

TIME WARNER INC.
Form 10-Q
November 04, 2015
Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

for the quarterly period ended September 30, 2015 or

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

**for the transition period from _____ to _____
Commission file number 001-15062**

TIME WARNER INC.

(Exact name of Registrant as specified in its charter)

Delaware

*(State or other jurisdiction of
incorporation or organization)*

13-4099534

*(I.R.S. Employer
Identification No.)*

One Time Warner Center

New York, NY 10019-8016

(Address of Principal Executive Offices) (Zip Code)

(212) 484-8000

(Registrant's Telephone Number, Including Area Code)

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

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

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

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

		Shares Outstanding as of October 27, 2015
Description of Class		
Common Stock	\$.01 par value	799,480,039

Table of Contents

TIME WARNER INC.
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS
AND OTHER FINANCIAL INFORMATION

	Page
<u>PART I. FINANCIAL INFORMATION</u>	
<u>Management's Discussion and Analysis of Results of Operations and Financial Condition</u>	1
<u>Item 4. Controls and Procedures</u>	24
<u>Consolidated Balance Sheet at September 30, 2015 and December 31, 2014</u>	25
<u>Consolidated Statement of Operations for the Three and Nine Months Ended September 30, 2015 and 2014</u>	26
<u>Consolidated Statement of Comprehensive Income for the Three and Nine Months Ended September 30, 2015 and 2014</u>	27
<u>Consolidated Statement of Cash Flows for the Nine Months Ended September 30, 2015 and 2014</u>	28
<u>Consolidated Statement of Equity for the Nine Months Ended September 30, 2015 and 2014</u>	29
<u>Notes to Consolidated Financial Statements</u>	30
<u>Supplementary Information</u>	49
<u>PART II. OTHER INFORMATION</u>	
<u>Item 1A. Risk Factors</u>	58
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	58
<u>Item 6. Exhibits</u>	58

Table of Contents

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

INTRODUCTION

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

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

Results of operations. This section provides an analysis of the Company's results of operations for the three and nine months ended September 30, 2015. This analysis is presented on both a consolidated and a business segment basis. In addition, a brief description of transactions and other items that affect the comparability of the results being analyzed is included.

Financial condition and liquidity. This section provides an analysis of the Company's financial condition as of September 30, 2015 and cash flows for the nine months ended September 30, 2015.

Caution concerning forward-looking statements. This section provides a description of the use of forward-looking information appearing in this report, including in MD&A and the consolidated financial statements.

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 TNT, TBS, Adult Swim, Cartoon Network, CNN, HBO, Cinemax, Warner Bros. and New Line Cinema. During the nine months ended September 30, 2015, the Company generated Revenues of \$21.039 billion (up 6% from \$19.834 billion in 2014), Operating Income of \$5.479 billion (up 19% from \$4.586 billion in 2014), Income from continuing operations of \$2.938 billion (down 7% from \$3.174 billion in 2014), Net Income attributable to Time Warner Inc. shareholders of \$2.976 billion (down 4% from \$3.109 billion in 2014) and Cash provided by operations from continuing operations of \$3.001 billion (up 12% from \$2.674 billion in 2014). The Company's results for the nine months ended September 30, 2014 were significantly impacted by the sale and leaseback of the Company's space in Time Warner Center in January 2014 as well as the reversal of certain tax reserves in connection with an audit settlement, restructuring and severance costs and programming impairments.

Time Warner Businesses

Time Warner classifies its operations into three reportable segments: Turner, Home Box Office and Warner Bros. For additional information regarding Time Warner's segments, refer to Note 13, Segment Information, to the accompanying consolidated financial statements.

Turner. The Turner segment consists of businesses managed by Turner Broadcasting System, Inc. (Turner). During the nine months ended September 30, 2015, the Turner segment recorded Revenues of \$7.935 billion (37% of the Company's total Revenues) and Operating Income of \$3.310 billion.

Turner operates domestic and international television networks and related properties that offer entertainment, sports, kids and news programming on television and digital platforms for consumers around the world. The Turner networks and related properties include TNT, TBS, Adult Swim, truTV, Turner Classic Movies, Turner Sports, Cartoon Network, Boomerang, CNN and HLN. The Turner networks generate revenues principally from providing programming to affiliates that have contracted to receive and distribute this programming to subscribers, from the sale of advertising and from licensing its original programming, including to subscription-video-on-demand (SVOD) services, and its brands and characters for consumer products. Turner's programming is available to audiences for viewing live and on demand across television, mobile devices and other digital platforms through services provided by affiliates and on Turner's digital properties. Turner also owns and operates various digital media businesses, including *Bleacher Report*; the CNN digital properties, including *CNN Go*, *CNN.com* and *CNNMoney.com*; and other digital properties

Table of Contents

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

associated with its networks, all of which generate revenues principally from the sale of advertising and sponsorships. In addition, Turner manages and operates sports league digital properties in conjunction with associated television rights, such as *NBA Digital* and *NCAA.com*, which also generate revenues primarily from the sale of advertising and sponsorships.

Home Box Office. The Home Box Office segment consists of businesses managed by Home Box Office, Inc. (Home Box Office). During the nine months ended September 30, 2015, the Home Box Office segment recorded Revenues of \$4.203 billion (20% of the Company's total Revenues) and Operating Income of \$1.485 billion.

Home Box Office operates the HBO and Cinemax multi-channel premium pay television services, with the HBO service ranking as the most widely distributed multi-channel premium pay television service. HBO- and Cinemax-branded premium pay and basic tier television services are distributed in over 60 countries in Latin America, Asia and Europe. In the U.S., Home Box Office generates revenues principally from providing programming to affiliates that have contracted to receive and distribute such programming to their customers who subscribe to the HBO or Cinemax services. HBO and Cinemax programming is available in the U.S. to subscribers of affiliates for viewing on its main HBO and Cinemax channels and its multiplex channels, through Home Box Office's on demand services, HBO On Demand and Cinemax On Demand, and through Home Box Office's streaming video-on-demand services, HBO GO and MAX GO. HBO GO and MAX GO are available on a variety of digital platforms, including mobile devices, gaming consoles and Internet connected streaming devices and televisions. Home Box Office's agreements with its domestic affiliates are typically long-term arrangements that provide for annual service fee increases and marketing support. While fees to Home Box Office under affiliate agreements are generally based on the number of subscribers served by the affiliates, the relationship between subscriber totals and the amount of revenues earned depends on the specific terms of the applicable agreement, which may include basic and/or pay television subscriber thresholds, volume discounts and other performance-based discounts. Marketing and promotional activities intended to retain existing subscribers and acquire new subscribers may also impact revenue earned. In April 2015, Home Box Office launched HBO NOW, a stand-alone premium streaming service available to consumers in the U.S.

Home Box Office also derives subscription revenues from the distribution by international affiliates of country-specific HBO and Cinemax premium pay and basic tier television services to their local subscribers. HBO GO is available to HBO premium pay television subscribers in a number of countries outside the U.S.

Additional sources of revenues for Home Box Office are (i) the home entertainment sales of its original programming, including *Game of Thrones*, *True Blood*, *Boardwalk Empire* and *True Detective*, via electronic sell-through (EST) and on DVDs and Blu-ray Discs and (ii) the licensing of its original programming to SVOD services and international television networks.

Warner Bros. The Warner Bros. segment consists of businesses managed by Warner Bros. Entertainment Inc. (Warner Bros.) that principally produce and distribute television shows, feature films and videogames. During the nine months ended September 30, 2015, the Warner Bros. segment recorded Revenues of \$9.687 billion (43% of the Company's total Revenues) and Operating Income of \$1.050 billion.

Warner Bros. is a leader in television production and distribution. For the 2015/2016 season, Warner Bros. is producing over 60 original series in the U.S., including (i) at least two series for each of the five broadcast networks (including *2 Broke Girls*, *Arrow*, *The Bachelor*, *The Big Bang Theory*, *Blindspot*, *DC's Legends of Tomorrow*, *The Flash*, *Gotham*, *Lucifer*, *The Middle*, *Mike & Molly*, *Mom*, *Rush Hour*, *Supergirl*, *Supernatural*, *Vampire Diaries* and *The Voice*), (ii) series for basic cable networks (including *Major Crimes*, *Pretty Little Liars* and *Rizzoli & Isles*), (iii) series for premium pay television services (including *The Leftovers*, *Shameless* and *Westworld*), (iv) series for SVOD services (including *11/22/63*, *Fuller House* and *Longmire*), (v) series for first-run syndication (including *The Ellen DeGeneres Show*, *Extra* and *TMZ*) and (vi) animated series for Cartoon Network, Adult Swim and Disney XD. Warner Bros. also licenses the rights to many of its U.S. original television series in international territories. Outside the U.S., Warner Bros. has a global network of production companies in 16 countries (located across Europe and South America and in Australia and New Zealand), which allows Warner Bros. to develop programming specifically tailored for the audiences in these territories. These local production companies also focus on developing non-scripted programs and formats that can be adapted and sold internationally and in the U.S. Television product revenues are generated principally from the licensing of programs to broadcast and cable television networks and premium pay television and SVOD services.

Warner Bros. is also a leader in the feature film industry and produces feature films under its Warner Bros. and New Line Cinema banners. The Warner Bros. segment's theatrical product revenues are generated principally through rental fees from theatrical exhibition of feature films, including the following recently released films: *Black Mass*, *Get Hard*, *The Intern*, *Mad Max: Fury Road*, *Magic Mike XXL*, *The Man from U.N.C.L.E.*, *Pan*, *San Andreas* and *Vacation*, and subsequently through licensing fees received from the distribution of films on premium pay television, television broadcast and cable networks and SVOD services.

Table of Contents

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

The segment also generates television and theatrical product revenues from the distribution of television and theatrical product in various digital formats (e.g., EST and video-on-demand) and on DVDs and Blu-ray Discs. In addition, the segment generates revenues through the development and distribution of videogames, including the following recently released videogames: *Batman: Arkham Knight*, *Lego Dimensions* and *Mortal Kombat X*. Warner Bros. television, film and videogame businesses benefit from a shared infrastructure, including shared production, distribution, marketing and administrative functions and resources.

The distribution and sale of physical discs is one of the largest contributors to the segment's revenues and profits. For the past several years, sales of physical discs have declined as the home entertainment industry has been undergoing significant changes as it transitions from the physical distribution of film and television content via DVDs and Blu-ray Discs to the electronic delivery of such content. Several factors have contributed to this decline, including consumers shifting to SVOD services and discount rental kiosks, which generate significantly less revenue per transaction for the Company than physical disc sales; changing retailer initiatives and strategies (e.g., reduction of floor space devoted to physical discs); retail store closures; increasing competition for consumer discretionary time and spending; and piracy. The electronic delivery of film and television content is growing and becoming more important to the Warner Bros. segment, which has helped to offset some of the decline in sales of physical discs. During the first nine months of 2015, across the home entertainment industry, consumer spending on physical discs continued to decline and consumer spending on electronic delivery continued to increase.

Television Industry

The U.S. television industry is continuing to evolve, with changes in technology, rapid growth in new video services, and corresponding increase in overall video content consumption and shift in consumer viewing habits. Consumers are watching an increasing amount of programming on-demand and across a wide variety of services and devices, including smartphones, tablets, PCs and internet-connected televisions. During 2014 and 2015, the number of multi-channel video service subscribers in the U.S. declined slightly, and the Company expects further modest declines. To counteract this trend, some multi-channel video service providers (MVPDs) are putting greater emphasis on selling smaller bundles of cable networks, resulting in higher subscriber declines for most individual networks than for multi-channel video services in total.

At the same time, the penetration of broadband and internet-connected devices has grown and SVOD services such as Amazon Prime, Hulu and Netflix have continued to increase their number of subscribers. These SVOD services have been, and are expected to continue, making significant investments in acquired and original programming. In addition, ad-supported broadband video services such as through YouTube and Facebook have continued to gain in popularity. Some television networks have launched SVOD services that are available to consumers without a multi-channel video service subscription.

As a result of these changes, consumers have more options for obtaining video content, including lower-cost alternatives. At the same time, however, the combination of new competitors, changes in viewing habits and declines in MVPD subscribers has negatively affected overall television ratings and, as a result, television advertising revenues

for the industry and certain of the Company's networks. There also has been a corresponding shift of advertising dollars to non-traditional video outlets.

To address these changes, the Company's strategy over the past few years has focused on strengthening its position within the traditional TV ecosystem, enhancing the value of traditional pay television subscriptions for consumers, and pursuing new opportunities outside the traditional ecosystem. As part of this strategy, the Company plans to continue increasing its investment in high-quality distinctive programming to enhance the value of its networks. The Company is also working to enhance the value to consumers of the traditional MVPD bundle and capitalize on the shift in consumption habits in a number of ways, including by expanding the amount of its content that is available on demand to MVPD subscribers and supporting the development of better user interfaces for on-demand multiplatform viewing. In addition, Turner has introduced new advertising products that provide greater data analytic tools and targeting capabilities to advertisers in order to more effectively compete with non-traditional outlets. The Company is also pursuing a number of initiatives to capitalize on the new opportunities presented by these changes, including launching and investing in SVOD services, as well as investing in short-form content production and digital-first news and entertainment networks.

Table of Contents

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

Recent Developments

Strategic Review

As part of its long-range planning process, the Company routinely reviews opportunities to streamline its operations and optimize resource allocation among its strategic priorities. In connection with that review, the Company will evaluate its future use of approximately \$100 million of programming rights. Because the Company has not yet completed its review, it is not able to estimate the charges, if any, it will incur.

Central European Media Enterprises Ltd.

On September 30, 2015, Central European Media Enterprises Ltd. (CME) entered into a credit agreement (the 2015 Credit Agreement) with third-party financial institutions for a 235 million senior unsecured term loan that will be funded in November 2015 and mature on November 1, 2019. Time Warner has guaranteed CME's obligations under the 2015 Credit Agreement for a fee equal to 8.5% less the interest rate on the term loan, to be paid to Time Warner semi-annually in cash or in kind at CME's option. CME will use the proceeds of the term loan to repay the \$261 million aggregate principal amount of its 5.0% Senior Convertible Notes due 2015 (the 2015 Notes) at maturity on November 15, 2015. As consideration for assisting CME in refinancing the 2015 Notes, Time Warner earned a commitment fee of \$9 million, which will accrue interest at a rate of 8.5%. As of September 30, 2015, there were no amounts outstanding under the 2015 Credit Agreement. CME may enter into unsecured hedge arrangements to protect against changes in the interest rate on the term loan during its term. If so, Time Warner will guarantee CME's obligations under such hedge arrangements.

iStreamPlanet

In August 2015, Turner acquired a majority ownership interest in iStreamPlanet Co., LLC (iStreamPlanet), a provider of streaming and cloud-based video and technology services, for \$149 million, net of cash acquired. As a result of Turner's acquisition of the additional interests in iStreamPlanet, Turner recorded a \$3 million gain on a previously held investment accounted for under the cost method and began consolidating iStreamPlanet in the third quarter of 2015. In connection with the acquisition, \$29 million of Redeemable noncontrolling interest was recorded in the accompanying Consolidated Balance Sheet.

June Debt Offering

On June 4, 2015, Time Warner issued \$2.1 billion aggregate principal amount of debt securities under a shelf registration statement. The Company used a portion of the net proceeds from this offering to retire at maturity the \$1.0 billion aggregate principal amount outstanding of its 3.15% Notes due July 15, 2015. See Financial Condition and Liquidity Outstanding Debt and Other Financing Arrangements for further information.

Debt Tender Offer and Redemption

In June 2015, Time Warner purchased \$687 million aggregate principal amount of the \$1.0 billion aggregate principal amount outstanding of its 5.875% Notes due 2016 (the 2016 Notes) through a tender offer. In August 2015, the Company redeemed the \$313 million aggregate principal amount of the 2016 Notes that remained outstanding following the tender offer. The premiums paid and costs incurred in connection with this purchase and redemption were \$20 million and \$71 million for the three and nine months ended September 30, 2015, respectively, and were recorded in Other loss, net in the accompanying Consolidated Statement of Operations. See Financial Condition and Liquidity Outstanding Debt and Other Financing Arrangements for further information.

July Debt Offering

On July 28, 2015, Time Warner issued 700 million aggregate principal amount of debt securities under a shelf registration statement. See Financial Condition and Liquidity Outstanding Debt and Other Financing Arrangements for further information.

Table of Contents

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

Venezuela Currency

Certain of the Company's divisions conduct business with third parties located in Venezuela and, as a result, the Company holds net monetary assets denominated in Venezuelan Bolivares Fuertes (VEF) that primarily consist of cash and accounts receivable. As of December 31, 2014, the Company used the SICAD 2 exchange rate to remeasure its VEF-denominated monetary assets. Because of Venezuelan government-imposed restrictions on the exchange of VEF into foreign currency in Venezuela, the Company has not been able to convert VEF earned in Venezuela into U.S. Dollars through the Venezuelan government's foreign currency exchanges.

On February 10, 2015, Venezuelan government officials announced changes to Venezuela's foreign currency exchange system. Those changes included the elimination of the SICAD 2 exchange due to the merger of the SICAD 1 and SICAD 2 exchanges into a single SICAD exchange as well as the creation of the Simadi exchange, which is a new free market foreign currency exchange. On their initial date of activity, the exchange rates published by the Central Bank of Venezuela were 12 VEF to each U.S. Dollar for the SICAD exchange and 170 VEF to each U.S. Dollar for the Simadi exchange. Given the restrictions associated with the official government rate and the SICAD exchange, starting on February 10, 2015, the Company began to use the Simadi exchange rate to remeasure its VEF-denominated transactions and balances and recognized a pretax foreign exchange loss of \$22 million in the Consolidated Statement of Operations during the quarter ended March 31, 2015.

RESULTS OF OPERATIONS**Recent Accounting Guidance**

See Note 1, Description of Business and Basis of Presentation, to the accompanying consolidated financial statements for a discussion of recent accounting guidance.

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 transactions and certain other items in each period as follows (millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Asset impairments	\$ (7)	\$ (5)	\$ (8)	\$ (31)
Gain (loss) on operating assets, net	2	(5)	(1)	451
Venezuelan foreign currency loss			(22)	

Edgar Filing: TIME WARNER INC. - Form 10-Q

Other	(3)	(12)	(8)	(71)
Impact on Operating Income	(8)	(22)	(39)	349
Investment gains (losses), net	15	(78)	(70)	(57)
Amounts related to the separation of Time Warner Cable Inc.	(4)		(8)	(1)
Amounts related to the disposition of Warner Music Group		1		
Amounts related to the separation of Time Inc.	(2)	2	(7)	2
Premiums paid and costs incurred on debt redemption	(21)		(72)	
Items affecting comparability relating to equity method investments	17	(5)	(4)	(25)
Pretax impact	(3)	(102)	(200)	268
Income tax impact of above items	9	7	55	84
Impact of items affecting comparability on income from continuing operations	\$ 6	\$ (95)	\$ (145)	\$ 352

Table of Contents

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

In addition to the items affecting comparability described above, the Company incurred Restructuring and severance costs of \$9 million and \$31 million for the three and nine months ended September 30, 2015, respectively, and \$303 million and \$346 million for the three and nine months ended September 30, 2014, respectively. For the three months ended September 30, 2014, the Company also incurred \$343 million of programming impairments, reflecting \$482 million of programming impairments at the Turner segment, partially offset by \$139 million of intercompany eliminations. For further discussion of Restructuring and severance costs and the programming impairments, see Consolidated Results and Business Segment Results.

