

TIME WARNER INC.
Form 10-Q
November 05, 2014
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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, 2014 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

13-4099534
(I.R.S. Employer

incorporation or organization)

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

(Do not check if a smaller reporting

Non-accelerated filer 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.

Description of Class	Shares Outstanding as of October 28, 2014
Common Stock \$.01 par value	838,486,246

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

INTRODUCTION

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

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

Results of operations. This section provides an analysis of the Company's results of operations for the three and nine months ended September 30, 2014. 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, 2014 and cash flows for the nine months ended September 30, 2014.

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.

Separation of Time Inc.

On June 6, 2014, the Company completed the legal and structural separation of the Company's Time Inc. segment from the Company (the Time Separation). With the completion of the Time Separation, the Company disposed of the Time Inc. segment in its entirety and ceased to consolidate its assets, liabilities and results of operations in the Company's consolidated financial statements. Accordingly, the Company has recast its financial information to present the financial condition and results of operations of its former Time Inc. segment as discontinued operations in the accompanying consolidated financial statements for all periods presented. See Note 1, Description of Business and Basis of Presentation, to the accompanying consolidated financial statements. In connection with the Time Separation, the Company received \$1.4 billion from Time Inc. consisting of proceeds from Time Inc.'s acquisition of the IPC publishing business in the U.K. from a wholly-owned subsidiary of Time Warner and a special dividend.

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, CNN, HBO, Cinemax, Warner Bros. and New Line Cinema. During the nine months ended September 30, 2014, the Company generated Revenues of \$19.834 billion (up 5% from \$18.857 billion in 2013), Operating Income of \$4.586 billion (up 1% from \$4.535 billion in 2013), Income from continuing operations of \$3.174 billion (up 31% from \$2.420 billion in 2013), Net Income attributable to Time Warner shareholders of \$3.109 billion (up 15% from \$2.708 billion in 2013) and Cash provided by operations from continuing operations of \$2.674 billion (up 4% from \$2.568 billion in 2013).

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. Time Warner's Turner segment consists of businesses managed by Turner Broadcasting System, Inc. (Turner). During the nine months ended September 30, 2014, the Turner segment recorded Revenues of \$7.789 billion (39% of the Company's total Revenues) and Operating Income of \$2.166 billion.

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Turner operates domestic and international television networks, including such recognized brands as TNT, TBS, truTV, CNN, Cartoon Network and Adult Swim, which are among the leaders in advertising-supported television networks. The Turner networks generate revenues principally from providing programming to affiliates that have contracted to receive and distribute this programming to subscribers and from the sale of advertising. In addition, Turner provides online and mobile offerings for on-demand viewing of programs on its networks and live streaming of its networks to authenticated subscribers. Turner also manages and operates various digital media properties that primarily consist of websites, including *CNN.com*, *CNNMoney.com*, *BleacherReport.com*, *NBA.com*, *NCAA.com* and *cartoonnetwork.com*, that generate revenues principally from the sale of advertising and sponsorships.

Home Box Office. Time Warner's Home Box Office segment consists of businesses managed by Home Box Office, Inc. (Home Box Office). During the nine months ended September 30, 2014, the Home Box Office segment recorded Revenues of \$4.060 billion (20% of the Company's total Revenues) and Operating Income of \$1.392 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 more than 60 countries across Latin America, Asia and Europe. HBO and Cinemax domestic premium pay television subscribers have access to the authenticated HBO GO and MAX GO streaming services, respectively, on various mobile devices and other online platforms, and an authenticated HBO GO streaming service is available to international premium pay television subscribers of HBO in a number of countries. Home Box Office generates revenues principally from providing programming to domestic affiliates that have contracted to receive and distribute such programming to their customers who subscribe to the HBO or Cinemax services. Home Box Office's agreements with 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. 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. Additional sources of revenues for Home Box Office are the home entertainment sales of its original programming, including *Game of Thrones*, *True Blood* and *Boardwalk Empire*, via DVDs, Blu-ray Discs and electronic sell-through (EST) and the licensing of its original programming primarily to international television networks and the Amazon Prime Instant Video subscription video-on-demand (SVOD) service (the Amazon SVOD Service).

