TIME WARNER INC.
Form 10-Q
August 04, 2010

Table of Contents

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

Form 10-Q

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

for the quarterly period ended June 30, 2010 or

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o 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 27, 2010
Common Stock $.01 par value	1,124,215,824

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

Table of Contents

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

INTRODUCTION

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

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

Results of operations. This section provides an analysis of the Company s results of operations for the three and six months ended June 30, 2010. This analysis is presented on both a consolidated and a business segment basis. In addition, a brief description of significant transactions and events 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, 2010 and cash flows for the six months ended June 30, 2010.

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.

Table of Contents

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

OVERVIEW

Time Warner is a leading media and entertainment company, whose major businesses encompass an array of the most respected and successful media brands. Among the Company s brands are HBO, TNT, TBS, CNN, Warner Bros., New Line Cinema, *People*, *Sports Illustrated* and *Time*. During the six months ended June 30, 2010, the Company generated revenues of $12.699 billion (up 7% from $11.916 billion in 2009), Operating Income of $2.657 billion (up 31% from $2.025 billion in 2009), Net Income attributable to Time Warner shareholders of $1.287 billion (up 9% from $1.184 billion in 2009) and Cash Provided by Operations from Continuing Operations of $1.388 billion (down 14% from $1.611 billion in 2009).

Time Warner Businesses

Time Warner classifies its operations into three reportable segments: Networks, Filmed Entertainment and Publishing. For additional information regarding Time Warner s business segments, refer to Note 12, Segment Information, in the accompanying consolidated financial statements.

Networks. Time Warner s Networks segment consists of Turner Broadcasting System, Inc. (Turner) and Home Box Office, Inc. (HBO). During the six months ended June 30, 2010, the Networks segment generated revenues of $6.128 billion (48% of the Company s overall revenues) and $2.182 billion in Operating Income.

Turner operates domestic and international networks, including such recognized brands as TNT, TBS, CNN, Cartoon Network, truTV and HLN, which are among the leaders in advertising-supported cable television networks. The Turner networks generate revenues principally from providing programming to cable system operators, satellite distribution services, telephone companies and other distributors (known as affiliates) that have contracted to receive and distribute this programming and from the sale of advertising. Key contributors to Turner s success are its strong brands and continued investments in high-quality, popular programming focused on sports, original and syndicated series, news, network movie premieres and animation to drive audience delivery and revenue growth. During the first half of 2010, Advertising revenue at Turner benefited from an improved advertising environment both domestically and internationally.

HBO operates the HBO and Cinemax multichannel premium pay television programming services, with the HBO service ranking as the nation s most widely distributed premium pay television service. HBO generates revenues principally from providing programming to affiliates that have contracted to receive and distribute such programming to subscribers who choose to receive the HBO or Cinemax services. An additional source of revenues for HBO is the sale and licensing of its original programming, including *Entourage*, *True Blood*, *The Pacific*, *The Sopranos* and *Rome*.

The Company s Networks segment has been pursuing international expansion in select areas. For example, in the first quarter of 2010, HBO acquired the remainder of its partners interests in HBO Central Europe (HBO CE) and purchased an additional 21% equity interest in HBO Latin America Group, consisting of HBO Brasil, HBO Olé and HBO Latin America Production Services (collectively, HBO LAG), and Turner acquired a majority stake in NDTV Imagine Limited, which owns a Hindi general entertainment channel in India. In recent years, Turner has also expanded its presence in Germany, Japan, Korea, Latin America, Turkey and the United Arab Emirates, and HBO has acquired additional equity interests in HBO Asia, HBO South Asia and HBO LAG. The Company anticipates that international expansion will continue to be an area of focus at the Networks segment for the foreseeable future.