Asset Impairments

During the three and nine months ended September 30, 2015, the Company recognized asset impairments of \$7 million and \$8 million, respectively, which consisted of \$5 million and \$6 million, respectively, at Corporate primarily related to certain internally developed software, and \$1 million for both the three and nine months ended September 30, 2015 at both the Turner and Warner Bros. segments relating to miscellaneous assets.

During the three months ended September 30, 2014, the Company recognized asset impairments of \$5 million, consisting of \$4 million at the Turner segment related to miscellaneous assets and \$1 million at Corporate related to certain internally developed software. For the nine months ended September 30, 2014, the Company recognized asset impairments of \$15 million at the Turner segment related to miscellaneous assets, \$4 million at the Home Box Office segment related to the noncash impairment of an international tradename and \$5 million and \$7 million at the Warner Bros. segment and Corporate, respectively, related to certain internally developed software.

Gain (Loss) on Operating Assets, Net

For the three and nine months ended September 30, 2015, the Company recognized a \$2 million gain on operating assets at the Turner segment reflecting a \$3 million gain upon its acquisition of the controlling interest of iStreamPlanet and a \$1 million loss on the sale of a business. For the nine months ended September 30, 2015, the Company also recognized \$2 million of net losses at the Turner segment related to the remeasurement of certain previously held investments upon the Turner segment's acquisition of controlling interests in those investments as well as a \$1 million loss at the Warner Bros. segment.

For the three and nine months ended September 30, 2014, the Company recognized a \$5 million loss on operating assets at the Turner segment related to the shutdown of a business. For the nine months ended September 30, 2014, the Company also recognized \$15 million of gains at the Turner segment, reflecting a \$2 million gain primarily related to the sale of a building in South America and a \$13 million gain related to the sale of Zite, Inc., a news content aggregation and recommendation platform, and a \$441 million gain at Corporate in connection with the sale and leaseback of the Company's space in Time Warner Center.

Venezuelan Foreign Currency Loss

For the nine months ended September 30, 2015, the Company recognized a pretax foreign exchange loss of \$22 million, consisting of \$17 million at the Turner segment and \$5 million at the Warner Bros. segment, related to a change in the foreign currency exchange rate used by the Company for remeasuring its Venezuelan net monetary assets from the SICAD 2 rate to the Simadi rate. The Venezuelan foreign currency loss is included in Selling, general and administrative expenses in the accompanying Consolidated Statement of Operations. See Recent Developments for more information.

Other

Other reflects external costs related to mergers, acquisitions or dispositions of \$3 million and \$8 million for the three and nine months ended September 30, 2015, respectively, and \$12 million and \$71 million for the three and nine months ended September 30, 2014, respectively. External costs related to mergers, acquisitions or dispositions for the three and nine months ended September 30, 2015 consisted of \$0 and \$1 million, respectively, at the Turner segment, \$2 million and \$5 million, respectively, at the Warner Bros. segment and \$1 million and \$2 million, respectively, at Corporate. External costs related to mergers, acquisitions or dispositions for the three and nine months ended September 30, 2014 consisted of \$4 million and \$14 million, respectively, at the Turner segment primarily related to exit costs in connection with the shutdown of CNN Latino, \$4 million and \$12 million, respectively, at the Warner Bros. segment primarily related to the acquisition of the international operations of Eyeworks Group (Eyeworks) and \$4 million and \$45 million, respectively, at Corporate related to the legal and structural separation of Time Inc. from the Company (the Time Separation).

Table of Contents

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

External costs related to mergers, acquisitions or dispositions are included in Selling, general and administrative expenses in the accompanying Consolidated Statement of Operations.

Investment Gains (Losses), Net

For the three and nine months ended September 30, 2015, the Company recognized \$15 million of net investment gains and \$70 million of net investment losses consisting of \$5 million and \$110 million, respectively, of losses related to fair value adjustments on warrants to purchase common stock of CME held by the Company and \$20 million and \$40 million, respectively, of net miscellaneous investment gains.

For the three and nine months ended September 30, 2014, the Company recognized \$78 million and \$57 million, respectively, of net miscellaneous investment losses, consisting of \$58 million and \$59 million, respectively, of losses related to fair value adjustments on warrants to purchase CME common stock held by the Company and \$20 million of net miscellaneous investment losses for the three months ended September 30, 2014 and \$2 million of net miscellaneous investment gains for the nine months ended September 30, 2014.

Amounts Related to the Separation of Time Warner Cable Inc.

For the three and nine months ended September 30, 2015, the Company recognized \$4 million of other loss related to payments made to Time Warner Cable Inc. (TWC) in accordance with a tax sharing agreement with TWC and for the nine months ended September 30, 2015, the Company also recognized \$4 million of other loss related to changes in the value of a TWC tax indemnification receivable. The Company recognized other expense of \$1 million for the nine months ended September 30, 2014 related to the expiration, exercise and net change in the estimated fair value of Time Warner equity awards held by TWC employees. The amounts related to the separation of Time Warner Cable Inc. have been reflected in Other loss, net in the accompanying Consolidated Statement of Operations.

Amounts Related to the Disposition of Warner Music Group

For the three months ended September 30, 2014, the Company recognized other income of \$1 million primarily related to a tax indemnification obligation associated with the disposition of Warner Music Group (WMG) in 2004. This amount has been reflected in Other loss, net in the accompanying Consolidated Statement of Operations.

Amounts Related to the Time Separation

For the three and nine months ended September 30, 2015, the Company recognized \$2 million and \$7 million, respectively, of other loss primarily reflecting pension and other retirement benefits related to employees and former employees of Time Inc. For the three and nine months ended September 30, 2014, the Company recognized \$2 million of other income related to the expiration, exercise and net change in the estimated fair value of Time Warner equity awards held by certain Time Inc. employees.

Premiums Paid and Costs Incurred on Debt Redemption

For the three and nine months ended September 30, 2015, the Company recognized \$21 million of premiums paid and costs incurred principally on the redemption of \$313 million aggregate principal amount of its 2016 Notes. For the nine months ended September 30, 2015, the Company also recognized \$51 million of premiums paid and costs incurred on the purchase of \$687 million aggregate principal amount of its 2016 Notes through a tender offer. The premiums paid and costs incurred on debt redemption were recorded in Other loss, net in the accompanying Consolidated Statement of Operations. See Financial Condition and Liquidity Outstanding Debt and Other Financing Arrangements for further information.

Items Affecting Comparability Relating to Equity Method Investments

For the three and nine months ended September 30, 2015, the Company recognized a \$3 million asset impairment recorded by an equity method investee for both periods and \$2 million of income and \$1 million of losses, respectively, from discontinued operations recorded by an equity method investee. In addition, for the three months ended September 30, 2015, the Company recognized an \$18 million reversal of an accrual related to government investigations recorded by an equity method investee. For the three and nine months ended September 30, 2014, the Company recognized \$4 million of expenses related to a government investigation of an equity method investee and \$1 million and \$9 million, respectively, of losses related to discontinued operations

Table of Contents

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

recorded by an equity method investee. In addition, for the nine months ended September 30, 2014, the Company recognized a \$12 million loss on the extinguishment of debt recorded by an equity method investee. These amounts have been reflected in Other loss, net in the Consolidated Statement of Operations.

Income Tax Impact

The income tax impact reflects the estimated tax provision or tax benefit associated with each item affecting comparability. The estimated tax provision or tax benefit can vary based on certain factors, including the taxability or deductibility of the items and foreign tax on certain items.

Consolidated Results

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

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

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2015	2014	% Change	2015	2014	% Change
Turner	\$ 2,398	\$ 2,446	(2)%	\$ 7,935	\$ 7,789	2%
Home Box Office	1,367	1,304	5%	4,203	4,060	4%
Warner Bros.	3,190	2,775	15%	9,687	8,711	11%
Intersegment eliminations	(391)	(282)	39%	(786)	(726)	8%
Total revenues	\$ 6,564	\$ 6,243	5%	\$ 21,039	\$ 19,834	6%

For the three months ended September 30, 2015, Revenues at the Turner segment decreased driven by lower Content and other, Subscription and Advertising revenues. For the nine months ended September 30, 2015, Revenues at the Turner segment increased due to higher Content and other and Subscription revenues. Revenues at the Home Box Office segment increased for the three and nine months ended September 30, 2015 due to higher Subscription and Content and other revenues. For the three and nine months ended September 30, 2015, Revenues at the Warner Bros. segment increased driven by higher Television product and Videogames and other revenues, partially offset by lower Theatrical product revenues. The strengthening of the U.S. Dollar relative to foreign currencies to which the Company is exposed negatively impacted the Company's Revenues by approximately \$290 million and \$790 million for the

three and nine months ended September 30, 2015, respectively. Each of the revenue categories is discussed in greater detail by segment in Business Segment Results.

Costs of Revenues. For the three and nine months ended September 30, 2015, Costs of revenues were \$3.526 billion and \$11.802 billion, respectively, as compared to \$3.681 billion and \$11.457 billion for the three and nine months ended September 30, 2014, respectively. The decrease in costs of revenues for the three months ended September 30, 2015 was primarily due to decreases at the Turner and Home Box Office segments, partially offset by an increase at the Warner Bros. segment. The increase in Costs of revenues for the nine months ended September 30, 2015 was due to higher Costs of revenues at the Warner Bros. and Home Box Office segments, partially offset by a decrease at the Turner segment. Included in Costs of revenues for the three and nine months ended September 30, 2014 was \$343 million of programming impairments relating to programming that will no longer be aired subsequent to September 30, 2014, reflecting \$482 million of programming impairments at the Turner segment, partially offset by \$139 million of intercompany eliminations primarily related to intercompany profits on programming licensed by the Warner Bros. segment to the Turner segment. The segment variations are discussed in Business Segment Results.

Selling, General and Administrative Expenses. For the three and nine months ended September 30, 2015, Selling, general and administrative expenses decreased 7% and 4%, respectively, to \$1.143 billion and \$3.580 billion, respectively, from \$1.226 billion and \$3.713 billion for the three and nine months ended September 30, 2014, respectively, primarily reflecting decreases at Corporate and the Turner segment, and for the three months ended September 30, 2015, the Warner Bros. segment. These decreases for the three and nine months ended September 30, 2015 were partially offset by an increase at the Home Box Office segment. For the nine months ended September 30, 2015, Selling, general and administrative expenses included a \$22 million foreign currency charge related to a change in the foreign currency exchange rate used by the Company for remeasuring its Venezuelan net monetary assets from the SICAD 2 rate to the Simadi rate. The segment variations are discussed in Business Segment Results.

Table of Contents

TIME WARNER INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION (Continued)

Included in Costs of revenues and Selling, general and administrative expenses is depreciation expense of \$120 million and \$363 million for the three and nine months ended September 30, 2015, respectively, and \$131 million and \$399 million for the three and nine months ended September 30, 2014, respectively.

Amortization Expense. Amortization expense was \$47 million and \$138 million for the three and nine months ended September 30, 2015, respectively, and \$52 million and \$152 million for the three and nine months ended September 30, 2014, respectively.

Restructuring and Severance Costs. For the three and nine months ended September 30, 2015 and 2014, the Company incurred Restructuring and severance costs primarily related to employee terminations and other exit activities. Restructuring and severance costs are as follows (millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015		2014	
Turner	\$	5	\$	199
Home Box Office				48
Warner Bros.		1		45
Corporate		3		11
			\$	23
			\$	223
Total restructuring and severance costs	\$	9	\$	303
			\$	31
			\$	346

Operating Income. Operating Income increased to \$1.834 billion for the three months ended September 30, 2015 from \$971 million for the three months ended September 30, 2014. Excluding the items noted under Transactions and Other Items Affecting Comparability totaling \$8 million and \$22 million of expense for the three months ended September 30, 2015 and 2014, respectively, Operating Income increased \$849 million despite the unfavorable impact of foreign currency exchange rates of approximately \$160 million, primarily reflecting increases at all of the segments and lower losses at Corporate. Operating Income for the three months ended September 30, 2014 included the \$343 million of programming impairments described above.

Operating Income increased to \$5.479 billion for the nine months ended September 30, 2015 from \$4.586 billion for the nine months ended September 30, 2014. Excluding the items noted under Transactions and Other Items Affecting Comparability totaling \$39 million of expense and \$349 million of income for the nine months ended September 30, 2015 and 2014, respectively, Operating Income increased \$1.281 billion despite the unfavorable impact of foreign currency exchange rates of approximately \$370 million, reflecting increases at all of the segments and lower losses at Corporate. Operating Income for the nine months ended September 30, 2014 included the \$343 million of programming impairments described above.

Interest Expense, Net. For the three months ended September 30, 2015, Interest expense, net decreased to \$294 million from \$307 million for the three months ended September 30, 2014 reflecting higher interest income of \$13 million as well as lower average interest rates, partially offset by higher average debt balances. The increase in interest income was mainly due to noncash interest income accretion related to the CME transactions completed in 2014.

For the nine months ended September 30, 2015, Interest expense, net increased to \$874 million from \$868 million for the nine months ended September 30, 2014 reflecting higher average debt balances, partially offset by higher interest income of \$22 million as well as lower average interest rates. The increase in interest income was primarily related to noncash interest income accretion related to the CME transactions completed in 2014, partially offset by the recognition of interest income during the nine months ended September 30, 2014 on a note receivable that was collected in March 2014.

Table of Contents

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

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

	Three Months Ended September 30, 2015		Nine Months Ended September 30, 2014	
	2015	2014	2015	2014
Investment gains (losses), net	\$ 15	\$ (78)	\$ (70)	\$ (57)
Amounts related to the separation of TWC	(4)		(8)	(1)
Amounts related to the disposition of WMG		1		
Amounts related to the Time Separation	(2)	2	(7)	2
Premiums paid and costs incurred on debt redemption	(21)		(72)	
Items affecting comparability relating to equity method investments	17	(5)	(4)	(25)
Loss from equity method investees	(52)	(58)	(126)	(58)
Other	(7)	3	(9)	(1)
Other loss, net	\$ (54)	\$ (135)	\$ (296)	\$ (140)

Investment gains (losses), net, items affecting comparability relating to equity method investments, premiums paid and costs incurred on debt redemption and amounts related to the separation of TWC, the disposition of WMG and the Time Separation are discussed under Transactions and Other Items Affecting Comparability. The remaining change in Other loss, net for the three and nine months ended September 30, 2015 was primarily related to losses from equity method investees, which included the unfavorable impact of foreign exchange rates of approximately \$15 million and \$60 million for the three and nine months ended September 30, 2015, respectively.

Income Tax Benefit (Provision). Income tax provision increased to \$452 million and \$1.371 billion for the three and nine months ended September 30, 2015, respectively, from an income tax benefit of \$437 million and an income tax provision of \$404 million for the three and nine months ended September 30, 2014, respectively. The Company's effective tax rate was 30% and 32% for the three and nine months ended September 30, 2015 compared to (83)% and 11% for the three and nine months ended September 30, 2014, respectively. The increase in the effective tax rate for the three and nine months ended September 30, 2015 was primarily due to the recognition of a tax benefit attributable to the reversal of tax reserves in connection with a Federal tax settlement during the three months ended September 30, 2014.

Income from Continuing Operations. Income from continuing operations was \$1.034 billion and \$966 million for the three months ended September 30, 2015 and 2014, respectively. Excluding the items noted under Transactions and

Other Items Affecting Comparability totaling \$6 million of income and \$95 million of expense for the three months ended September 30, 2015 and 2014, respectively, Income from continuing operations decreased \$33 million, primarily reflecting higher income taxes, partially offset by higher Operating Income. Basic and Diluted income from continuing operations per common share were \$1.27 and \$1.26, respectively, for the three months ended September 30, 2015 and were \$1.13 and \$1.11, respectively, for the three months ended September 30, 2014.

Income from continuing operations was \$2.938 billion and \$3.174 billion for the nine months ended September 30, 2015 and 2014, respectively. Excluding the items noted under Transactions and Other Items Affecting Comparability totaling \$145 million of expense and \$352 million of income for the nine months ended September 30, 2015 and 2014, respectively, Income from continuing operations increased \$261 million, primarily reflecting higher Operating Income, partly offset by higher income taxes. Basic and Diluted income from continuing operations per common share were \$3.57 and \$3.52, respectively, for the nine months ended September 30, 2015 and were \$3.63 and \$3.56, respectively, for the nine months ended September 30, 2014.

Discontinued Operations, Net of Tax. Discontinued operations, net of tax was income of \$37 million for the nine months ended September 30, 2015, primarily related to the final resolution of a tax indemnification obligation associated with the disposition of WMG and income of \$1 million and a loss of \$65 million for the three and nine months ended September 30, 2014, respectively, primarily related to the Time Separation. For the nine months ended September 30, 2015, Basic and Diluted income from discontinued operations per common share were \$0.05 and \$0.04, respectively, as compared to a Basic and Diluted loss from discontinued operations per common share of \$0.08 and \$0.07, respectively, for the nine months ended September 30, 2014.

Table of Contents

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

Net Income Attributable to Time Warner Inc. Shareholders. Net income attributable to Time Warner Inc. shareholders was \$1.035 billion and \$2.976 billion for the three and nine months ended September 30, 2015, respectively, and \$967 million and \$3.109 billion for the three and nine months ended September 30, 2014, respectively. Basic and Diluted net income per common share were \$1.27 and \$1.26, respectively, for the three months ended September 30, 2015 and were \$1.13 and \$1.11, respectively, for the three months ended September 30, 2014. Basic and Diluted net income per common share were \$3.62 and \$3.56, respectively, for the nine months ended September 30, 2015 and were \$3.55 and \$3.49, respectively, for the nine months ended September 30, 2014.

Business Segment Results

Turner. Revenues and Operating Income of the Turner segment for the three and nine months ended September 30, 2015 and 2014 are as follows (millions):

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2015	2014	% Change	2015	2014	% Change
Revenues:						
Subscription	\$ 1,317	\$ 1,334	(1)%	\$ 4,007	\$ 3,966	1%
Advertising	980	993	(1)%	3,431	3,414	%
Content and other	101	119	(15)%	497	409	22%
Total revenues	2,398	2,446	(2)%	7,935	7,789	2%
Costs of revenues						
(a)	(870)	(1,416)	(39)%	(3,269)	(3,962)	(17)%
Selling, general and administrative (a)	(401)	(430)	(7)%	(1,160)	(1,264)	(8)%
Gain (loss) on operating assets	2	(5)	(140)%		10	NM
Asset impairments	(1)	(4)	(75)%	(1)	(15)	(93)%
Venezuelan foreign currency loss			NM	(17)		NM
Restructuring and severance costs	(5)	(199)	(97)%	(23)	(223)	(90)%
Depreciation	(47)	(51)	(8)%	(143)	(157)	(9)%
Amortization	(4)	(4)	%	(12)	(12)	%

Operating Income	\$	1,072	\$	337	218%	\$	3,310	\$	2,166	53%
------------------	----	-------	----	-----	------	----	-------	----	-------	-----

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

The changes in Subscription revenues for the three and nine months ended September 30, 2015 reflected lower international revenues and higher domestic revenues. International subscription revenues for the three and nine months ended September 30, 2015 declined \$29 million and \$55 million, respectively, reflecting the unfavorable impact of foreign exchange rates of approximately \$50 million and \$135 million, respectively, which was partially offset by higher contractual rates and subscriber growth largely in Latin America. Domestic subscription revenues for the three and nine months ended September 30, 2015 increased \$12 million and \$96 million, respectively, primarily due to higher contractual rates, partially offset by a decrease in subscribers.