Warner Bros. Time Warner's Warner Bros. segment consists of businesses managed by Warner Bros. Entertainment Inc. (Warner Bros.) that principally produce and distribute feature films, television shows and videogames. During the nine months ended September 30, 2014, the Warner Bros. segment recorded Revenues of \$8.711 billion (41% of the Company's total Revenues) and Operating Income of \$840 million.

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: *Annabelle*, *Edge of Tomorrow*, *Godzilla*, *The Judge*, *The LEGO Movie* and *Tammy*, and subsequently through licensing fees received from the distribution of films on television broadcast and cable networks, premium pay television and SVOD services. Television product revenues are generated principally from the licensing of programs to television broadcast and cable networks and premium pay television and SVOD services. The segment also generates revenues for both its theatrical and television product through home video distribution on DVDs and Blu-ray Discs and in various digital formats (e.g., EST and video-on-demand). In addition, the segment generates revenues through the development and distribution of videogames.

Warner Bros. continues to be an industry leader in the television content business. Domestically, for the 2014/2015 season, Warner Bros. is producing over 60 series, including (i) at least two series for each of the five broadcast networks (including *2 Broke Girls*, *Arrow*, *The Bachelor*, *The Big Bang Theory*, *The Flash*, *The Following*, *Forever*, *Gotham*, *The Middle*, *Mike & Molly*, *Mom*, *The Mysteries of Laura*, *Person of Interest*, *Stalker*, *Vampire Diaries* and *The Voice*), (ii) original series for cable television networks (including *Major Crimes*, *Pretty Little Liars*, *Rizzoli & Isles* and *Sullivan & Son*), (iii) series for premium pay television services (*The Leftovers* and *Shameless*), (iv) series for first-run syndication (including *The Ellen DeGeneres Show*, *Extra* and *TMZ*) and (v) animated series for cable television networks. Warner Bros.

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also licenses many of these series internationally. In addition, in 16 countries across Europe, South America, Australia and New Zealand, Warner Bros. operates a group of local television production companies that focus on developing non-scripted programs and formats that can be sold internationally and adapted for sale in the U.S. Warner Bros. also creates locally-produced versions of programs owned by the studio as well as original local television programming for international territories.

The distribution and sale of physical discs (both standard definition DVDs and high definition Blu-ray Discs) is one of the largest contributors to the segment's revenues and profits. In recent years, home video revenues have declined as a result of several factors, including consumers shifting to subscription rental 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 three and nine months ended September 30, 2014, consumer spending on physical discs continued to decline and consumer spending on electronic delivery continued to increase.

Recent Developments

Restructuring Activities

For the three months ended September 30, 2014, the Company incurred \$303 million of Restructuring and severance costs related to restructuring activities designed to position the Company for the current operating environment and reallocate resources to the Company's growth initiatives. The restructuring activities and related costs relate to reductions in the Company's workforce. The Restructuring and severance costs by operating segment and at Corporate are as follows: \$199 million at Turner, \$48 million at Home Box Office, \$45 million at Warner Bros. and \$11 million at Corporate. Headcount reductions associated with these restructuring activities are expected to be approximately 2,400. The Company expects additional headcount reductions and related Restructuring and severance costs ranging from approximately \$120 million to \$150 million in the fourth quarter of 2014, primarily at the Warner Bros. segment.

In addition to the restructuring activities noted above, during the three months ended September 30, 2014, Turner conducted a strategic evaluation of its programming, and as result of such evaluation decided to no longer air certain (principally licensed) programming. In connection with that decision, the Company incurred \$343 million of programming impairments related 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 programming impairments have been classified as Costs of revenues in the Company's Consolidated Statement of Operations.

Tax Matter

During the third quarter of 2014, the Company recognized a tax benefit of \$687 million primarily related to the reversal of certain tax reserves, including related interest accruals, in connection with a Federal tax settlement on the examination of the Company's 2005-2007 tax returns. Certain matters addressed in the examination were not resolved and, accordingly, the Company is pursuing resolution of such matters through the Internal Revenue Service's administrative appeals process.

NBA Agreement

On October 3, 2014, Turner entered into a nine-year agreement with the National Basketball Association (NBA), which extends Turner's relationship with the NBA through the 2024/2025 season and increases TNT's regular season coverage from 52 live games annually to 64 live games annually beginning with the 2016/2017 season. The agreement also provides Turner with enhanced digital rights during the extension period. The aggregate cash commitment for the programming rights under the new agreement is approximately \$10.5 billion.

