaction Document to which any Guaranteed Party is a party delivered in connection herewith when, and to the extent that, any of the same shall become due and payable or performance of or compliance with any of the same shall be required (collectively, the "Guaranteed Obligations").

(b) Comcast hereby acknowledges and agrees that this guarantee constitutes an absolute, present, primary, continuing and unconditional guaranty of performance, compliance and payment by each of the Guaranteed Parties of the Guaranteed Obligations when due under this Agreement and any Transaction Document to which any Guaranteed Party is a party delivered in connection herewith and not of collection only and is in no way conditioned or contingent upon any attempt to enforce such performance, compliance or payment by a Guaranteed Party or upon any other condition or contingency. Comcast hereby waives any right to require a proceeding first against any of the Guaranteed Parties.

(c) The obligations of Comcast under this guarantee shall not be subject to any reduction, limitation, impairment or termination for any reason (other than by indefeasible payment or performance in full of any of the Guaranteed Obligations) and shall not be subject to (i) any discharge of any of the Guaranteed Parties

from any of the Guaranteed Obligations in a bankruptcy or similar proceeding (except by indefeasible payment or performance in full of the Guaranteed Obligations) or (ii) any other circumstance whatsoever which constitutes, or might be construed to constitute an equitable or legal discharge of Comcast as guarantor under this Section 11.11.

(d) Comcast shall cause any transferee of or successor to all or substantially all of the assets of Comcast to assume Comcast's obligations under this Section 11.11.

ARTICLE 12

MISCELLANEOUS PROVISIONS

Section 12.1 Expenses. Except as otherwise specifically provided in Sections 3.4, 7.3 or 12.2 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.

Section 12.2 Attorneys' Fees. If any Litigation between the parties hereto with respect to this Agreement, the Transaction Documents or the transactions contemplated hereby or thereby shall be resolved or adjudicated by a Judgment of any court, the party prevailing under such Judgment (as determined by the trier of fact based on all relevant facts, including, but not limited to, amounts demanded or sought in such litigation, amounts, if any, offered in settlement of such litigation and amounts, if any, awarded in such litigation) shall be entitled, as part of such Judgment, to recover from the other party its reasonable attorneys' fees and costs and expenses of litigation.

Section 12.3 Waivers. 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. 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. 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.

Section 12.4 Notices. All notices, requests, demands, applications, services of process and other communications which 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, upon answer back requested, or delivered by courier or mailed, certified first class mail, postage prepaid, return receipt requested, to the parties at the following addresses:

To Comcast or Holdco (after the Closing):

Comcast Cable Communications Holdings, Inc.
1500 Market Street
Philadelphia, PA 19102-2184
ATTN: General Counsel
Fax: (215) 981-7794

With a Required Copy to:

Davis Polk & Wardwell
450 Lexington Avenue
New York, NY 10017
ATTN: Dennis S. Hersch
William L. Taylor
Fax: (212) 450--4800

To Comcast Subsidiary:

MOC Holdco II, Inc.
1201 N. Market Street
Suite 1405
Wilmington, DE 19801
ATTN: President
Fax: (302) 658-1600

With a Required Copy to:

Davis Polk & Wardwell
450 Lexington Avenue
New York, NY 10017
ATTN: Dennis S. Hersch
William L. Taylor
Fax: (212) 450--4800

To Comcast Trust:

TWE Holdings II Trust
c/o Edith E. Holiday
801 West Street
2nd Floor
Wilmington, DE 19801
Fax: (302) 428--1410

With a Required Copy to:

Hogan & Hartson
111 South Calvert Street
Baltimore, MD 21202

ATTN: Michael J. Silver
Fax: (410) 539-6981

To Time Warner Cable or Holdco (prior to the Closing):

c/o Time Warner Cable Inc.
290 Harbor Drive
Stamford, CT 06902--6732
ATTN: Chief Executive Officer
Fax: (203) 328-3295

With Required Copies to:

Legal Department
Time Warner Cable Inc.
290 Harbor Drive
Stamford, CT 06902-6732
ATTN: General Counsel
Fax: (203) 328-4094

Paul, Weiss, Rifkind, Wharton & Garrison LLP
1285 Avenue of the Americas
New York, NY 10019
ATTN: Kelley D. Parker
Robert B. Schumer
Fax: (212) 757-3990

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,

(i) if delivered in person or by courier, upon actual receipt by the intended recipient, (ii) if sent by telecopy or facsimile transmission, upon confirmation of transmission received, or (iii) if mailed, upon the date of delivery as shown by the return receipt therefor.

Section 12.5 Entire Agreement; Prior Representations; Amendments. This Agreement, the Confidentiality Agreements (subject to the last sentence of this

Section 12.5) and the Transaction Documents executed concurrent herewith embody 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. Notwithstanding any representations which may have been made by either party in connection with the transactions contemplated by this Agreement, each party acknowledges that it has not relied on any representation by the other party with respect to such transactions, the Transferred Assets, or the Transferred Systems except those contained in this Agreement, the Schedules or the Exhibits hereto. This Agreement may not be modified orally, but only by an agreement in writing signed by the party or parties against whom any waiver, change, amendment, modification or discharge may be sought to be enforced. The Confidentiality Agreements, as each relates to any obligation to keep confidential

information regarding the Transferred Assets, the Transferred Systems and/or the Assumed Liabilities are hereby terminated. The Alternate Transaction Letter shall terminate on May 31, 2005.

Section 12.6 Specific Performance. The parties recognize that their rights under this Agreement are unique and, accordingly, the parties shall, in addition to such other remedies as may be available to any of them at law or in equity, have the right to enforce their rights hereunder by actions for injunctive relief and specific performance to the extent permitted by applicable law so long as the party seeking such relief is prepared to consummate the transactions contemplated hereby. The parties agree that monetary damages would not be adequate compensation for any loss incurred by reason of a breach of the provisions of this Agreement and hereby agree to waive the defense in any action for specific performance that a remedy at law would be adequate. The parties waive any requirement for security or the posting of any bond or other surety in connection with any temporary or permanent award or injunctive, mandatory or other equitable relief.

Section 12.7 Jurisdiction. Except as otherwise expressly provided in this Agreement, the parties hereto agree that any suit, action or proceeding seeking to enforce any provision of, or based on any matter arising out of or in connection with, this Agreement, the Transaction Documents or the transactions contemplated hereby or thereby may be brought in the United States District Court for the Southern District of New York or any other New York State court sitting in New York City, and each of the parties hereby consents to the jurisdiction of such courts (and of the appropriate appellate courts therefrom) in any such suit, action or proceeding and irrevocably waives, to the fullest extent permitted by law, any objection which it may now or hereafter have to the laying of the venue of any such suit, action or proceeding in any such court or that any such suit, action or proceeding which is brought in any such court has been brought in an inconvenient forum. Process in any such suit, action or proceeding may be served on any party anywhere in the world, whether within or without the jurisdiction of any such court. Without limiting the foregoing, each party agrees that service of process on such party as provided in Section 12.4 shall be deemed effective service of process on such party.

Section 12.8 WAIVER OF JURY TRIAL. EACH OF THE PARTIES HERETO HEREBY IRREVOCABLY WAIVES ANY AND ALL RIGHTS TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATED TO THIS AGREEMENT, THE TRANSACTION DOCUMENTS OR THE TRANSACTIONS CONTEMPLATED HEREBY OR THEREBY.

Section 12.9 Binding Effect; Benefits. This Agreement shall inure to the benefit of and shall be binding upon the parties hereto and their respective heirs, legal representatives, successors, and permitted assigns. No party hereto shall assign this Agreement or delegate any of its duties hereunder to any other Person without the prior written consent of the other parties hereto, which consent shall not be unreasonably withheld or delayed; provided that Comcast Subsidiary may assign its rights and delegate its obligations under this Agreement (in whole or in part) to any Affiliate of Comcast Subsidiary, upon written notice to Time Warner Cable. For

purposes of this Section, any change in control of Comcast, Comcast Trust, Comcast Subsidiary or Time Warner Cable shall not constitute an assignment by it of this Agreement. In no event shall any assignment of rights or delegation of obligations relieve any party of its obligations hereunder.

Section 12.10 Headings and Schedules. The section and other headings contained in this Agreement are for reference purposes only and shall not affect the meaning or interpretation of this Agreement. Reference to Schedules shall, unless otherwise indicated, refer to the Schedules attached to this Agreement, which shall be incorporated in and constitute a part of this Agreement by such reference.

Section 12.11 Counterparts. This Agreement may be executed in any number of counterparts (including by facsimile), each of which, when executed, shall be deemed to be an original and all of which together shall be deemed to be one and the same instrument.

Section 12.12 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 NEW YORK, WITHOUT GIVING EFFECT TO THE PRINCIPLES OF CONFLICTS OF LAW OF SUCH STATE.

Section 12.13 Severability. Any term or provision of this Agreement which 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.

Section 12.14 Third Parties; Joint Ventures. This Agreement constitutes an agreement solely among the parties hereto, and, except as otherwise expressly provided herein, is not intended to and shall 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 except that Time Warner shall be an express third party beneficiary of Section 2.3. For the avoidance of doubt, no Person other than a party hereto shall have any right to enforce Section 3.1 or any other provision of this Agreement to the extent relating thereto. Nothing in this Agreement, expressed or implied, is intended to or shall constitute the parties hereto partners or participants in a joint venture.

Section 12.15 Construction. This Agreement has been negotiated by Comcast Trust, Comcast Subsidiary and Time Warner Cable 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.

Section 12.16 Risk of Loss; Governmental Taking.

(a) Time Warner Cable shall bear the risk of any loss or damage to the Transferred Assets resulting from fire, theft or other casualty (except reasonable wear and tear) at all times prior to the Closing. In the event any such loss or damage occurs, Time Warner Cable shall (at its expense) use its commercially reasonable efforts to replace or restore such lost or damaged property as soon as practicable and in any event prior to Closing (or, if such damaged property is not replaced or restored prior to Closing, Time Warner shall indemnify Holdco for any Losses arising out of such unrepaired damage or unrestored property). If any loss or damage is equal to or greater than \$50,000,000 and is sufficiently substantial so as to preclude and prevent resumption of normal operations of any material portion of a Transferred System by the Outside Closing Date, Time Warner Cable shall, to the extent reasonably practical, immediately notify Comcast Subsidiary in writing of that fact (which notice shall, to the extent reasonably practical, specify with reasonable particularity the loss or damage incurred, the cause thereof if known or reasonably ascertainable, and the insurance coverage related thereto), and Comcast Subsidiary, at any time within 10 days after receipt of such notice, may elect by written notice to Time Warner Cable, to either (i) waive such defect and proceed toward consummation in accordance with the terms of this Agreement (provided that any such waiver shall also be deemed to be a waiver of any right to indemnification pursuant to the first sentence of this Section 12.16(a) or pursuant to Section 11.1 for any breach of any (x) representation or warranty of Time Warner Cable set forth in Article 6 resulting from any such loss or damage or (y) covenant hereunder to the extent that compliance therewith is frustrated or made commercially impracticable as a result of such loss or damage) or (ii) terminate this Agreement, subject to Section 10.2. If Comcast Subsidiary elects to so terminate this Agreement, Time Warner Cable shall be discharged of any and all obligations hereunder, subject to Section 10.2. If Comcast Subsidiary elects to consummate the transactions contemplated by this Agreement notwithstanding such loss or damage and does so, there shall be no adjustment in the consideration payable to or by Transferee on account of such loss or damage, but all insurance proceeds received or receivable by Time Warner Cable or its Affiliates (determined on an effective after-tax basis as if TWE is instead of being partnership, a stand-alone corporation) as a result of the occurrence of the event resulting in such loss or damage (to the extent not already expended by Time Warner Cable or its Affiliates to restore or replace the lost or damaged Transferred Assets), except for any proceeds from business interruption insurance relating to the loss of revenue for any period through and including the Closing Date, shall be delivered by Time Warner Cable or its Affiliates to Holdco, or the rights to such proceeds shall be assigned by Time Warner Cable or its Affiliates to Holdco if not yet received by Time Warner Cable or its Affiliates. Time Warner Cable shall pay any deductible required and/or the self-insured portion of any such loss with respect to all such insurance proceeds payable under any insurance policy held by Time Warner Cable or its Affiliates. Any amounts received or receivable hereunder shall not be included in the Closing Net Liabilities Amount.

(b) If, prior to Closing, any material part of or interest in the Transferred Assets is taken or condemned as a result of the exercise of the power of eminent domain, or if a Governmental Authority having such power informs Time

Warner Cable or any of its Affiliates that it intends to condemn or take all or any of the Transferred Assets (such event being called, in either case, a "Taking"), then Comcast Subsidiary may terminate this Agreement. If Comcast Subsidiary does not elect to terminate this Agreement, (i) Comcast Subsidiary shall have the sole right, in the name of Time Warner Cable and its Affiliates, if Comcast Subsidiary so elects, to negotiate for, claim, contest and subject to the Closing occurring, and have Holdco receive all damages with respect to the Taking, (ii) Time Warner Cable shall be relieved of its obligation to convey to Holdco the Transferred Assets or interests that are the subject of the Taking if the Taking has occurred (but, subject to the Closing occurring, shall convey to Holdco any interest therein still held by Time Warner Cable or its Affiliates and any replacement property acquired by Time Warner Cable or its Affiliates), (iii) at Closing, Time Warner Cable and its Affiliates shall assign to Holdco all of Time Warner Cable's and its Affiliates' rights to all payments received or receivable by Time Warner Cable or its Affiliates (determined on an effective after-tax basis as if TWE is, instead of being a partnership, a stand-alone corporation), with respect to such Taking and shall pay to Holdco all such payments previously paid to Time Warner Cable or any of its Affiliates with respect to the Taking (to the extent not already expended by Time Warner Cable or its Affiliates to restore or replace the taken Assets), and (iv) following Closing, Time Warner Cable and its Affiliates shall give Holdco such further assurances of such rights and assignment with respect to the Taking as Holdco may from time to time reasonably request. Any amounts received or receivable hereunder shall not be included in the Closing Net Liabilities Amount.