The decrease in Advertising revenues for the three months ended September 30, 2015 was due to a \$12 million decline in international revenues, reflecting the unfavorable impact of foreign exchange rates of approximately \$30 million. Domestic advertising revenues for the three months ended September 30, 2015 were essentially flat as growth at Turner's news businesses was offset by lower audience delivery at certain entertainment networks and the absence of Advertising revenues in 2015 associated with NASCAR television programming. The increase in Advertising revenues for the nine months ended September 30, 2015 reflected domestic growth of \$49 million mainly driven by Turner's news businesses and the 2015 National Collegiate Athletic Association Division I Men's Basketball Championship tournament (the NCAA Tournament), partially offset by lower audience delivery at certain of its entertainment networks and the absence of Advertising revenues in 2015 associated with NASCAR television programming. The increase in Advertising revenues for the nine months ended September 30, 2015 was partially offset by lower international revenues of \$32 million reflecting the unfavorable impact of foreign exchange rates of approximately \$80 million.

Table of Contents

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

The changes in Content and other revenues for the three and nine months ended September 30, 2015 were primarily due to the timing of license fees from SVOD services.

The components of Costs of revenues for the Turner segment are as follows (millions):

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2015	2014	% Change	2015	2014	% Change
Programming costs:						
Originals and sports \$	488	\$ 674	(28)%	\$ 2,112	\$ 2,356	(10)%
Acquired films and syndicated series	185	545	(66)%	572	1,002	(43)%
Total programming costs	673	1,219	(45)%	2,684	3,358	(20)%
Other direct operating costs	197	197	%	585	604	(3)%
Costs of revenues						
(a)	\$ 870	\$ 1,416	(39)%	\$ 3,269	\$ 3,962	(17)%

(a) Costs of revenues exclude depreciation.

For the three and nine months ended September 30, 2015, programming costs decreased primarily due to programming impairments of \$482 million recognized in 2014 as a result of Turner's strategic evaluation of its programming and decision to no longer air certain programming, the absence of programming costs in 2015 associated with NASCAR and the timing and mix of programming.

For the three months ended September 30, 2015, Selling, general and administrative expenses decreased primarily due to the lower compensation accruals in the current year period. The decrease in Selling, general and administrative expenses for the nine months ended September 30, 2015 was primarily due to lower marketing expenses of \$60 million principally due to timing as well as operational efficiency initiatives, including the 2014 restructuring activities described below. The decrease in Selling, general and administrative expenses for the nine months ended September 30, 2015 was partially offset by the absence in the current period of the reversal in 2014 of a \$20 million accrued contingency.

Refer to Transactions and Other Items Affecting Comparability for a discussion of Asset impairments, Gain (loss) on operating assets, Venezuelan foreign currency loss and external costs related to mergers, acquisitions and dispositions for the three and nine months ended September 30, 2015 and 2014, which affected the comparability of the Turner segment's results.

The results for the three months ended September 30, 2014 included \$199 million of Restructuring and severance costs primarily related to headcount reductions in connection with restructuring activities designed to position the Company for the current operating environment and reallocate resources to the Company's growth initiatives.

The increase in Operating Income for the three and nine months ended September 30, 2015 was primarily due to lower Costs of revenues and lower Restructuring and severance costs and, for the nine months ended September 30, 2015, higher Revenues.

Table of Contents

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

Home Box Office. Revenues and Operating Income of the Home Box Office segment for the three and nine months ended September 30, 2015 and 2014 are as follows (millions):

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2015	2014	% Change	2015	2014	% Change
Revenues:						
Subscription	\$ 1,200	\$ 1,156	4%	\$ 3,560	\$ 3,427	4%
Content and other	167	148	13%	643	633	2%
Total revenues	1,367	1,304	5%	4,203	4,060	4%
Costs of revenues (a)	(627)	(678)	(8)%	(2,024)	(1,992)	2%
Selling, general and administrative (a)	(199)	(176)	13%	(621)	(546)	14%
Asset impairments			NM		(4)	NM
Restructuring and severance costs		(48)	NM	(5)	(57)	(91)%
Depreciation	(18)	(18)	%	(57)	(58)	(2)%
Amortization	(4)	(4)	%	(11)	(11)	%
Operating Income	\$ 519	\$ 380	37%	\$ 1,485	\$ 1,392	7%

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

The increase in Subscription revenues for the three and nine months ended September 30, 2015 was driven by higher domestic subscription revenues of \$53 million and \$150 million, respectively, primarily due to higher contractual rates. International subscription revenues for the three and nine months ended September 30, 2015 decreased \$9 million and \$17 million, respectively, mainly due to the transfer to Turner of the operation and certain contracts of an HBO-branded basic tier television service in India and the unfavorable impact of foreign exchange rates of approximately \$5 million and \$10 million, respectively, partially offset by growth from international subscribers.

The increase in Content and other revenues for the three and nine months ended September 30, 2015 was primarily due to higher television licensing revenues of \$30 million and \$28 million, respectively, which included the impact of unfavorable foreign exchange rates of approximately \$5 million and \$10 million, respectively, and, for the nine months ended September 30, 2015, the remainder of the increase reflected higher pay-per-view revenues. The increase in Content and other revenues for the three and nine months ended September 30, 2015 was partially offset by lower home entertainment revenues of \$13 million and \$27 million, respectively.

Table of Contents

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

The components of Costs of revenues for the Home Box Office segment are as follows (millions):

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2015	2014	% Change	2015	2014	% Change
Programming costs:						
Originals and sports \$	214	\$ 219	(2)%	\$ 731	\$ 697	5%
Acquired films and syndicated series	237	262	(10)%	727	751	(3)%
Total programming costs	451	481	(6)%	1,458	1,448	1%
Other direct operating costs	176	197	(11)%	566	544	4%
Costs of revenues (a)	\$ 627	\$ 678	(8)%	\$ 2,024	\$ 1,992	2%

(a) Costs of revenues exclude depreciation.

The decrease in programming costs for the three months ended September 30, 2015 was primarily due to lower costs for acquired films and syndicated series. The increase in programming costs for the nine months ended September 30, 2015 was primarily due to higher costs for original series, partially offset by lower costs for acquired films and syndicated series. The decrease in other direct operating costs for the three months ended September 30, 2015 was primarily related to lower participation expenses, partially offset by costs associated with HBO NOW. The increase in other direct operating costs for the nine months ended September 30, 2015 was mainly due to costs associated with HBO NOW.

For the three and nine months ended September 30, 2015, Selling, general and administrative expenses increased primarily due to higher marketing expenses related to the launch of HBO NOW.

Refer to Transactions and Other Items Affecting Comparability for a discussion of Asset impairments for the three and nine months ended September 30, 2015 and 2014, which affected the comparability of the Home Box Office segment's results.

The results for the three months ended September 30, 2014 included \$48 million of Restructuring and severance costs primarily related to headcount reductions in connection with restructuring activities designed to position the Company for the current operating environment and reallocate resources to the Company's growth initiatives.

The increase in Operating Income for the three and nine months ended September 30, 2015 was primarily due to higher Revenues and lower Restructuring and severance costs, and for the three months ended September 30, 2015, lower Costs of Revenues. The increase in Operating Income for the three and nine months ended September 30, 2015 was partially offset by higher Selling, general and administrative expenses.

Table of Contents

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

Warner Bros. Revenues and Operating Income of the Warner Bros. segment for the three and nine months ended September 30, 2015 and 2014 are as follows (millions):

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2015	2014	% Change	2015	2014	% Change
Revenues:						
Theatrical product	\$ 1,108	\$ 1,166	(5)%	\$ 3,836	\$ 4,057	(5)%
Television product	1,460	1,205	21%	4,116	3,613	14%
Videogames and other	622	404	54%	1,735	1,041	67%
Total revenues	3,190	2,775	15%	9,687	8,711	11%
Costs of revenues (a)	(2,281)	(1,941)	18%	(7,000)	(6,162)	14%
Selling, general and administrative (a)	(434)	(452)	(4)%	(1,365)	(1,361)	%
Loss on operating assets			NM	(1)		NM
Asset impairments	(1)		NM	(1)	(5)	(80)%
Venezuelan foreign currency loss			NM	(5)		NM
Restructuring and severance costs	(1)	(45)	(98)%	(3)	(50)	(94)%
Depreciation	(49)	(56)	(13)%	(147)	(164)	(10)%
Amortization	(39)	(44)	(11)%	(115)	(129)	(11)%
Operating Income	\$ 385	\$ 237	62%	\$ 1,050	\$ 840	25%

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

Revenues primarily relate to theatrical product (which is content made available for initial exhibition in theaters) and television product (which is content made available for initial airing on television). The increase in Revenues for the three and nine months ended September 30, 2015 included the net unfavorable impact of foreign exchange rates of approximately \$190 million and \$530 million, respectively. The components of Revenues for the three and nine months ended September 30, 2015 and 2014 are as follows (millions):

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2015	2014	% Change	2015	2014	% Change
Theatrical product:						
Film rentals	\$ 259	\$ 271	(4)%	\$ 1,302	\$ 1,264	3%
Home video and electronic delivery	355	390	(9)%	1,185	1,335	(11)%
Television licensing	399	430	(7)%	1,146	1,274	(10)%
Consumer products and other	95	75	27%	203	184	10%
Total theatrical product	\$ 1,108	\$ 1,166	(5)%	\$ 3,836	\$ 4,057	(5)%
Television product:						
Television licensing	1,223	993	23%	3,469	2,967	17%
Home video and electronic delivery	143	144	(1)%	341	368	(7)%
Consumer products and other	94	68	38%	306	278	10%
Total television product	\$ 1,460	\$ 1,205	21%	\$ 4,116	\$ 3,613	14%

Table of Contents

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

Theatrical product revenues from film rentals decreased for the three months ended September 30, 2015, reflecting lower carryover revenues of \$59 million from prior period releases, partially offset by higher revenues of \$47 million from theatrical films released during the third quarter of 2015 compared to the third quarter of 2014. Theatrical product revenues from film rentals increased for the nine months ended September 30, 2015, reflecting higher carryover revenues of \$180 million from prior period releases, partially offset by lower revenues of \$142 million from theatrical films released during the first nine months of 2015 compared to the first nine months of 2014. The Company released seven and five theatrical films in the third quarters of 2015 and 2014, respectively, and eighteen and fourteen theatrical films in the first nine months of 2015 and 2014, respectively.

For the three and nine months ended September 30, 2015, theatrical product revenues from home video and electronic delivery decreased primarily due to lower revenues from prior period releases, including catalog titles. There were four and three home video and electronic delivery releases in the third quarters of 2015 and 2014, respectively, and fifteen and eleven home video and electronic delivery releases in the first nine months of 2015 and 2014, respectively.

The decrease in theatrical product revenues from television licensing for the three and nine months ended September 30, 2015 was primarily due to the timing and mix of availabilities.

The increase in theatrical product revenues from consumer products and other for the three and nine months ended September 30, 2015 was primarily due to higher licensing revenues.

Television product revenues from television licensing for the three and nine months ended September 30, 2015 increased primarily due to higher syndication revenues (including higher license fees from SVOD services), partially offset by lower initial telecast revenues.

The increase in television product revenues from consumer products and other for the three and nine months ended September 30, 2015 was primarily due to an increase in the production of television series on behalf of third parties and, for the three months ended September 30, 2015, higher intellectual property licensing.

Videogames and other revenues increased for the three and nine months ended September 30, 2015 primarily due to higher revenues from videogames released during the third quarter and first nine months of 2015 as compared to the similar periods of 2014, and for the three months ended September 30, 2015, higher revenues from prior period releases. The Company released two and three videogames during the third quarters of 2015 and 2014, respectively, and twelve and six videogames during the first nine months of 2015 and 2014, respectively. The increase in videogames and other revenues for the three and nine months ended September 30, 2015 was partially offset by \$75 million of revenues recognized during the three and nine months ended September 30, 2014 related to a patent license and settlement agreement.

The components of Costs of revenues for the Warner Bros. segment are as follows (millions):

	Three Months Ended			Nine Months Ended		
	9/30/15	9/30/14	% Change	9/30/15	9/30/14	% Change
Film and television production costs	\$ 1,468	\$ 1,321	11%	\$ 4,560	\$ 4,082	12%
Print and advertising costs	491	409	20%	1,584	1,368	16%
Other costs, including merchandise and related costs	322	211	53%	856	712	20%
Costs of revenues (a)	\$ 2,281	\$ 1,941	18%	\$ 7,000	\$ 6,162	14%

(a) Costs of revenues excludes depreciation.

Included in film and television production costs are production costs related to videogames, as well as theatrical film and videogame valuation adjustments resulting primarily from revisions to estimates of ultimate revenue and/or costs for certain theatrical films and videogames. Theatrical film valuation adjustments were \$0 and \$74 million for the three and nine months ended September 30, 2015, respectively, and \$14 million and \$50 million for the three and nine months ended September 30, 2014, respectively. Videogame valuation adjustments for the three and nine months ended September 30, 2015 were \$0 and \$17 million,

Table of Contents

TIME WARNER INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION (Continued)

respectively, and for the three and nine months ended September 30, 2014 were \$27 million and \$45 million, respectively. The increases in film and television production costs and print and advertising costs for the three and nine months ended September 30, 2015 were primarily due to the mix of product released. Other costs, including merchandise and related costs increased for the three and nine months ended September 30, 2015 primarily due to higher distribution costs associated with videogame sales.

Selling, general and administrative expenses decreased for the three months ended September 30, 2015 primarily due to the favorable impact of foreign exchange rates, partially offset by higher bad debt expense. Selling, general and administrative expenses were essentially flat for the nine months ended September 30, 2015 primarily due to the absence in the current period of a reversal in the second quarter of 2014 of certain bad debt reserves, offset by the favorable impact of foreign exchange rates.

Refer to Transactions and Other Items Affecting Comparability for a discussion of Asset impairments, Venezuelan foreign currency and external costs related to mergers, acquisitions and dispositions for the three and nine months ended September 30, 2015 and 2014, which affected the comparability of the Warner Bros. segment's results.

The results for the three months ended September 30, 2014 included \$45 million of Restructuring and severance costs primarily related to headcount reductions in connection with restructuring activities designed to position the Company for the current operating environment and reallocate resources to the Company's growth initiatives.

The increase in Operating Income for the three and nine months ended September 30, 2015 was primarily due to higher Revenues and lower Restructuring and severance costs, partially offset by higher Costs of revenues.

Corporate. Corporate's Operating Income (Loss) for the three and nine months ended September 30, 2015 and 2014 was as follows (millions):

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2015	2014	% Change	2015	2014	% Change
Selling, general and administrative						
(a)	\$ (50)	\$ (101)	(50)%	\$ (235)	\$ (345)	(32)%
Gain on operating assets			NM		441	NM
Asset impairments	(5)	(1)	NM	(6)	(7)	(14)%
	(3)	(11)	(73)%		(16)	NM

Restructuring
and severance
costs

Depreciation	(6)	(6)	%	(16)	(20)	(20)%
--------------	-----	-----	---	------	------	-------

Operating

Income (Loss)	\$	(64)	\$	(119)	(46)%	\$	(257)	\$	53	NM
---------------	----	------	----	-------	-------	----	-------	----	----	----

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

Refer to Transactions and Other Items Affecting Comparability for a discussion of Asset impairments, Gain on operating assets and external costs related to mergers, acquisitions and dispositions for the three and nine months ended September 30, 2015 and 2014, which affected the comparability of Corporate s results.

The results for the three months ended September 30, 2014 included \$11 million of Restructuring and severance costs primarily related to headcount reductions in connection with restructuring activities designed to position the Company for the current operating environment and reallocate resources to the Company s growth initiatives.

Operating loss for the three months ended September 30, 2015 decreased primarily due to lower equity-based compensation expense of \$32 million, which mainly reflected lower expenses for performance stock units due to a decrease in the Company s stock price as well as lower costs related to enterprise efficiency initiatives. Excluding the \$441 million Gain on operating assets during the nine months ended September 30, 2014, Operating loss for the nine months ended September 30, 2015 decreased primarily due to lower external costs related to mergers, acquisitions and dispositions of \$43 million, lower equity-based compensation expense of \$28 million, which mainly reflected lower expenses for performance stock units due to a decrease in the Company s stock price, as well as lower costs related to enterprise efficiency initiatives.

Table of Contents

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

The enterprise efficiency initiatives involve the centralization of certain administrative functions to generate cost savings or other benefits for the Company. Selling, general and administrative expenses included costs related to enterprise efficiency initiatives of \$3 million and \$12 million for the three and nine months ended September 30, 2015, respectively, and \$10 million and \$34 million for the three and nine months ended September 30, 2014, respectively.

FINANCIAL CONDITION AND LIQUIDITY

Management believes that cash generated by or available to the Company should be sufficient to fund its capital and liquidity needs for the foreseeable future, including scheduled debt repayments, quarterly dividend payments and the purchase of common stock under the Company's stock repurchase program. Time Warner's sources of cash include Cash provided by operations, Cash and equivalents on hand, available borrowing capacity under its committed credit facilities and commercial paper program and access to capital markets. Time Warner's unused committed capacity at September 30, 2015 was \$6.796 billion, which included \$1.774 billion of Cash and equivalents.

Current Financial Condition

At September 30, 2015, Time Warner had net debt of \$21.153 billion (\$22.927 billion of debt less \$1.774 billion of Cash and equivalents) and \$23.648 billion of Shareholders' equity, compared to net debt of \$19.763 billion (\$22.381 billion of debt less \$2.618 billion of Cash and equivalents) and \$24.476 billion of Shareholders' equity at December 31, 2014.

The following table shows the significant items contributing to the increase in net debt from December 31, 2014 to September 30, 2015 (millions):

Balance at December 31, 2014	\$ 19,763
Cash provided by operations from continuing operations	(3,001)
Capital expenditures	250
Repurchases of common stock	3,030
Dividends paid to common stockholders	869
Investments and acquisitions, net of cash acquired	385
Proceeds from the exercise of stock options	(148)
Other investment and sale proceeds	(133)
All other, net	138
Balance at September 30, 2015	\$ 21,153

On June 13, 2014, Time Warner's Board of Directors authorized up to \$5.0 billion of share repurchases in addition to the \$5.0 billion it had previously authorized for share repurchases beginning January 1, 2014. Purchases under the stock repurchase program may be made from time to time on the open market and in privately negotiated transactions. The size and timing of these purchases are based on a number of factors, including price and business and market conditions. From January 1, 2015 through October 30, 2015, the Company repurchased 41 million shares of common stock for \$3.284 billion pursuant to trading plans under Rule 10b5-1 of the Securities Exchange Act of 1934, as amended (the Exchange Act).