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2014 Debt Offering

On May 20, 2014, Time Warner issued \$2.0 billion aggregate principal amount of debt securities in a public offering. See *Financial Condition and Liquidity Outstanding Debt and Other Financing Arrangements* for more information.

Venezuela Currency

Certain of the Company's divisions conduct business in Venezuela. As of September 30, 2014, the Company has \$163 million of net Venezuelan Bolivares Fuertes (VEF) denominated consolidated monetary assets, primarily consisting of cash and accounts receivable, which have been remeasured at the official exchange rate as published by the Central Bank of Venezuela of 6.3 VEF to each U.S. Dollar. However, because of Venezuelan government-imposed restrictions on the exchange of foreign currency in Venezuela, the Company has not been able to convert VEF earned in Venezuela into U.S. Dollars at the official government rate.

In March 2013, the Venezuelan government announced the creation of a new foreign currency exchange system called the Complimentary System of Foreign Currency Acquirement (SICAD), a complementary currency auction system it created for purchases of U.S. Dollars by certain eligible importers and tourists. In December 2013, the Venezuelan government published the SICAD rate for the first time and issued Exchange Agreement No. 24, which clarified that SICAD could be used only by companies operating in the oil and gas industry for certain transactions and for gold purchases conducted by the Central Bank of Venezuela. In January 2014, the government expanded the use of SICAD and announced that it would increase the amount of U.S. Dollars available to buyers to \$220 million per week from \$100 million. In addition, through Exchange Agreement No. 25, the government noted that it would expand the use of the SICAD auction rate for certain other types of transactions that were previously limited to the official rate. For the period that includes September 30, 2014, the published SICAD exchange rate was 12 VEF for each U.S. Dollar. Based on the published SICAD requirements, the Company does not believe it is eligible to access the SICAD exchange. If the Company had used the published SICAD exchange rate as of September 30, 2014 to remeasure its VEF-denominated consolidated monetary assets, the Company would have recognized foreign exchange losses of approximately \$78 million, on a pretax basis, in its Consolidated Statement of Operations.

On March 24, 2014, the Venezuelan government introduced a new currency exchange system referred to as SICAD 2, which is regulated by the Central Bank of Venezuela. The Company does not believe it is eligible to access the SICAD 2 exchange due to the requirement that an entity be domiciled in Venezuela to participate in the exchange. During the three months ended September 30, 2014, the published average daily rate was approximately 50.0 VEF for each U.S. Dollar. Given the status of its eligibility to access the SICAD and SICAD 2 exchanges, the Company continues to use the official exchange rate for its remeasurement rate as of September 30, 2014. If the Company is able to utilize the SICAD 2 exchange system to regularly access U.S. Dollars in future periods, the SICAD 2 rate may be used as its remeasurement rate. If the Company had used the published SICAD 2 exchange rate as of September 30, 2014 to remeasure its VEF-denominated consolidated monetary assets, the Company would have recognized foreign exchange losses of approximately \$143 million, on a pretax basis, in its Consolidated Statement of Operations.

Central European Media Enterprises Ltd.

During the second quarter of 2014, Time Warner and Central European Media Enterprises Ltd. (CME) completed a series of related financing transactions.

On May 2, 2014, pursuant to a rights offering by CME, Time Warner acquired approximately 2.8 million units, each consisting of \$100 principal amount of 15% senior secured notes due 2017 and 21 unit warrants, with each unit warrant entitling the Company to purchase one share of CME Class A common stock. In addition, Time Warner acquired 581,533 units in a private offering, and CME issued warrants to Time Warner to purchase an additional 30 million shares of Class A common stock. The warrants issued to Time Warner, including the unit warrants in connection with the rights offering and the private offering, have a four-year term and an exercise price of \$1.00 per share, do not contain any voting rights and are not exercisable until the second anniversary of their issuance. 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.

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Additionally, Time Warner provided CME with a \$115 million revolving credit facility and a \$30 million term loan that mature on December 1, 2017. Amounts outstanding under the revolving credit facility will bear interest at a rate per annum based on LIBOR (subject to a minimum rate of 1.00%) plus 14%. CME can pay accrued interest for an applicable quarterly interest period either fully in cash or by adding such amount to the outstanding principal amount of the revolving credit facility. The revolving credit facility also contains a commitment fee on the average daily unused amount under the facility of 0.50% per annum. As of September 30, 2014, no amounts have been drawn under the revolving credit facility. The \$30 million term loan bears interest at a rate of 15.0% per annum, paid semi-annually either fully in cash or by adding such amount to the principal amount of the loan.