Filmed Entertainment. Time Warner s Filmed Entertainment segment consists of businesses managed by the Warner Bros. Entertainment Group (Warner Bros.) that principally produce and distribute theatrical motion pictures, including *Inception, Clash of the Titans*, *Sex and the City 2*, *The Blind Side*, *Sherlock Holmes* and the *Harry Potter* films, as well as television shows and videogames. During the six months ended June 30, 2010, the Filmed Entertainment segment generated revenues of $5.210 billion (39% of the Company s overall revenues) and $480 million in Operating Income.

The Filmed Entertainment segment s diversified sources of revenues within its film and television businesses, including its extensive film library and global distribution infrastructure, have helped it to deliver consistent long-term operating performance. Theatrical product revenues principally are generated domestically and internationally through rentals from theatrical exhibition and subsequently through licensing fees received for the distribution of films on television networks

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

and pay television programming services. Television product revenues principally are generated domestically and internationally from the licensing of the Filmed Entertainment segment s programs on television networks and pay television programming services. The Filmed Entertainment segment also generates revenues for both its theatrical and television product through home video distribution on DVD and Blu-ray Discs and in various digital formats.

Warner Bros. continues to be an industry leader in the television content business. During the 2009-2010 broadcast season, Warner Bros. produced more than 25 scripted primetime series, with at least one series airing on each of the five broadcast networks (including *Two and a Half Men*, *The Mentalist*, *The Big Bang Theory*, *Gossip Girl, Fringe* and *Chuck*) and original series for several cable networks (including *The Closer* and *Southland*).

Home video distribution, in particular revenues from the distribution of DVDs, has been one of the largest drivers of the segment s profits over the last several years. The industry and the Company experienced a decline in home video sales over the past two years as a result of several factors, including the general economic downturn in the U.S. and many regions around the world, increasing competition for consumer discretionary time and spending, piracy and the maturation of the standard definition DVD format. Beginning in 2009, the decline in home video revenues was also affected by consumers shifting to subscription rental services and discount rental kiosks, which generate significantly less revenue per transaction than DVD sales. Partially offsetting the softening consumer demand for standard definition DVDs and the shift to subscription services and kiosks were growing sales of high definition Blu-ray Discs and increased electronic delivery, which have higher gross margins than standard definition DVDs.

To increase operational efficiencies, over the past several years the Filmed Entertainment segment has undertaken restructuring activities to reduce its cost structure and streamline operations, including combining certain operations of its studios and outsourcing certain functions.

Publishing. Time Warner s Publishing segment consists principally of magazine publishing and related websites as well as direct-marketing businesses. During the six months ended June 30, 2010, the Publishing segment generated revenues of $1.718 billion (13% of the Company s overall revenues) and $203 million in Operating Income.

As of June 30, 2010, Time Inc. published 22 magazines in the U.S., including *People*, *Sports Illustrated*, *Time*, *InStyle*, *Real Simple*, *Southern Living*, *Entertainment Weekly* and *Fortune*, and over 90 magazines outside the U.S., primarily through IPC Media (IPC) in the U.K. and Grupo Editorial Expansión (GEE) in Mexico. Time Inc. develops digital content for its magazine websites and also publishes magazine content on digital devices. The Publishing segment generates revenues primarily from advertising (including advertising on digital properties), magazine subscriptions and newsstand sales. Time Inc. also owns the magazine subscription marketer, Synapse Group, Inc. (Synapse), and the school and youth group fundraising business, QSP. Advertising sales at the Publishing segment, particularly print advertising sales, were significantly adversely affected by the economic environment during 2009. However, during the first half of 2010, the Publishing segment experienced an improvement in Advertising revenues driven by increases in domestic print advertising pages sold and digital advertising. Digital Advertising revenues were 14% of Time Inc. s total Advertising revenues for both the three and six months ended June 30, 2010 compared to 12% for both the three and six months ended June 30, 2009.

In its ongoing effort to improve efficiency and reduce its cost structure, the Publishing segment executed restructuring initiatives, primarily relating to headcount reductions, in the fourth quarters of 2009 and 2008, which have benefitted the segment s performance in 2010 and are expected to continue to benefit the segment s performance during the remainder of 2010.