Section 12.17 Commercially Reasonable Efforts. For purposes of this Agreement, "commercially reasonable efforts" shall not, with regard to obtaining any consent, approval or authorization, be deemed to require a party to undertake extraordinary measures, including the initiation or prosecution of legal proceedings or the payment of amounts in excess of normal and usual filing fees and processing fees, if any.

Section 12.18 Time. Time is of the essence under this Agreement. If the last day for the giving of any notice or the performance of any act required or permitted under this Agreement is a day that is not a Business Day, the time for the giving of such notice or the performance of such act shall be extended to the next succeeding Business Day.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, the undersigned have executed, or have caused to be executed, this Agreement on the date first written above.

COMCAST CABLE COMMUNICATIONS HOLDINGS, INC.

By: /s/ Robert S. Pick

Name: Robert S. Pick
Title: Senior Vice President

MOC HOLDCO II, INC.

By: /s/ James P. McCue

Name: James P. McCue
Title: President

TWE HOLDINGS II TRUST

By: /s/ Edith E. Holiday

Name: Edith E. Holiday, solely in her
capacity as Operating Trustee

CABLE HOLDCO INC.

By: /s/ Satish Adige

Name: Satish Adige
Title: SVP, Investments

TIME WARNER CABLE INC.

By: /s/ Satish Adige

Name: Satish Adige
Title: SVP, Investments

TWE HOLDING I LLC

By: /s/ Satish Adige

Name: Satish Adige
Title: SVP, Investments

Solely for purposes of Section 2.3 and the last sentence of Section 12.5:

COMCAST CORPORATION

By: /s/ Robert S. Pick

Name: Robert S. Pick
Title: Senior Vice President

Solely for purposes the last sentence of Section 12.5:

TIME WARNER INC.

By: /s/ Robert Marcus

Name: Robert Marcus
Title: SVP

Solely for purposes of Section 2.1(b)(iv):

TWE HOLDINGS I TRUST

By: /s/ Edith E. Holiday

Name: Edith E. Holiday, solely in her
capacity as Operating Trustee

EXHIBIT 31.1

CERTIFICATIONS

I, Richard D. Parsons, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Time Warner Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 3, 2005

By: /s/ Richard D. Parsons

Name: Richard D. Parsons
Title: Chief Executive Officer
Time Warner Inc.

EXHIBIT 31.2

CERTIFICATIONS

I, Wayne H. Pace, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Time Warner Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 3, 2005

By: /s/ Wayne H. Pace

Name: Wayne H. Pace
Title: Chief Financial Officer
Time Warner Inc.

EXHIBIT 32

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q of Time Warner Inc., a Delaware corporation (the "Company"), for the quarter ended June 30, 2005, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned officers of the Company certifies pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to his respective knowledge:

1. the Report fully complies, in all material respects, with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 3, 2005

/s/ Richard D. Parsons

Richard D. Parsons
Chief Executive Officer
Time Warner Inc.

Date: August 3, 2005

/s/ Wayne H. Pace

Wayne H. Pace
Chief Financial Officer
Time Warner Inc.

End of Filing

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Dkt. No _____
D. Blessing Ex. No. ____ (DCB-39)
Blessing CV

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Alltel Florida, Inc.'s Petition)
To Reduce Intrastate Switched Network)
Access Rates In A Revenue Neutral)
Manner Pursuant to Section 364.164,)
Florida Statutes)
_____)

Exhibit DCB-39

CV of David C. Blessing

David C. Blessing
Parrish, Blessing & Associates, Inc.
Economic Consultants

10905 Ft. Washington Road, Ste 307
Ft. Washington, MD 20744
301-203-4830

Professional Experience

Parrish, Blessing & Associates, Inc. - Economic Consultants, Ft. Washington, MD

Principal (February 1993 to Present)

Klick, Kent & Allen, Inc., Alexandria Va.

Consultant (June 1991 to February 1993)

Rochester Telephone Corporation, Rochester New York

Senior Economist (January 1988 to June 1991)

Nazareth College of Rochester, Rochester, New York

Assistant Professor - Department of Business (1986 to 1988)

Control Data Corporation, Minneapolis, Minnesota

Credit Analyst (1980 to 1982)

Education

M.A. Economics, Fordham University, New York, New York

B.A. Liberal Arts, Kalamazoo College, Kalamazoo, Michigan

Completed all requirements towards Ph.D. in Economics except dissertation at Fordham University.

Selected Testimony and Proceedings

Before the Regulatory Commission of Alaska:

In the Matter of the Investigation of the Local Exchange Revenue Requirement, Depreciation, Cost of Service and Rate Design Studies Filed by ACS of Anchorage, Inc. d/b/a Alaska Communications Systems, ACS Local Service and ACS, Case U-01-34. August 2001.

In the Matter of the Investigation of the Local Exchange Revenue Requirement, Depreciation, Cost of Service and Rate Design Studies Filed by ACS of Fairbanks, Inc. d/b/a Alaska Communications Systems, ACS Local Service and ACS, Case U-01-83. Expert Testimony on the Appropriate Cost of Capital, August 2001.

In the Matter of the Investigation of the Local Exchange Revenue Requirement, Depreciation, Cost of Service and Rate Design Studies Filed by ACS of Alaska, Inc. d/b/a Alaska Communications Systems, ACS Local Service and ACS, Case U-01-85. Testimony on the Appropriate Cost of Capital, August 2001.

In the Matter of the Investigation of the Local Exchange Revenue Requirement, Depreciation, Cost of Service and Rate Design Studies Filed by ACS of the Northland, Inc. d/b/a Alaska Communications Systems, ACS Local Service and ACS, Case U-01-87. August 2001.

In the Matter of the Petition by GCI Communications Corp. d/b/a General Communication, Inc., and d/b/a GCI for Arbitration under Section 252 of the Telecommunications Act of 1996 with the Municipality of Anchorage d/b/a Anchorage Telephone Utility a/k/a ATU Telecommunications for the Purpose of Instituting Local Exchange Competition, Case U-96-89. Expert Testimony, February 2002 and August 2003. Final Hearing: November 2003

In the Matter of the Petition by GCI Communications Corp. d/b/a General Communication, Inc., and d/b/a GCI for Termination of Rural Exemption and Arbitration with PTI Communications of Alaska Inc. under 47 U.S.C. §§ 251 and 252 for the Purpose of Instituting Local Exchange Competition, Case U-97-82. Expert Testimony, March 2004.

In the Matter of the Petition by GCI Communications Corp. d/b/a General Communication, Inc., and d/b/a GCI for Termination of Rural Exemption and Arbitration with Telephone Utilities of Alaska Inc. under 47 U.S.C. §§ 251 and 252 for the Purpose of Instituting Local Exchange Competition, Cases U-97-82 and U-97-143. Expert Testimony, March 2004.

Before the Arkansas Public Service Commission

In the Matter of Joint Application by SBC Communications Inc., Southwestern Bell Telephone Company, L.P. d/b/a SBC Arkansas to Set Rates for Unbundled Network Elements, CC Docket No. 04-109-U, Expert Reply Testimony, May 27, 2005.

Before the Georgia Public Service Commission:

Universal Access Fund, Transition to Phase II Under O.C.G.A. Section 46-5-167, Docket No. 5825-U, Expert Testimony, July 2000.

Before the State Corporation Commission of Kansas:

In the Matter of an Audit and General Rate Investigation of S&A Telephone Company, Docket No. 03-S&AT-160-AUD, Expert Testimony, March 2003.

Before the Public Service Commission of the Commonwealth of Kentucky

In the Matter of an Inquiry into the Development of De-Averaged Rates for Unbundled Network Elements, Adm. Case No. 382, Expert Rebuttal Testimony, January 28, 2005.

Before the Public Service Commission State of Missouri:

In the Matter of an Investigation into Various Issues Related to the Missouri Universal Service, Case 98-329, Expert Testimony, August 2001.

Before the Nebraska Public Service Commission:

In the Matter of the Petition of Nebraska Technology and Telecommunications, Inc., for arbitration of interconnection rates, terms and conditions with Aliant Communications Co., d/b/a ALLTEL, Application No. C-2648, Expert Testimony, July 2002.

Before the New York Public Service Commission:

Petition of Fairpoint Communications Corp. For Negotiations/Mediation Pursuant to Section 252(a)(2) of the Telecommunications Act of 1996 and for approval of any resulting interconnection Agreement, 2000, Case 99-C-1337, Expert Testimony, Filed March 2000.

Petition of Rochester Telephone Corporation for Approval of Proposed Restructuring Plan, Case 93-C-0103, and, Petition of Rochester Telephone Corporation for Approval of a New Multi Year Rate Stability Agreement, Case 93-C-0033, Expert Testimony, Filed February 1993.

In the Matter of the Proceeding on Motion of The Commission as to the Rates, Charges, Rules and Regulations of Highland Telephone Company for Telephone Service, Case 91-C-0123. Expert Testimony, Filed February 1991.

In the Matter of the Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of Rochester Telephone Corporation, Case 89-C-022. Expert Testimony, Filed February 1989.

Before the Public Utilities Commission of Ohio:

In the Matter of the Application of Ohiotelnets.com, Inc. 's Petition for Arbitration of Interconnection Rates, Terms and Conditions and Related Arrangements with ALLTEL Ohio, Inc., Case No. 00-1601-TP-ARB, Expert Testimony, 2000.

In the Matter of the Application of Ameritech Communications Services, Inc. 's Petition for Arbitration Pursuant to Section 252(b) of the Telecommunications Act of 1996 to Establish an Interconnection Agreement with the Western Reserve Telephone Company, Case No. 01-31-TP-ARB, Expert Testimony, 2001.

Before the Pennsylvania Public Utility Commission:

Joint Petition of Breezewood Telephone Company, Canton Telephone Company, Enterprise Telephone Company, Lakewood Telephone Company and Oswayo River Telephone Company for a Streamlined Form of Regulation and Plan for Network Modernization, Case P-00940754. Expert Testimony, Filed January

1994.

Pennsylvania Public Utility Commission, et al, Vs. Enterprise Telephone Company -- General Rate Proceeding, Case R-922317. Expert Testimony, Filed April 1992.

Petition of the Pennsylvania Telephone Association Small Company Group for Approval of an Alternate and Streamlined Form of Regulation and Network Modernization Plans, Docket No. P-00981425 et al, Expert Testimony, Filed July 31, 1998

Petition of ALLTEL Pennsylvania, Inc. For Approval of an Alternate and Streamlined Form of Regulation and Network Modernization Plans, , Docket No. P-00981423, Expert Testimony, Filed July 31, 1998

Before the Telecommunications Regulatory Board of Puerto Rico:

In re: Centennial Communications Corporation: Arbitration Petition Based on 47 USC 252(b), Chap. III, Art. 5(b) of the Puerto Rico Telecommunications Act of 1996, and on Tariffs, Terms and Conditions, Expert Testimony, 1997.

In re: Lambda Communications Corporation: Arbitration Petition Based on 47 USC 252(b), Chap. III, Art. 5(b) of the Puerto Rico Telecommunications Act of 1996, and on Tariffs, Terms and Conditions, Expert Testimony, 1997.

In re: Cellpage Communications: Arbitration Petition Based on 47 USC 252(b), Chap. III, Art. 5(b) of the Puerto Rico Telecommunications Act of 1996, and on Tariffs, Terms and Conditions, Expert Testimony, 1997.

Telefonica Larga Distancia de Puerto Rico, Inc., Plaintiff, v. Puerto Rico Telephone Company, Re: Puerto Rico Telephone Company Tariff K-2, Case No. 97-Q-0001, 97-Q-0003, Expert Testimony, Phase 1: April 2000, Phase 2: May 2001.

Lambda Communications, Inc., Sprint International Caribe, Inc. v. Puerto Rico Telephone Company, Defendant, Re: Suspension of PRTC's Intraisland Long Distance Tariff ("Your Answer Plan") and Requiring the Imputation of Costs Against PRTC, Case No. JRT-99-Q-0080, Expert Testimony, February 2000.

In re: RSV TELECOM, INC. Petition for Arbitration Pursuant to Section 47 U.S.C. 252(b) of the Federal Communications Act and Article 5(b), Chapter III, of the Puerto Rico Telecommunications Act -- Interconnection Rates, Terms and Conditions, Case No. JRT-2000-AR-0001, Expert Testimony, May 2000.

International Telecom Ltd., Complainant v. Puerto Rico Telephone Company, Defendant, Breach of Contract and Request for Declaratory Ruling, Case No. JRT-00-Q-0014, Expert Testimony, May 2001.

In the Matter of Arbitration of Interconnection Rates, Terms and Conditions between WorldNet Telecommunications Inc. and the Puerto Rico Telephone Company, Re: Petition for Interconnection, Case No. JRT-2001-AR-0002, Expert Testimony, November 2001.

In the Matter of Arbitration of Interconnection Rates, Terms and Conditions between Newcomm Wireless Services, Inc., and Puerto Rico Telephone Company, Re: Interconnection Arbitration, Case No. JRT-2002-AR-0001, Expert Testimony, April 2002.

Petition of Centennial Puerto Rico License Corporation for Arbitration Pursuant to Section 47 U.S.C. 252(b) of the Federal Communications Act of 1996 to Establish an Interconnection Agreement with Puerto Rico Telephone Company. Case No. JRT-2002-AR-0002, Expert Testimony, May 2002.

Re: Expansion of the Local Service Zones of the Puerto Rico Telephone Company, Inc., Case No. JRT-2004-CCG-0001, Expert Testimony, March – April 2004; June 2004.

