TIME WARNER INC.
Form 10-Q
August 05, 2015
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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 June 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	**13-4099534**
(State or other jurisdiction of incorporation or organization)	*(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 þ 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 þ 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 þ	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 þ

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 July 28, 2015**
Common Stock $.01 par value	815,581,421

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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 six months ended June 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 June 30, 2015 and cash flows for the six months ended June 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 six months ended June 30, 2015, the Company generated Revenues of $14.475 billion (up 7% from $13.591 billion in 2014), Operating Income of $3.645 billion (up 1% from $3.615 billion in 2014), Income from continuing operations of $1.904 billion (down 14% from $2.208 billion in 2014), Net Income of $1.941 billion (down 9% from $2.142 billion in 2014) and Cash provided by operations from continuing operations of $1.800 billion (down 12% from $2.057 billion in 2014). The Company s results for the six months ended June 30, 2014 were significantly impacted by the sale and leaseback of the Company s space in Time Warner Center in January 2014. Refer to Transactions and Other Items Affecting Comparability for more information.

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 six months ended June 30, 2015, the Turner segment recorded Revenues of $5.537 billion (38% of the Company s total Revenues) and Operating Income of $2.238 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 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.

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Home Box Office. The Home Box Office segment consists of businesses managed by Home Box Office, Inc. (Home Box Office). During the six months ended June 30, 2015, the Home Box Office segment recorded Revenues of $2.836 billion (19% of the Company s total Revenues) and Operating Income of $966 million.

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*, *True Detective* and *Boardwalk Empire*, on DVDs and Blu-ray Discs and via electronic sell-through (EST) 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 six months ended June 30, 2015, the Warner Bros. segment recorded Revenues of $6.497 billion (43% of the Company s total Revenues) and Operating Income of $665 million.

Warner Bros. is a leader in television production and distribution. For the 2015/2016 season, Warner Bros. expects to produce 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 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: *American Sniper*, *Entourage*, *Get Hard*, *The Hobbit*: *The Battle of the Five Armies*, *Mad Max: Fury Road*, *Magic Mike XXL* and *San Andreas*, and subsequently through licensing fees received from the distribution of films on premium pay television, television broadcast and cable networks and SVOD services.

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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 for home entertainment. In addition, the segment generates revenues through the development and distribution of videogames, including the following recently released videogames: *Batman: Arkham Knight* 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 half of 2015, across the home entertainment industry, consumer spending on physical discs continued to decline and consumer spending on electronic delivery continued to increase.

Recent Developments

Debt Offerings, Tender Offer and Debt Redemption

On June 4, 2015, Time Warner issued $2.1 billion aggregate principal amount of debt securities under a shelf registration statement.

On July 28, 2015, Time Warner issued 700 million aggregate principal amount of debt securities under a shelf registration statement.

In June 2015, Time Warner purchased $687 million aggregate principal amount of its 5.875% Notes due 2016 (the 2016 Notes) through a tender offer. For the three and six months ended June 30, 2015, the premiums paid and costs incurred in connection with this purchase were $51 million and recorded in Other income (loss), net in the accompanying Consolidated Statement of Operations.

On July 31, 2015, the Company issued a notice of redemption for the $313 million aggregate principal amount of its 2016 Notes that remain outstanding following the tender offer. The Company expects to redeem the 2016 Notes on August 31, 2015 and anticipates premiums and costs of approximately $20 million to be incurred during the quarter ended September 30, 2015.

See Financial Condition and Liquidity Outstanding Debt and Other Financing Arrangements for further information.

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

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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 June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Asset impairments	$	$ (14)	$ (1)	$ (26)
Gain (loss) on operating assets, net		2	(3)	456
Venezuelan foreign currency loss			(22)	
Other	(3)	(39)	(5)	(59)
Impact on Operating Income	(3)	(51)	(31)	371
Investment gains (losses), net	(26)	26	(85)	21
Amounts related to the separation of Time Warner Cable Inc.			(4)	(1)
Amounts related to the disposition of Warner Music Group				(1)
Amounts related to the separation of Time Inc.	(3)		(5)	
Premiums paid and costs incurred on debt redemption	(51)		(51)	
Items affecting comparability relating to equity method investments	(19)	(20)	(21)	(20)

Pretax impact	(102)	(45)	(197)	370
Income tax impact of above items	28	12	46	77
Impact of items affecting comparability on income from continuing operations	$ (74)	$ (33)	$ (151)	$ 447

In addition to the items affecting comparability described above, the Company incurred Restructuring and severance costs of $10 million and $22 million for the three and six months ended June 30, 2015, respectively, and $17 million and $43 million for the three and six months ended June 30, 2014, respectively. For further discussion of Restructuring and severance costs, see Consolidated Results and Business Segment Results.