These transactions did not change the Company's approximate 49% voting interest, but resulted in the Company holding an approximate 75% economic interest in CME on a diluted basis.

Eyeworks

On June 2, 2014, Warner Bros. acquired the operations outside the U.S. of Eyeworks Group, a television production and distribution company, which are located in 15 countries across Europe, South America, Australia and New Zealand, for approximately \$267 million, net of cash acquired (the *Eyeworks Acquisition*).

Sale and Leaseback of Time Warner Center

On January 16, 2014, Time Warner sold the space it owned in Time Warner Center for approximately \$1.3 billion and agreed to lease space in Time Warner Center from the buyer until early 2019. In connection with these transactions, the Company recognized a pretax gain of \$441 million and a tax benefit of \$58 million in the first quarter of 2014. Additionally, a pretax gain of approximately \$325 million has been deferred and is being recognized ratably over the lease period. The Company also reached a preliminary agreement relating to the move of its Corporate headquarters and its New York City-based employees to the Hudson Yards development on the west side of Manhattan, which remains subject to further negotiation and execution of final agreements. Assuming final agreements are reached, the Company expects to invest approximately \$1.3 billion in the Hudson Yards development project over the next several years.

RESULTS OF OPERATIONS

Changes in Basis of Presentation

As discussed more fully in Note 1, *Description of Business and Basis of Presentation*, to the accompanying consolidated financial statements, the 2013 financial information has been recast so that the basis of presentation is consistent with that of the 2014 financial information. This recast reflects the financial condition and results of operations of the Company's former Time Inc. segment as discontinued operations for all periods presented.

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.

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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		Nine Months Ended	
	9/30/14	9/30/13 (recast)	9/30/14	9/30/13 (recast)
Asset impairments	\$ (5)	\$ (5)	\$ (31)	\$ (35)
Gain (loss) on operating assets, net	(5)	113	451	130
Other	(12)	32	(71)	14
Impact on Operating Income	(22)	140	349	109
Investment gains (losses), net	(78)	12	(57)	67
Amounts related to the separation of Time Warner Cable Inc.	-	3	(1)	9
Amounts related to the disposition of Warner Music Group	1	-	-	-
Amounts related to the Time Separation	2	-	2	-
Items affecting comparability relating to equity method investments	(5)	-	(25)	(12)
Pretax impact	(102)	155	268	173
Income tax impact of above items	7	(52)	84	(69)
Impact of items affecting comparability on income from continuing operations attributable to Time Warner Inc.	\$ (95)	\$ 103	\$ 352	\$ 104

shareholders

In addition to the items affecting comparability described above, the Company incurred Restructuring and severance costs of \$303 million and \$346 million for the three and nine months ended September 30, 2014, respectively, and \$56 million and \$132 million for the three and nine months ended September 30, 2013, 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 Overview, Consolidated Results and Business Segment Results.

Asset Impairments

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.

During the three months ended September 30, 2013, the Company recognized an international intangible asset impairment of \$5 million at the Turner segment. During the nine months ended September 30, 2013, the Company recognized asset impairments of \$35 million, consisting of \$17 million related to certain of Turner's international intangible assets, \$6 million related to programming assets resulting from Turner's decision in the first quarter of 2013 to shut down certain of its entertainment networks in Spain, \$5 million at the Warner Bros. segment related to miscellaneous assets and \$7 million at Corporate related to certain internally developed software.

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Gain (Loss) on Operating Assets, Net

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. (Zite), 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.

For the three and nine months ended September 30, 2013, the Company recognized a \$105 million gain at the Home Box Office segment upon Home Box Office's acquisition of its former partner's interests in HBO Asia and HBO South Asia (collectively, HBO Asia), a \$2 million gain at the Turner segment on the sale of a building and a \$6 million gain at the Warner Bros. segment on miscellaneous operating assets. For the nine months ended September 30, 2013, the Company also recognized a \$9 million gain at the Home Box Office segment upon Home Box Office's acquisition of its former partner's interest in HBO Nordic and an \$8 million gain at Corporate on the disposal of certain corporate assets.