Telefonica Larga Distancia De Puerto Rico, Inc., WorldNet Telecommunications, Inc., Sprint Communications Company, LP, and AT&T of Puerto Rico, Inc., Plaintiffs, v. Puerto Rico Telephone Company, Inc., Defendant. Case No.s JRT-2005-Q-0121, JRT-2005-Q-0128, JRT-2005-Q-0297, JRT-2004-Q-0068. Expert Testimony, August 4, 2005.

In The United States District Court For the District of Puerto Rico

Telefonos Publicos de Puerto Rico, Inc. Plaintiff v. Puerto Rico Telephone Company, Defendant, Civil Action 01-2519 GG, Expert Report, October 15, 2004.

Before the Texas State Office of Administrative Hearings:

Application of Texas ALLTEL, Inc., to Recover Lost Revenues and Costs of Implementing Expanded Local Calling Service Pursuant to P.U.C. Subst. R. 23.49(c)(12). SOAH Docket No. 473-98-0403, PUC Docket No. 17641, Expert Testimony, June 1998.

Before the Public Service Commission of Wisconsin:

In the Matter of the Application of CenturyTel of the Midwest-Kendall, Inc. for Rate Increase and Petition for Emergency Order for Rate Increase, Docket 2815-TR-103, Expert Testimony April 2000.

Dkt. No. _____
D. Blessing Ex. No. ____ (DCB-40)
FCC Competition Report 2004

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Alltel Florida, Inc.'s Petition)
To Reduce Intrastate Switched Network)
Access Rates In A Revenue Neutral)
Manner Pursuant to Section 364.164,)
Florida Statutes)
_____)

Exhibit DCB-40

*Local Telephone Competition: Status as of June 30, 2004; Industry Analysis and Technology
Division, Wireline Competition Bureau, Federal Communications Commission; Table 13;
Released December 2004.*



NEWS

Federal Communications Commission
445 12th Street, S.W.
Washington, D. C. 20554

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Internet: <http://www.fcc.gov>
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This is an unofficial announcement of Commission action. Release of the full text of a Commission order constitutes official action.
See MCI v. FCC, 616 F.2d 386 (D.C. Cir. 1974).

FOR IMMEDIATE RELEASE
December 22, 2004

NEWS MEDIA CONTACT:
Mark Wigfield at (202) 418-0253
Email: mark.wigfield@fcc.gov

FEDERAL COMMUNICATIONS COMMISSION RELEASES DATA ON LOCAL TELEPHONE COMPETITION

Washington, D.C. – The Federal Communications Commission (FCC) today released new data on local telephone service competition in the United States. Twice a year, telecommunications carriers must report the number of lines in service and mobile wireless telephone subscribership pursuant to FCC's local competition and broadband data gathering program (FCC Form 477).

Statistics released today reflect data as of June 30, 2004, filed by providers on FCC Form 477 in the Commission's local competition and broadband data gathering program. For purposes of this report, carriers with at least 10,000 switched access lines, or at least 10,000 mobile wireless telephone service subscribers, in a state were required to file.

Summary Statistics

- Total CLEC end-user switched access lines increased by 7% during the first half of 2004, from 29.8 million to 32.0 million lines. By comparison, they increased by 10% during the preceding six months, from 27.0 to 29.8 million lines. For the full twelve-month period ending June 30, 2004, CLEC end-user lines increased by 19%.
- End-user customers obtained local telephone service by utilizing approximately 148.1 million incumbent local exchange carrier (ILEC) switched access lines, 32.0 million competitive local exchange carrier (CLEC) switched access lines, and 167.3 million mobile wireless telephone service subscriptions.
- About 17.8% of the 180.1 million total end-user switched access lines (or 32.0 million lines) were reported by CLECs at end of June 2004, compared to 16.3% (or 29.8 million lines) in December 2003.
- Nationwide, mobile wireless telephone subscribers increased 7% during the first half of 2004 from 157.0 million to 167.3 million. For the full twelve-month period ending June 30, 2004, mobile wireless subscribers increased by 13%.
- CLECs reported 20.8 million (or 15%) of the 135.4 million lines that served residential and small business end users and 11.2 million (or 25%) of the 44.6 million lines that served medium and large business, institutional, and government customers.

- Local telephone service by CLECs was provided over 3.3 million coaxial cable connections at the end of June 2004. These lines represent about 45% of the 7.5 million switched access lines that CLECs reported providing over their own local loop facilities, about 10% of all switched access lines that CLECs reported, and about 2% of total switched access lines.
- CLECs reported providing about 23% of switched access lines over their own local loop facilities. To serve the remainder, CLECs resold the services of other carriers or used unbundled network element (UNE) loops that they leased from other carriers
- ILECs reported providing about 13% more UNE loops with switching (referred to as the UNE-Platform) to unaffiliated carriers at the end of June 2004 than they reported six months earlier (17.1 million compared to 15.2 million) and about 1% more UNE loops without switching (about 4.3 million).
- At least one CLEC reported switched access lines in service in all 50 states, the District of Columbia, and Puerto Rico. In 29 states, ten or more CLECs reported serving local telephone service customers.

As additional information becomes available, it will be posted on the Commission's Internet site.

The report is available for reference in the FCC's Reference Information Center, Courtyard Level, 445 12th Street, SW, Washington, DC. Copies may be purchased by calling Best Copy and Printing, Inc. at (800) 378-3160. The report can also be downloaded from the **FCC-State Link** Internet site at www.fcc.gov/web/stats.

- FCC -

Wireline Competition Bureau contacts: James Eisner and Ellen Burton at (202) 418-0940, TTY (202) 418-0484.

Local Telephone Competition: Status as of June 30, 2004

Industry Analysis and Technology Division
Wireline Competition Bureau
December 2004

This report is available for reference in the FCC's Reference Information Center, Courtyard Level, 445 12th Street, SW, Washington, DC. Copies may be purchased by contacting Best Copy and Printing, Inc., 445 12th Street, SW, Room CY-B402, Washington, DC 20554, telephone (800) 378-3160 or via their website at www.bcpiweb.com. The report can also be downloaded from the FCC-State Link Internet site at www.fcc.gov/wcb/stats.

Local Telephone Competition: Status as of June 30, 2004

We present here summary statistics of the latest data on local telephone service competition in the United States as reported in the Commission's local competition and broadband data gathering program (FCC Form 477).¹ The summary statistics provide a snapshot of local telephone service competition based on switched access lines in service and state-specific mobile wireless telephone subscribership as of June 30, 2004.²

Based on the latest information now available, readers can draw the following broad conclusions:

- Competitive local exchange carriers (CLECs) reported 32.0 million (or 17.8%) of the approximately 180.1 million nationwide end-user switched access lines in service at the end of June 2004, compared to 29.8 million (or 16.3% of nationwide lines) in December 2003.³ This represents a 7% growth in CLEC market size during the first half of 2004. See Table 1.
- End-user customers obtained local telephone service by utilizing approximately 148.1 million incumbent local exchange carrier (ILEC) switched access lines, 32.0 million competitive local exchange carrier (CLEC) switched access lines, and 167.3 million mobile wireless telephone service subscriptions. See Tables 1 and 13.
- 65% of switched access lines in service to CLEC end-user customers served residential and small business customers, compared to 77% of lines in service to incumbent local exchange carrier (ILEC) end-user customers served residential and small business customers.⁴ See

¹ *Local Competition and Broadband Reporting*, CC Docket No. 99-301, Report and Order, 15 FCC Rcd 7717 (2000) (*Data Gathering Order*). During this data gathering program, qualifying providers file FCC Form 477 each year on March 1 (reporting data for the preceding December 31) and September 1 (reporting data for June 30 of the same year). Qualification status is determined separately for each state. If a carrier, or its holding company, has at least 10,000 local telephone connections in service in a state, it must file local telephone data for that state. An updated FCC Form 477, and instructions for that particular form, for each specific round of the data collection may be downloaded from the FCC Forms website at www.fcc.gov/formpage.html. We note that the Commission recently issued an Order that eliminated reporting thresholds. See *Local Telephone Competition and Broadband Reporting*, WC Docket No. 04-141, Report and Order, FCC 04-266 (rel. Nov. 12, 2004). Accordingly, beginning in September, 2005, data reported pursuant to Form 477 will not include thresholds.

² Statistical summaries of the earlier Form 477 data collections appeared in previous releases of the *Local Telephone Competition* report, available at www.fcc.gov/web/iatd/comp.html.

³ Total numbers reported by incumbent local exchange carriers (ILECs) filing FCC Form 477 may be slightly understated because smaller carriers are not required to report data. However, as the reporting ILECs account for about 98% of all ILEC lines, the understatement should not be large. (All ILECs, whether or not they normally report to the FCC, provide data on the number of telephone lines served to the National Exchange Carrier Association for use in conjunction with the Commission's universal service mechanism.) We are less certain about the extent to which comparable lines as reported by CLECs are understated as a result of the state-specific reporting threshold, but we expect such understatement to be larger, on a percentage basis, than for ILECs.

⁴ In the local telephone section of FCC Form 477, the switched access lines in service to the carrier's own end-user customers that are reported to be "used for residential and small business service" should be those lines that connect (continued....)

Table 2.

- CLECs reported providing about 23% of switched access lines over their own local loop facilities.⁵ To serve the remainder, CLECs resold the services of other carriers or used unbundled network element (UNE) loops that they leased from other carriers.⁶ See Table 3.
- Since December 1999, the percentage of nationwide CLEC switched access lines reported to be provisioned by reselling services has declined steadily, to 16% at the end of June 2004, and the percentage provisioned over UNE loops has grown, to 61%. See Table 3 and, for data reported for individual states, see Table 10.
- ILECs reported providing about 1.6 million switched access lines to unaffiliated carriers on a resale basis at the end of June 2004, down from 1.8 million six months earlier. They reported providing 21.4 million unbundled loops (with or without unbundled switching) to unaffiliated carriers, up from 19.4 million six months earlier.⁷ See Table 4.
- ILECs reported providing about 13% more UNE loops with switching (referred to as the UNE-Platform) to unaffiliated carriers at the end of June 2004 than they reported six months earlier (17.1 million compared to 15.2 million) and about 1% more UNE loops without switching (about 4.3 million).

(Continued from previous page)

to customer locations for which the reporting carrier bills fewer than four (4) voice-grade equivalent lines used for local exchange service. If this information is not available, the carrier may use tariffs or marketing information to report an estimate that it reasonably expects to be accurate within plus or minus five percentage points of the true number.

⁵ A reporting carrier should own the "last mile" of wire, cable, or optical fiber that connects to the end-user premises (or have obtained radio spectrum for the equivalent fixed wireless facility) if it reports providing the local telephone line over its own facilities. In general, local exchange and exchange access lines provisioned over facilities (other than dark fiber) and services obtained from another carrier are not the reporting carrier's "own facilities" for purposes of FCC Form 477, irrespective of whether those facilities or services are obtained under interconnection arrangements, under tariff, or by other means. In particular, owning the switch that provides dialtone (and other services) over a UNE loop leased from another carrier does not qualify a line as being provisioned over the reporting carrier's own facilities.

⁶ From CLECs, FCC Form 477 collects information on the percentage of the CLEC's switched access lines provided over "UNE loops." For purposes of FCC Form 477, this term includes UNE loops leased from an unaffiliated carrier on a stand-alone basis and also UNE loops leased in combination with UNE switching or any other unbundled network element.

⁷ The reported number of UNE loops provided without ILEC switching in Table 4 includes some UNE loops that ILECs supply to DSL-service providers that do not also provide local telephone service. Because no local telephone service is provided by means of such UNE loops, they are not included in the end-user local telephone lines reported by CLECs.

- Local telephone service by CLECs was provided over 3.3 million coaxial cable connections at the end of June 2004. These lines represent about 45% of the 7.5 million switched access lines that CLECs reported providing over their own local loop facilities, about 10% of all switched access lines that CLECs reported, and about 2% of total switched access lines. See Table 5.
- The Commission's data collection program collates information about CLEC local telephone service lines (and the CLEC share of total local telephone service lines) in individual states. Relatively large numbers of CLEC lines are associated with the more populous states.⁸ With respect to the calculated CLEC share of switched access lines in service, however, some less populous states, such as Nebraska, New Hampshire, Rhode Island, and Utah had larger CLEC shares than some more populous states, such as California, Florida, and Ohio, as of June 2004. See Tables 6 - 9.⁹
- The percentage of CLEC switched access lines reported to serve residential and small business customers varies among the states, and is most frequently lower than the corresponding ILEC percentage. See Table 11.
- At least one CLEC reported switched access lines in service in all 50 states, the District of Columbia, and Puerto Rico.¹⁰ In 29 states, ten or more CLECs reported serving local telephone service customers. See Table 12.
- The 85 providers of mobile wireless telephone services that reported information served about 167.3 million subscribers at the end of June 2004.¹¹ About 7% of these subscribers received their service via a reseller of mobile wireless telephone service. See Table 13.
- The Commission's data collection program requires CLECs and ILECs to identify each zip code in which the carrier provides local telephone service to at least one end-user customer.¹²

⁸ The largest numbers of CLEC lines are reported for California, the most populous state, followed by New York and Texas, the third and second most populous states, respectively.

⁹ CLEC shares appearing in Table 7 are based on CLEC and ILEC lines in Tables 8 and 9.

¹⁰ Under section 3(40) of the Communications Act, the term *state* "includes the District of Columbia and the Territories and possessions." 47 U.S.C. §153(40). We note that carriers that have fewer than 10,000 local telephone lines in service in a state are not required to report those lines on FCC Form 477, but may file the data on a voluntary basis. There were 37 voluntary ILEC filings and 52 voluntary CLEC filings of state-specific data as of June 30, 2004. In the course of our ten data collections to date, the number of voluntary ILEC filings has varied between 7 and 37, and the number of voluntary CLEC filings has varied between 13 and 53.