Asset Impairments

During the six months ended June 30, 2015, the Company recognized a miscellaneous asset impairment of $1 million at Corporate.

During the three months ended June 30, 2014, the Company recognized asset impairments of $10 million at the Turner segment related to miscellaneous assets and $4 million at the Home Box Office segment related to the noncash impairment

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of an international tradename. For the six months ended June 30, 2014, the Company recognized additional asset impairments of $1 million at the Turner segment related to miscellaneous assets and $5 million and $6 million at the Warner Bros. segment and Corporate, respectively, related to certain internally developed software.

Gain (Loss) on Operating Assets, Net

For the six months ended June 30, 2015, the Company recognized a $2 million net loss 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 months ended June 30, 2014, the Company recognized a $2 million gain at the Turner segment, primarily related to the sale of a building in South America. For the six months ended June 30, 2014, the Company also recognized a $13 million gain at the Turner segment 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 six months ended June 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. See Recent Developments for more information.

Other

Other reflects external costs related to mergers, acquisitions or dispositions of $3 million and $5 million for the three and six months ended June 30, 2015, respectively, and $39 million and $59 million for the three and six months ended June 30, 2014, respectively. External costs related to mergers, acquisitions or dispositions for the three and six months ended June 30, 2015 consisted of $1 million for both periods at the Turner segment, $2 million and $3 million, respectively, at the Warner Bros. segment and $1 million for the six months ended June 30, 2015 at Corporate. External costs related to mergers, acquisitions or dispositions for the three and six months ended June 30, 2014 consisted of $3 million and $10 million, respectively, at the Turner segment primarily related to exit costs in connection with the shutdown of CNN Latino, a Spanish-language news broadcast programming block, $2 million and $8 million, respectively, at the Warner Bros. segment primarily related to the acquisition of the international operations of Eyeworks Group (Eyeworks) and $34 million and $41 million, respectively, at Corporate related to the legal and structural separation of Time Inc. from the Company (the Time Separation).

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 six months ended June 30, 2015, the Company recognized $26 million and $85 million, respectively of investment losses, net consisting of $49 million and $105 million of losses related to fair value adjustments on warrants to purchase common stock of Central European Media Enterprises Ltd. (CME) held by the Company and $23 million and $20 million, respectively, of miscellaneous investment gains.

For the three and six months ended June 30, 2014, the Company recognized $26 million and $21 million, respectively, of net miscellaneous investment gains.

Amounts Related to the Separation of Time Warner Cable Inc.

For the six months ended June 30, 2015, the Company recognized $4 million of other loss related to changes in the value of a Time Warner Cable Inc. (TWC) tax indemnification receivable, which has been reflected in Other income (loss), net in the accompanying Consolidated Statement of Operations. The Company recognized other expense of $1 million for the six months ended June 30, 2014 related to the expiration, exercise and net change in the estimated fair value of Time Warner equity awards held by TWC employees, which has been reflected in Other income (loss), net in the accompanying Consolidated Statement of Operations.

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Amounts Related to the Disposition of Warner Music Group

The Company recognized a loss of $1 million for the six months ended June 30, 2014 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 income (loss), net in the accompanying Consolidated Statement of Operations.

Amounts Related to the Time Separation

For the three and six months ended June 30, 2015, the Company recognized $3 million and $5 million, respectively, of other loss primarily reflecting pension and other retirement benefits related to employees and former employees of Time Inc.

Premiums Paid and Costs Incurred on Debt Redemption

For the three and six months ended June 30, 2015, the Company recognized $51 million of premiums paid and costs incurred on the purchase of $687 million aggregate principal amount of its 5.875% Notes due 2016 through a tender offer, which was recorded in Other income (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 months ended June 30, 2015, the Company recognized $19 million of expenses primarily related to government investigations recorded by an equity method investee. For the six months ended June 30, 2015, the Company also recognized $2 million of losses related to discontinued operations recorded by an equity method investee. For both the three and six months ended June 30, 2014, the Company recognized a $12 million loss on the extinguishment of debt recorded by an equity method investee and $8 million of losses related to discontinued operations recorded by an equity method investee.

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 June 30,			Six Months Ended June 30,		
	2015	2014	% Change	2015	2014	% Change
Turner	$ 2,827	$ 2,750	3%	$ 5,537	$ 5,343	4%
Home Box Office	1,438	1,417	1%	2,836	2,756	3%
Warner Bros.	3,298	2,870	15%	6,497	5,936	9%
Intersegment eliminations	(215)	(249)	(14)%	(395)	(444)	(11)%
Total revenues	$ 7,348	$ 6,788	8%	$ 14,475	$ 13,591	7%

For the three and six months ended June 30, 2015, Revenues at the Turner segment increased primarily driven by higher Content and other and Subscription revenues. Revenues at the Home Box Office segment increased for the three and six months ended June 30, 2015 mainly due to higher Subscription revenues. For the three and six months ended June 30, 2015, Revenues at the Warner Bros. segment increased driven by higher Videogames and other and Television product 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 resulted in a decline in the Company s Revenues of approximately $265 million and $500 million for the three and six months ended June 30, 2015, respectively. Each of the revenue categories is discussed in greater detail by segment in Business Segment Results.