Other

Other reflects external costs related to mergers, acquisitions or dispositions of \$12 million and \$71 million for the three and nine months ended September 30, 2014, respectively, and \$6 million and \$24 million for the three and nine months ended September 30, 2013, respectively. 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 Eyeworks Acquisition and \$4 million and \$45 million, respectively, at Corporate primarily related to the Time Separation. External costs related to mergers, acquisitions or dispositions for the three and nine months ended September 30, 2013 primarily reflected higher costs at Corporate of \$4 million and \$20 million, respectively, primarily related to the Time Separation. Other also includes a gain of \$38 million for the three and nine months ended September 30, 2013 at Corporate related to the curtailment of certain post-retirement benefits (the Curtailment).

External costs related to mergers, acquisitions or dispositions and the gain related to the Curtailment 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, 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 CME warrants 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. For the three months ended September 30, 2013, the Company recognized a \$12 million gain associated with a fair value adjustment on an option to acquire securities that was terminated during the third quarter of 2013. For the nine months ended September 30, 2013, the Company recognized \$67 million of net miscellaneous investment gains consisting of a \$65 million gain on the sale of the Company's investment in a theater venture in Japan, which included a \$10 million gain related to a foreign currency contract, and \$2 million of net miscellaneous investment gains.

Amounts Related to the Separation of Time Warner Cable Inc.

The Company recognized other expense of \$1 million for the nine months ended September 30, 2014 and other income of \$4 million and \$10 million for the three and nine months ended September 30, 2013, respectively, related to the expiration, exercise and net change in the estimated fair value of Time Warner equity awards held by Time Warner Cable Inc. (TWC) employees, which has been reflected in Other loss, net in the accompanying Consolidated Statement of Operations. For the three and nine months ended September 30, 2013, the Company also recognized \$1 million of other loss related to changes in the value of a TWC tax indemnification receivable, which has also been reflected in Other loss, net in the accompanying Consolidated Statement of Operations.

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Amounts Related to the Disposition of Warner Music Group

For the three and nine months ended September 30, 2014, the Company recognized other income of \$1 million and \$0, respectively, primarily related to a tax indemnification obligation associated with the disposition of Warner Music Group (WMG) in 2004. These amounts have 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, 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.

Items Affecting Comparability Relating to Equity Method Investments

For the three and nine months ended September 30, 2014, the Company recognized \$4 million as its share of costs related to a government investigation of an equity method investee and \$1 million and \$9 million, respectively, as its share of discontinued operations recorded by an equity method investee. In addition, for the nine months ended September 30, 2014, the Company recognized \$12 million as its share of a loss on the extinguishment of debt recorded by an equity method investee. For the nine months ended September 30, 2013, the Company recognized \$12 million as its share of a loss on the extinguishment of debt recorded by an equity method investee. These amounts have been reflected in Other loss, net in the accompanying 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

Nine Months Ended

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	9/30/14	9/30/13	% Change	9/30/14	9/30/13	% Change
		(recast)			(recast)	
Subscription	\$ 2,518	\$ 2,297	10%	\$ 7,473	\$ 6,895	8%
Advertising	980	1,017	(4%)	3,360	3,360	-
Content	2,625	2,614	-	8,578	8,228	4%
Other	120	114	5%	423	374	13%
Total revenues	\$ 6,243	\$ 6,042	3%	\$ 19,834	\$ 18,857	5%

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For the three and nine months ended September 30, 2014, the increase in Subscription revenues was primarily related to increases at the Turner and Home Box Office segments. Advertising revenues for the three months ended September 30, 2014 decreased primarily due to a decrease at the Turner segment. Advertising revenues for the nine months ended September 30, 2014 were flat as higher revenues at the Turner segment were offset by higher intercompany eliminations. Content revenues for the three months ended September 30, 2014 were essentially flat as an increase at Warner Bros. was offset by higher intercompany eliminations. The increase in Content revenues for the nine months ended September 30, 2014 was primarily due to increases at the Warner Bros. and Home Box Office segments, partially offset by higher intercompany eliminations. The increase in Other revenues for the three and nine months ended September 30, 2014 was primarily related to an increase at the Warner Bros. segment.