During the first quarter of 2015, the Company finalized agreements relating to the construction and development of office and studio space in the Hudson Yards development on the west side of Manhattan in order to move its Corporate headquarters and New York City-based employees to the new space. Based on current construction cost estimates and space projections, the Company expects to invest an additional \$1.9 billion in the Hudson Yards development project through 2019.

Cash Flows

Cash and equivalents decreased by \$844 million, including \$4 million of Cash used by discontinued operations, for the nine months ended September 30, 2015. Cash and equivalents increased by \$1.394 billion, including \$184 million of Cash used by discontinued operations, for the nine months ended September 30, 2014. Components of these changes are discussed below in more detail.

Table of Contents

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

Operating Activities from Continuing Operations

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

	Nine Months Ended September 30,	
	2015	2014
Operating Income	\$ 5,479	\$ 4,586
Depreciation and amortization	501	551
Net interest payments (a)	(889)	(847)
Net income taxes paid (b)	(726)	(1,381)
All other, net, including working capital changes	(1,364)	(235)
Cash provided by operations from continuing operations	\$ 3,001	\$ 2,674

- (a) Includes cash interest received of \$29 million and \$44 million for the nine months ended September 30, 2015 and 2014, respectively.
- (b) Includes income tax refunds received of \$108 million and \$43 million for the nine months ended September 30, 2015 and 2014, respectively, and payments to TWC of \$4 million in accordance with a tax sharing agreement with TWC for the nine months ended September 30, 2015.

Cash provided by operations from continuing operations for the nine months ended September 30, 2015 increased primarily due to higher Operating Income and lower net income taxes paid, partially offset by higher cash used by working capital. Cash used by working capital increased primarily due to higher receivables due to the timing of collections and revenue growth, higher payments related to restructuring initiatives undertaken in 2014 and higher content investments.

Investing Activities from Continuing Operations

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

	Nine Months Ended September 30,	
	2015	2014
Investments in available-for-sale securities	\$ (41)	\$ (30)

Investments and acquisitions, net of cash acquired:			
iStreamPlanet	(149)		
Eyeworks			(267)
CME			(371)
All other	(195)		(240)
Capital expenditures	(250)		(316)
Proceeds from the sale of available-for-sale securities	1		17
Proceeds from Time Inc. in the Time Separation			1,400
Proceeds from the sale of Time Warner Center			1,264
Other investment proceeds	133		125
Cash provided (used) by investing activities from continuing operations	\$ (501)	\$	1,582

The change in Cash provided (used) by investing activities from continuing operations for the nine months ended September 30, 2015 was primarily due to proceeds received in 2014 in connection with the Time Separation and from the sale of space in Time Warner Center, partially offset by a decrease in investment and acquisition spending. Included in Investments and acquisitions, net of cash acquired for the nine months ended September 30, 2015 and 2014 are payments of \$72 million and \$99 million, respectively, related to the Hudson Yards development project.

Table of Contents

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

Financing Activities from Continuing Operations

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

	Nine Months Ended September 30,	
	2015	2014
Borrowings	\$ 2,877	\$ 2,406
Debt repayments	(2,341)	(21)
Proceeds from the exercise of stock options	148	276
Excess tax benefit from equity instruments	141	138
Principal payments on capital leases	(8)	(8)
Repurchases of common stock	(3,030)	(4,481)
Dividends paid	(869)	(841)
Other financing activities	(258)	(147)
Cash used by financing activities from continuing operations	\$ (3,340)	\$ (2,678)

Cash used by financing activities from continuing operations for the nine months ended September 30, 2015 increased primarily due to an increase in Debt repayments, a decrease in Proceeds from the exercise of stock options and an increase in cash used for Other financing activities, partially offset by a decrease in Repurchases of common stock and an increase in Borrowings. The increase in cash used for Other financing activities was primarily due to premiums paid and costs incurred in connection with the purchase of \$687 million aggregate principal amount of the 2016 Notes through a tender offer and the redemption of \$313 million aggregate principal amount of the 2016 Notes that remained outstanding following the tender offer. During the nine months ended September 30, 2015, the Company issued approximately 5 million shares of common stock and received \$148 million in connection with the exercise of stock options. At September 30, 2015, all of the approximately 21 million exercisable stock options outstanding on such date had exercise prices below the closing price of the Company's common stock on the New York Stock Exchange.

Cash Flows from Discontinued Operations

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

Nine Months Ended September 30,
2015 **2014**

Edgar Filing: TIME WARNER INC. - Form 10-Q

Cash used by operations from discontinued operations	\$	(4)	\$	(10)
Cash used by investing activities from discontinued operations				(51)
Cash used by financing activities from discontinued operations				(36)
Effect of change in cash and equivalents of discontinued operations				(87)
Cash used by discontinued operations	\$	(4)	\$	(184)

Table of Contents

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

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

At September 30, 2015, Time Warner had total committed capacity, defined as maximum available borrowings under various existing debt arrangements and cash and short-term investments, of \$29.752 billion. Of this committed capacity, \$6.796 billion was unused and \$22.927 billion was outstanding as debt. At September 30, 2015, total committed capacity, outstanding letters of credit, outstanding debt and total unused committed capacity were as follows (millions):

	Committed Capacity (a)	Letters of Credit (b)	Outstanding Debt (c)	Unused Committed Capacity
Cash and equivalents	\$ 1,774	\$	\$	\$ 1,774
Revolving credit facilities and commercial paper program (d)	5,000			5,000
Fixed-rate public debt	22,703		22,703	
Other obligations (e)	275	29	224	22
Total	\$ 29,752	\$ 29	\$ 22,927	\$ 6,796

- (a) The revolving credit facilities, commercial paper program and public debt of the Company rank pari passu with the senior debt of the respective obligors thereon. The weighted average maturity of the Company's outstanding debt and other financing arrangements was 13.8 years as of September 30, 2015.
- (b) Represents the portion of committed capacity, including from bilateral letter of credit facilities, reserved for outstanding and undrawn letters of credit.
- (c) Represents principal amounts adjusted for premiums and discounts. At September 30, 2015, the principal amounts of the Company's publicly issued debt mature as follows: \$150 million in 2016, \$500 million in 2017, \$600 million in 2018, \$650 million in 2019, \$1.4 billion in 2020 and \$19.623 billion thereafter. In the period after 2020, no more than \$2.0 billion will mature in any given year.
- (d) The revolving credit facilities consist of two \$2.5 billion revolving credit facilities. The Company may issue unsecured commercial paper notes up to the amount of the unused committed capacity under the revolving credit facilities.
- (e) Unused committed capacity includes committed financings of subsidiaries under local bank credit agreements. Other debt obligations totaling \$47 million are due within the next twelve months.

June Debt Offering

On June 4, 2015, Time Warner issued \$2.1 billion aggregate principal amount of debt securities under a shelf registration statement, consisting of \$1.5 billion aggregate principal amount of 3.60% Notes due 2025 and \$600 million aggregate principal amount of 4.85% Debentures due 2045 (the June 2015 Debt Offering). The securities issued in the June 2015 Debt Offering are guaranteed, on an unsecured basis, by Historic TW Inc. (Historic TW). In addition, Turner and Home Box Office guarantee, on an unsecured basis, Historic TW's guarantee of the securities. The net proceeds to the Company from the June 2015 Debt Offering were \$2.083 billion, after deducting underwriting discounts and offering expenses. The Company used a portion of the net proceeds from the June 2015 Debt Offering to retire at maturity the \$1.0 billion aggregate principal amount outstanding of its 3.15% Notes due July 15, 2015. The remainder of the net proceeds will be used for general corporate purposes, including share repurchases.

Debt Tender Offer and Redemption

In June 2015, Time Warner purchased \$687 million aggregate principal amount of the \$1.0 billion aggregate principal amount outstanding of the 2016 Notes through a tender offer. In August 2015, the Company redeemed the \$313 million aggregate principal amount of the 2016 Notes that remained outstanding following the tender offer. The premiums paid and costs incurred in connection with this purchase and redemption were \$20 million and \$71 million for the three and nine months ended September 30, 2015, respectively, and were recorded in Other loss, net in the accompanying Consolidated Statement of Operations.

July Debt Offering

On July 28, 2015, Time Warner issued 700 million aggregate principal amount of 1.95% Notes due 2023 under a shelf registration statement (the July 2015 Debt Offering). The notes issued in the July 2015 Debt Offering are guaranteed, on an unsecured basis, by Historic TW. In addition, Turner and Home Box Office guarantee, on an unsecured basis, Historic TW's guarantee of the notes. The net proceeds from the issuance of the notes will be used for general corporate purposes. In addition, the Company has designated these notes as a hedge of the variability in the Company's Euro-denominated net investments. See Note 6, Derivative Instruments and Hedging Activities, to the accompanying consolidated financial statements for more information.

Table of Contents

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

Programming Licensing Backlog

Programming licensing backlog represents the amount of future revenues not yet recorded from cash contracts for the worldwide licensing of theatrical and television product for premium cable, basic cable, network and syndicated television and SVOD exhibition. Backlog was \$6.7 billion and \$6.5 billion at September 30, 2015 and December 31, 2014, respectively. Included in the backlog amounts is licensing of theatrical and television product from the Warner Bros. segment to the Turner segment in the amount of \$514 million and \$700 million at September 30, 2015 and December 31, 2014, respectively. Also included in the backlog amounts is licensing of theatrical product from the Warner Bros. segment to the Home Box Office segment in the amount of \$782 million and \$788 million at September 30, 2015 and December 31, 2014, respectively.

CAUTION CONCERNING FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements can be identified by the fact that they do not relate strictly to historical or current facts. Forward-looking statements often include words such as anticipates, estimates, expects, projects, intends, believes and words and terms of similar substance in connection with discussions of future operating or financial performance. Examples of forward-looking statements in this report include, but are not limited to, statements regarding (i) the Company's expected investment in space in the Hudson Yards development and (ii) the possible incurrence of a charge in connection with the Company's evaluation of its future use of programming rights.

The Company's forward-looking statements are based on management's current expectations and assumptions regarding the Company's business and performance, the economy and other future conditions and forecasts of future events, circumstances and results. As with any projection or forecast, forward-looking statements are inherently susceptible to uncertainty and changes in circumstances. The Company's actual results may vary materially from those expressed or implied in its forward-looking statements. Important factors that could cause the Company's actual results to differ materially from those in its forward-looking statements include government regulation, economic, strategic, political and social conditions and the following factors:

- recent and future changes in technology, services and standards, including, but not limited to, alternative methods for the delivery, storage and consumption of digital media and evolving home entertainment formats;
- changes in consumer behavior, including changes in spending behavior and changes in when, where and how content is consumed;
- the popularity of the Company's content;
- changes in the Company's plans, initiatives and strategies, and consumer acceptance thereof;
- changes in the plans, initiatives and strategies of the third parties that distribute, license and/or sell Time Warner's content;
- competitive pressures, including as a result of audience fragmentation and changes in technology;

changes in advertising market conditions or advertising expenditures due to, among other things, economic conditions, changes in consumer behavior, pressure from public interest groups, changes in laws and regulations and other societal or political developments;

the Company's ability to deal effectively with economic slowdowns or other economic or market difficulties;

changes in foreign exchange rates;

increased volatility or decreased liquidity in the capital markets, including any limitation on the Company's ability to access the capital markets for debt securities, refinance its outstanding indebtedness or obtain bank financings on acceptable terms;

piracy and the Company's ability to exploit and protect its intellectual property rights in and to its content and other products;

the failure to achieve the anticipated benefits of the Company's cost reduction initiatives;

the effects of any significant acquisitions, dispositions and other similar transactions by the Company;

a disruption or failure of the Company's or its vendors' network and information systems or other technology relied on by the Company;

the failure to meet earnings expectations;

lower than expected valuations associated with the cash flows and revenues at Time Warner's reporting units, which could result in Time Warner's inability to realize the value recorded for intangible assets and goodwill at those reporting units;

Table of Contents

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

the adequacy of the Company's risk management framework;
changes in U.S. GAAP or other applicable accounting policies;
changes in tax, federal communication and other laws and regulations;
currency exchange restrictions and currency devaluation risks in some foreign countries;
the effect of union or labor disputes or professional sports league player lockouts;
the impact of terrorist acts, hostilities, natural disasters (including extreme weather) and pandemic viruses; and
the other risks and uncertainties detailed in Part I, Item 1A. Risk Factors, in the Company's Annual Report on
Form 10-K for the year ended December 31, 2014.

Any forward-looking statement made by the Company in this report speaks only as of the date on which it is made. The Company is under no obligation to, and expressly disclaims any obligation to, update or alter its forward-looking statements, whether as a result of new information, subsequent events or otherwise.

Table of Contents

TIME WARNER INC.

Item 4. CONTROLS AND PROCEDURES

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

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

Changes in Internal Control Over Financial Reporting

There have not been any changes in the Company's internal control over financial reporting during the quarter ended September 30, 2015 that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

Table of Contents

TIME WARNER INC.
CONSOLIDATED BALANCE SHEET

(Unaudited; millions, except share amounts)

	September 30, 2015	December 31, 2014
ASSETS		
Current assets		
Cash and equivalents	\$ 1,774	\$ 2,618
Receivables, less allowances of \$854 and \$1,152	7,322	7,720
Inventories	1,973	1,700
Deferred income taxes	184	184
Prepaid expenses and other current assets	886	958
Total current assets	12,139	13,180
Noncurrent inventories and theatrical film and television production costs	7,294	6,841
Investments, including available-for-sale securities	2,154	2,326
Property, plant and equipment, net	2,569	2,655
Intangible assets subject to amortization, net	1,001	1,141
Intangible assets not subject to amortization	7,027	7,032
Goodwill	27,702	27,565
Other assets	2,788	2,406
Total assets	\$ 62,674	\$ 63,146
LIABILITIES AND EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	\$ 7,597	\$ 7,507
Deferred revenue	607	579
Debt due within one year	199	1,118
Total current liabilities	8,403	9,204
Long-term debt	22,728	21,263
Deferred income taxes	2,006	2,204
Deferred revenue	293	315
Other noncurrent liabilities	5,567	5,684
Redeemable noncontrolling interest	29	
Commitments and Contingencies (Note 14)		
Equity		
Common stock, \$0.01 par value, 1.652 billion and 1.652 billion shares issued and 803 million and 832 million shares outstanding	17	17
Additional paid-in capital	148,309	149,282
Treasury stock, at cost (849 million and 820 million shares)	(45,048)	(42,445)

Edgar Filing: TIME WARNER INC. - Form 10-Q

Accumulated other comprehensive loss, net	(1,392)	(1,164)
Accumulated deficit	(78,238)	(81,214)
Total equity	23,648	24,476
Total liabilities and equity	\$ 62,674	\$ 63,146

See accompanying notes.

Table of Contents**TIME WARNER INC.****CONSOLIDATED STATEMENT OF OPERATIONS****(Unaudited; millions, except per share amounts)**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Revenues	\$ 6,564	\$ 6,243	\$ 21,039	\$ 19,834
Costs of revenues	(3,526)	(3,681)	(11,802)	(11,457)
Selling, general and administrative	(1,143)	(1,226)	(3,580)	(3,713)
Amortization of intangible assets	(47)	(52)	(138)	(152)
Restructuring and severance costs	(9)	(303)	(31)	(346)
Asset impairments	(7)	(5)	(8)	(31)
Gain (loss) on operating assets, net	2	(5)	(1)	451
Operating income	1,834	971	5,479	4,586
Interest expense, net	(294)	(307)	(874)	(868)
Other loss, net	(54)	(135)	(296)	(140)
Income from continuing operations before income taxes	1,486	529	4,309	3,578
Income tax benefit (provision)	(452)	437	(1,371)	(404)
Income from continuing operations	1,034	966	2,938	3,174
Discontinued operations, net of tax		1	37	(65)
Net income	1,034	967	2,975	3,109
Less Net loss attributable to noncontrolling interests	1		1	
Net income attributable to Time Warner Inc. shareholders	\$ 1,035	\$ 967	\$ 2,976	\$ 3,109
Amounts attributable to Time Warner Inc. shareholders:				
Income from continuing operations	\$ 1,035	\$ 966	\$ 2,939	\$ 3,174
Discontinued operations, net of tax		1	37	(65)
Net income	\$ 1,035	\$ 967	\$ 2,976	\$ 3,109
Per share information attributable to Time Warner Inc. common shareholders:				
	\$ 1.27	\$ 1.13	\$ 3.57	\$ 3.63

Basic income per common share from continuing operations								
Discontinued operations				0.05	(0.08)			
Basic net income per common share	\$	1.27	\$	1.13	\$	3.62	\$	3.55
Average basic common shares outstanding		810.2		850.9		820.4		872.2
Diluted income per common share from continuing operations								
Discontinued operations				0.04	(0.07)			
Diluted net income per common share	\$	1.26	\$	1.11	\$	3.56	\$	3.49
Average diluted common shares outstanding		824.1		870.2		835.5		891.6
Cash dividends declared per share of common stock								
	\$	0.3500	\$	0.3175	\$	1.0500	\$	0.9525

See accompanying notes.

Table of Contents

TIME WARNER INC.
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(Unaudited; millions)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Net income	\$ 1,034	\$ 967	\$ 2,975	\$ 3,109
Other comprehensive loss, net of tax:				
Foreign currency translation:				
Unrealized losses occurring during the period	(14)	(49)	(258)	(67)
Reclassification adjustment for losses realized in net income			5	
Change in foreign currency translation	(14)	(49)	(253)	(67)
Securities:				
Unrealized gains (losses) occurring during the period	(3)	2	2	(3)
Reclassification adjustment for gains realized in net income				(5)
Net gains (losses) on securities	(3)	2	2	(8)
Benefit obligations:				
Unrealized gains (losses) occurring during the period	(1)	1	(2)	(36)
Reclassification adjustment for losses realized in net income	5	4	16	15
Change in benefit obligations	4	5	14	(21)
Derivative financial instruments:				
Unrealized gains occurring during the period	56	4	74	3
Reclassification adjustment for (gains) losses realized in net income	(39)	1	(65)	
Change in derivative financial instruments	17	5	9	3
Other comprehensive income (loss)	4	(37)	(228)	(93)

Edgar Filing: TIME WARNER INC. - Form 10-Q

Comprehensive income	\$	1,038	\$	930	\$	2,747	\$	3,016
Less Comprehensive loss attributable to noncontrolling interests	\$		\$		\$		\$	
Comprehensive income attributable to Time Warner Inc. shareholders	\$	1,038	\$	930	\$	2,747	\$	3,016

See accompanying notes.