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Costs of Revenues. For the three and six months ended June 30, 2015, Costs of revenues increased to $4.188 billion and $8.276 billion, respectively, from $3.925 billion and $7.776 billion for the three and six months ended June 30, 2014, respectively, reflecting increases at the Warner Bros. and Home Box Office segments, partially offset by a decrease at the Turner segment. The segment variations are discussed in Business Segment Results.

Selling, General and Administrative Expenses. For the three months ended June 30, 2015, Selling, general and administrative expenses increased 3% to $1.248 billion from $1.217 billion for the three months ended June 30, 2014, primarily reflecting increases at the Home Box Office and Warner Bros. segments, partially offset by a decrease at Corporate. For the six months ended June 30, 2015, Selling, general and administrative expenses decreased 2% to $2.437 billion from $2.487 billion for the six months ended June 30, 2014, primarily reflecting decreases at Corporate and the Turner segment, partially offset by an increase at the Home Box Office and Warner Bros. segments. For the six months ended June 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.

Included in Costs of revenues and Selling, general and administrative expenses is depreciation expense of $121 million and $243 million for the three and six months ended June 30, 2015, respectively, and $135 million and $268 million for the three and six months ended June 30, 2014, respectively.

Amortization Expense. Amortization expense was $43 million and $91 million for the three and six months ended June 30, 2015, respectively, and $50 million and $100 million for the three and six months ended June 30, 2014, respectively.

Restructuring and Severance Costs. For the three and six months ended June 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 June 30, 2015	Three Months Ended June 30, 2014	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014
Turner	$ 10	$ 12	$ 18	$ 24
Home Box Office	4	1	5	9
Warner Bros.	(1)	3	2	5
Corporate	(3)	1	(3)	5
Total restructuring and severance costs	$ 10	$ 17	$ 22	$ 43

Operating Income. Operating Income increased to $1.859 billion for the three months ended June 30, 2015 from $1.567 billion for the three months ended June 30, 2014. Excluding the items noted under Transactions and Other Items Affecting Comparability totaling $3 million and $51 million of expense for the three months ended June 30, 2015 and 2014, respectively, Operating Income increased $244 million despite the unfavorable impact of foreign currency exchange rates of approximately $75 million, primarily reflecting increases at the Turner and Warner Bros. segments, partially offset by a decrease at the Home Box Office segment.

Operating Income increased to $3.645 billion for the six months ended June 30, 2015 from $3.615 billion for the six months ended June 30, 2014. Excluding the items noted under Transactions and Other Items Affecting Comparability totaling $31 million of expense and $371 million of income for the six months ended June 30, 2015 and 2014, respectively, Operating Income increased $432 million despite the unfavorable impact of foreign currency exchange rates of approximately $210 million, primarily reflecting an increase at the Turner and Warner Bros. segments, partially offset by a decrease at the Home Box Office segment.

Interest Expense, Net. For the three months ended June 30, 2015, Interest expense, net decreased to $286 million from $296 million for the three months ended June 30, 2014 reflecting higher interest income of $20 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.

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For the six months ended June 30, 2015, Interest expense, net increased to $580 million from $561 million for the six months ended June 30, 2014 reflecting higher average debt balances, partially offset by higher interest income of $9 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 six months ended June 30, 2014 on a note receivable that was collected in March 2014.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Investment gains (losses), net	$ (26)	$ 26	$ (85)	$ 21
Amounts related to the separation of TWC			(4)	(1)
Amounts related to the disposition of WMG				(1)
Amounts related to the Time Separation	(3)		(5)	
Premiums paid and costs incurred on debt redemption	(51)		(51)	
Items affecting comparability relating to equity method investments	(19)	(20)	(21)	(20)
Loss from equity method investees	(27)	(1)	(74)	
Other	1	1	(2)	(4)
Other income (loss), net	$ (125)	$ 6	$ (242)	$ (5)

Investment gains (losses), net, items affecting comparability relating to equity method investments, premium 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 income (loss), net for the three and six months ended June 30, 2015 was primarily related to losses from equity method investees, which included the unfavorable impact of foreign exchange rates of approximately $25 million and $45 million for the three and six months ended June 30, 2015, respectively.

Income Tax Provision. Income tax provision increased to $477 million and $919 million for the three and six months ended June 30, 2015, respectively, from $434 million and $841 million for the three and six months ended June 30, 2014, respectively. The Company s effective tax rate was 33% for both the three and six months ended June 30, 2015 compared to 34% and 28% for the three and six months ended June 30, 2014, respectively. The increase in the effective tax rate for the six months ended June 30, 2015 was primarily due to the recognition of tax attribute carryforwards during the six months ended June 30, 2014.