¹¹ Facilities-based providers with fewer than 10,000 mobile wireless telephone service subscribers in a state (measured by revenue-generating handsets in service) are not required to report. A facilities-based mobile wireless telephone service provider serves subscribers using spectrum licenses that it has obtained or manages.

¹² CLECs and ILECs are required to report, for states in which they have at least 10,000 local telephone lines in service, lists of zip codes where they have subscribers. Providers of mobile wireless telephone service do not report zip codes.

As of June 30, 2004, at least one CLEC was serving customers in 79% of the nation's zip codes. About 97% of United States households resided in these zip codes. Moreover, multiple carriers reported providing local telephone service in the major population centers of the country. See Table 14, Table 15, and the map that follows Table 16.

- In Florida, Massachusetts, New Jersey, New York and Texas at least 40% of zip codes had ten or more reporting CLECs. By contrast, 14% of nationwide zip codes had ten or more reporting CLECs. See Table 16.

As other information from FCC Form 477 becomes available, it will be routinely posted on the Commission's Internet site. We invite users of the information presented in this statistical summary to provide suggestions for improved data collection and analysis by:

- Using the attached customer response form,
- E-mailing comments to James.Eisner@fcc.gov,
- Calling the Industry Analysis and Technology Division of the Wireline Competition Bureau at (202) 418-0940, or
- Participating in any formal proceedings undertaken by the Commission to solicit comments for improvement of FCC Form 477.

Table 1
End-User Switched Access Lines Reported

Date	ILEC Lines	CLEC Lines	Total	CLEC Share
December 1999	181,307,695	8,194,243	189,501,938	4.3 %
June 2000	179,761,930	11,557,381	191,319,311	6.0
December 2000	177,641,529	14,871,409	192,512,938	7.7
June 2001	174,861,248	17,274,727	192,135,975	9.0
December 2001	172,043,582	19,653,441	191,697,023	10.3
June 2002	167,472,318	21,644,928	189,117,246	11.4
December 2002	164,526,149	24,863,691	189,389,840	13.1
June 2003	158,386,821	26,985,345	185,372,166	14.6
December 2003	153,266,932	29,775,438	183,042,370	16.3
June 2004	148,103,506	31,983,229	180,086,735	17.8

Note: Some previously filed data have been revised.

Chart 1
End-User Switched Access Lines Reported
(Lines in Millions)

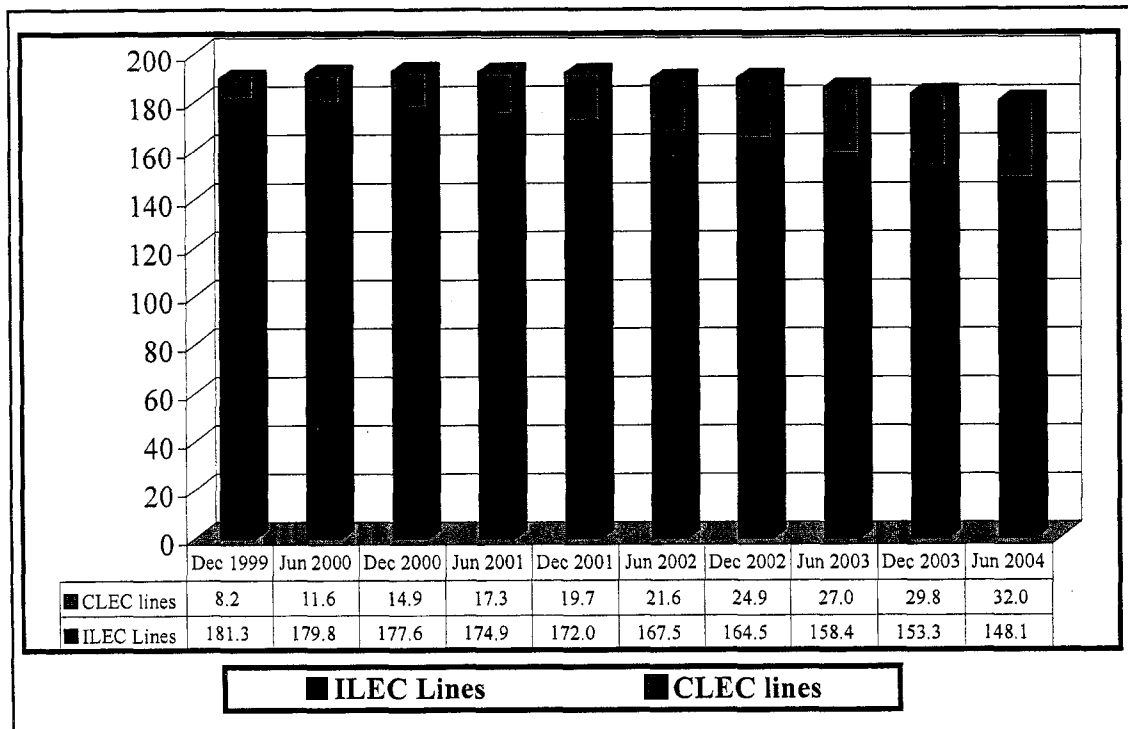


Table 2
End-User Switched Access Lines by Customer Type

Date	Reporting ILECs			Reporting CLECs		
	Residential & Small Business	Other ¹	% Residential & Small Business	Residential & Small Business	Other ¹	% Residential & Small Business
December 1999	139,758,434	41,549,261	77.1 %	3,368,702	4,825,541	41.1 %
June 2000	140,635,199	39,126,731	78.2	4,579,501	6,977,880	39.6
December 2000	138,872,415	38,769,114	78.2	6,620,471	8,250,938	44.5
June 2001	134,618,062	40,243,186	77.0	7,793,071	9,481,656	45.1
December 2001	133,421,570	38,622,012	77.6	9,489,049	10,164,392	48.3
June 2002	131,051,178	36,421,140	78.3	11,080,676	10,564,252	51.2
December 2002	127,606,456	36,919,693	77.6	14,608,495	10,255,196	58.8
June 2003	122,663,356	35,723,465	77.4	16,770,561	10,214,784	62.1
December 2003	118,746,138	34,520,794	77.5	18,702,229	11,073,209	62.8
June 2004	114,621,599	33,481,907	77.4	20,824,618	11,158,611	65.1

Note: Some previously filed data have been revised.

¹ Medium and large business, institutional, and government customers.

Chart 2
Percent of Lines that Serve Residential and Small Business Customers

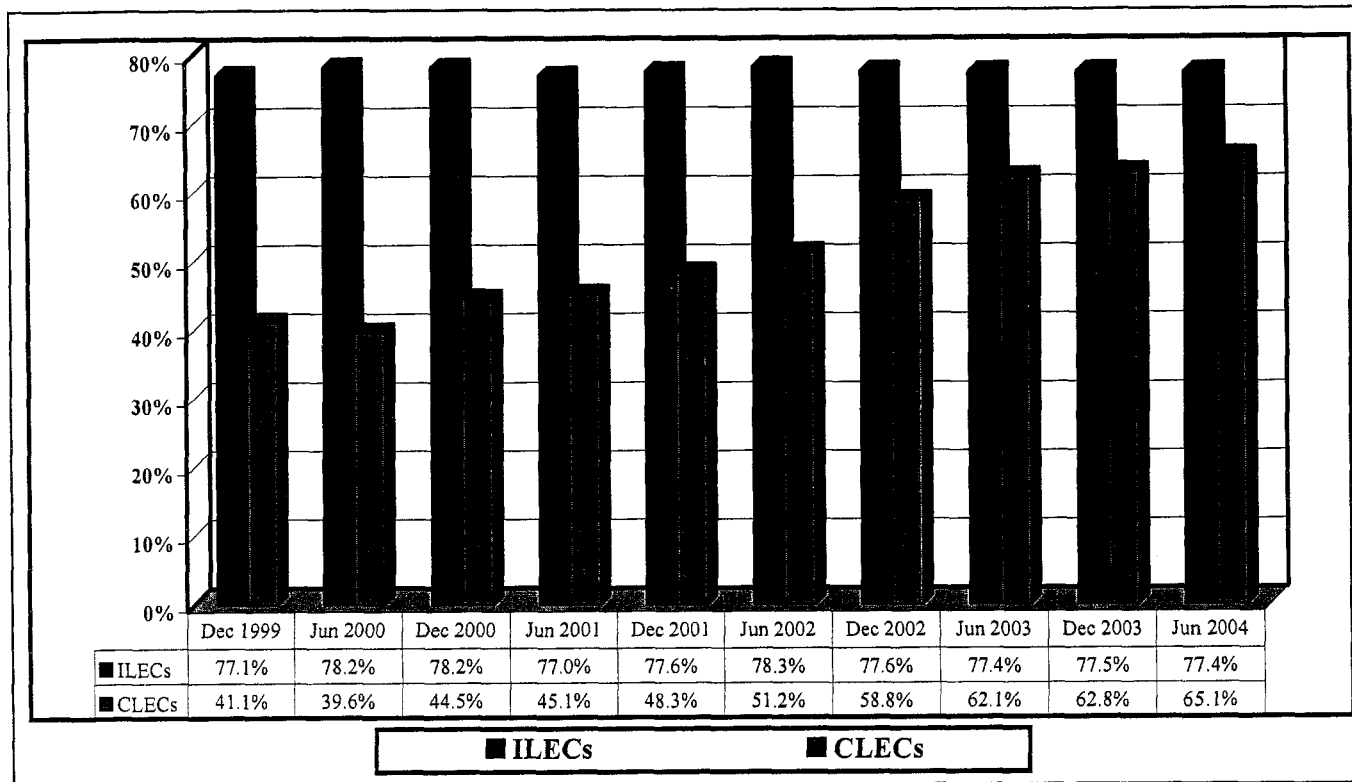


Table 3
Reporting Competitive Local Exchange Carriers
(End-User Switched Access Lines in Thousands)

Date	CLECs Reporting	Total End-User Lines	Acquired From Other Carriers				CLEC-Owned	
			Resold Lines	Percent	UNEs ¹	Percent	Lines ²	Percent
Dec 1999	81	8,194	3,513	42.9 %	1,959	23.9	2,723	33.2 %
Jun 2000	78	11,557	4,315	37.3	3,201	27.7	4,042	35.0
Dec 2000	89	14,871	4,114	27.7	5,540	37.3	5,217	35.1
Jun 2001	91	17,275	3,919	22.7	7,580	43.9	5,776	33.4
Dec 2001	94	19,653	4,250	21.6	9,332	47.5	6,072	30.9
Jun 2002	96	21,645	4,478	20.7	10,930	50.5	6,236	28.8
Dec 2002	112	24,864	4,677	18.8	13,709	55.1	6,479	26.1
Jun 2003	125	26,985	4,887	18.1	15,728	58.3	6,370	23.6
Dec 2003	136	29,775	4,842	16.3	17,888	60.1	7,045	23.7
Jun 2004	136	31,983	5,140	16.1	19,356	60.5	7,487	23.4

Notes: Some previously filed data have been revised. Figures may not add to totals due to rounding.

¹ Includes unbundled network element (UNE) loops leased from an unaffiliated carrier on a stand-alone basis and also UNE loops leased in combination with UNE switching or any other unbundled network element.

² Lines provided over CLEC-owned "last-mile" facilities.

Chart 3
Competitive Local Exchange Carriers' End-User Lines

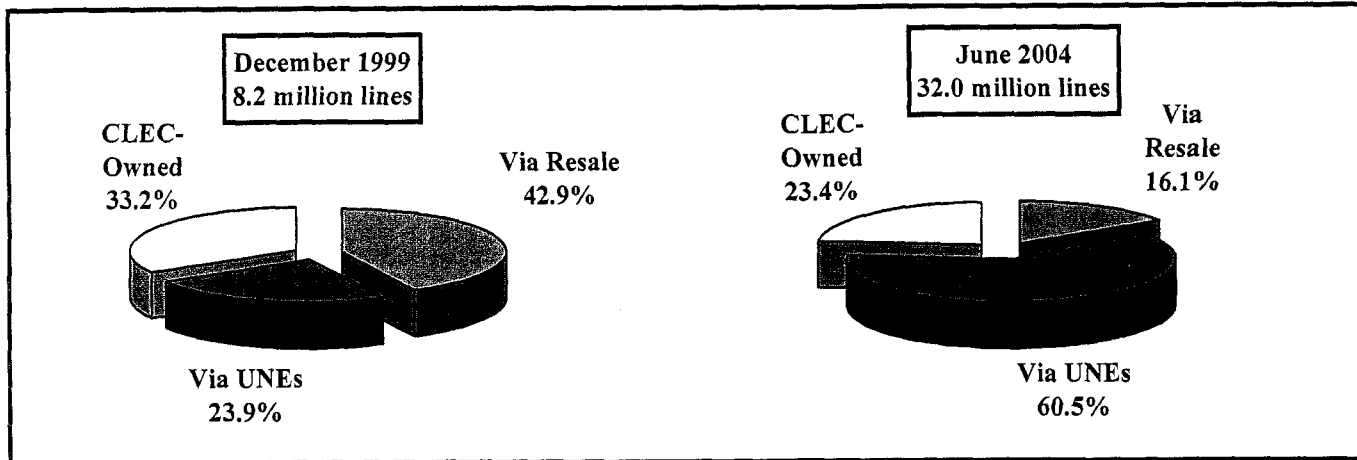


Table 4
Reporting Incumbent Local Exchange Carriers
(End-User Switched Access Lines in Thousands)

				Provided to Other Carriers					
				Resold Lines	UNEs			Total UNEs and Resold Lines	Percent of Total Lines
					Without Switching	With Switching	Total UNEs		
Date ¹	ILECs Reporting	Total Lines	End-User Lines						
Dec 1997	9	159,008	157,132	1,743			133	1,876	1.2 %
Jun 1998	8	161,810	159,118	2,448			244	2,692	1.7
Dec 1998	7	164,614	161,191	3,062			361	3,423	2.1
Jun 1999	7	167,177	162,909	3,583			685	4,268	2.6
Dec 1999	168	187,294	181,308	4,494	1,004	489	1,493	5,987	3.2
Jun 2000	159	188,171	179,762	5,098	1,696	1,616	3,312	8,409	4.5
Dec 2000	166	188,304	177,642	5,388	2,436	2,838	5,274	10,662	5.7
Jun 2001	156	187,201	174,861	4,417	3,161	4,761	7,922	12,340	6.6
Dec 2001	164	185,517	172,044	4,014	3,679	5,781	9,460	13,474	7.3
Jun 2002	166	182,487	167,472	3,475	4,061	7,478	11,540	15,015	8.2
Dec 2002	174	181,756	164,526	2,743	4,259	10,227	14,487	17,229	9.5
Jun 2003	181	177,860	158,387	2,232	4,205	13,036	17,241	19,473	10.9
Dec 2003	185	174,536	153,267	1,833	4,260	15,176	19,436	21,269	12.2
Jun 2004	185	171,129	148,104	1,600	4,290	17,136	21,426	23,026	13.5

Notes: Some previously filed data have been revised. Figures may not add to totals due to rounding.