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

Costs of Revenues. For the three months ended September 30, 2014, Costs of revenues increased to \$3.681 billion from \$3.158 billion for the three months ended September 30, 2013 reflecting increases at the Turner and Home Box Office segments, partially offset by higher intercompany eliminations. For the nine months ended September 30, 2014, Costs of revenues increased to \$11.457 billion from \$10.508 billion for the nine months ended September 30, 2013 reflecting increases at the Turner, Warner Bros. and Home Box Office segments, partially offset by higher intercompany eliminations. Included in Costs of Revenues for the three and nine months ended September 30, 2014 was \$343 million of programming impairments related 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 months ended September 30, 2014, Selling, general and administrative expenses increased 6% to \$1.226 billion from \$1.157 billion for the three months ended September 30, 2013, primarily reflecting an increase at Corporate and the Warner Bros. and Turner segments, partially offset by a decline at the Home Box Office segment. For the nine months ended September 30, 2014, Selling, general and administrative expenses increased 2% to \$3.713 billion from \$3.626 billion for the nine months ended September 30, 2013 primarily related to increases at Corporate and the Home Box Office segment, partially offset by decreases at the Turner and Warner Bros. segments. The segment variations are discussed in Business Segment Results.

Included in Costs of revenues and Selling, general and administrative expenses is depreciation expense of \$131 million and \$399 million for the three and nine months ended September 30, 2014, respectively, and \$136 million and \$408 million for the three and nine months ended September 30, 2013, respectively.

Amortization Expense. Amortization expense was \$52 million and \$152 million for the three and nine months ended September 30, 2014, respectively, and \$50 million and \$151 million for the three and nine months ended September 30, 2013, respectively.

Restructuring and Severance Costs. For the three and nine months ended September 30, 2014 and 2013, 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		Nine Months Ended	
	9/30/14	9/30/13 (recast)	9/30/14	9/30/13 (recast)
Turner	\$ 199	\$ 30	\$ 223	\$ 64
Home Box Office	48	24	57	36
Warner Bros.	45	2	50	33
Corporate	11	-	16	(1)
Total restructuring and severance costs	\$ 303	\$ 56	\$ 346	\$ 132

Operating Income. Operating Income decreased to \$971 million for the three months ended September 30, 2014 from \$1.729 billion for the three months ended September 30, 2013. Excluding the items noted under Transactions and Other Items Affecting Comparability totaling \$22 million of expense and \$140 million of income for the three months ended September 30, 2014 and 2013, respectively, Operating Income decreased \$596 million, primarily reflecting a decrease at the Turner segment.

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

Operating Income increased to \$4.586 billion for the nine months ended September 30, 2014 from \$4.535 billion for the nine months ended September 30, 2013. Excluding the items noted under Transactions and Other Items Affecting Comparability totaling \$349 million and \$109 million of income for the nine months ended September 30, 2014 and 2013, respectively, Operating Income decreased \$189 million, reflecting a decrease at the Turner segment, partially offset by increases at the Home Box Office and Warner Bros. segments.

The segment variations are discussed under Business Segment Results.

Interest Expense, Net. For the three months ended September 30, 2014, Interest expense, net increased to \$307 million from \$300 million for the three months ended September 30, 2013 reflecting higher average debt balances, partially offset by higher interest income of \$18 million mainly due to noncash interest income related to the CME transactions in the second quarter of 2014 and lower average interest rates. For the nine months ended September 30, 2014, Interest expense, net decreased to \$868 million from \$889 million for the nine months ended September 30, 2013 reflecting higher interest income of \$67 million mainly due to the recognition of interest income on a note receivable that was collected in March 2014 and noncash interest income related to the CME transactions in the second quarter of 2014 as well as lower average interest rates, partially offset by higher average debt balances.

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

	Three Months Ended		Nine Months Ended	
	9/30/14	9/30/13 (recast)	9/30/14	9/30/13 (recast)
Investment gains (losses), net	\$ (78)	\$ 12	\$ (57)	\$ 67
Amounts related to the separation of TWC	-	3	(1)	9
Amounts related to the disposition of WMG	1	-	-	-
Amounts related to the Time Separation	2	-	2	-
Loss from equity method investees	(63)	(26)	(83)	(117)
Other	3	(9)	(1)	(19)
Other loss, net	\$ (135)	\$ (20)	\$ (140)	\$ (60)