Income from Continuing Operations. Income from continuing operations was $971 million and $843 million for the three months ended June 30, 2015 and 2014, respectively. Excluding the items noted under Transactions and Other Items Affecting Comparability totaling $74 million and $33 million of expense for the three months ended June 30, 2015 and 2014, respectively, Income from continuing operations increased $169 million, primarily reflecting higher Operating Income, partly offset by higher income taxes. Basic and Diluted income from continuing operations per common share were $1.18 and $1.16, respectively, for the three months ended June 30, 2015 and were $0.96 and $0.94, respectively, for the three months ended June 30, 2014.

Income from continuing operations was $1.904 billion and $2.208 billion for the six months ended June 30, 2015 and 2014, respectively. Excluding the items noted under Transactions and Other Items Affecting Comparability totaling $151 million of expense and $447 million of income for the six months ended June 30, 2015 and 2014, respectively, Income from continuing operations increased $294 million, primarily reflecting higher Operating Income, partly offset by higher income taxes. Basic and Diluted income from continuing operations per common share were $2.30 and $2.26, respectively, for the six months ended June 30, 2015 and were $2.49 and $2.45, respectively, for the six months ended June 30, 2014.

Discontinued Operations, Net of Tax. Discontinued operations, net of tax was income of $37 million for the six months ended June 30, 2015, primarily related to the final resolution of a tax indemnification obligation associated with the disposition of WMG and income of $7 million and a loss of $66 million for the three and six months ended June 30, 2014, respectively, primarily related to the Time Separation. For the three months ended June 30, 2014, Basic and Diluted loss from discontinued operations per common share were both $0.01. For the six months ended June 30, 2015, Basic and Diluted income from discontinued operations per common share were both $0.05 as compared to a Basic and Diluted loss from discontinued operations per common share of $0.07 and $0.08, respectively, for the six months ended June 30, 2014.

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Net Income. Net income was $971 million and $1.941 billion for the three and six months ended June 30, 2015, respectively, and $850 million and $2.142 billion for the three and six months ended June 30, 2014, respectively. Basic and Diluted net income per common share were $1.18 and $1.16, respectively, for the three months ended June 30, 2015 and were $0.97 and $0.95, respectively, for the three months ended June 30, 2014. Basic and Diluted net income per common share were $2.35 and $2.31, respectively, for the six months ended June 30, 2015 and were $2.42 and $2.37, respectively, for the six months ended June 30, 2014.

Business Segment Results

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

	Three Months Ended June 30,			Six Months Ended June 30,		
	2015	2014	% Change	2015	2014	% Change
Revenues:						
Subscription	$ 1,343	$ 1,323	2%	$ 2,690	$ 2,632	2%
Advertising	1,272	1,284	(1)%	2,451	2,421	1%
Content and other	212	143	48%	396	290	37%
Total revenues	2,827	2,750	3%	5,537	5,343	4%
Costs of revenues (a)	(1,230)	(1,342)	(8)%	(2,399)	(2,546)	(6)%
Selling, general and administrative (a)	(406)	(403)	1%	(759)	(834)	(9)%
Gain (loss) on operating assets	1	2	(50)%	(2)	15	(113)%
Asset impairments		(10)	NM		(11)	NM
Venezuelan foreign currency loss			NM	(17)		NM
Restructuring and severance costs	(10)	(12)	(17)%	(18)	(24)	(25)%
Depreciation	(48)	(52)	(8)%	(96)	(106)	(9)%
Amortization	(4)	(4)	%	(8)	(8)	%

Operating Income	$	1,130	$	929	22%	$	2,238	$	1,829	22%

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

The increase in Subscription revenues for the three and six months ended June 30, 2015 was driven by higher domestic revenues of $44 million and $84 million, respectively, partially offset by lower international revenues of $24 million and $26 million, respectively. Domestic subscription revenue growth for the three and six months ended June 30, 2015 was primarily due to higher contractual rates, and for the six months ended June 30, 2015 was partially offset by fewer subscribers. International subscription revenue growth for the three and six months ended June 30, 2015 was more than offset by the unfavorable impact of foreign exchange rates of approximately $50 million and $85 million, respectively.

The decrease in Advertising revenues for the three months ended June 30, 2015 was primarily due to a $19 million decline in international revenues, reflecting unfavorable foreign exchange rates of approximately $30 million. Domestic advertising revenues for the three months ended June 30, 2015 increased $7 million 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 domestic entertainment networks and the absence of Advertising revenues in 2015 associated with NASCAR television programming. The increase in Advertising revenues for the six months ended June 30, 2015 reflected domestic growth of $50 million mainly driven by Turner s news businesses and the NCAA Tournament, partially offset by lower audience

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delivery at certain of its domestic entertainment networks and the absence of Advertising revenues in 2015 associated with NASCAR television programming as well as a decrease in international revenues of $20 million reflecting the unfavorable impact of foreign exchange rates of approximately $50 million.