Table of Contents

TIME WARNER INC.
CONSOLIDATED STATEMENT OF CASH FLOWS

Nine Months Ended September 30,

(Unaudited; millions)

	2015	2014
OPERATIONS		
Net income	\$ 2,975	\$ 3,109
Less Discontinued operations, net of tax	(37)	65
Net income from continuing operations	2,938	3,174
Adjustments for noncash and nonoperating items:		
Depreciation and amortization	501	551
Amortization of film and television costs	5,739	5,933
Asset impairments	8	31
Gain on investments and other assets, net	(39)	(453)
Equity in losses of investee companies, net of cash distributions	160	136
Equity-based compensation	154	174
Deferred income taxes	(176)	(315)
Changes in operating assets and liabilities, net of acquisitions	(6,284)	(6,557)
Cash provided by operations from continuing operations	3,001	2,674
INVESTING ACTIVITIES		
Investments in available-for-sale securities	(41)	(30)
Investments and acquisitions, net of cash acquired	(344)	(878)
Capital expenditures	(250)	(316)
Investment proceeds from available-for-sale securities	1	17
Proceeds from Time Inc. in the Time Separation		1,400
Proceeds from the sale of Time Warner Center		1,264
Other investment proceeds	133	125
Cash provided (used) by investing activities from continuing operations	(501)	1,582
FINANCING ACTIVITIES		
Borrowings	2,877	2,406
Debt repayments	(2,341)	(21)
Proceeds from exercise of stock options	148	276
Excess tax benefit from equity instruments	141	138
Principal payments on capital leases	(8)	(8)
Repurchases of common stock	(3,030)	(4,481)
Dividends paid	(869)	(841)

Edgar Filing: TIME WARNER INC. - Form 10-Q

Other financing activities	(258)	(147)
Cash used by financing activities from continuing operations	(3,340)	(2,678)
Cash provided (used) by continuing operations	(840)	1,578
Cash used by operations from discontinued operations	(4)	(10)
Cash used by investing activities from discontinued operations		(51)
Cash used by financing activities from discontinued operations		(36)
Effect of change in cash and equivalents of discontinued operations		(87)
Cash used by discontinued operations	(4)	(184)
INCREASE (DECREASE) IN CASH AND EQUIVALENTS	(844)	1,394
CASH AND EQUIVALENTS AT BEGINNING OF PERIOD	2,618	1,816
CASH AND EQUIVALENTS AT END OF PERIOD	\$ 1,774	\$ 3,210

See accompanying notes.

Table of Contents

TIME WARNER INC.
CONSOLIDATED STATEMENT OF EQUITY
Nine Months Ended September 30,
(Unaudited; millions)

	2015	2014
BALANCE AT BEGINNING OF PERIOD	\$ 24,476	\$ 29,904
Net income (a)	2,976	3,109
Other comprehensive loss attributable to continuing operations	(228)	(115)
Other comprehensive income attributable to discontinued operations		22
Amounts related to the Time Separation		(2,797)
Cash dividends	(869)	(841)
Common stock repurchases	(2,999)	(4,500)
Amounts related primarily to stock options and restricted stock units	292	448
BALANCE AT END OF PERIOD	\$ 23,648	\$ 25,230

(a) Excludes a \$1 million loss for the nine months ended September 30, 2015 relating to redeemable noncontrolling interests.

See accompanying notes.

Table of Contents

TIME WARNER INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. DESCRIPTION OF BUSINESS 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 television networks, and film and TV entertainment. Time Warner classifies its operations into three reportable segments: *Turner*: consisting principally of cable networks and digital media properties; *Home Box Office*: consisting principally of premium pay television services domestically and premium pay and basic tier television services internationally; and *Warner Bros.*: consisting principally of television, feature film, home video and videogame production and distribution.

Basis of Presentation

Interim Financial Statements

The consolidated financial statements are unaudited; however, in the opinion of management, they contain all the adjustments (consisting of those of a normal recurring nature) considered necessary to present fairly the financial position, results of operations and cash flows for the periods presented in conformity with U.S. generally accepted accounting principles (GAAP) applicable to interim periods. The consolidated financial statements should be read in conjunction with the audited consolidated financial statements of Time Warner included in the Company s Annual Report on Form 10-K for the year ended December 31, 2014 (the 2014 Form 10-K).

Basis of Consolidation

The consolidated financial statements include all the assets, liabilities, revenues, expenses and cash flows of entities in which Time Warner has a controlling interest (subsidiaries). Intercompany accounts and transactions between consolidated entities have been eliminated in consolidation.

Use of Estimates

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

Significant estimates and judgments inherent in the preparation of the consolidated financial statements include accounting for asset impairments, multiple-element transactions, allowances for doubtful accounts, depreciation and amortization, the determination of ultimate revenues as it relates to amortization or impairment of capitalized film and programming costs and participations and residuals, home video and videogames product returns, business combinations, pension and other postretirement benefits, equity-based compensation, income taxes, contingencies, litigation matters, reporting revenue for certain transactions on a gross versus net basis, and the determination of whether the Company should consolidate certain entities.

Venezuela Currency

Certain of the Company's divisions conduct business with third parties located in Venezuela and, as a result, the Company holds net monetary assets denominated in Venezuelan Bolivares Fuertes (VEF) that primarily consist of cash and accounts receivable. As of December 31, 2014, the Company used the SICAD 2 exchange rate to remeasure its VEF-denominated monetary assets. Because of Venezuelan government-imposed restrictions on the exchange of VEF into foreign currency in Venezuela, the Company has not been able to convert VEF earned in Venezuela into U.S. Dollars through the Venezuelan government's foreign currency exchanges.

On February 10, 2015, Venezuelan government officials announced changes to Venezuela's foreign currency exchange system. Those changes included the elimination of the SICAD 2 exchange due to the merger of the SICAD 1 and SICAD 2 exchanges into a single SICAD exchange as well as the creation of the Simadi exchange, which is a new free market foreign currency exchange. On their initial date of activity, the exchange rates published by the Central Bank of Venezuela were 12 VEF to each U.S. Dollar for the SICAD exchange and 170 VEF to each U.S. Dollar for the Simadi exchange. Given the restrictions associated with the official

Table of Contents

TIME WARNER INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

government rate and the SICAD exchange, starting on February 10, 2015, the Company began to use the Simadi exchange rate to remeasure its VEF-denominated transactions and balances and recognized a pretax foreign exchange loss of \$22 million in the Consolidated Statement of Operations during the quarter ended March 31, 2015. Approximately \$15 million of such loss related to cash balances.

Accounting Guidance Adopted in 2015

Debt Issuance Costs

During the third quarter of 2015, the Company early adopted guidance on a retrospective basis that requires debt issuance costs related to a recognized debt liability be presented in the balance sheet as a deduction from the carrying amount of such debt. The adoption of the guidance resulted in decreases to long-term debt and other noncurrent assets as of December 31, 2014 of \$113 million.

Fair Value Measurement

During the second quarter of 2015, the Company early adopted guidance that eliminated the requirement to categorize within the fair value hierarchy all investments for which net asset value per share was used as a practical expedient to measure fair value. The adoption of this guidance did not have a material effect on the Company's consolidated financial statements.

Discontinued Operations

In April 2014, guidance was issued that changes the requirements for reporting discontinued operations. Under this new guidance, a discontinued operation is (i) a component of an entity or group of components that has been disposed of or is classified as held for sale and represents a strategic shift that has had or will have a major effect on an entity's operations and financial results or (ii) an acquired business that is classified as held for sale on the acquisition date. This guidance also requires expanded or new disclosures for discontinued operations, individually material disposals that do not meet the definition of a discontinued operation, an entity's continuing involvement with a discontinued operation following disposal and retained equity method investments in a discontinued operation. This guidance became effective on a prospective basis for the Company on January 1, 2015 and did not have a material impact on the Company's consolidated financial statements.

Accounting Guidance Not Yet Adopted

Revenue Recognition

In May 2014, guidance was issued that establishes a new revenue recognition framework in GAAP for all companies and industries. The core principle of the guidance is that an entity should recognize revenue from the transfer of promised goods or services to customers in an amount that reflects the consideration the entity expects to receive for those goods or services. The guidance includes a five-step framework to determine the timing and amount of revenue to recognize related to contracts with customers. In addition, this guidance requires new or expanded disclosures

related to the judgments made by companies when following this framework. Based on the current guidance, the new framework will become effective on either a full or modified retrospective basis for the Company on January 1, 2018. The Company is evaluating the impact the guidance will have on its consolidated financial statements.

Consolidation

In February 2015, guidance was issued that changes how companies evaluate entities for consolidation. The changes primarily relate to (i) the identification of variable interests related to fees paid to decision makers or service providers, (ii) how companies determine whether limited partnerships or similar entities are variable interest entities, (iii) how related parties and de facto agents are considered in the primary beneficiary determination, and (iv) the elimination of the presumption that a general partner controls a limited partnership. The guidance will become effective for the Company on January 1, 2016 on either a modified retrospective or full retrospective basis and is not expected to have a material impact on the Company's consolidated financial statements.

Table of Contents**TIME WARNER INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)*****Accounting for Fees Paid in a Cloud Computing Arrangement***

In April 2015, guidance was issued that clarifies how fees paid by a customer in a cloud computing arrangement are accounted for. The guidance provides that if a cloud computing arrangement includes a software license, the arrangement should be accounted for in a manner consistent with the acquisition of other software licenses. The guidance also provides that if a cloud computing arrangement does not include a software license, the arrangement should be accounted for as a service contract. This guidance will become effective for the Company on January 1, 2016, and the Company is currently evaluating the impact the guidance will have on its consolidated financial statements.

2. BUSINESS DISPOSITIONS AND ACQUISITIONS**iStreamPlanet**

In August 2015, Turner acquired a majority ownership interest in iStreamPlanet Co., LLC (iStreamPlanet), a provider of streaming and cloud-based video and technology services, for \$149 million, net of cash acquired. As a result of Turner's acquisition of the additional interests in iStreamPlanet, Turner recorded a \$3 million gain on a previously held investment accounted for under the cost method and began consolidating iStreamPlanet in the third quarter of 2015. In connection with the acquisition, \$29 million of Redeemable noncontrolling interest was recorded in the Consolidated Balance Sheet.

Summary of Discontinued Operations

Discontinued operations, net of tax, for the nine months ended September 30, 2015 was income of \$37 million (\$0.04 of diluted net income per common share), primarily related to the final resolution of a tax indemnification obligation associated with the disposition of Warner Music Group in 2004.

During 2014, the Company completed the legal and structural separation of Time Inc. With the completion of the separation, the Company disposed of its Time Inc. segment in its entirety and ceased to consolidate Time Inc.'s financial position and results of operations in its consolidated financial statements. Accordingly, the Company has presented the financial position and results of operations of its former Time Inc. segment as discontinued operations in the consolidated financial statements for all periods presented.

Financial data for discontinued operations is as follows for the three and nine months ended September 30, 2014 (millions, except per share amounts):

Three Months Ended	Nine Months Ended
-------------------------------	------------------------------

Edgar Filing: TIME WARNER INC. - Form 10-Q

	9/30/14	9/30/14
Total revenues	\$	\$ 1,415
Pretax income (loss)	3	(94)
Income tax benefit (provision)	(2)	29
Net income (loss)	\$ 1	\$ (65)
Net income (loss) attributable to Time Warner Inc. shareholders	\$ 1	\$ (65)
Per share information attributable to Time Warner Inc. common shareholders:		
Basic net income (loss) per common share	\$	\$ (0.08)
Average common shares outstanding basic	850.9	872.2
Diluted net income (loss) per common share	\$	\$ (0.07)
Average common shares outstanding diluted	870.2	891.6

Table of Contents**TIME WARNER INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****3. INVESTMENTS****Investment in Hudson Yards Development Project**

During the first quarter of 2015, the Company finalized agreements relating to the construction and development of office and studio space in the Hudson Yards development on the west side of Manhattan in order to move its Corporate headquarters and New York City-based employees to the new space. The Company will fund its proportionate share of the costs for the construction and development through a limited liability corporation (LLC) that is controlled by the developer and managed by an affiliate of the developer. As of September 30, 2015, the Company's investment in the LLC, which is accounted for under the equity method of accounting, is approximately \$186 million and is included in Investments, including available-for-sale securities in the Consolidated Balance Sheet. Based on current construction cost estimates and space projections, the Company expects to invest an additional \$1.9 billion in the Hudson Yards development project through 2019.

Central European Media Enterprises Ltd.

As of September 30, 2015, the Company had an approximate 49.4% voting interest in Central European Media Enterprises Ltd.'s (CME) common stock and an approximate 75.6% economic interest in CME on a diluted basis.

As of September 30, 2015, the Company owned 61.4 million shares of CME's Class A common stock and 1 share of Series A convertible preferred stock, which is convertible into 11.2 million shares of CME's Class A common stock and votes with the Class A common stock on an as-converted basis. The Company accounts for its investment in CME's Class A common stock and Series A convertible preferred stock under the equity method of accounting.

As of September 30, 2015, the Company owned all of the outstanding shares of CME's Series B convertible redeemable preferred shares, which are non-voting and may be converted into 97.7 million shares of CME's Class A common stock at the Company's option at any time after June 25, 2016. The Company accounts for its investment in CME's Series B convertible redeemable preferred shares under the cost method of accounting.

As of September 30, 2015, the Company owned 3.4 million of CME's 15% senior secured notes due 2017 (the Senior Secured Notes), each consisting of a \$100 principal amount plus accrued interest. The Senior Secured Notes are accounted for at their amortized cost and classified as held-to-maturity in the Consolidated Balance Sheet.

As of September 30, 2015, the Company held 101 million warrants each to purchase one share of CME Class A common stock. The warrants issued to Time Warner have a four-year term that expires in May 2018 and an exercise price of \$1.00 per share, do not contain any voting rights and are not exercisable until May 2016. The warrants are subject to a limited right whereby the Company can exercise any of its warrants earlier solely to own up to 49.9% of CME's Class A common stock. The warrants are carried at fair value in the Consolidated Balance Sheet. The initial fair value of the warrants was recognized as a discount to the Senior Secured Notes and the term loan provided by the Company to CME (as described below) and a deferred gain related to the revolving credit facility provided by the Company to CME (as described below).

Time Warner has also provided CME a \$115 million revolving credit facility and a \$30 million term loan that both mature on December 1, 2017. CME can pay accrued interest on the amounts outstanding under the revolving credit facility and term loan either in cash or by adding the amount of accrued interest to the outstanding principal amount of the term loan or revolving credit facility, as applicable. As of September 30, 2015, there were no amounts outstanding under the revolving credit facility and the carrying value of amounts outstanding under the term loan was \$22 million and is classified as other assets in the Consolidated Balance Sheet.

On November 14, 2014, Time Warner and CME entered into an agreement pursuant to which Time Warner agreed to assist CME in refinancing \$261 million aggregate principal amount of its Senior Convertible Notes due 2015 (the 2015 Notes) and 240 million aggregate principal amount of its Senior Notes due 2017 (the 2017 Notes). In connection with this agreement, CME entered into a 251 million senior unsecured term loan that matures on November 1, 2017 (the 2017 Term Loan) with third-party financial institutions on the same day. Time Warner has guaranteed CME s obligations under the 2017 Term Loan for a fee equal to 8.5% less the interest rate on the 2017 Term Loan, to be paid to Time Warner semi-annually in cash or in kind at CME s option. CME used the proceeds of the 2017 Term Loan to redeem the 2017 Notes. CME also entered into unsecured interest rate hedge arrangements to protect against changes in the applicable interest rate on the 2017 Term Loan during its term. Time Warner has also guaranteed CME s obligations under the hedge arrangements.

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

On September 30, 2015, CME entered into a credit agreement (the 2015 Credit Agreement) with third-party financial institutions for a \$235 million senior unsecured term loan that will be funded in November 2015 and matures on November 1, 2019. Time Warner has guaranteed CME's obligations under the 2015 Credit Agreement for a fee equal to 8.5% less the interest rate on the term loan, to be paid to Time Warner semi-annually in cash or in kind at CME's option. CME will use the proceeds of the term loan to repay the \$261 million aggregate principal amount of the 2015 Notes at maturity on November 15, 2015. As consideration for assisting CME in refinancing the 2015 Notes, Time Warner earned a commitment fee of \$9 million, which will accrue interest at a rate of 8.5%. As of September 30, 2015, there were no amounts outstanding under the 2015 Credit Agreement. CME may enter into unsecured hedge arrangements to protect against changes in the interest rate on the term loan during its term. If so, Time Warner will guarantee CME's obligations under such hedge arrangements.

4. FAIR VALUE MEASUREMENTS

A fair value measurement is determined based on the assumptions that a market participant would use in pricing an asset or liability. A three-tiered hierarchy draws distinctions between market participant assumptions based on (i) observable inputs such as quoted prices in active markets (Level 1), (ii) inputs other than quoted prices in active markets that are observable either directly or indirectly (Level 2) and (iii) unobservable inputs that require the Company to use present value and other valuation techniques in the determination of fair value (Level 3). The following table presents information about assets and liabilities required to be carried at fair value on a recurring basis as of September 30, 2015 and December 31, 2014, respectively (millions):

	September 30, 2015				December 31, 2014			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets:								
Trading securities:								
Diversified equity securities (a)	\$ 176	\$	\$	\$ 176	\$ 232	\$ 5	\$	\$ 237
Available-for-sale securities:								
Equity securities	17			17	19			19
Debt securities		78		78		60		60
Derivatives:								
Foreign exchange contracts		93		93		61		61
Other			133	133			247	247
Liabilities:								
Derivatives:								

Foreign exchange contracts			(5)			(5)			(3)			(3)				
Other			(7)			(7)			(6)			(6)				
Total	\$	193	\$	166	\$	126	\$	485	\$	251	\$	123	\$	241	\$	615

(a) Consists of investments related to deferred compensation.

The Company primarily applies the market approach for valuing recurring fair value measurements. As of September 30, 2015 and December 31, 2014, assets and liabilities valued using significant unobservable inputs (Level 3) primarily related to warrants to purchase shares of Class A common stock of CME valued at \$132 million and \$242 million, respectively. The Company estimates the fair value of these warrants using a Monte Carlo Simulation model. Significant unobservable inputs used in the fair value measurement at September 30, 2015 are an expected term of 1.78 years and an expected volatility of approximately 71%. The other Level 3 assets and liabilities consisted of assets related to equity instruments held by employees of a former subsidiary of the Company, liabilities for contingent consideration and options to redeem securities.

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

The following table reconciles the beginning and ending balances of net derivative assets and liabilities classified as Level 3 and identifies the total gains (losses) the Company recognized during the nine months ended September 30, 2015 and 2014 on such assets and liabilities that were included in the Consolidated Balance Sheet as of September 30, 2015 and 2014 (millions):

	September 30, 2015	September 30, 2014
Balance as of the beginning of the period	\$ 241	\$ 1
Total losses, net:		
Included in operating income	(1)	
Included in other loss, net	(112)	(58)
Included in other comprehensive loss		
Purchases		213
Settlements	(2)	(19)
Issuances		16
Transfers in and/or out of Level 3		
Balance as of the end of the period	\$ 126	\$ 153
Net loss for the period included in net income related to assets and liabilities still held as of the end of the period	\$ (113)	\$ (57)

Other Financial Instruments

The Company's other financial instruments, including debt, are not required to be carried at fair value. Based on the interest rates prevailing at September 30, 2015, the fair value of Time Warner's debt exceeded its carrying value by approximately \$3.042 billion and, based on interest rates prevailing at December 31, 2014, the fair value of Time Warner's debt exceeded its carrying value by approximately \$4.251 billion. The fair value of Time Warner's debt was considered a Level 2 measurement as it was based on observable market inputs such as current interest rates and, where available, actual sales transactions. Unrealized gains or losses on debt do not result in the realization or expenditure of cash and generally are not recognized in the consolidated financial statements unless the debt is retired prior to its maturity.