Recent Developments

July 2010 Debt Offering and Tender Offer

As discussed more fully in *Financial Condition and Liquidity Outstanding Debt and Other Financing Arrangements*, on July 14, 2010, Time Warner issued $3.0 billion aggregate principal amount of debt securities from a shelf registration statement. The Company used the net proceeds from the debt offering to repurchase $780 million aggregate principal amount of the outstanding 5.50% Notes due 2011 of Time Warner, $1.362 billion aggregate principal

3

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

amount of the outstanding 6.875% Notes due 2012 of Time Warner and $568 million aggregate principal amount of the outstanding 9.125% Debentures due 2013 of Historic TW Inc. (Historic TW) (as successor by merger to Time Warner Companies, Inc.) pursuant to a tender offer.

March 2010 Debt Offering and Tender Offer and April 2010 Redemption

As discussed more fully in *Financial Condition and Liquidity Outstanding Debt and Other Financing Arrangements*, on March 11, 2010, Time Warner issued $2.0 billion aggregate principal amount of debt securities from a shelf registration statement. The Company used a portion of the net proceeds from this debt offering to repurchase $773 million aggregate principal amount of the Company s outstanding 6.75% Notes due 2011 pursuant to a tender offer. On April 22, 2010, the Company redeemed the remaining $227 million aggregate principal amount of the 6.75% Notes due 2011.

Asset Securitization Arrangements

During the first quarter of 2010, the Company repaid the $805 million outstanding under the Company s two accounts receivable securitization facilities. The Company terminated the two accounts receivable securitization facilities on March 19, 2010 and March 24, 2010, respectively.

HBO LAG

On March 9, 2010, HBO purchased additional interests in HBO LAG for $217 million in cash, which resulted in HBO owning 80% of the equity interests of HBO LAG. HBO accounts for this investment under the equity method of accounting. See Notes 1 and 2 to the accompanying consolidated financial statements.

HBO Central Europe Acquisition

On January 27, 2010, HBO purchased the remainder of its partners interests in HBO CE for $136 million in cash, net of cash acquired. HBO CE operates the HBO and Cinemax premium pay television programming services serving 11 territories in Central Europe. The Company has consolidated the results of operations and financial condition of HBO CE effective January 27, 2010. Upon the acquisition of the controlling interest in HBO CE, a gain of $59 million was recognized reflecting the excess of the fair value over the Company s carrying cost of its original investment in HBO CE. See Note 2 to the accompanying consolidated financial statements.

Benefit Plan Amendments

In March 2010, the Company s Board of Directors approved amendments to its domestic defined benefit pension plans, which generally provide that (i) effective June 30, 2010, benefits provided under the plans will stop accruing for additional years of service and the plans will be closed to new hires and employees with less than one year of service and (ii) after December 31, 2013, pay increases will no longer be taken into consideration when determining a participating employee s benefits under the plans.

In addition, effective July 1, 2010, the Company will increase its matching contributions for eligible participants in the Time Warner Savings Plan. Effective January 1, 2011, the Company will also implement a supplemental savings plan that will provide for similar Company matching for eligible participant deferrals above the Internal Revenue Service compensation limits that apply to the Time Warner Savings Plan up to $500,000 of eligible compensation.

The net effect of these changes is expected to result in a net annual decrease to employee benefit plan expense of approximately $50 million.

NCAA Basketball Programming Agreement

On April 22, 2010, Turner, together with CBS Broadcasting, Inc. (CBS), entered into a 14-year agreement with The National Collegiate Athletic Association (the NCAA), which provides Turner and CBS with exclusive television,

Table of Contents

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

Internet, and wireless rights to the NCAA Division I Men s Basketball Championship events (the NCAA Tournament Games) in the United States and its territories and possessions.