The increase in Content and other revenues for the three and six months ended June 30, 2015 was primarily due to higher license fees from SVOD services.

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

	Three Months Ended June 30,			Six Months Ended June 30,		
	2015	2014	% Change	2015	2014	% Change
Programming costs:						
Originals and sports	$ 839	$ 905	(7)%	$ 1,624	$ 1,682	(3)%
Acquired films and syndicated series	193	226	(15)%	387	457	(15)%
Total programming costs	1,032	1,131	(9)%	2,011	2,139	(6)%
Other direct operating costs	198	211	(6)%	388	407	(5)%
Costs of revenues (a)	$ 1,230	$ 1,342	(8)%	$ 2,399	$ 2,546	(6)%

(a) Costs of revenues exclude depreciation.

For the three and six months ended June 30, 2015, programming costs decreased primarily due to lower acquired films and syndicated series costs, which was due to the timing and mix of programming as a result of the abandonment of certain programming during 2014. For the three and six months ended June 30, 2015, Originals and sports programming costs decreased primarily due to the absence of programming costs in 2015 associated with NASCAR.

For the three months ended June 30, 2015, Selling, general and administrative expenses were essentially flat as lower costs primarily due to operational efficiency initiatives, including the restructuring activities undertaken in 2014, were offset by the absence in the current period of the reversal in 2014 of a $20 million accrued contingency. The decrease in Selling, general and administrative expense for the six months ended June 30, 2015 was primarily due to lower marketing expenses of $51 million due to timing as well as operational efficiency initiatives, including the 2014 restructuring, 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 six months ended June 30, 2015 and 2014, which affected the comparability of the Turner segment s results.

The increase in Operating Income for three and six months ended June 30, 2015 was primarily due to higher Revenues and lower Costs of revenues and, for the six months ended June 30, 2015, lower Selling, general and administrative expenses.

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

	Three Months Ended June 30,			Six Months Ended June 30,		
	2015	**2014**	**% Change**	**2015**	**2014**	**% Change**
Revenues:						
Subscription	$ 1,181	$ 1,141	4%	$ 2,360	$ 2,271	4%
Content and other	257	276	(7)%	476	485	(2)%
Total revenues	1,438	1,417	1%	2,836	2,756	3%
Costs of revenues (a)	(675)	(658)	3%	(1,397)	(1,314)	6%
Selling, general and administrative (a)	(230)	(184)	25%	(422)	(370)	14%
Asset impairments		(4)	NM		(4)	NM
Restructuring and severance costs	(4)	(1)	NM	(5)	(9)	(44)%
Depreciation	(18)	(19)	(5)%	(39)	(40)	(3)%
Amortization	(3)	(3)	%	(7)	(7)	%
Operating Income	$ 508	$ 548	(7)%	$ 966	$ 1,012	(5)%

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

The increase in Subscription revenues for the three and six months ended June 30, 2015 was driven primarily by higher domestic subscription revenues of $47 million and $97 million, respectively, primarily due to higher contractual rates. International subscription revenues for the three and six months ended June 30, 2015 decreased mainly due to the transfer to Turner of the operation and certain contracts of an HBO-branded basic tier television service in India, partially offset by growth from international subscribers.

The decrease in Content and other revenues for the three and six months ended June 30, 2015 was primarily due to lower home entertainment revenues.

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

	Three Months Ended June 30,			Six Months Ended June 30,		
	2015	2014	% Change	2015	2014	% Change
Programming costs:						
Originals and sports	$ 266	$ 260	2%	$ 517	$ 478	8%
Acquired films and syndicated series	230	239	(4)%	490	489	%
Total programming costs	496	499	(1)%	1,007	967	4%
Other direct operating costs	179	159	13%	390	347	12%
Costs of revenues (a)	$ 675	$ 658	3%	$ 1,397	$ 1,314	6%

(a) Costs of revenues exclude depreciation.

The increase in programming costs for the six months ended June 30, 2015 was primarily due to higher costs for original series. The increase in other direct operating costs for the three months ended June 30, 2015 was primarily related to costs associated with HBO NOW. The increase in other direct operating costs for the six months ended June 30, 2015 was mainly due to higher participation expenses associated with original series and costs associated with HBO NOW.

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For the three and six months ended June 30, 2015, Selling, general and administrative expenses increased 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 six months ended June 30, 2015 and 2014, which affected the comparability of the Home Box Office segment s results.