¹ Data for December 1997 through June 1999 are from Common Carrier Bureau voluntary surveys. Starting with December 1999, data are from FCC Form 477 filings.

Chart 4
ILEC Lines and the Percent Provided to Other Carriers

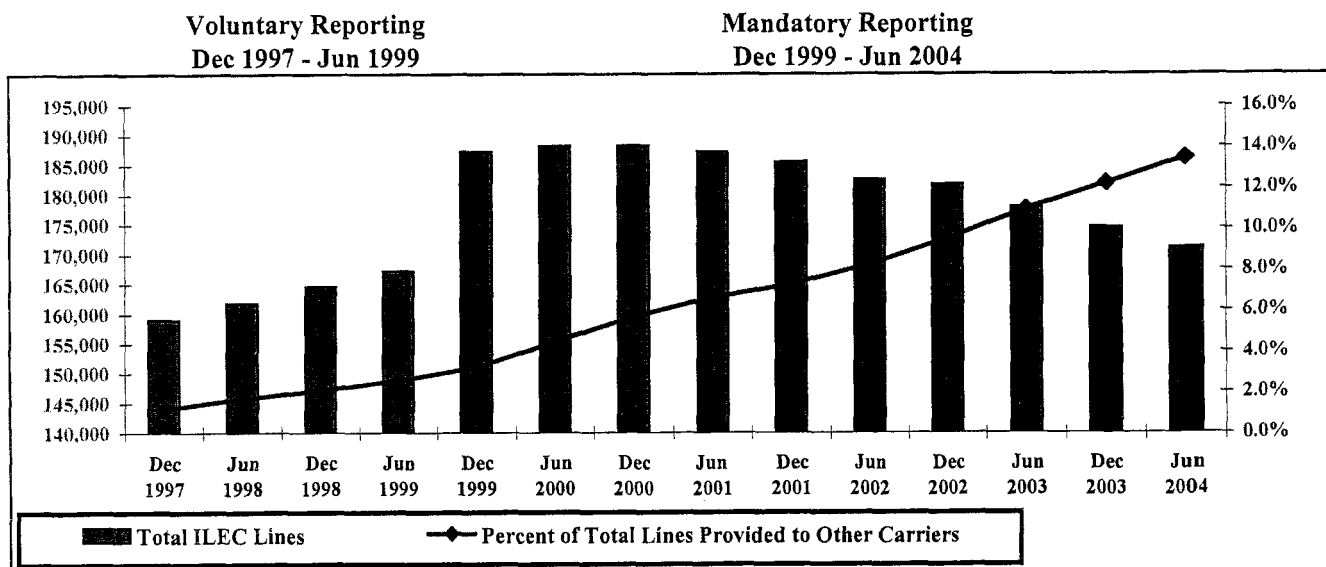


Table 5
Competitive Local Exchange Carrier Lines by Type of Technology
(End-User Switched Access Lines in Thousands)

	Coaxial Cable	Other Technologies	Total	Percent Coaxial Cable
December 2000	1,125	13,746	14,871	7.6 %
June 2001	1,876	15,399	17,275	10.9
December 2001	2,246	17,408	19,653	11.4
June 2002	2,597	19,048	21,645	12.0
December 2002	3,071	21,793	24,864	12.4
June 2003	3,123	23,863	26,985	11.6
December 2003	3,301	26,474	29,775	11.1
June 2004	3,338	28,645	31,983	10.4

Note: Some previously filed data have been revised.

Chart 5
Competitive Local Exchange Carrier Lines by Type of Technology
(End-User Switched Access Lines in Thousands)

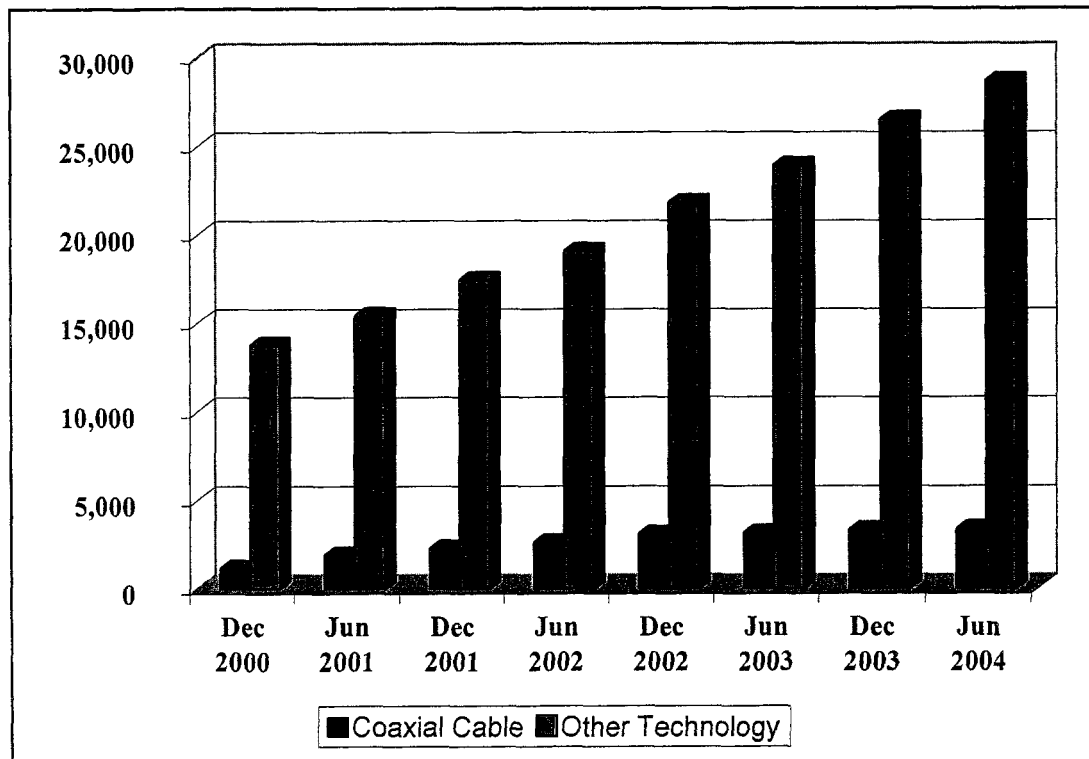


Table 6
End-User Switched Access Lines Served by Reporting Local Exchange Carriers
(As of June 30, 2004)

State	ILECs	CLECs	Total	CLEC Share
Alabama	1,997,058	365,060	2,362,118	15 %
Alaska	419,304	*	*	*
Arizona	2,415,432	814,194	3,229,626	25
Arkansas	1,172,200	162,996	1,335,196	12
California	19,478,761	3,723,815	23,202,576	16
Colorado	2,439,132	498,583	2,937,715	17
Connecticut	2,102,689	272,385	2,375,074	11
Delaware	497,466	92,810	590,276	16
District of Columbia	915,583	215,421	1,131,004	19
Florida	9,633,565	1,785,001	11,418,566	16
Georgia	4,044,935	977,358	5,022,293	19
Hawaii	683,146	*	*	*
Idaho	666,914	47,398	714,312	7
Illinois	6,326,988	1,672,522	7,999,510	21
Indiana	3,095,055	501,936	3,596,991	14
Iowa	1,232,364	199,115	1,431,479	14
Kansas	1,102,696	316,946	1,419,642	22
Kentucky	1,841,495	218,810	2,060,305	11
Louisiana	2,040,518	283,333	2,323,851	12
Maine	690,024	113,957	803,981	14
Maryland	3,239,029	615,757	3,854,786	16
Massachusetts	3,432,038	997,760	4,429,798	23
Michigan	4,487,619	1,575,267	6,062,886	26
Minnesota	2,377,827	604,152	2,981,979	20
Mississippi	1,148,580	131,218	1,279,798	10
Missouri	2,906,801	430,538	3,337,339	13
Montana	482,548	19,204	501,752	4
Nebraska	736,257	205,560	941,817	22
Nevada	1,272,060	149,735	1,421,795	11
New Hampshire	670,480	170,433	840,913	20
New Jersey	5,148,627	1,319,513	6,468,140	20
New Mexico	894,345	76,469	970,814	8
New York	8,685,767	3,684,036	12,369,803	30
North Carolina	4,440,280	576,538	5,016,818	11
North Dakota	265,881	22,502	288,383	8
Ohio	5,697,351	979,885	6,677,236	15
Oklahoma	1,591,936	242,737	1,834,673	13
Oregon	1,743,918	267,121	2,011,039	13
Pennsylvania	6,638,982	1,706,036	8,345,018	20
Puerto Rico	1,111,894	*	*	*
Rhode Island	448,853	213,787	662,640	32
South Carolina	2,025,422	226,284	2,251,706	10
South Dakota	271,682	*	*	*
Tennessee	2,818,771	475,312	3,294,083	14
Texas	10,139,446	2,320,273	12,459,719	19
Utah	940,678	288,009	1,228,687	23
Vermont	366,716	*	*	*
Virgin Islands	70,672	0	70,672	0
Virginia	4,075,297	994,588	5,069,885	20
Washington	3,276,000	494,375	3,770,375	13
West Virginia	912,228	*	*	*
Wisconsin	2,754,836	626,809	3,381,645	19
Wyoming	235,360	*	*	*
Nationwide	148,103,506	31,983,229	180,086,735	18 %

Note: Carriers with under 10,000 lines in a state were not required to report.

* Data withheld to maintain firm confidentiality

Table 7
Competitive Local Exchange Carrier Share of End-User Switched Access Lines

State	1999	2000		2001		2002		2003		2004
	Dec	Jun	Dec	Jun	Dec	Jun	Dec	Jun	Dec	Jun
Alabama	5 %	3 %	4 %	5 %	5 %	5 %	9 %	11 %	13 %	15 %
Alaska	*	*	*	*	*	*	*	*	*	*
Arizona	*	5	5	7	9	11	12	16	22	25
Arkansas	*	*	*	*	*	*	10	*	11	12
California	4	5	6	7	8	9	11	13	15	16
Colorado	5	7	9	10	13	14	15	16	17	17
Connecticut	3	5	6	7	7	9	9	10	10	11
Delaware	*	*	*	0	0	*	*	9	12	16
District of Columbia	7	7	9	12	13	16	14	16	17	19
Florida	6	6	6	7	7	9	13	13	14	16
Georgia	5	6	8	10	11	13	15	17	18	19
Hawaii	*	*	0	*	*	*	*	*	*	*
Idaho	0	0	*	*	*	*	*	5	6	7
Illinois	5	7	9	13	15	17	19	19	20	21
Indiana	3	4	5	5	5	7	8	9	13	14
Iowa	*	9	11	11	12	12	13	13	13	14
Kansas	*	5	7	8	9	12	17	21	21	22
Kentucky	2	*	3	*	*	*	4	5	8	11
Louisiana	3	2	3	4	4	5	7	9	10	12
Maine	*	*	*	*	*	*	*	8	10	14
Maryland	2	3	4	6	4	6	7	10	14	16
Massachusetts	6	8	11	12	15	16	16	18	21	23
Michigan	3	5	6	9	13	18	21	22	25	26
Minnesota	6	7	9	11	13	14	17	17	19	20
Mississippi	4	*	4	4	3	2	6	7	9	10
Missouri	3	5	6	6	7	8	10	10	11	13
Montana	*	*	*	*	*	*	*	3	4	4
Nebraska	*	*	*	*	12	16	18	20	21	22
Nevada	*	*	*	10	*	*	11	9	10	11
New Hampshire	*	*	6	8	10	13	14	16	17	20
New Jersey	*	4	5	4	5	6	10	15	19	20
New Mexico	*	*	*	*	*	*	*	*	*	8
New York	9	16	20	23	25	25	24	27	28	30
North Carolina	3	4	4	6	6	6	8	9	9	11
North Dakota	*	*	*	*	*	*	*	*	8	8
Ohio	4	4	4	4	5	7	9	11	14	15
Oklahoma	*	*	5	6	8	10	11	11	14	13
Oregon	2	3	4	5	7	7	9	8	12	13
Pennsylvania	5	8	10	13	14	15	16	17	19	20
Puerto Rico	0	*	*	*	*	*	*	*	*	*
Rhode Island	*	*	*	10	16	18	21	25	28	32
South Carolina	*	*	4	4	3	5	7	9	9	10
South Dakota	*	*	*	*	*	*	*	14	18	*
Tennessee	4	6	6	8	8	7	9	10	11	14
Texas	4	7	13	14	16	16	17	18	18	19
Utah	3	6	10	11	13	13	15	19	20	23
Vermont	*	*	*	*	*	*	*	*	*	*
Virgin Islands	0	0	0	0	0	0	0	0	0	0
Virginia	2	5	7	9	11	12	12	14	17	20
Washington	4	5	6	6	8	9	10	10	11	13
West Virginia	*	*	*	*	*	*	*	*	*	*
Wisconsin	5	7	8	9	11	12	13	15	18	19
Wyoming	*	*	*	*	*	*	*	*	*	*
Nationwide	4 %	6 %	8 %	9 %	10 %	11 %	13 %	15 %	16 %	18 %

Notes: Some previously filed data have been revised. Carriers with under 10,000 lines in a state were not required to report.