Information as of September 30, 2015 about the Company's investments in CME that are not required to be carried at fair value on a recurring basis is as follows (millions):

	Carrying Value	Fair Value	Fair Value Hierarchy
Class A common stock (a)	\$	\$ 157	Level 1
Series B convertible redeemable preferred shares	\$	\$ 211	Level 2
Senior secured notes	\$ 247	\$ 422	Level 2

(a) Includes one share of Series A convertible preferred stock.

The fair values of the Company's investments in CME's Class A common stock (including Series A convertible preferred stock) and Series B convertible redeemable preferred shares are primarily determined by reference to the September 30, 2015 closing price of CME's common stock. The fair value of the Company's investment in CME's Senior Secured Notes is primarily determined by reference to observable sales transactions.

The carrying value for the majority of the Company's other financial instruments approximates fair value due to the short-term nature of the financial instruments or because the financial instruments are of a longer-term nature and are recorded on a discounted basis.

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

The majority of the Company's non-financial instruments, which include goodwill, intangible assets, inventories and property, plant and equipment, are not required to be carried at fair value on a recurring basis. However, if certain triggering events occur (or at least annually for goodwill and indefinite-lived intangible assets), a non-financial instrument is required to be evaluated for impairment. If the Company determines that the non-financial instrument is impaired, the Company would be required to write down the non-financial instrument to its fair value.

During the three and nine months ended September 30, 2015, the Company performed an impairment review of certain intangible assets at an international subsidiary of Turner. As a result, during the three and nine months ended September 30, 2015, the Company recorded a noncash impairment of \$1 million to completely write off the value of these assets. During the nine months ended September 30, 2014, the Company performed impairment reviews of certain intangible assets at international subsidiaries of Turner and Home Box Office. As a result, during the nine months ended September 30, 2014, the Company recorded noncash impairments of \$5 million to write down the value of these assets to \$7 million. The resulting fair value measurements were considered to be Level 3 measurements and were determined using a discounted cash flow (DCF) methodology with assumptions for cash flows associated with the use and eventual disposition of the assets.

During the three and nine months ended September 30, 2015 and September 30, 2014, the Company also performed fair value measurements related to certain theatrical films and television programs. In determining the fair value of its theatrical films, the Company employs a DCF methodology that includes cash flow estimates of a film's ultimate revenue and costs as well as a discount rate. The discount rate utilized in the DCF analysis is based on the weighted average cost of capital of the respective business (e.g., Warner Bros.) plus a risk premium representing the risk associated with producing a particular theatrical film. The fair value of any theatrical films and television programs that management plans to abandon is zero. Because the primary determination of fair value is determined using a DCF model, the resulting fair value is considered a Level 3 measurement. The following table presents certain theatrical film and television production costs, which were recorded as inventory in the Consolidated Balance Sheet, that were written down to fair value (millions):

	Carrying value before writedown	Carrying value after writedown
Fair value measurements made during the three months ended September 30,:		
2015	\$ 15	\$
2014	\$ 46	\$

Fair value measurements made during the nine months ended September 30,:

Edgar Filing: TIME WARNER INC. - Form 10-Q

2015	\$	303	\$	210
2014	\$	234	\$	140

Table of Contents

TIME WARNER INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. INVENTORIES AND THEATRICAL FILM AND TELEVISION PRODUCTION COSTS

Inventories and theatrical film and television production costs consist of (millions):

	September 30, 2015	December 31, 2014
Inventories:		
Programming costs, less amortization	\$ 3,324	\$ 3,251
Other inventory, primarily DVDs and Blu-ray Discs	323	228
Total inventories	3,647	3,479
Less: current portion of inventory	(1,973)	(1,700)
Total noncurrent inventories	1,674	1,779
Theatrical film production costs: (a)		
Released, less amortization	674	641
Completed and not released	441	379
In production	1,176	1,266
Development and pre-production	131	105
Television production costs: (a)		
Released, less amortization	1,346	1,251
Completed and not released	758	521
In production	1,083	889
Development and pre-production	11	10
Total theatrical film and television production costs	5,620	5,062
Total noncurrent inventories and theatrical film and television production costs	\$ 7,294	\$ 6,841

- (a) Does not include \$697 million and \$797 million of acquired film library intangible assets as of September 30, 2015 and December 31, 2014, respectively, which are included in Intangible assets subject to amortization, net in the Consolidated Balance Sheet.

6. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

Time Warner uses derivative instruments, primarily forward contracts, to manage the risk associated with the volatility of future cash flows denominated in foreign currencies and changes in fair value resulting from changes in foreign currency exchange rates. The principal currencies being hedged include the British Pound, Euro, Australian Dollar and Canadian Dollar. Time Warner uses foreign exchange contracts that generally have maturities of three to 18 months to hedge various foreign exchange exposures, including the following: (i) variability in foreign-currency-denominated cash flows, such as the hedges of unremitted or forecasted royalty and license fees owed to Time Warner's domestic companies for the sale or anticipated sale of U.S. copyrighted products abroad or cash flows for certain film production costs denominated in a foreign currency (i.e., cash flow hedges), and (ii) currency risk associated with foreign-currency-denominated operating assets and liabilities (i.e., fair value hedges).

The Company also enters into derivative contracts that economically hedge certain of its foreign currency risks, even though hedge accounting does not apply or the Company elects not to apply hedge accounting. These economic hedges are used primarily to offset the change in certain foreign currency denominated long-term receivables and certain foreign-currency-denominated debt due to changes in the underlying foreign exchange rates.

Table of Contents

TIME WARNER INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Net gains and losses from hedging activities recognized in the Consolidated Statement of Operations were as follows (millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Gains (losses) recognized in:				
Costs of revenues	\$ 56	\$ 8	\$ 107	\$ (3)
Selling, general and administrative	6		15	3
Other loss, net	(10)	(2)	(20)	(11)

Included in Other loss, net is the impact of hedge ineffectiveness and forward points and option premiums, which are excluded from the assessment of hedge effectiveness. Such amounts were not material.

The Company monitors its positions with, and the credit quality of, the financial institutions that are party to its financial transactions and has entered into collateral agreements with certain of these counterparties to further protect the Company in the event of deterioration of the credit quality of such counterparties on outstanding transactions. Additionally, netting provisions are included in agreements in situations where the Company executes multiple contracts with the same counterparty. For such foreign exchange contracts, the Company offsets the fair values of the amounts owed to or due from the same counterparty and classifies the net amount as a net asset or net liability within Prepaid expenses and other current assets or Accounts payable and accrued liabilities, respectively, in the Consolidated Balance Sheet. The following is a summary of amounts recorded in the Consolidated Balance Sheet pertaining to Time Warner's use of foreign currency derivatives at September 30, 2015 and December 31, 2014 (millions):

	September 30,	December 31,
	2015 (a)	2014 (b)
Prepaid expenses and other current assets	\$ 93	\$ 61
Accounts payable and accrued liabilities	(5)	(3)

- (a) Includes \$201 million (\$182 million of qualifying hedges and \$19 million of economic hedges) and \$113 million (\$103 million of qualifying hedges and \$10 million of economic hedges) of foreign exchange derivative contracts in asset and liability positions, respectively.
- (b) Includes \$139 million (\$92 million of qualifying hedges and \$47 million of economic hedges) and \$81 million (\$65 million of qualifying hedges and \$16 million of economic hedges) of foreign exchange derivative contracts in asset and liability positions, respectively.

At September 30, 2015 and December 31, 2014, \$33 million and \$20 million, respectively, of gains related to cash flow hedges are recorded in Accumulated other comprehensive loss, net and are expected to be recognized in earnings at the same time the hedged items affect earnings. Included in Accumulated other comprehensive loss, net at September 30, 2015 and December 31, 2014 are net losses of \$11 million and \$5 million, respectively, related to hedges of cash flows associated with films that are not expected to be released within the next twelve months.

At September 30, 2015, the carrying amount of the Company's 700 million aggregate principal amount of debt is designated as a hedge of the variability in the Company's Euro-denominated net investments. The gain or loss on the debt that is designated as, and is effective as, an economic hedge of the net investment in a foreign operation is recorded as a currency translation adjustment within Accumulated other comprehensive loss, net in the Consolidated Balance Sheet. For the three and nine months ended September 30, 2015, such amounts totaled \$21 million of losses. See Note 7, Long-Term Debt and Other Financing Arrangements, for more information.

7. LONG-TERM DEBT AND OTHER FINANCING ARRANGEMENTS

June Debt Offering

On June 4, 2015, Time Warner issued \$2.1 billion aggregate principal amount of debt securities under a shelf registration statement, consisting of \$1.5 billion aggregate principal amount of 3.60% Notes due 2025 and \$600 million aggregate principal amount of 4.85% Debentures due 2045 (the June 2015 Debt Offering). The securities issued in the June 2015 Debt Offering are guaranteed, on an unsecured basis, by Historic TW Inc. (Historic TW). In addition, Turner and Home Box Office guarantee, on an unsecured basis, Historic TW's guarantee of the securities. The net proceeds to the Company from the June 2015 Debt Offering

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

were \$2.083 billion, after deducting underwriting discounts and offering expenses. The Company used a portion of the net proceeds from the June 2015 Debt Offering to retire at maturity the \$1.0 billion aggregate principal amount outstanding of its 3.15% Notes due July 15, 2015. The remainder of the net proceeds will be used for general corporate purposes, including share repurchases.

Debt Tender Offer and Redemption

In June 2015, Time Warner purchased \$687 million aggregate principal amount of the \$1.0 billion aggregate principal amount outstanding of its 5.875% Notes due 2016 (the 2016 Notes) through a tender offer. In August 2015, the Company redeemed the \$313 million aggregate principal amount of the 2016 Notes that remained outstanding following the tender offer. The premiums paid and costs incurred in connection with this purchase and redemption were \$20 million and \$71 million for the three and nine months ended September 30, 2015, respectively, and were recorded in Other loss, net in the Consolidated Statement of Operations.

July Debt Offering

On July 28, 2015, Time Warner issued 700 million aggregate principal amount of 1.95% Notes due 2023 under a shelf registration statement (the July 2015 Debt Offering). The notes issued in the July 2015 Debt Offering are guaranteed, on an unsecured basis, by Historic TW. In addition, Turner and Home Box Office guarantee, on an unsecured basis, Historic TW's guarantee of the notes. The net proceeds from the issuance of the notes will be used for general corporate purposes. In addition, the Company has designated these notes as a hedge of the variability in the Company's Euro-denominated net investments. See Note 6, Derivative Investments and Hedging Activities, for more information.

8. SHAREHOLDERS EQUITY**Common Stock Repurchase Program**

In January 2014, Time Warner's Board of Directors authorized up to \$5.0 billion of share repurchases beginning January 1, 2014, including amounts available under the Company's prior stock repurchase program as of December 31, 2013. In June 2014, Time Warner's Board of Directors authorized an additional \$5.0 billion of share repurchases. Purchases under the stock repurchase program may be made from time to time on the open market and in privately negotiated transactions. The size and timing of these purchases are based on a number of factors, including price and business and market conditions.

From January 1, 2015 through September 30, 2015, the Company repurchased approximately 37 million shares of common stock for approximately \$2.999 billion pursuant to trading plans under Rule 10b5-1 of the Securities Exchange Act of 1934, as amended. As of September 30, 2015, \$1.5 billion remained under the stock repurchase program.

Comprehensive Income (Loss)

Comprehensive income (loss) is reported in the Consolidated Statement of Comprehensive Income and consists of Net income and other gains and losses affecting shareholders' equity that, under GAAP, are excluded from Net income. For Time Warner, such items consist primarily of foreign currency translation gains (losses), unrealized gains and losses on certain derivative financial instruments and equity securities, and changes in benefit plan obligations.

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

The following summary sets forth the activity within Other comprehensive loss (millions):

	Three Months Ended September 30, 2015			Nine Months Ended September 30, 2015		
	Pretax	Tax (provision) benefit	Net of tax	Pretax	Tax (provision) benefit	Net of tax
Unrealized losses on foreign currency translation	\$ (29)	\$ 15	\$ (14)	\$ (291)	\$ 33	\$ (258)
Reclassification adjustment for losses on foreign currency translation realized in net income (a)				5		5
Unrealized gains (losses) on securities	(4)	1	(3)	3	(1)	2
Unrealized losses on benefit obligations	(1)		(1)	(4)	2	(2)
Reclassification adjustment for losses on benefit obligations realized in net income (c)	8	(3)	5	25	(9)	16
Unrealized gains on derivative financial instruments	87	(31)	56	115	(41)	74
Reclassification adjustment for gains on derivative financial instruments realized in net income (d)	(62)	23	(39)	(102)	37	(65)
Other comprehensive income (loss)	\$ (1)	\$ 5	\$ 4	\$ (249)	\$ 21	\$ (228)

	Three Months Ended September 30, 2014			Nine Months Ended September 30, 2014		
	Pretax	Tax (provision) benefit	Net of tax	Pretax	Tax (provision) benefit	Net of tax
Unrealized losses on foreign currency translation	\$ (54)	\$ 5	\$ (49)	\$ (66)	\$ (1)	\$ (67)
Unrealized gains (losses) on securities	4	(2)	2	(5)	2	(3)
Reclassification adjustment for gains on securities realized in net income (b)				(8)	3	(5)
Unrealized gains (losses) on benefit obligations	2	(1)	1	(50)	14	(36)
Reclassification adjustment for losses on benefit obligations realized in net income (c)	6	(2)	4	23	(8)	15

Unrealized gains on derivative financial instruments	6	(2)	4	5	(2)	3
Reclassification adjustment for losses on derivative financial instruments realized in net income (d)	1		1			
Other comprehensive loss	\$ (35)	\$ (2)	\$ (37)	\$ (101)	\$ 8	\$ (93)

- (a) Pretax (gains) losses included in Gain (loss) on operating assets, net.
- (b) Pretax (gains) losses included in Other loss, net.
- (c) Pretax (gains) losses included in Selling, general and administrative expenses.
- (d) Pretax (gains) losses included in Selling, general and administrative expenses and Costs of revenues are as follows (millions):

	Three Months Ended September 30, 2015		Three Months Ended September 30, 2014	
	2015	2014	2015	2014
Selling, general and administrative expenses	\$ (6)	\$ (6)	\$ (15)	\$ (3)
Costs of revenues	(56)	1	(87)	3

Table of Contents

TIME WARNER INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

9. INCOME PER COMMON SHARE

Set forth below is a reconciliation of Basic and Diluted income per common share from continuing operations attributable to Time Warner Inc. common shareholders (millions, except per share amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Income from continuing operations attributable to Time Warner Inc. shareholders	\$ 1,035	\$ 966	\$ 2,939	\$ 3,174
Income allocated to participating securities	(3)	(3)	(8)	(11)
Income from continuing operations attributable to Time Warner Inc. common shareholders basic	\$ 1,032	\$ 963	\$ 2,931	\$ 3,163
Average basic common shares outstanding	810.2	850.9	820.4	872.2
Dilutive effect of equity awards	13.9	19.3	15.1	19.4
Average diluted common shares outstanding	824.1	870.2	835.5	891.6
Antidilutive common share equivalents excluded from computation	5		4	1
Income per common share from continuing operations attributable to Time Warner Inc. common shareholders:				
Basic	\$ 1.27	\$ 1.13	\$ 3.57	\$ 3.63
Diluted	\$ 1.26	\$ 1.11	\$ 3.52	\$ 3.56

10. EQUITY-BASED COMPENSATION

The table below summarizes the weighted-average assumptions used to value stock options at their grant date and the weighted-average grant date fair value per share:

	Nine Months Ended September 30,	
	2015	2014
Expected volatility	25.0%	28.0%

Edgar Filing: TIME WARNER INC. - Form 10-Q

Expected term to exercise from grant date	5.80 years	5.92 years
Risk-free rate	1.8%	1.9%
Expected dividend yield	1.7%	1.9%
Weighted average grant date fair value per option	\$ 18.17	\$ 15.61

The following table sets forth the weighted-average grant date fair value of restricted stock units (RSUs) and target performance stock units (PSUs) granted during the period. For PSUs, the Company applies mark-to-market accounting that is reflected in the grant date fair values presented because for accounting purposes, the service inception date is deemed to precede the grant date:

	Nine Months Ended September 30,	
	2015	2014
RSUs	\$ 83.86	\$ 65.42
PSUs	69.03	72.81

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

The following table sets forth the number of stock options, RSUs and target PSUs granted (millions):

	Nine Months Ended September 30,	
	2015	2014
Stock options	3.4	1.0
RSUs	2.0	2.6
PSUs	0.1	0.2

Compensation expense recognized for equity-based awards is as follows (millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
RSUs and PSUs	\$ 12	\$ 44	\$ 122	\$ 151
Stock options	7	4	32	23
Total impact on operating income	\$ 19	\$ 48	\$ 154	\$ 174
Tax benefit recognized	\$ 6	\$ 19	\$ 54	\$ 64

Total unrecognized compensation cost related to unvested RSUs and target PSUs as of September 30, 2015, without taking into account expected forfeitures, is \$209 million and is expected to be recognized over a weighted-average period between one and two years.

Total unrecognized compensation cost related to unvested stock option awards as of September 30, 2015, without taking into account expected forfeitures, is \$74 million and is expected to be recognized over a weighted-average period between one and two years.

11. BENEFIT PLANS**Components of Net Periodic Benefit Costs**

A summary of the components of the net periodic benefit costs from continuing operations recognized for substantially all of Time Warner's defined benefit pension plans for the three and nine months ended September 30, 2015 and 2014 is as follows (millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Service cost	\$ 1	\$ 1	\$ 3	\$ 2
Interest cost	21	20	63	69
Expected return on plan assets	(23)	(22)	(69)	(72)
Amortization of prior service cost	1	1	1	1
Amortization of net loss	4	3	13	10
Net periodic benefit costs (a)	\$ 4	\$ 3	\$ 11	\$ 10
Contributions	\$ 8	\$ 7	\$ 24	\$ 24

- (a) Excludes net periodic benefit costs related to discontinued operations of \$1 million and \$4 million during the three and nine months ended September 30, 2015, respectively, and \$1 million and \$2 million during the three and nine months ended September 30, 2014, respectively.