The decrease in Operating Income for the three and six months ended June 30, 2015 was primarily due to higher Costs of revenues and Selling, general and administrative expenses, partially offset by higher Revenues.

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

	Three Months Ended June 30,			Six Months Ended June 30,		
	2015	2014	% Change	2015	2014	% Change
Revenues:						
Theatrical product	$ 1,263	$ 1,494	(15)%	$ 2,728	$ 2,891	(6)%
Television product	1,308	1,067	23%	2,656	2,408	10%
Videogames and other	727	309	135%	1,113	637	75%
Total revenues	3,298	2,870	15%	6,497	5,936	9%
Costs of revenues (a)	(2,404)	(2,098)	15%	(4,719)	(4,221)	12%
Selling, general and administrative (a)	(468)	(435)	8%	(931)	(909)	2%
Loss on operating assets	(1)		NM	(1)		NM
Asset impairments			NM		(5)	NM
Venezuelan foreign currency loss			NM	(5)		NM

Restructuring and severance costs	1	(3)	(133)%	(2)	(5)	(60)%
Depreciation	(49)	(57)	(14)%	(98)	(108)	(9)%
Amortization	(36)	(43)	(16)%	(76)	(85)	(11)%
Operating Income	$ 341	$ 234	46%	$ 665	$ 603	10%

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

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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 components of Revenues for the three and six months ended June 30, 2015 and 2014 are as follows (millions):

	Three Months Ended June 30,			Six Months Ended June 30,		
	2015	2014	% Change	2015	2014	% Change
Theatrical product:						
Film rentals	$ 450	$ 438	3%	$ 1,043	$ 993	5%
Home video and electronic delivery	461	563	(18)%	830	945	(12)%
Television licensing	307	441	(30)%	747	844	(11)%
Consumer products and other	45	52	(13)%	108	109	(1)%
Total theatrical product	$ 1,263	$ 1,494	(15)%	$ 2,728	$ 2,891	(6)%
Television product:						
Television licensing	1,109	865	28%	2,246	1,974	14%
Home video and electronic delivery	92	110	(16)%	198	224	(12)%
Consumer products and other	107	92	16%	212	210	1%
Total television product	$ 1,308	$ 1,067	23%	$ 2,656	$ 2,408	10%

The increase in Revenues for three and six months ended June 30, 2015 included the net unfavorable impact of foreign exchange rates of approximately $170 million and $340 million, respectively.

Theatrical product revenues from film rentals increased for the three months ended June 30, 2015, reflecting higher carryover revenues of $28 million from prior period releases, partially offset by lower revenues of $16 million from theatrical films released during the second quarter of 2015 compared to the second quarter of 2014. Theatrical product revenues from film rentals increased for the six months ended June 30, 2015, reflecting higher carryover revenues of $226 million from prior period releases, partially offset by lower revenues of $176 million from theatrical films released during the first half of 2015 compared to the first half of 2014. The Company released seven and five theatrical films in the second quarter of 2015 and 2014, respectively, and eleven and nine theatrical films in the first half of 2015 and 2014, respectively.

For the three months ended June 30, 2015, theatrical product revenues from home video and electronic delivery decreased primarily due to lower revenues from releases during the second quarter of 2015 compared to the second quarter of 2014. For the six months ended June 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 six home video and electronic delivery releases in both the second quarters of 2015 and 2014 and eleven and eight home video and electronic delivery releases in the first half of 2015 and 2014, respectively.

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

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

Videogames and other revenues increased for the three and six months ended June 30, 2015 primarily due to higher revenues from videogames released during the second quarter and first half of 2015 as compared to the second quarter and first half of 2014. The Company released six videogames and one videogame during the second quarters of 2015 and 2014, respectively, and ten and three videogames during the first half of 2015 and 2014, respectively.

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

	Three Months Ended			Six Months Ended		
	6/30/15	**6/30/14**	**% Change**	**6/30/15**	**6/30/14**	**% Change**
Film and television production costs	$ 1,524	$ 1,322	15%	$ 3,092	$ 2,761	12%
Print and advertising costs	611	527	16%	1,093	959	14%
Other costs, including merchandise and related costs	269	249	8%	534	501	7%
Costs of revenues (a)	$ 2,404	$ 2,098	15%	$ 4,719	$ 4,221	12%

(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 $35 million and $74 million for the three and six months ended June 30, 2015, respectively, and $36 million for the six months ended June 30, 2014. Videogame valuation adjustments for the three and six months ended June 30, 2015 were $1 million and $17 million, respectively, and for the six months ended June 30, 2014 were $18 million. The increases in film and television production costs and print and advertising costs for the three and six months ended June 30, 2015 were primarily due to the mix of product released.

Selling, general and administrative expenses increased for the three and six months ended June 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.

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 six months ended June 30, 2015 and 2014, which affected the comparability of the Warner Bros. segment s results.