Under the terms of the arrangement, Turner and CBS will work together to produce and distribute the NCAA Tournament Games and related programming commencing in 2011. The games will be televised on Turner s TNT, TBS and truTV networks and on the CBS network and advertising will be sold on a joint basis.

The aggregate programming rights fee of approximately $10.8 billion, which will be shared by Turner and CBS, will be paid by Turner to the NCAA over the 14-year term of the agreement. Further, Turner and CBS have agreed to share advertising and sponsorship revenues and production costs. In the event, however, that the programming rights fee and production costs exceed advertising and sponsorship revenues, CBS s share of such shortfall is limited to specified annual amounts (the Loss Cap Amounts), ranging from approximately $90 million to $30 million (totaling approximately $670 million over the term of the agreement). Beginning in 2011, Turner s share of the programming rights fee will be amortized based on the ratio of current period advertising revenue to total estimated advertising revenue over the term of the agreement. Any costs recognized and payable by Turner due to the Loss Cap Amounts will be expensed by the Company as incurred.

RESULTS OF OPERATIONS

Recent Accounting Guidance

As discussed more fully in Note 1 to the accompanying consolidated financial statements, on January 1, 2010, the Company adopted on a retrospective basis amendments to accounting guidance pertaining to the accounting for transfers of financial assets and variable interest entities.

Significant Transactions and Other Items Affecting Comparability

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

	Three Months Ended		Six Months Ended	
	6/30/10	6/30/09	6/30/10	6/30/09
Amounts related to securities litigation and government investigations, net	$ (8)	$ (7)	$ (19)	$ (14)
Gain (loss) on operating assets	-	(33)	59	(33)
Impact on Operating Income	(8)	(40)	40	(47)
Investment gains, net	3	37	-	24
Amounts related to the separation of Time Warner Cable Inc.	(4)	7	(7)	2
Costs related to the separation of AOL	-	(15)	-	(15)
Premium paid and transaction costs incurred on debt redemption	(14)	-	(69)	-
Pretax impact	(23)	(11)	(36)	(36)
Income tax impact of above items	5	(3)	28	3
Tax items related to Time Warner Cable Inc.	-	-	-	24
After-tax impact	(18)	(14)	(8)	(9)
Noncontrolling interest impact	-	-	-	5

Impact of items on income from continuing operations attributable to Time Warner Inc. shareholders	$	(18)	$	(14)	$	(8)	$	(4)

Table of Contents

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

In addition to the items affecting comparability described above, the Company incurred restructuring costs of $6 million and $15 million for the three and six months ended June 30, 2010, respectively, and $27 million and $63 million for the three and six months ended June 30, 2009, respectively. For further discussion of these restructuring costs, refer to Consolidated Results and Business Segment Results.

Amounts Related to Securities Litigation

The Company recognized legal reserves as well as legal and other professional fees related to the defense of securities litigation matters by former employees totaling $8 million and $19 million for the three and six months ended June 30, 2010, respectively, and $7 million and $14 million for the three and six months ended June 30, 2009, respectively.

Gain (Loss) on Operating Assets

For the six months ended June 30, 2010, the Company, upon the acquisition of the controlling interest in HBO CE, recognized a $59 million gain reflecting the recognition of the excess of the fair value over the Company s carrying costs of its original investment in HBO CE.

For the three and six months ended June 30, 2009, the Company recognized a $33 million loss on the sale of Warner Bros. Italian cinema assets.

Investment Gains, Net

For the three and six months ended June 30, 2010, the Company recognized $3 million and $0, respectively, of miscellaneous investment gains, net.

For the three and six months ended June 30, 2009, the Company recognized a $28 million gain on the sale of the Company s investment in TiVo Inc. and a $17 million gain on the sale of the Company s investment in Eidos plc. In addition, for the three and six months ended June 30, 2009, the Company recognized $8 million and $21 million, respectively, of miscellaneous investment losses.