Table of Contents

TIME WARNER INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

12. RESTRUCTURING AND SEVERANCE COSTS

The Company's Restructuring and severance costs primarily related to employee termination costs, ranging from senior executives to line personnel, and other exit costs, including lease terminations and real estate consolidations. Restructuring and severance costs expensed as incurred for the three and nine months ended September 30, 2015 and 2014 are as follows (millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Turner	\$ 5	\$ 199	\$ 23	\$ 223
Home Box Office		48	5	57
Warner Bros.	1	45	3	50
Corporate	3	11		16
Total restructuring and severance costs	\$ 9	\$ 303	\$ 31	\$ 346

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
2015 activity	\$ 5	\$	\$ 27	\$
2014 and prior activity	4	303	4	346
Total restructuring and severance costs	\$ 9	\$ 303	\$ 31	\$ 346

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

	Employee Terminations		Other Exit Costs	Total
Remaining liability as of December 31, 2014	\$ 525	\$ 9	\$	\$ 534
Net accruals	19		12	31
Foreign currency translation adjustment	(3)			(3)
Noncash reductions (a)	(1)			(1)
Cash paid	(266)		(10)	(276)
Remaining liability as of September 30, 2015	\$ 274	\$ 11	\$	\$ 285

(a) Noncash reductions relate to the settlement of certain employee-related liabilities with equity instruments. As of September 30, 2015, of the remaining \$285 million liability, \$237 million was classified as a current liability in the Consolidated Balance Sheet, with the remaining \$48 million classified as a long-term liability. Amounts classified as long-term are expected to be paid through 2018.

13. SEGMENT INFORMATION

Time Warner classifies its operations into three reportable segments: *Turner*: consisting principally of cable networks and digital media properties; *Home Box Office*: consisting principally of premium pay television services domestically and premium pay and basic tier television services internationally; and *Warner Bros.*: consisting principally of television, feature film, home video and videogame production and distribution. Time Warner's reportable segments have been determined in accordance with its internal management structure and the financial information that is evaluated regularly by the Company's chief operating decision maker.

In the ordinary course of business, Time Warner's reportable segments enter into transactions with one another. The most common types of intersegment transactions include the Warner Bros. segment generating revenues by licensing television and theatrical programming to the Turner and Home Box Office segments. 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 the counterparty to the transaction) are eliminated in consolidation and, therefore, do not affect consolidated results.

Table of Contents

TIME WARNER INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Information as to the Revenues, intersegment revenues, Operating Income (Loss) and Assets of Time Warner's reportable segments is set forth below (millions):

	Three Months Ended September 30,		Three Months Ended September 30,	
	2015	2014	2015	2014
Revenues				
Turner	\$ 2,398	\$ 2,446	\$ 7,935	\$ 7,789
Home Box Office	1,367	1,304	4,203	4,060
Warner Bros.	3,190	2,775	9,687	8,711
Intersegment eliminations	(391)	(282)	(786)	(726)
Total revenues	\$ 6,564	\$ 6,243	\$ 21,039	\$ 19,834

	Three Months Ended September 30,		Three Months Ended September 30,	
	2015	2014	2015	2014
Intersegment Revenues				
Turner	\$ 23	\$ 19	\$ 81	\$ 76
Home Box Office	4	8	22	27
Warner Bros.	364	255	683	623
Total intersegment revenues	\$ 391	\$ 282	\$ 786	\$ 726

	Three Months Ended September 30,		Three Months Ended September 30,	
	2015	2014	2015	2014
Operating Income (Loss)				
Turner	\$ 1,072	\$ 337	\$ 3,310	\$ 2,166
Home Box Office	519	380	1,485	1,392
Warner Bros.	385	237	1,050	840
Corporate	(64)	(119)	(257)	53
Intersegment eliminations	(78)	136	(109)	135
Total operating income	\$ 1,834	\$ 971	\$ 5,479	\$ 4,586

September 30, December 31,
2015 2014

Assets

Edgar Filing: TIME WARNER INC. - Form 10-Q

Turner	\$	25,766	\$	25,271
Home Box Office		14,226		13,869
Warner Bros.		20,510		20,559
Corporate		2,172		3,447
Total assets	\$	62,674	\$	63,146

Table of Contents

TIME WARNER INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

14. COMMITMENTS AND CONTINGENCIES

Commitments

Six Flags

In connection with the Company's former investment in the Six Flags theme parks located in Georgia and Texas (collectively, the Parks), in 1997, certain subsidiaries of the Company (including Historic TW and, in connection with the separation of Time Warner Cable Inc. in 2009, Warner Bros. Entertainment Inc.) agreed to guarantee (the Six Flags Guarantee) certain obligations of the partnerships that hold the Parks (the Partnerships) for the benefit of the limited partners in such Partnerships, including: annual payments made at the Parks or to the limited partners and additional obligations at the end of the respective terms for the Partnerships in 2027 and 2028 (the Guaranteed Obligations). The aggregate undiscounted estimated future cash flow requirements covered by the Six Flags Guarantee over the remaining term (through 2028) are \$914 million (for a net present value of \$426 million). To date, no payments have been made by the Company pursuant to the Six Flags Guarantee.

Six Flags Entertainment Corporation (formerly known as Six Flags, Inc. and Premier Parks Inc.) (Six Flags), which has the controlling interest in the Parks, has agreed, pursuant to a subordinated indemnity agreement (the Subordinated Indemnity Agreement), to guarantee the performance of the Guaranteed Obligations when due and to indemnify Historic TW, among others, if the Six Flags Guarantee is called upon. If Six Flags defaults in its indemnification obligations, Historic TW has the right to acquire control of the managing partner of the Parks. Six Flags' obligations to Historic TW are further secured by its interest in all limited partnership units held by Six Flags.

Because the Six Flags Guarantee existed prior to December 31, 2002 and no modifications to the arrangements have been made since the date the guarantee came into existence, the Company is required to continue to account for the Guaranteed Obligations as a contingent liability. Based on its evaluation of the current facts and circumstances surrounding the Guaranteed Obligations and the Subordinated Indemnity Agreement, the Company is unable to predict the loss, if any, that may be incurred under the Guaranteed Obligations, and no liability for the arrangements has been recognized at September 30, 2015. Because of the specific circumstances surrounding the arrangements and the fact that no active or observable market exists for this type of financial guarantee, the Company is unable to determine a current fair value for the Guaranteed Obligations and related Subordinated Indemnity Agreement.

Contingencies

In the ordinary course of business, the Company and its subsidiaries are defendants in or parties to various legal claims, actions and proceedings. These claims, actions and proceedings are at varying stages of investigation, arbitration or adjudication, and involve a variety of areas of law.

On April 4, 2007, the National Labor Relations Board (NLRB) issued a complaint against CNN America Inc. (CNN America) and Team Video Services, LLC (Team Video) related to CNN America's December 2003 and January 2004 terminations of its contractual relationships with Team Video, under which Team Video had provided electronic news gathering services in Washington, DC and New York, NY. The National Association of Broadcast Employees and Technicians, under which Team Video's employees were unionized, initially filed charges of unfair labor practices

with the NLRB in February 2004, alleging that CNN America and Team Video were joint employers, that CNN America was a successor employer to Team Video, and/or that CNN America discriminated in its hiring practices to avoid becoming a successor employer or due to specific individuals' union affiliation or activities. In the complaint, the NLRB sought, among other things, the reinstatement of certain union members and monetary damages. On November 19, 2008, the presiding NLRB Administrative Law Judge (ALJ) issued a non-binding recommended decision and order finding CNN America liable. On September 15, 2014, a three-member panel of the NLRB affirmed the ALJ's decision and adopted the ALJ's order with certain modifications. On November 12, 2014, both CNN America and the NLRB General Counsel filed motions with the NLRB for reconsideration of the panel's decision. On March 20, 2015, the NLRB granted the NLRB General Counsel's motion for reconsideration to correct certain inadvertent errors in the panel's decision, and it denied CNN America's motion for reconsideration. On July 9, 2015, CNN America filed a notice of appeal with the U.S. Court of Appeals for the D.C. Circuit regarding the panel's decision and the denial of CNN America's motion for reconsideration.

In April 2013, the Internal Revenue Service (the IRS) Appeals Division issued a notice of deficiency to the Company relating to the appropriate tax characterization of stock warrants received from Google Inc. in 2002. On May 6, 2013, the Company filed a petition with the United States Tax Court seeking a redetermination of the deficiency set forth in the notice. The Company's petition asserts that the IRS erred in determining that the stock warrants were taxable upon exercise (in 2004) rather than at the date of grant based on, among other things, a misapplication of Section 83 of the Internal Revenue Code. In December 2014, the

Table of Contents

TIME WARNER INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Company reached a preliminary agreement with the IRS to resolve the issues raised in the notice of deficiency. Final resolution of these issues is subject to agreement regarding certain necessary computations and the preparation and execution of definitive documentation.

The Company establishes an accrued liability for legal claims when the Company determines that a loss is both probable and the amount of the loss can be reasonably estimated. Once established, accruals are adjusted from time to time, as appropriate, in light of additional information. The amount of any loss ultimately incurred in relation to matters for which an accrual has been established may be higher or lower than the amounts accrued for such matters.

For matters disclosed above for which a loss is probable or reasonably possible, the Company has estimated a range of possible loss. The Company believes the estimate of the aggregate range of possible loss for such matters in excess of accrued liabilities is between \$0 and \$130 million at September 30, 2015. The estimated aggregate range of possible loss is subject to significant judgment and a variety of assumptions. The matters represented in the estimated aggregate range of possible loss will change from time to time and actual results may vary significantly from the current estimate.

In view of the inherent difficulty of predicting the outcome of litigation and claims, the Company often cannot predict what the eventual outcome of the pending matters will be, what the timing of the ultimate resolution of these matters will be, or what the eventual loss, fines or penalties related to each pending matter may be. An adverse outcome in one or more of these matters could be material to the Company's results of operations or cash flows for any particular reporting period.

Income Tax Uncertainties

During the nine months ended September 30, 2015, the Company recorded net decreases to income tax reserves of approximately \$24 million, of which approximately \$8 million increased the Company's effective tax rate. During the nine months ended September 30, 2015, the Company recorded net increases to interest reserves related to the income tax reserves of approximately \$41 million.

In the Company's judgment, uncertainties related to certain tax matters are reasonably possible of being resolved during the next twelve months. The effect of such resolution, which could vary based on the final terms and timing of actual settlements with taxing authorities, is estimated to be a reduction of recorded unrecognized tax benefits ranging from \$0 to \$90 million, most of which would decrease the Company's effective tax rate.

15. RELATED PARTY TRANSACTIONS

The Company has entered into certain transactions in the ordinary course of business with unconsolidated investees accounted for under the equity method of accounting. The transactions that generate revenue and expenses primarily relate to the licensing by the Warner Bros. segment of television programming to The CW broadcast network and certain international networks, including networks owned by CME. Transactions that generate interest income and other, net relate to financing transactions with CME. Amounts included in the consolidated financial statements

resulting from transactions with related parties consist of (millions):

	Three Months Ended September 30, 2015		Three Months Ended September 30, 2014	
	2015	2014	2015	2014
Revenues	\$ 66	\$ 44	\$ 289	\$ 257
Expenses	(1)	(3)	(3)	(6)
Interest income	33	20	93	39
Other income, net	5	4	13	12

Table of Contents

TIME WARNER INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

16. ADDITIONAL FINANCIAL INFORMATION

Additional financial information with respect to cash payments and receipts, Interest expense, net, Other income (loss), net, Accounts payable and accrued liabilities and Other noncurrent liabilities is as follows (millions):

	Nine Months Ended September 30,	
	2015	2014
Cash Flows		
Cash payments made for interest	\$ (918)	\$ (891)
Interest income received	29	44
Cash interest payments, net	\$ (889)	\$ (847)
Cash payments made for income taxes	\$ (830)	\$ (1,424)
Income tax refunds received	108	43
TWC tax sharing payments (a)	(4)	
Cash tax payments, net	\$ (726)	\$ (1,381)

(a) Represents net amounts paid to TWC in accordance with a tax sharing agreement with TWC.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Interest Expense, Net				
Interest income	\$ 52	\$ 39	\$ 161	\$ 139
Interest expense	(346)	(346)	(1,035)	(1,007)
Total interest expense, net	\$ (294)	\$ (307)	\$ (874)	\$ (868)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Other Loss, Net				
Investment gains (losses), net	\$ 15	\$ (78)	\$ (70)	\$ (57)
Loss on equity method investees	(35)	(63)	(130)	(83)

Premiums paid and costs incurred on debt redemption	(21)		(72)
Other	(13)	6	(24)
Total other loss, net	\$ (54)	\$ (135)	\$ (296)

	September 30, 2015	December 31, 2014
Accounts Payable and Accrued Liabilities		
Accounts payable	\$ 578	\$ 574
Accrued expenses	1,893	2,173
Participations payable	2,701	2,551
Programming costs payable	735	722
Accrued compensation	845	1,034
Accrued interest	359	303
Accrued income taxes	486	150
Total accounts payable and accrued liabilities	\$ 7,597	\$ 7,507

Table of Contents

TIME WARNER INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	September 30, 2015	December 31, 2014
Other Noncurrent Liabilities		
Noncurrent tax and interest reserves	\$ 1,634	\$ 1,520
Participations payable	1,164	1,076
Programming costs payable	885	959
Noncurrent pension and post-retirement liabilities	902	928
Deferred compensation	422	491
Other noncurrent liabilities	560	710
Total other noncurrent liabilities	\$ 5,567	\$ 5,684

Accounting for Collaborative Arrangements

The Company's collaborative arrangements primarily relate to arrangements entered into with third parties to jointly finance and distribute theatrical productions and the arrangement entered into with CBS Broadcasting, Inc. (CBS) and The National Collegiate Athletic Association (the NCAA) that provides Turner and CBS with exclusive television, Internet and wireless rights to the NCAA Division I Men's Basketball Championship events (the NCAA Tournament) in the United States and its territories and possessions through 2024.

For the Company's collaborative arrangements entered into with third parties to jointly finance and distribute theatrical productions, net participation costs of \$74 million and \$69 million were recorded in Costs of revenues for the three months ended September 30, 2015 and 2014, respectively, and \$322 million and \$374 million were recorded in Costs of revenues for the nine months ended September 30, 2015 and 2014, respectively.

The aggregate programming rights fee, production costs, advertising revenues and sponsorship revenues related to the NCAA Tournament and related programming are shared equally by Turner and CBS. However, if the amount paid for the programming rights fee and production costs, in any given year, exceeds advertising and sponsorship revenues for that year, CBS's share of such shortfall is limited to specified annual amounts, ranging from approximately \$90 million to \$30 million.

Table of Contents

TIME WARNER INC.
SUPPLEMENTARY INFORMATION
CONDENSED CONSOLIDATING FINANCIAL STATEMENTS

Overview

Set forth below are condensed consolidating financial statements presenting the financial position, results of operations and cash flows of (i) Time Warner Inc. (the Parent Company), (ii) Historic TW Inc. (in its own capacity and as successor by merger to Time Warner Companies, Inc.), Home Box Office, Inc., and Turner Broadcasting System, Inc., each a wholly owned subsidiary of the Parent Company (collectively, the Guarantor Subsidiaries), on a combined basis, (iii) the direct and indirect non-guarantor subsidiaries of the Parent Company (the Non-Guarantor Subsidiaries), on a combined basis, and (iv) the eliminations necessary to arrive at the information for Time Warner Inc. on a consolidated basis. The Guarantor Subsidiaries fully and unconditionally, jointly and severally guarantee securities issued under certain of the Company s indentures on an unsecured basis.

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

Basis of Presentation

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

The Parent Company s accounting bases in all subsidiaries, including goodwill and identified intangible assets, have been pushed down to the applicable subsidiaries. Corporate overhead expenses have been reflected as expenses of the Parent Company and have not been allocated to the Guarantor Subsidiaries or the Non-Guarantor Subsidiaries. Interest income (expense) is determined based on outstanding debt and the relevant intercompany amounts at the respective subsidiary.

All direct and indirect domestic subsidiaries are included in Time Warner Inc. s consolidated U.S. tax return. In the condensed consolidating financial statements, tax (provision) benefit has been allocated based on each such subsidiary s relative pretax income to the consolidated pretax income. With respect to the use of certain consolidated tax attributes (principally operating and capital loss carryforwards), such benefits have been allocated to the respective subsidiary that generated the taxable income permitting such use (i.e., pro-rata based on where the income was generated). For example, to the extent a Non-Guarantor Subsidiary generated a gain on the sale of a business for which the Parent Company utilized tax attributes to offset such gain, the tax attribute benefit would be allocated to that Non-Guarantor Subsidiary. Deferred taxes of the Parent Company, the Guarantor Subsidiaries and the Non-Guarantor Subsidiaries have been determined based on the temporary differences between the book and tax basis of the respective assets and liabilities of the applicable entities.

Certain transfers of cash between subsidiaries and their parent companies and intercompany dividends are reflected as cash flows from investing and financing activities in the accompanying Condensed Consolidating Statements of Cash

Flows. All other intercompany activity is reflected in cash flows from operations.

Management believes that the allocations and adjustments noted above are reasonable. However, such allocations and adjustments may not be indicative of the actual amounts that would have been incurred had the Parent Company, Guarantor Subsidiaries and Non-Guarantor Subsidiaries operated independently.