The increase in Operating Income for the three and six months ended June 30, 2015 was primarily due to higher Revenues, partially offset by higher Costs of revenues.

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

	Three Months Ended June 30,			Six Months Ended June 30,		
	2015	2014	% Change	2015	2014	% Change
Selling, general and administrative (a)	$ (86)	$ (129)	(33)%	$ (185)	$ (244)	(24)%
Gain on operating assets			NM		441	NM
Asset impairments			NM	(1)	(6)	(83)%
Restructuring and severance costs	3	(1)	NM	3	(5)	(160)%
Depreciation	(6)	(7)	(14)%	(10)	(14)	(29)%
Operating Income (Loss)	$ (89)	$ (137)	(35)%	$ (193)	$ 172	(212)%

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

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OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION (Continued)

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 six months ended June 30, 2015 and 2014, which affected the comparability of Corporate s results.

Operating loss for the three months ended June 30, 2015 decreased primarily due to lower external costs related to mergers, acquisitions and dispositions of $34 million and lower costs related to enterprise efficiency initiatives. Excluding the $441 million Gain on operating assets during the six months ended June 30, 2014, Operating loss for the six months ended June 30, 2015 decreased primarily due to lower external costs related to mergers, acquisitions and dispositions of $40 million and lower costs related to enterprise efficiency initiatives.

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 $7 million and $9 million for the three and six months ended June 30, 2015, respectively, and $12 million and $24 million for the three and six months ended June 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 June 30, 2015 was $8.153 billion, which included $3.122 billion of Cash and equivalents.

Current Financial Condition

At June 30, 2015, Time Warner had net debt of $20.672 billion ($23.794 billion of debt less $3.122 billion of Cash and equivalents) and $24.025 billion of Shareholders equity, compared to net debt of $19.876 billion ($22.494 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 June 30, 2015 (millions):

Balance at December 31, 2014	$	19,876
Cash provided by operations from continuing operations		(1,800)
Capital expenditures		154
Repurchases of common stock		1,804
Dividends paid to common stockholders		584

Investments and acquisitions, net of cash acquired		184
Proceeds from the exercise of stock options		(121)
Other investment and sale proceeds		(109)
All other, net		100
Balance at June 30, 2015	$	20,672

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 July 31, 2015, the Company repurchased 24 million shares of common stock for $2.041 billion pursuant to trading plans under Rule 10b5-1 of the Securities Exchange Act of 1934, as amended (the Exchange Act).

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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 increased by $504 million for the six months ended June 30, 2015. Cash and equivalents increased by $2.664 billion, including $189 million of Cash used by discontinued operations, for the six months ended June 30, 2014. Components of these changes are discussed below in more detail.

Operating Activities from Continuing Operations

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

	Six Months Ended June 30, 2015	2014
Operating Income	$ 3,645	$ 3,615
Depreciation and amortization	334	368
Net interest payments (a)	(627)	(590)
Net income taxes paid (b)	(655)	(950)
All other, net, including working capital changes	(897)	(386)
Cash provided by operations from continuing operations	$ 1,800	$ 2,057

(a) Includes cash interest received of $22 million and $39 million for the six months ended June 30, 2015 and 2014, respectively.

(b) Includes income tax refunds received of $82 million and $40 million for the six months ended June 30, 2015 and 2014, respectively.

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

Investing Activities from Continuing Operations

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

	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014
Investments in available-for-sale securities	$ (32)	$ (28)
Investments and acquisitions, net of cash acquired:		
Eyeworks		(267)
CME		(371)
All other	(152)	(223)
Capital expenditures	(154)	(206)
Proceeds from the sale of available-for-sale securities		16
Proceeds from Time Inc. in the Time Separation		1,400
Proceeds from the sale of Time Warner Center		1,264
Other investment proceeds	109	122
Cash provided (used) by investing activities from continuing operations	$ (229)	$ 1,707

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The change in Cash provided (used) by investing activities from continuing operations for the six months ended June 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 six months ended June 30, 2015 and 2014 are payments of $56 million and $91 million, respectively, related to the Hudson Yards development project.

Financing Activities from Continuing Operations

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

	Six Months Ended June 30, 2015	2014
Borrowings	$ 2,106	$ 2,401
Debt repayments	(804)	(15)
Proceeds from the exercise of stock options	121	182
Excess tax benefit from equity instruments	120	95
Principal payments on capital leases	(5)	(5)
Repurchases of common stock	(1,804)	(2,876)
Dividends paid	(584)	(568)
Other financing activities	(217)	(125)
Cash used by financing activities from continuing operations	$ (1,067)	$ (911)

Cash used by financing activities from continuing operations for the six months ended June 30, 2015 increased primarily due to an increase in Debt repayments, a decrease in Borrowings and an increase in cash used for Other financing activities, partially offset by a decrease in Repurchases of common stock. 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 Company s 5.875% Notes due 2016 through a tender offer. During the six months ended June 30, 2015, the Company issued approximately 4 million shares of common stock and received $121 million in connection with the exercise of stock options. At June 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):

	Six Months Ended June 30, 2015	2014
Cash used by operations from discontinued operations	$	$ (15)
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	$	$ (189)

TIME WARNER INC.