* Data withheld to maintain firm confidentiality.

Table 8
End-User Switched Access Lines Served by Reporting Competitive Local Exchange Carriers

State	1999	2000		2001		2002		2003		2004
	Dec	Jun	Dec	Jun	Dec	Jun	Dec	Jun	Dec	Jun
Alabama	131,357	78,525	104,933	121,059	117,159	118,721	215,962	265,556	302,911	365,060
Alaska	*	*	*	*	*	*	*	*	*	*
Arizona	*	155,657	165,597	231,777	310,517	354,592	400,080	519,128	707,477	814,194
Arkansas	*	*	*	*	*	*	144,411	*	146,513	162,996
California	1,027,200	1,317,414	1,498,146	1,668,232	2,003,404	2,158,878	2,705,851	3,046,959	3,422,373	3,723,815
Colorado	141,135	204,608	286,955	325,983	391,257	434,125	482,014	495,007	505,772	498,583
Connecticut	86,385	136,086	154,349	164,379	187,450	222,815	236,462	234,372	242,643	272,385
Delaware	*	*	*	0	0	*	*	53,473	71,230	92,810
District of Columbia	77,865	72,696	94,850	124,630	126,461	161,114	160,174	174,584	180,680	215,421
Florida	681,382	670,714	718,157	864,892	866,809	1,035,417	1,509,299	1,552,996	1,576,562	1,785,001
Georgia	254,672	327,881	462,392	515,730	600,087	704,651	807,935	861,156	913,567	977,358
Hawaii	*	*	0	*	*	*	*	*	*	*
Idaho	0	0	*	*	*	*	*	33,864	46,858	47,398
Illinois	443,936	590,208	803,492	1,113,112	1,341,060	1,468,057	1,602,482	1,616,765	1,662,007	1,672,522
Indiana	96,091	156,280	191,921	180,221	205,845	252,722	284,532	348,159	457,657	501,936
Iowa	*	140,706	164,069	164,637	186,254	190,869	201,176	195,860	188,645	199,115
Kansas	*	84,823	106,686	121,294	145,659	176,322	258,312	318,862	310,032	316,946
Kentucky	45,522	*	56,392	*	*	*	92,483	97,288	162,391	218,810
Louisiana	71,206	57,617	69,437	108,820	93,107	115,220	188,652	212,363	229,051	283,333
Maine	*	*	*	*	*	*	*	70,275	78,050	113,957
Maryland	79,173	131,272	160,126	211,499	158,999	232,793	285,416	379,961	555,282	615,757
Massachusetts	277,476	384,548	509,731	576,442	669,209	736,932	750,473	846,276	973,607	997,760
Michigan	208,980	349,703	366,305	583,653	865,182	1,211,379	1,362,217	1,384,973	1,547,619	1,575,267
Minnesota	202,675	230,789	287,660	353,245	394,310	443,739	572,708	534,965	581,234	604,152
Mississippi	57,914	*	63,515	51,496	43,578	22,966	74,410	93,912	111,657	131,218
Missouri	113,347	178,377	203,537	224,442	262,947	279,342	336,895	334,319	362,346	430,538
Montana	*	*	*	*	*	*	*	17,473	18,616	19,204
Nebraska	*	*	*	*	144,229	159,617	177,698	190,754	199,498	205,560
Nevada	*	*	*	144,453	*	*	163,520	132,684	150,615	149,735
New Hampshire	*	*	52,137	67,315	85,549	109,610	125,893	136,510	142,385	170,433
New Jersey	*	294,690	323,680	300,594	330,005	396,865	682,249	1,009,996	1,235,977	1,319,513
New Mexico	*	*	*	*	*	*	*	*	*	76,469
New York	1,191,446	2,157,618	2,769,814	3,138,133	3,353,394	3,259,221	3,190,192	3,478,918	3,596,739	3,684,036
North Carolina	166,473	187,253	230,733	323,594	302,044	328,715	405,853	443,600	476,299	576,538
North Dakota	*	*	*	*	*	*	*	*	25,039	22,502
Ohio	262,159	255,267	308,213	280,088	352,811	510,623	652,104	754,020	946,303	979,885
Oklahoma	*	*	102,456	125,912	160,186	203,028	207,798	217,854	270,313	242,737
Oregon	47,239	58,699	99,326	118,425	153,084	154,492	183,319	167,965	249,696	267,121
Pennsylvania	412,761	671,437	870,618	1,122,623	1,186,897	1,329,357	1,405,894	1,413,458	1,585,025	1,706,036
Puerto Rico	0	*	*	*	*	*	*	*	*	*
Rhode Island	*	*	*	69,237	108,190	119,112	145,202	167,714	187,936	213,787
South Carolina	*	*	89,255	90,241	72,035	121,331	171,572	204,252	218,095	226,284
South Dakota	*	*	*	*	*	*	*	49,243	64,784	*
Tennessee	129,987	200,721	222,917	272,211	268,222	247,056	329,150	349,588	380,298	475,312
Texas	586,111	998,326	1,764,676	1,891,131	2,166,033	2,170,914	2,182,929	2,266,028	2,265,505	2,320,273
Utah	34,351	79,034	129,834	145,603	155,992	161,193	194,352	235,170	241,454	288,009
Vermont	*	*	*	*	*	*	*	*	*	*
Virgin Islands	0	0	0	0	0	0	0	0	0	0
Virginia	88,431	228,271	336,826	402,528	537,753	558,206	639,330	738,479	873,022	994,588
Washington	138,449	184,353	240,514	229,693	336,230	358,933	406,750	386,104	433,967	494,375
West Virginia	*	*	*	*	*	*	*	*	*	*
Wisconsin	177,336	244,373	278,087	322,735	367,195	420,200	477,915	526,343	603,492	626,809
Wyoming	*	*	*	*	*	*	*	*	*	*
Total	8,194,243	11,557,381	14,871,409	17,274,727	19,653,441	21,644,928	24,863,691	26,985,345	29,775,438	31,983,229

Note: Some previously filed data have been revised. Carriers with under 10,000 lines in a state were not required to report.

* Data withheld to maintain firm confidentiality.

Table 9
End-User Switched Access Lines Served by Reporting Incumbent Local Exchange Carriers

State	1999	2000		2001		2002		2003		2004
	Dec	Jun	Dec	Jun	Dec	Jun	Dec	Jun	Dec	Jun
Alabama	2,360,023	2,456,101	2,424,197	2,413,440	2,381,574	2,330,940	2,238,352	2,183,237	2,046,244	1,997,058
Alaska	460,425	486,337	481,684	474,215	462,804	484,065	466,880	430,339	425,322	419,304
Arizona	3,006,276	3,051,648	3,073,779	3,062,586	2,981,156	2,947,967	2,878,210	2,700,186	2,541,931	2,415,432
Arkansas	1,396,981	1,422,736	1,420,169	1,412,863	1,363,454	1,304,659	1,257,291	1,220,542	1,212,895	1,172,200
California	23,198,657	23,436,793	23,250,580	23,103,077	22,771,976	22,315,423	21,475,881	20,645,363	20,111,818	19,478,761
Colorado	2,873,169	2,887,311	2,833,948	2,805,532	2,727,654	2,717,320	2,642,166	2,557,814	2,496,330	2,439,132
Connecticut	2,416,300	2,438,119	2,382,208	2,363,687	2,329,716	2,305,082	2,266,558	2,219,140	2,172,574	2,102,689
Delaware	581,714	570,331	555,913	567,381	552,331	537,498	562,577	546,684	525,331	497,466
District of Columbia	994,975	914,716	922,531	887,590	865,008	829,592	976,228	932,576	901,056	915,583
Florida	11,090,801	11,365,772	11,349,981	11,211,674	11,019,972	10,603,872	10,406,129	10,133,865	9,975,073	9,633,565
Georgia	4,869,774	5,032,360	4,988,949	4,905,002	4,723,842	4,604,834	4,423,324	4,308,760	4,187,544	4,044,935
Hawaii	736,080	737,255	744,205	739,979	735,459	729,239	723,111	707,634	698,178	683,146
Idaho	709,210	724,440	733,580	732,814	706,991	707,180	700,089	687,342	678,088	666,914
Illinois	8,040,394	7,990,635	7,875,563	7,558,613	7,578,706	7,322,494	6,994,127	6,741,172	6,517,977	6,326,988
Indiana	3,559,946	3,597,365	3,574,414	3,576,710	3,637,893	3,542,715	3,459,873	3,327,235	3,188,863	3,095,055
Iowa	1,439,574	1,414,622	1,387,746	1,379,872	1,356,643	1,357,155	1,329,633	1,296,148	1,285,764	1,232,364
Kansas	1,543,799	1,533,755	1,498,636	1,441,940	1,397,937	1,324,804	1,236,051	1,186,953	1,149,527	1,102,696
Kentucky	2,126,249	2,173,716	2,166,664	2,170,191	2,173,958	2,141,611	2,100,313	2,024,894	1,910,272	1,841,495
Louisiana	2,423,524	2,515,485	2,506,348	2,505,961	2,440,988	2,428,935	2,353,620	2,251,091	2,146,036	2,040,518
Maine	822,990	818,979	804,652	801,649	764,536	768,216	797,973	775,378	737,751	690,024
Maryland	3,932,708	3,760,409	3,802,622	3,599,027	3,660,869	3,488,961	3,634,524	3,541,493	3,369,687	3,239,029
Massachusetts	4,580,383	4,313,988	4,252,502	4,131,520	3,931,469	3,804,513	3,914,218	3,771,142	3,565,171	3,432,038
Michigan	6,287,424	6,363,024	6,262,696	6,027,730	5,965,971	5,498,139	5,174,471	4,819,294	4,614,333	4,487,619
Minnesota	2,926,177	2,935,154	2,940,034	2,861,684	2,698,867	2,804,937	2,708,221	2,572,413	2,453,860	2,377,827
Mississippi	1,288,847	1,355,932	1,352,284	1,356,136	1,332,389	1,332,853	1,277,168	1,235,339	1,186,725	1,148,580
Missouri	3,464,118	3,508,475	3,418,983	3,446,252	3,328,130	3,262,072	3,145,872	3,067,732	2,997,347	2,906,801
Montana	530,884	514,992	529,878	527,989	521,550	514,353	509,979	500,865	490,505	482,548
Nebraska	946,718	1,010,682	949,217	931,979	1,030,125	867,474	828,394	775,829	736,105	736,257
Nevada	1,331,122	1,341,786	1,353,193	1,366,124	1,352,724	1,351,282	1,348,042	1,304,641	1,301,193	1,272,060
New Hampshire	861,976	813,919	805,143	775,864	758,515	741,553	743,300	723,408	703,594	670,480
New Jersey	6,867,616	6,705,441	6,747,131	6,707,243	6,482,459	6,226,079	6,200,678	5,766,555	5,425,840	5,148,627
New Mexico	940,489	947,809	957,195	977,439	965,946	969,763	965,816	940,232	919,450	894,345
New York	12,675,692	11,532,265	10,952,903	10,689,293	10,223,476	9,806,596	10,037,200	9,588,446	9,115,865	8,685,767
North Carolina	4,922,110	5,136,006	5,133,984	5,040,317	5,023,740	4,942,113	4,824,385	4,682,253	4,630,912	4,440,280
North Dakota	357,062	354,945	317,270	312,573	306,963	303,326	293,639	280,507	275,457	265,881
Ohio	6,904,938	6,944,806	6,922,773	6,876,434	6,967,603	6,705,911	6,405,570	6,131,768	5,889,260	5,697,351
Oklahoma	2,008,819	1,983,894	1,950,618	1,923,027	1,873,489	1,822,278	1,726,359	1,679,984	1,638,861	1,591,936
Oregon	2,104,982	2,119,998	2,109,510	2,079,221	2,043,164	2,005,347	1,955,544	1,871,970	1,813,627	1,743,918
Pennsylvania	8,474,914	8,200,347	8,012,115	7,818,599	7,524,072	7,288,959	7,394,441	7,146,626	6,922,904	6,638,982
Puerto Rico	1,294,962	1,288,076	1,299,291	1,300,665	1,288,439	1,288,718	1,276,493	1,212,779	1,178,707	1,111,894
Rhode Island	676,212	639,438	627,784	604,128	570,513	547,728	542,069	509,749	482,392	448,853
South Carolina	2,222,641	2,234,165	2,314,649	2,239,383	2,276,681	2,253,384	2,210,548	2,143,712	2,100,205	2,025,422
South Dakota	353,816	353,073	309,349	338,834	327,150	314,755	309,173	296,879	297,540	271,682
Tennessee	3,322,220	3,419,317	3,412,145	3,352,224	3,289,154	3,232,548	3,147,556	3,042,739	2,943,127	2,818,771
Texas	12,601,936	12,349,899	11,892,768	11,496,247	11,365,441	11,006,831	10,766,127	10,451,045	10,269,558	10,139,446
Utah	1,197,043	1,207,581	1,174,625	1,149,667	1,086,537	1,090,791	1,075,061	1,019,089	993,796	940,678
Vermont	404,836	377,987	400,929	399,084	388,399	383,917	395,441	385,901	376,390	366,716
Virgin Islands	66,701	69,063	0	70,426	70,784	71,984	71,894	71,132	71,284	70,672
Virginia	4,853,301	4,184,850	4,317,626	4,203,412	4,436,193	4,276,468	4,512,398	4,366,897	4,192,316	4,075,297
Washington	3,811,920	3,837,744	3,784,183	3,751,683	3,635,702	3,622,857	3,553,994	3,452,669	3,375,160	3,276,000
West Virginia	1,004,031	910,992	927,432	980,575	967,218	940,483	974,090	962,417	954,583	912,228
Wisconsin	3,184,664	3,239,809	3,178,516	3,151,854	3,121,462	3,145,341	3,063,426	2,953,647	2,834,559	2,754,836
Wyoming	255,572	237,588	256,434	259,839	255,790	256,403	251,672	241,316	238,045	235,360
Total	181,307,695	179,761,930	177,641,529	174,861,248	172,043,582	167,472,318	164,526,149	158,386,821	153,266,932	148,103,506

Note: Some previously filed data have been revised. Carriers with under 10,000 lines in a state were not required to report.