Table of Contents

TIME WARNER INC.
SUPPLEMENTARY INFORMATION
CONDENSED CONSOLIDATING FINANCIAL STATEMENTS (Continued)

Consolidating Balance Sheet

September 30, 2015

(Unaudited; millions)

	Parent Company	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Time Warner Consolidated
ASSETS					
Current assets					
Cash and equivalents	\$ 872	\$ 74	\$ 828	\$	\$ 1,774
Receivables, net	10	990	6,335	(13)	7,322
Inventories		481	1,498	(6)	1,973
Deferred income taxes	184	42	7	(49)	184
Prepaid expenses and other current assets	242	99	546	(1)	886
Total current assets	1,308	1,686	9,214	(69)	12,139
Noncurrent inventories and theatrical film and television production costs					
		1,850	5,530	(86)	7,294
Investments in amounts due to and from consolidated subsidiaries	45,436	10,825	12,540	(68,801)	
Investments, including available-for-sale securities	212	382	1,564	(4)	2,154

Property, plant and equipment, net	69	370	2,130		2,569
Intangible assets subject to amortization, net			1,001		1,001
Intangible assets not subject to amortization		2,007	5,020		7,027
Goodwill		9,880	17,822		27,702
Other assets	327	155	2,306		2,788
Total assets	\$ 47,352	\$ 27,155	\$ 57,127	\$ (68,960)	\$ 62,674

LIABILITIES AND EQUITY

Current liabilities

Accounts payable and accrued liabilities	\$ 977	\$ 852	\$ 5,829	\$ (61)	\$ 7,597
Deferred revenue		48	595	(36)	607
Debt due within one year	33	160	6		199

Total current liabilities	1,010	1,060	6,430	(97)	8,403
Long-term debt	18,855	3,863	10		22,728
Deferred income taxes	2,006	2,268	1,737	(4,005)	2,006
Deferred revenue			306	(13)	293
Other noncurrent liabilities	1,833	1,766	3,090	(1,122)	5,567
Redeemable noncontrolling interest			29		29

Equity

Due to (from) Time Warner Inc. and subsidiaries		(47,147)	4,694	42,453	
Other shareholders equity	23,648	65,345	40,831	(106,176)	23,648
Total equity	23,648	18,198	45,525	(63,723)	23,648
Total liabilities and equity	\$ 47,352	\$ 27,155	\$ 57,127	\$ (68,960)	\$ 62,674

Table of Contents

TIME WARNER INC.
SUPPLEMENTARY INFORMATION
CONDENSED CONSOLIDATING FINANCIAL STATEMENTS (Continued)

Consolidating Balance Sheet**December 31, 2014****(Unaudited; millions)**

	Parent Company	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Time Warner Consolidated
ASSETS					
Current assets					
Cash and equivalents	\$ 1,623	\$ 290	\$ 705	\$	\$ 2,618
Receivables, net	93	996	6,638	(7)	7,720
Inventories		453	1,247		1,700
Deferred income taxes	184	42	7	(49)	184
Prepaid expenses and other current assets	360	120	478		958
Total current assets	2,260	1,901	9,075	(56)	13,180
Noncurrent inventories and theatrical film and television production costs		1,744	5,182	(85)	6,841
Investments in amounts due to and from consolidated subsidiaries	44,407	11,333	12,369	(68,109)	
Investments, including available-for-sale securities	186	417	1,723		2,326
Property, plant and equipment, net	73	377	2,205		2,655
Intangible assets subject to amortization, net			1,141		1,141
Intangible assets not subject to amortization		2,007	5,025		7,032
Goodwill		9,880	17,685		27,565
Other assets	327	145	1,934		2,406
Total assets	\$ 47,253	\$ 27,804	\$ 56,339	\$ (68,250)	\$ 63,146
LIABILITIES AND EQUITY					
Current liabilities					
Accounts payable and accrued liabilities	\$ 744	\$ 953	\$ 5,990	\$ (180)	\$ 7,507
Deferred revenue		57	549	(27)	579
Debt due within one year	1,100	9	9		1,118

Edgar Filing: TIME WARNER INC. - Form 10-Q

Total current liabilities	1,844	1,019	6,548	(207)	9,204
Long-term debt	17,006	3,995	262		21,263
Deferred income taxes	2,204	2,443	1,840	(4,283)	2,204
Deferred revenue		17	322	(24)	315
Other noncurrent liabilities	1,723	1,844	3,179	(1,062)	5,684
Equity					
Due to (from) Time Warner Inc. and subsidiaries		(43,026)	6,668	36,358	
Other shareholders equity	24,476	61,512	37,520	(99,032)	24,476
Total equity	24,476	18,486	44,188	(62,674)	24,476
Total liabilities and equity	\$ 47,253	\$ 27,804	\$ 56,339	\$ (68,250)	\$ 63,146

Table of Contents

TIME WARNER INC.
SUPPLEMENTARY INFORMATION
CONDENSED CONSOLIDATING FINANCIAL STATEMENTS (Continued)

Consolidating Statement of Operations

For The Three Months Ended September 30, 2015

(Unaudited; millions)

	Parent Company	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Time Warner Consolidated
Revenues	\$	\$ 1,673	\$ 5,031	\$ (140)	\$ 6,564
Costs of revenues		(699)	(2,937)	110	(3,526)
Selling, general and administrative	(51)	(267)	(850)	25	(1,143)
Amortization of intangible assets			(47)		(47)
Restructuring and severance costs	(3)		(6)		(9)
Asset impairments	(6)		(1)		(7)
Gain (loss) on operating assets, net		2			2
Operating income	(60)	709	1,190	(5)	1,834
Equity in pretax income (loss) of consolidated subsidiaries	1,818	1,179	478	(3,475)	
Interest expense, net	(249)	(78)	31	2	(294)
Other loss, net	(23)	(5)	(27)	1	(54)
	1,486	1,805	1,672	(3,477)	1,486

Income from continuing operations before income taxes						
Income tax benefit (provision)	(452)	(547)	(501)	1,048	(452)	
Net income	1,034	1,258	1,171	(2,429)	1,034	
Less Net loss attributable to noncontrolling interests	1	1	1	(2)	1	
Net income attributable to Time Warner Inc. shareholders	\$ 1,035	\$ 1,259	\$ 1,172	\$ (2,431)	\$ 1,035	
Comprehensive income	1,038	1,233	1,185	(2,418)	1,038	

Table of Contents

TIME WARNER INC.
SUPPLEMENTARY INFORMATION
CONDENSED CONSOLIDATING FINANCIAL STATEMENTS (Continued)

Consolidating Statement of Operations

For The Three Months Ended September 30, 2014

(Unaudited; millions)

	Parent Company	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Time Warner Consolidated
Revenues	\$	\$ 1,634	\$ 4,818	\$ (209)	\$ 6,243
Costs of revenues		(891)	(2,976)	186	(3,681)
Selling, general and administrative	(97)	(256)	(895)	22	(1,226)
Amortization of intangible assets			(52)		(52)
Restructuring and severance costs	(12)	(136)	(155)		(303)
Asset impairments	(1)		(4)		(5)
Gain (loss) on operating assets, net		(5)			(5)
Operating income	(110)	346	736	(1)	971
Equity in pretax income (loss) of consolidated subsidiaries	890	695	363	(1,948)	
Interest expense, net	(248)	(78)	16	3	(307)
Other loss, net	(3)	(4)	(128)		(135)
	529	959	987	(1,946)	529

Income from continuing operations before income taxes						
Income tax benefit (provision)	437	(144)	(196)	340	437	
Income from continuing operations	966	815	791	(1,606)	966	
Discontinued operations, net of tax	1	(1)		1	1	
Net income	967	814	791	(1,605)	967	
Less Net loss attributable to noncontrolling interests						
Net income attributable to Time Warner Inc. shareholders	\$ 967	\$ 814	\$ 791	\$ (1,605)	\$ 967	
Comprehensive income	930	779	752	(1,531)	930	

Table of Contents

TIME WARNER INC.
SUPPLEMENTARY INFORMATION
CONDENSED CONSOLIDATING FINANCIAL STATEMENTS (Continued)

Consolidating Statement of Operations

For The Nine Months Ended September 30, 2015

(Unaudited; millions)

	Parent Company	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Time Warner Consolidated
Revenues	\$	\$ 5,305	\$ 16,251	\$ (517)	\$ 21,039
Costs of revenues		(2,361)	(9,866)	425	(11,802)
Selling, general and administrative	(235)	(815)	(2,609)	79	(3,580)
Amortization of intangible assets			(138)		(138)
Restructuring and severance costs	(3)	(14)	(14)		(31)
Asset impairments	(6)		(2)		(8)
Gain (loss) on operating assets, net		2	(3)		(1)
Operating income	(244)	2,117	3,619	(13)	5,479
Equity in pretax income (loss) of consolidated subsidiaries	5,408	3,610	1,408	(10,426)	
Interest expense, net	(741)	(234)	95	6	(874)
Other loss, net	(114)	18	(197)	(3)	(296)
	4,309	5,511	4,925	(10,436)	4,309

Income from continuing operations before income taxes						
Income tax benefit (provision)	(1,371)	(1,692)	(1,565)	3,257	(1,371)	
Income from continuing operations	2,938	3,819	3,360	(7,179)	2,938	
Discontinued operations, net of tax	37	37	37	(74)	37	
Net income	2,975	3,856	3,397	(7,253)	2,975	
Less Net loss attributable to noncontrolling interests	1	1	1	(2)	1	
Net income attributable to Time Warner Inc. shareholders	\$ 2,976	\$ 3,857	\$ 3,398	\$ (7,255)	\$ 2,976	
Comprehensive income	2,747	3,741	3,173	(6,914)	2,747	

Table of Contents

TIME WARNER INC.
SUPPLEMENTARY INFORMATION
CONDENSED CONSOLIDATING FINANCIAL STATEMENTS (Continued)

Consolidating Statement of Operations

For The Nine Months Ended September 30, 2014

(Unaudited; millions)

	Parent Company	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Time Warner Consolidated
Revenues	\$	\$ 5,146	\$ 15,264	\$ (576)	\$ 19,834
Costs of revenues		(2,503)	(9,464)	510	(11,457)
Selling, general and administrative	(336)	(735)	(2,707)	65	(3,713)
Amortization of intangible assets			(152)		(152)
Restructuring and severance costs	(16)	(156)	(174)		(346)
Asset impairments	(7)		(24)		(31)
Gain (loss) on operating assets, net		(5)	456		451
Operating income	(359)	1,747	3,199	(1)	4,586
Equity in pretax income (loss) of consolidated subsidiaries	4,651	2,747	1,360	(8,758)	
Interest expense, net	(716)	(196)	37	7	(868)
Other loss, net	2	11	(152)	(1)	(140)
	3,578	4,309	4,444	(8,753)	3,578

Income from continuing operations before income taxes									
Income tax benefit (provision)	(404)	(1,261)	(1,158)	2,419	(404)				
Income from continuing operations	3,174	3,048	3,286	(6,334)	3,174				
Discontinued operations, net of tax	(65)	(42)	(63)	105	(65)				
Net income	3,109	3,006	3,223	(6,229)	3,109				
Less Net loss attributable to noncontrolling interests									
Net income attributable to Time Warner Inc. shareholders	\$ 3,109	\$ 3,006	\$ 3,223	\$ (6,229)	\$ 3,109				
Comprehensive income	3,016	2,926	3,132	(6,058)	3,016				

Table of Contents

TIME WARNER INC.
SUPPLEMENTARY INFORMATION
CONDENSED CONSOLIDATING FINANCIAL STATEMENTS (Continued)

Consolidating Statement of Cash Flows
For The Nine Months Ended September 30, 2015
(Unaudited; millions)

	Parent Company	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Time Warner Consolidated
OPERATIONS					
Net income	\$ 2,975	\$ 3,856	\$ 3,397	\$ (7,253)	\$ 2,975
Less Discontinued operations, net of tax	(37)	(37)	(37)	74	(37)
Net income from continuing operations	2,938	3,819	3,360	(7,179)	2,938
Adjustments for noncash and nonoperating items:					
Depreciation and amortization	10	80	411		501
Amortization of film and television costs		1,849	3,914	(24)	5,739
Asset impairments	6		2		8
Gain on investments and other assets, net		(21)	(18)		(39)
Excess (deficiency) of distributions over equity in pretax income of consolidated	(5,408)	(3,610)	(1,408)	10,426	

subsidiaries, net of cash distributions					
Equity in losses of investee companies, net of cash distributions	(8)		164	4	160
Equity-based compensation	35	52	67		154
Deferred income taxes	(176)	(173)	(97)	270	(176)
Changes in operating assets and liabilities, net of acquisitions	783	(192)	(3,382)	(3,493)	(6,284)
Intercompany		1,833	(1,833)		
Cash provided by operations from continuing operations	(1,820)	3,637	1,180	4	3,001
INVESTING ACTIVITIES					
Investments in available-for-sale securities	(22)		(19)		(41)
Investments and acquisitions, net of cash acquired	(33)	(1)	(310)		(344)
Capital expenditures	(12)	(49)	(189)		(250)
Investment proceeds from available-for-sale securities	1				1
Advances to (from) parent and consolidated subsidiaries	4,022	275		(4,297)	
Other investment proceeds	34	72	27		133
Cash provided (used) by investing activities from continuing operations	3,990	297	(491)	(4,297)	(501)
FINANCING ACTIVITIES					
Borrowings	2,865		12		2,877

Edgar Filing: TIME WARNER INC. - Form 10-Q

Debt repayments	(2,100)		(241)		(2,341)
Proceeds from exercise of stock options	148				148
Excess tax benefit from equity instruments	141				141
Principal payments on capital leases		(7)	(1)		(8)
Repurchases of common stock	(3,030)				(3,030)
Dividends paid	(869)				(869)
Other financing activities	(83)	(21)	(152)	(2)	(258)
Change in due to/from parent and investment in segment		(4,122)	(173)	4,295	
Cash used by financing activities from continuing operations	(2,928)	(4,150)	(555)	4,293	(3,340)
Cash provided (used) by continuing operations	(758)	(216)	134		(840)
Cash used by operations from discontinued operations	7		(11)		(4)
Cash used by discontinued operations	7		(11)		(4)
INCREASE (DECREASE) IN CASH AND EQUIVALENTS	(751)	(216)	123		(844)
CASH AND EQUIVALENTS AT BEGINNING OF PERIOD	1,623	290	705		2,618
CASH AND EQUIVALENTS	\$ 872	\$ 74	\$ 828	\$	\$ 1,774

**AT END OF
PERIOD**

56

Table of Contents

TIME WARNER INC.
SUPPLEMENTARY INFORMATION
CONDENSED CONSOLIDATING FINANCIAL STATEMENTS (Continued)

Consolidating Statement of Cash Flows
For The Nine Months Ended September 30, 2014
(Unaudited; millions)

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Time Warner Consolidated
OPERATIONS					
Net income	\$ 3,109	\$ 3,006	\$ 3,223	\$ (6,229)	\$ 3,109
Less Discontinued operations, net of tax	65	42	63	(105)	65
Net income from continuing operations	3,174	3,048	3,286	(6,334)	3,174
Adjustments for noncash and nonoperating items:					
Depreciation and amortization	13	88	450		551
Amortization of film and television costs		1,969	3,998	(34)	5,933
Asset impairments	7		24		31
Gain on investments and other assets, net	(17)	2	(438)		(453)
Excess (deficiency) of distributions over equity in pretax income of consolidated	(4,651)	(2,747)	(1,360)	8,758	

subsidiaries, net of cash distributions					
Equity in losses of investee companies, net of cash distributions	2	(7)	141		136
Equity-based compensation	63	52	59		174
Deferred income taxes	(315)	(398)	(456)	854	(315)
Changes in operating assets and liabilities, net of acquisitions	(417)	(639)	(2,298)	(3,203)	(6,557)
Intercompany		2,355	(2,355)		
Cash provided by operations from continuing operations	(2,141)	3,723	1,051	41	2,674
INVESTING ACTIVITIES					
Investments in available-for-sale securities	(5)		(25)		(30)
Investments and acquisitions, net of cash acquired	(30)	(2)	(846)		(878)
Capital expenditures	(20)	(49)	(247)		(316)
Investment proceeds from available-for-sale securities	13	4			17
Proceeds from Time Inc. in the Time Separation	590		810		1,400
Proceeds from the sale of Time Warner Center			1,264		1,264
Advances to (from) parent and consolidated subsidiaries	5,036	4,808		(9,844)	
Other investment proceeds	43	91	13	(22)	125
Cash provided (used) by investing activities	5,627	4,852	969	(9,866)	1,582

from continuing
operations

**FINANCING
ACTIVITIES**

Borrowings	2,118		288		2,406
Debt repayments			(21)		(21)
Proceeds from exercise of stock options	276				276
Excess tax benefit from equity instruments	138				138
Principal payments on capital leases		(7)	(1)		(8)
Repurchases of common stock	(4,481)				(4,481)
Dividends paid	(841)				(841)
Other financing activities	73	(44)	(155)	(21)	(147)
Change in due to/from parent and investment in segment		(8,476)	(1,370)	9,846	
Cash used by financing activities from continuing operations	(2,717)	(8,527)	(1,259)	9,825	(2,678)
Cash provided (used) by continuing operations	769	48	761		1,578
Cash used by operations from discontinued operations	1		(11)		(10)
Cash used by investing activities from discontinued operations	318	18	(51)	(336)	(51)
Cash used by financing activities from discontinued operations			(372)	336	(36)
			(87)		(87)

Effect of change
in cash and
equivalents of
discontinued
operations

Cash used by discontinued operations	319	18	(521)	(184)
INCREASE (DECREASE) IN CASH AND EQUIVALENTS	1,088	66	240	1,394
CASH AND EQUIVALENTS AT BEGINNING OF PERIOD	1,039	148	629	1,816
CASH AND EQUIVALENTS AT END OF PERIOD	\$ 2,127	\$ 214	\$ 869	\$ 3,210

Table of Contents**Part II. Other Information****Item 1A. Risk Factors.**

There have been no material changes in the Company's risk factors as previously disclosed in Part I, Item 1A. Risk Factors, of the Company's Annual Report on Form 10-K for the year ended December 31, 2014.

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

The following table provides information about the Company's purchases of equity securities registered by the Company pursuant to Section 12 of the Exchange Act, as amended, during the quarter ended September 30, 2015.

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased	Average Price Paid Per Share ⁽¹⁾	Total Number of Shares Purchased as		Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs ⁽¹⁾
			Part of Publicly Announced Plans or Programs ⁽²⁾		
July 1, 2015 - July 31, 2015	2,722,668	\$ 88.38	2,722,668		\$ 2,460,978,577
August 1, 2015 - August 31, 2015	10,150,783	\$ 78.10	10,150,783		\$ 1,668,195,449
September 1, 2015 - September 30, 2015	2,373,970	\$ 69.68	2,373,970		\$ 1,502,789,085
Total	15,247,421	\$ 78.63	15,247,421		\$ 1,502,789,085

(1) These amounts do not give effect to any fees, commissions or other costs associated with the share repurchases.

(2) On February 5, 2014, the Company announced that its Board of Directors had authorized a total of \$5.0 billion in share repurchases beginning January 1, 2014, including the approximately \$301 million remaining at December 31, 2013 from the prior \$4.0 billion authorization. On August 6, 2014, the Company announced that its Board of Directors had authorized an additional \$5.0 billion of share repurchases. Purchases under the stock repurchase program may be made, from time to time, on the open market and in privately negotiated transactions. The size and timing of these purchases will be based on a number of factors, including price and business and market conditions. In the past, the Company has repurchased shares of its common stock pursuant to trading plans under Rule 10b5-1 promulgated under the Securities Exchange Act of 1934, as amended, and it may repurchase shares of its common stock utilizing such trading plans in the future.

Item 6. Exhibits.

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

Table of Contents

TIME WARNER INC.

SIGNATURE

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

TIME WARNER INC.

(Registrant)

/s/ Howard M. Averill

Name: Howard M. Averill

Title: Executive Vice President
and Chief Financial Officer

Date: November 4, 2015

Table of Contents

EXHIBIT INDEX

Pursuant to Item 601 of Regulation S-K

Exhibit No.	Description of Exhibit
10	Amendment No. 3 to the Time Warner Excess Benefit Pension Plan (Amended and Restated as of May 1, 2008) effective as of August 27, 2015.+
31.1	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, with respect to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2015.
31.2	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, with respect to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2015.
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 Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2015.
101	The following financial information from the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2015, formatted in eXtensible Business Reporting Language (XBRL): (i) Consolidated Balance Sheet at September 30, 2015 and December 31, 2014, (ii) Consolidated Statement of Operations for the three and nine months ended September 30, 2015 and 2014, (iii) Consolidated Statement of Comprehensive Income for the three and nine months ended September 30, 2015 and 2014, (iv) Consolidated Statement of Cash Flows for the three and nine months ended September 30, 2015 and 2014, (v) Consolidated Statement of Equity for the three and nine months ended September 30, 2015 and 2014, (vi) Notes to Consolidated Financial Statements and (vii) Supplementary Information - Condensed Consolidating Financial Statements.

+ This exhibit is a management contract or compensation plan or arrangement. This exhibit will not be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liability of that section. Such exhibit will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Securities Exchange Act, except to the extent that the Registrant specifically incorporates it by reference.