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OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION (Continued)

Outstanding Debt and Other Financing Arrangements

Outstanding Debt and Committed Financial Capacity

At June 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 $31.976 billion. Of this committed capacity, $8.153 billion was unused and $23.794 billion was outstanding as debt. At June 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	$ 3,122	$	$	$ 3,122
Revolving credit facilities and commercial paper program (d)	5,000			5,000
Fixed-rate public debt	23,341		23,341	
Other obligations (e)	513	29	453	31
Total	$ 31,976	$ 29	$ 23,794	$ 8,153

(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 13.4 years as of June 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 June 30, 2015, the principal amounts of the Company s publicly issued debt mature as follows: $1.0 billion in July 2015, $463 million in 2016, $500 million in 2017, $600 million in 2018, $650 million in 2019, $1.4 billion in 2020 and $18.831 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 $50 million are due within the next twelve months.

June Debt Offering and Tender Offer for and Redemption of Debt

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.

In June 2015, Time Warner purchased $687 million aggregate principal amount of the $1.0 billion aggregate principal amount outstanding of its 2016 Notes through a tender offer. The premiums paid and costs incurred in connection with the purchase of the 2016 Notes were $51 million and recorded in Other income (loss), net in the accompanying Consolidated Statement of Operations.

On July 31, 2015, the Company issued a notice of redemption for the $313 million aggregate principal amount of its 2016 Notes that remain outstanding following the tender offer. The Company expects to redeem the 2016 Notes on August 31, 2015 and anticipates premiums and costs of approximately $20 million to be incurred during the quarter ended September 30, 2015.

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.

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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 approximately $6.3 billion and $6.5 billion at June 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 $714 million and $700 million at June 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 $749 million and $788 million at June 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 adequacy of the Company s liquidity to meet its needs for the foreseeable future, (ii) the Company s expected investment in space in the Hudson Yards development, (iii) the number of original television series Warner Bros. expects to produce and (iv) the expected redemption of the 2016 Notes.

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 digital 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;

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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.

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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 June 30, 2015 that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

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TIME WARNER INC.

CONSOLIDATED BALANCE SHEET

(Unaudited; millions, except share amounts)

	June 30, 2015	December 31, 2014
ASSETS		
Current assets		
Cash and equivalents	$ 3,122	$ 2,618
Receivables, less allowances of $860 and $1,152	8,004	7,720
Inventories	1,640	1,700
Deferred income taxes	184	184
Prepaid expenses and other current assets	860	958
Total current assets	13,810	13,180
Noncurrent inventories and theatrical film and television production costs	6,597	6,841
Investments, including available-for-sale securities	2,132	2,326
Property, plant and equipment, net	2,567	2,655
Intangible assets subject to amortization, net	1,036	1,141
Intangible assets not subject to amortization	7,030	7,032
Goodwill	27,575	27,565
Other assets	2,678	2,519
Total assets	$ 63,425	$ 63,259
LIABILITIES AND EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	$ 7,059	$ 7,507
Deferred revenue	623	579
Debt due within one year	1,513	1,118
Total current liabilities	9,195	9,204
Long-term debt	22,281	21,376
Deferred income taxes	2,109	2,204
Deferred revenue	307	315
Other noncurrent liabilities	5,508	5,684
Commitments and Contingencies (Note 14)		
Equity		
Common stock, $0.01 par value, 1.652 billion and 1.652 billion shares issued and 817 million and 832 million shares outstanding	17	17
Additional paid-in capital	148,572	149,282
Treasury stock, at cost (835 million and 820 million shares)	(43,895)	(42,445)
Accumulated other comprehensive loss, net	(1,396)	(1,164)
Accumulated deficit	(79,273)	(81,214)

Total equity		24,025		24,476
Total liabilities and equity	$	63,425	$	63,259

See accompanying notes.

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TIME WARNER INC.

CONSOLIDATED STATEMENT OF OPERATIONS

(Unaudited; millions, except per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Revenues	$ 7,348	$ 6,788	$ 14,475	$ 13,591
Costs of revenues	(4,188)	(3,925)	(8,276)	(7,776)
Selling, general and administrative	(1,248)	(1,217)	(2,437)	(2,487)
Amortization of intangible assets	(43)	(50)	(91)	(100)
Restructuring and severance costs	(10)	(17)	(22)	(43)
Asset impairments		(14)	(1)	(26)
Gain (loss) on operating assets, net		2	(3)	456