Table 10
CLEC-Reported End-User Switched Access Lines by State
(As of June 30, 2004)

State	CLEC-Owned	UNEs	Resold Lines	Total
Alabama	75,687	207,436	81,937	365,060
Alaska	*	*	*	*
Arizona	409,317	267,651	137,225	814,194
Arkansas	45,528	109,809	7,659	162,996
California	1,042,458	2,097,112	584,245	3,723,815
Colorado	155,155	233,794	109,635	498,583
Connecticut	111,173	92,653	68,560	272,385
Delaware	*	51,635	*	92,810
District of Columbia	72,478	81,820	61,123	215,421
Florida	367,481	802,859	614,661	1,785,001
Georgia	182,001	642,173	153,185	977,358
Hawaii	*	*	*	*
Idaho	*	26,147	*	47,398
Illinois	400,253	1,120,585	151,684	1,672,522
Indiana	90,730	357,102	54,104	501,936
Iowa	39,925	144,184	15,006	199,115
Kansas	76,491	215,460	24,994	316,946
Kentucky	83,002	112,320	23,488	218,810
Louisiana	92,830	156,050	34,454	283,333
Maine	19,561	62,679	31,717	113,957
Maryland	115,598	390,141	110,018	615,757
Massachusetts	389,855	416,161	191,744	997,760
Michigan	106,307	1,387,936	81,024	1,575,267
Minnesota	168,751	309,925	125,476	604,152
Mississippi	5,180	97,730	28,308	131,218
Missouri	55,185	321,525	53,828	430,538
Montana	14,791	*	*	19,204
Nebraska	134,835	42,773	27,952	205,560
Nevada	29,872	65,676	54,186	149,735
New Hampshire	65,182	81,302	23,949	170,433
New Jersey	105,458	987,393	226,662	1,319,513
New Mexico	14,600	47,372	14,497	76,469
New York	418,398	2,554,413	711,226	3,684,036
North Carolina	101,286	334,410	140,842	576,538
North Dakota	7,623	*	*	22,502
Ohio	108,441	759,213	112,231	979,885
Oklahoma	138,068	80,649	24,020	242,737
Oregon	34,898	190,756	41,467	267,121
Pennsylvania	573,167	898,723	234,147	1,706,036
Puerto Rico	*	*	*	*
Rhode Island	130,671	70,927	12,189	213,787
South Carolina	28,239	132,739	65,307	226,284
South Dakota	*	*	*	*
Tennessee	94,384	315,897	65,031	475,312
Texas	461,568	1,595,937	262,767	2,320,273
Utah	67,833	141,230	78,946	288,009
Vermont	*	*	*	*
Virgin Islands	0	0	0	0
Virginia	491,614	414,937	88,038	994,588
Washington	148,870	256,327	89,178	494,375
West Virginia	*	*	*	*
Wisconsin	57,631	514,907	54,271	626,809
Wyoming	*	*	*	*
Total	7,487,198	19,356,399	5,139,632	31,983,229

* Data withheld to maintain firm confidentiality.

Table 11
Percentage of Lines Provided to
Residential and Small Business Customers
(As of June 30, 2004)

State	ILECs	CLECs	Total
Alabama	83 %	59 %	80 %
Alaska	80	*	*
Arizona	74	69	73
Arkansas	88	60	85
California	82	70	80
Colorado	77	59	74
Connecticut	87	58	84
Delaware	67	76	68
District of Columbia	26	28	26
Florida	83	47	77
Georgia	78	62	75
Hawaii	83	*	*
Idaho	77	78	77
Illinois	72	73	72
Indiana	76	65	75
Iowa	76	88	78
Kansas	87	62	81
Kentucky	81	77	81
Louisiana	81	71	80
Maine	79	78	79
Maryland	64	69	65
Massachusetts	68	64	67
Michigan	73	77	74
Minnesota	78	64	75
Mississippi	82	78	82
Missouri	87	71	85
Montana	80	75	79
Nebraska	69	69	69
Nevada	75	36	71
New Hampshire	79	65	76
New Jersey	66	67	66
New Mexico	79	53	77
New York	68	68	68
North Carolina	81	52	78
North Dakota	81	93	82
Ohio	77	66	75
Oklahoma	87	68	85
Oregon	82	71	80
Pennsylvania	76	52	71
Puerto Rico	90	*	*
Rhode Island	72	79	74
South Carolina	83	59	80
South Dakota	75	*	*
Tennessee	84	55	80
Texas	85	65	82
Utah	76	63	73
Vermont	72	*	*
Virgin Islands	99	NA	99
Virginia	62	77	65
Washington	79	58	76
West Virginia	79	*	*
Wisconsin	78	61	75
Wyoming	74	*	*
Nationwide	77 %	65 %	75 %

NA -- Not Applicable.

* Data withheld to maintain firm confidentiality.

Table 12
Number of Reporting Local Exchange Carriers
(As of June 30, 2004)

State	ILECs	CLECs	Total
Alabama	9	10	19
Alaska	5	1	6
Arizona	3	13	16
Arkansas	4	5	9
California	8	27	35
Colorado	3	13	16
Connecticut	2	9	11
Delaware	1	4	5
District of Columbia	1	8	9
Florida	8	28	36
Georgia	15	23	38
Hawaii	1	1	2
Idaho	5	5	10
Illinois	6	20	26
Indiana	7	13	20
Iowa	10	11	21
Kansas	6	12	18
Kentucky	10	12	22
Louisiana	5	10	15
Maine	5	5	10
Maryland	2	15	17
Massachusetts	1	15	16
Michigan	7	17	24
Minnesota	20	18	38
Mississippi	6	8	14
Missouri	6	13	19
Montana	7	4	11
Nebraska	6	6	12
Nevada	7	6	13
New Hampshire	4	7	11
New Jersey	2	19	21
New Mexico	4	4	8
New York	7	30	37
North Carolina	16	17	33
North Dakota	9	4	13
Ohio	9	21	30
Oklahoma	11	6	17
Oregon	8	11	19
Pennsylvania	9	24	33
Puerto Rico	1	1	2
Rhode Island	1	5	6
South Carolina	14	15	29
South Dakota	8	3	11
Tennessee	14	15	29
Texas	14	28	42
Utah	6	9	15
Vermont	4	1	5
Virgin Islands	1	0	1
Virginia	5	19	24
Washington	7	14	21
West Virginia	2	2	4
Wisconsin	11	11	22
Wyoming	2	3	5
Nationwide - Unduplicated	185	136	321
Total State Filings ¹	345	601	946
Required Filings ¹	308	549	857
Voluntary Filings ¹	37	52	89

¹ Each report represents all of a company's operations in a given state. Carriers with both ILEC and CLEC operations in the same state provide separate reports

Table 13
Mobile Wireless Telephone Subscribers ¹

State	June 2004		Subscribers										Percent Change Jun 03 - Jun 04
	Carriers ¹	Percent Resold ²	1999	2000		2001		2002		2003		2004	
			Dec	Jun	Dec	Jun	Dec	Jun	Dec	Jun	Dec	Jun	
Alabama	10	8 %	1,080,410	1,253,084	1,386,294	1,930,631	1,979,075	2,027,845	1,987,254	2,100,557	2,242,108	2,301,847	10 %
Alaska	4	5	165,221	169,892	*	218,424	240,216	242,133	267,630	*	303,184	307,323	NA
American Samoa	*	*	0	0	0	0	0	0	0	0	0	*	NA
Arizona	14	6	1,125,321	1,624,668	1,855,115	2,018,410	2,171,021	2,412,998	2,520,058	2,643,952	2,843,061	3,079,657	16
Arkansas	7	5	719,919	715,467	743,928	891,275	970,127	1,130,302	1,156,345	1,351,291	1,296,901	1,376,564	2
California	15	6	8,544,941	12,283,369	12,710,520	14,184,625	15,052,203	16,007,376	17,575,105	18,892,619	20,360,454	21,575,797	14
Colorado	10	4	1,552,718	1,654,989	1,856,075	1,983,405	2,145,816	2,247,166	2,358,748	2,426,929	2,554,731	2,727,910	12
Connecticut	6	4	1,077,089	1,136,618	1,277,123	1,418,367	1,639,914	1,577,873	1,694,110	1,791,944	1,928,988	2,064,204	15
Delaware	6	5	270,848	275,219	371,014	389,284	412,611	433,059	438,196	503,353	543,526	593,452	18
Dist. of Columbia	6	9	346,681	333,815	354,735	382,457	404,489	415,399	472,832	520,182	513,102	555,958	7
Florida	12	15	5,158,079	4,983,478	6,369,985	7,536,670	8,937,063	8,607,715	9,482,349	10,252,348	10,855,430	11,916,615	16
Georgia	12	7	2,538,983	2,687,238	2,754,784	4,076,119	4,149,717	4,300,831	4,497,576	4,709,288	4,940,091	5,332,517	13
Guam	*	*	*	*	*	*	*	*	*	*	*	*	NA
Hawaii	5	1	288,425	454,364	524,291	543,283	595,721	640,247	689,857	732,262	771,023	819,262	12
Idaho	10	11	271,436	296,066	344,564	398,781	444,864	500,693	536,064	572,406	605,488	653,779	14
Illinois	10	6	3,922,482	4,309,660	5,143,767	5,621,044	5,631,172	5,409,370	6,476,683	6,834,217	7,183,989	7,529,966	10
Indiana	8	10	1,318,975	1,717,378	1,715,074	1,781,247	1,921,356	2,032,290	2,390,567	2,456,509	2,642,810	2,844,568	16
Iowa	11	9	774,773	975,629	832,106	861,382	1,087,608	1,157,580	1,239,384	1,250,305	1,342,931	1,445,711	16
Kansas	12	4	669,472	724,024	801,293	901,225	956,050	1,061,171	1,117,277	1,195,230	1,261,242	1,345,160	13
Kentucky	11	9	911,700	999,544	1,026,334	1,176,756	1,405,043	1,505,982	1,456,705	1,595,290	1,812,657	2,000,459	25
Louisiana	10	11	1,227,106	1,294,693	1,306,457	1,677,292	1,920,740	2,187,811	2,190,613	2,365,224	2,470,146	2,547,153	8
Maine	6	1	187,003	283,640	359,786	399,616	427,313	457,835	466,896	524,246	568,159	610,533	16
Maryland	8	5	1,634,625	2,013,058	2,298,651	2,446,818	2,614,216	2,684,441	2,913,943	3,108,086	3,319,605	3,575,747	15
Massachusetts	6	4	1,892,014	2,228,169	2,649,130	2,753,685	2,996,816	3,289,934	3,375,726	3,506,039	3,741,975	3,919,139	12
Michigan	13	8	3,512,813	3,423,535	3,551,719	4,071,091	4,238,399	4,758,538	4,674,980	4,889,269	5,114,259	5,430,637	11
Minnesota	12	10	1,550,411	1,595,560	1,851,430	2,014,317	2,153,857	2,254,895	2,415,033	2,564,783	2,677,472	2,823,079	10
Mississippi	9	12	673,355	509,038	786,577	993,781	1,048,061	1,106,700	1,112,765	1,232,750	1,324,160	1,411,277	14
Missouri	11	6	1,855,452	1,848,775	1,767,411	1,937,684	2,106,599	2,246,430	2,289,831	2,515,325	2,691,255	2,859,953	14
Montana	*	*	*	*	*	*	279,349	291,429	315,512	343,160	373,947	*	NA
Nebraska	9	2	576,296	600,885	659,380	712,685	791,799	838,568	867,810	900,744	937,184	984,355	9
Nevada	8	7	750,335	825,163	684,752	766,581	842,155	895,586	984,486	1,077,380	1,216,838	1,319,684	22
New Hampshire	8	12	280,508	309,263	387,264	445,181	492,390	529,795	525,689	598,504	648,788	686,746	15
New Jersey	6	3	2,289,181	2,750,024	3,575,130	3,896,778	4,283,643	4,531,457	4,587,640	5,392,240	5,799,417	6,326,459	17
New Mexico	10	13	363,827	395,111	443,343	619,582	660,849	735,107	780,855	828,869	859,408	939,091	13
New York	11	5	4,833,816	5,016,524	5,918,136	6,749,096	7,429,249	7,915,526	8,937,683	8,829,070	9,453,613	9,939,759	13
North Carolina	12	8	2,536,068	2,730,178	3,105,811	3,377,331	3,767,598	4,610,120	4,094,715	4,305,521	4,554,723	4,875,916	13
North Dakota	*	*	*	*	*	*	*	245,578	*	*	*	*	NA
Ohio	14	6	3,237,786	3,278,960	4,150,498	4,255,934	4,739,795	4,887,376	5,212,204	5,659,459	5,817,211	6,188,081	9
Oklahoma	13	4	826,637	979,513	1,124,214	1,200,234	1,288,357	1,366,475	1,440,970	1,574,588	1,614,191	1,724,505	10
Oregon	10	5	914,848	1,082,425	1,201,207	1,268,909	1,399,279	1,473,883	1,682,343	1,682,036	1,778,936	1,894,285	13
Pennsylvania	10	6	2,767,474	3,850,372	4,129,186	4,378,216	4,849,085	4,987,067	5,258,844	5,681,653	6,073,573	6,420,037	13
Puerto Rico	6	8	*	1,090,005	757,613	1,374,747	1,128,736	1,136,619	1,516,808	1,401,599	1,631,266	1,698,702	21
Rhode Island	6	4	279,304	313,550	355,889	401,805	456,059	463,636	515,547	527,366	567,331	615,398	17
South Carolina	11	15	1,137,232	1,236,338	1,392,586	1,502,345	1,752,457	1,830,516	1,896,369	2,041,541	2,149,480	2,337,367	14
South Dakota	5	7	*	*	*	*	278,646	292,210	325,114	344,825	365,211	382,906	11
Tennessee	13	5	1,529,054	1,876,444	1,985,851	2,251,208	2,510,978	2,660,068	2,674,566	2,800,735	2,974,512	3,171,487	13
Texas	20	7	5,792,453	6,705,423	7,548,537	8,294,338	9,156,187	9,650,715	10,133,280	10,776,234	11,327,700	12,091,134	12
Utah	9	4	643,824	692,006	750,244	833,492	919,002	970,854	1,052,522	1,094,563	1,154,992	1,229,029	12
Vermont	*	3	*	*	*	*	*	*	*	*	*	*	NA
Virgin Islands	*	25	*	0	0	*	*	*	*	*	*	*	NA
Virginia	11	3	2,262,567	2,447,687	2,708,342	3,059,420	3,270,165	3,429,450	3,753,106	3,879,582	4,147,182	4,392,319	13
Washington	11	6	1,873,475	2,144,767	2,286,082	2,493,214	2,706,030	2,849,043	2,869,784	3,102,750	3,377,193	3,567,896	15
West Virginia	10	5	241,265	347,916	392,384	452,036	498,811	549,722	576,503	579,983	675,257	713,657	23
Wisconsin	11	8	1,525,818	1,342,908	1,698,520	2,008,679	2,229,389	2,523,956	2,396,562	2,533,215	2,723,985	2,831,645	12
Wyoming	5	2	127,634	*	*	173,939	194,665	168,232	191,939	276,344	295,706	277,658	0
Nationwide	85	7 %	79,696,083	90,643,058	101,043,219	114,028,928	123,990,857	130,751,459	138,878,293	147,623,734	157,042,082	167,313,001	13 %

NA -- Not Applicable.

* Data withheld to maintain firm confidentiality.

¹ Carriers with under 10,000 subscribers in a state were not required to report.

² Percentage of mobile wireless subscribers receiving their service from a mobile wireless reseller.

Table 14
Percentage of Zip Codes with Competitive Local Exchange Carriers (CLECs)

Number of CLECs	2000		2001		2002		2003		2004
	Jun	Dec	Jun	Dec	Jun	Dec	Jun	Dec	Jun
Zero	46.6 %	44.0 %	40.0 %	38.0 %	33.0 %	31.3 %	26.8 %	25.1 %	21.0 %
One	19.7	16.8	16.3	16.8	19.5	19.3	18.6	17.3	15.3
Two	9.1	10.4	9.9	10.0	10.3	10.4	10.0	10.4	9.8
Three	6.9	7.2	8.2	7.7	7.9	6.7	6.7	7.0	7.5
Four	5.0	5.5	5.6	6.1	6.6	6.3	5.6	5.3	6.1
Five	3.9	4.0	4.1	4.5	4.9	5.2	5.0	4.8	5.4
Six	2.4	3.0	3.3	3.8	4.0	4.4	4.4	4.7	5.6
Seven	1.6	2.3	2.6	2.9	3.1	3.5	4.1	4.1	5.4
Eight	1.2	1.7	2.2	2.2	2.5	2.9	3.6	3.7	5.4
Nine	1.1	1.4	1.7	2.1	1.9	2.6	3.1	3.2	4.0
Ten or More	2.5	3.7	5.9	5.9	6.3	7.3	12.2	14.4	14.7

Table 15
Percentage of Households in Zip Codes with Competitive Local Exchange Carriers

Number of CLECs	2000		2001		2002		2003		2004
	Jun	Dec	Jun	Dec	Jun	Dec	Jun	Dec	Jun
Zero	14.5 %	11.8 %	9.5 %	8.8 %	6.6 %	5.8 %	4.5 %	3.8 %	3.0 %
One	13.5	10.6	9.0	8.5	9.1	8.2	6.5	6.0	4.8
Two	11.9	10.6	8.8	9.7	9.0	8.3	6.1	5.7	4.8
Three	12.5	11.6	11.5	10.8	9.5	7.0	5.4	5.7	4.9
Four	11.1	11.3	10.1	9.7	10.3	8.3	6.0	5.5	5.6
Five	9.6	9.3	8.7	8.8	9.0	8.4	6.8	5.7	5.7
Six	6.4	7.2	7.6	8.0	8.4	8.4	7.1	6.9	7.0
Seven	4.3	6.1	6.0	6.7	7.6	7.6	7.9	6.7	8.1
Eight	3.7	4.9	5.6	5.3	6.0	7.0	8.0	7.4	9.8
Nine	3.7	4.2	4.5	5.3	4.6	7.0	7.2	7.0	8.4
Ten or More	8.9	12.2	18.8	18.3	19.7	23.9	34.6	39.5	37.9

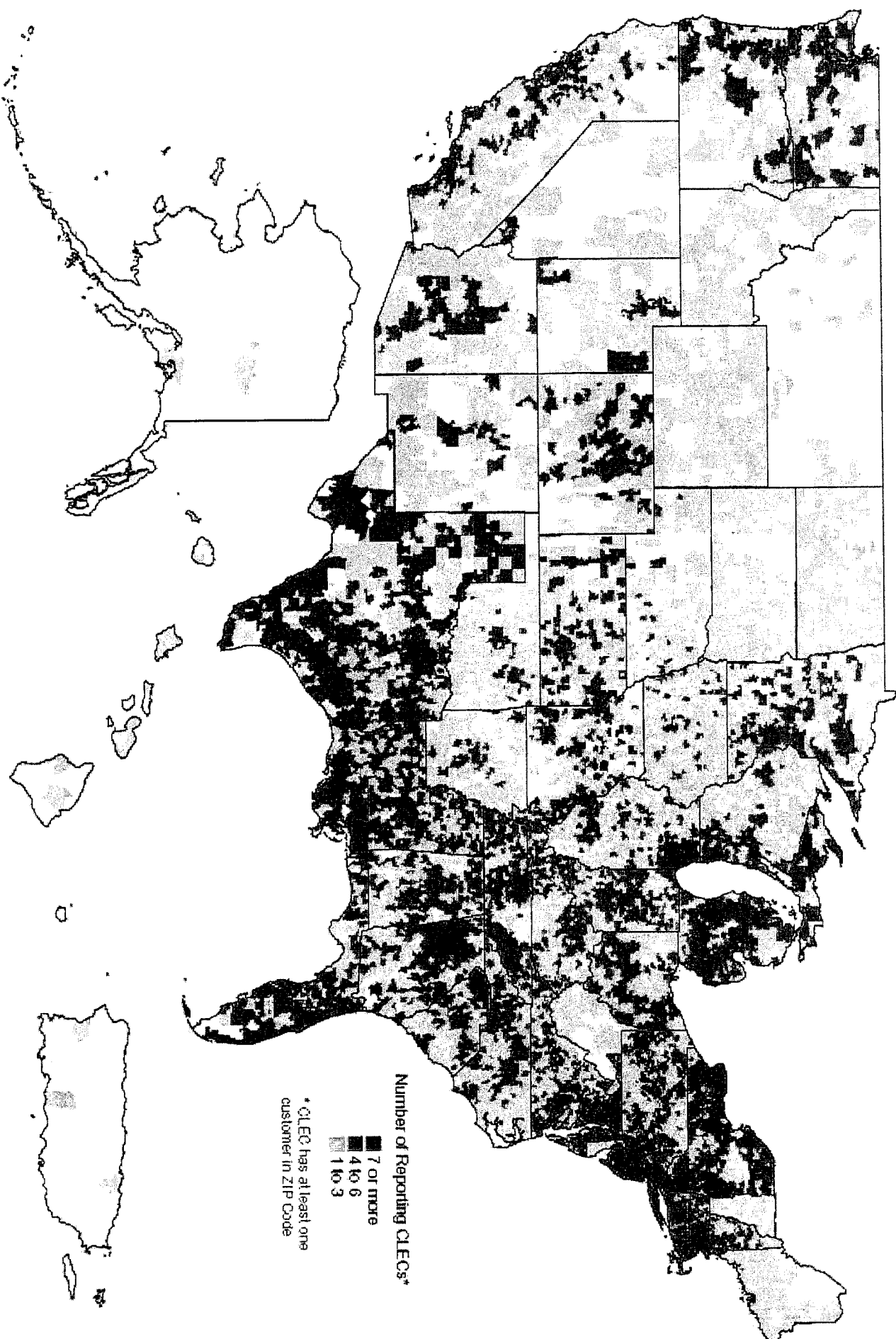
Source: Demographic Power Pack, Current Year Update (2000), MapInfo Corporation

Note: Figures may not add to 100% due to rounding.

Table 16
Percentage of Zip Codes with Competitive Local Exchange Carriers as of June 30, 2004

State	Number of CLECs								
	Zero	One - Three	Four	Five	Six	Seven	Eight	Nine	Ten or More
Alabama	18 %	32 %	12 %	13 %	10 %	7 %	6 %	2 %	0 %
Alaska	87	13	0	0	0	0	0	0	0
Arizona	11	35	6	5	6	7	12	14	5
Arkansas	43	46	10	0	0	0	0	0	0
California	14	32	8	10	9	8	8	5	6
Colorado	21	33	11	8	5	6	8	6	2
Connecticut	2	11	13	16	30	27	1	0	0
Delaware	2	91	7	0	0	0	0	0	0
Dist. of Columbia	0	12	20	28	40	0	0	0	0
Florida	2	12	4	4	5	5	4	5	59
Georgia	13	28	7	3	4	4	5	7	29
Hawaii	52	48	0	0	0	0	0	0	0
Idaho	41	59	0	0	0	0	0	0	0
Illinois	28	30	4	2	6	5	3	2	20
Indiana	8	40	8	8	9	10	11	4	1
Iowa	32	59	5	3	0	0	0	0	0
Kansas	26	41	7	8	5	5	7	1	0
Kentucky	24	46	11	8	3	4	3	1	0
Louisiana	6	28	5	9	13	9	23	7	0
Maine	11	87	2	0	0	0	0	0	0
Maryland	0	10	6	8	11	8	10	10	36
Massachusetts	0	8	6	7	5	7	15	12	40
Michigan	7	19	7	7	7	11	10	12	20
Minnesota	29	34	5	4	5	6	5	9	3
Mississippi	7	40	13	10	14	12	4	0	0
Missouri	42	24	7	3	3	9	7	5	0
Montana	90	10	0	0	0	0	0	0	0
Nebraska	55	35	5	5	0	0	0	0	0
Nevada	29	42	12	14	2	0	0	0	0
New Hampshire	1	43	13	13	13	16	0	0	0
New Jersey	0	3	3	2	2	6	9	7	67
New Mexico	42	43	15	0	0	0	0	0	0
New York	4	13	5	5	5	6	5	5	52
North Carolina	10	47	7	5	4	6	4	5	12
North Dakota	61	39	0	0	0	0	0	0	0
Ohio	9	40	6	5	6	4	6	6	18
Oklahoma	40	40	4	3	13	0	0	0	0
Oregon	19	35	6	5	6	5	12	3	9
Pennsylvania	11	35	8	5	6	6	7	6	16
Puerto Rico	80	20	0	0	0	0	0	0	0
Rhode Island	0	11	9	80	0	0	0	0	0
South Carolina	17	35	9	7	19	11	3	0	0
South Dakota	58	42	0	0	0	0	0	0	0
Tennessee	13	27	8	6	7	4	5	6	22
Texas	11	21	4	4	4	4	6	5	40
Utah	28	38	4	2	11	8	10	0	0
Vermont	66	34	0	0	0	0	0	0	0
Virginia	11	40	8	9	5	5	4	6	13
Washington	19	30	6	7	6	6	7	7	12
West Virginia	46	54	0	0	0	0	0	0	0
Wisconsin	27	38	4	4	9	10	8	0	0
Wyoming	43	57	0	0	0	0	0	0	0
Nationwide	21 %	33 %	6 %	5	6 %	5 %	5 %	4 %	15 %

Reporting CLECs by ZIP Code
(As of June 30, 2004)



Customer Response

Publication: *Local Telephone Competition: Status as of June 30, 2004.*

You can help us provide the best possible information to the public by completing this form and returning it to the Industry Analysis and Technology Division of the FCC's Wireline Competition Bureau.

1. Please check the category that best describes you:

☐ press
☐ current telecommunications carrier
☐ potential telecommunications carrier
☐ business customer evaluating vendors/service options
☐ consultant, law firm, lobbyist
☐ other business customer
☐ academic/student
☐ residential customer
☐ FCC employee
☐ other federal government employee
☐ state or local government employee
☐ Other (please specify)

2. Please rate the report: Excellent Good Satisfactory Poor No opinion

Data accuracy	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Data presentation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Timeliness of data	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Completeness of data	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Text clarity	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Completeness of text	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

3. Overall, how do you rate this report? Excellent Good Satisfactory Poor No opinion
- | | | | | | |
|--|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
|--|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|

4. How can this report be improved?

5. May we contact you to discuss possible improvements?

Name:

Telephone #:

To discuss the information in this report, contact: 202-418-0940 or for users of TTY equipment, call 202-418-0484		
Fax this response to	or	Mail this response to
202-418-0520		FCC/WCB/IATD Mail Stop 1600 F Washington, DC 20554