Amounts Related to the Separation of TWC

For the three and six months ended June 30, 2010, the Company recognized $4 million and $7 million, respectively, of other loss 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.

For the three and six months ended June 30, 2009, the Company incurred pretax direct transaction costs, primarily legal and professional fees related to the separation of TWC, of $1 million and $6 million, respectively, which have been reflected in other income (loss), net in the accompanying consolidated statement of operations. In addition, for the three and six months ended June 30, 2009, the Company recognized $8 million of other income related to the increase in the estimated fair value of Time Warner equity awards held by TWC employees.

Costs Related to the Separation of AOL

During the three and six months ended June 30, 2009, the Company incurred costs related to the separation of AOL of $15 million, which have been recorded in other income (loss), net in the accompanying consolidated statement of operations. These costs were related to the solicitation of consents from debt holders to amend the indentures governing certain of the Company s debt securities.

Premium Paid and Transaction Costs Incurred on Debt Redemption

For the three and six months ended June 30, 2010, the Company recognized $14 million and $69 million, respectively, of premium paid and transaction costs incurred on the repurchase and redemption of the Company s 6.75% Notes due 2011, which were recorded in other income (loss), net in the accompanying consolidated statement of operations.

Table of Contents

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

Income Tax Impact and Tax Items Related to TWC

The income tax impact reflects the estimated tax provision or tax benefit associated with each item affecting comparability. Such estimated tax provisions or tax benefits vary based on certain factors, including the taxability or deductibility of the items and foreign tax on certain transactions. For the six months ended June 30, 2009, the Company also recognized approximately $24 million of tax benefits attributable to the impact of certain state tax law changes on TWC net deferred liabilities.

Noncontrolling Interest Impact

For the six months ended June 30, 2009, the noncontrolling interest impact of $5 million reflects the minority owner s share of the tax provision related to changes in certain state tax laws on TWC net deferred liabilities.

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			Six Months Ended		
	6/30/10	**6/30/09**	**% Change**	**6/30/10**	**6/30/09**	**% Change**
Subscription	$ 2,250	$ 2,092	8%	$ 4,462	$ 4,165	7%
Advertising	1,505	1,360	11%	2,697	2,465	9%
Content	2,485	2,305	8%	5,278	4,953	7%
Other	137	163	(16%)	262	333	(21%)
Total revenues	$ 6,377	$ 5,920	8%	$ 12,699	$ 11,916	7%

The increase in Subscription revenues for the three and six months ended June 30, 2010 was primarily related to an increase at the Networks segment. Advertising revenues increased for the three and six months ended June 30, 2010, primarily reflecting growth at the Networks and Publishing segments. The increase in Content revenues for the three and six months ended June 30, 2010 was due primarily to increases at the Filmed Entertainment and Networks segments.

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

Costs of Revenues. For the three months ended June 30, 2010 and 2009, costs of revenues totaled $3.599 billion and $3.334 billion, respectively, and, as a percentage of revenues, were 56% for both periods. For the six months ended June 30, 2010 and 2009, costs of revenues totaled $6.952 billion and $6.692 billion, respectively, and, as a percentage of revenues, were 55% and 56%, respectively. The segment variations are discussed in detail in Business Segment Results.

Selling, General and Administrative Expenses. For the three months ended June 30, 2010 and 2009, selling, general and administrative expenses increased 4% to $1.512 billion in 2010 from $1.459 billion in 2009, due to increases at the Filmed Entertainment and Networks segments, partially offset by a decrease at the Publishing segment. For the six months ended June 30, 2010 and 2009, selling, general and administrative expenses increased 1% to $3.000 billion in 2010 from $2.960 billion in 2009, due to increases at the Networks, Filmed Entertainment and Corporate segments, partially offset by a decrease at the Publishing segment. The segment variations are discussed in detail in Business Segment Results.

Included in costs of revenues and selling, general and administrative expenses is depreciation expense, which increased to $170 million and $334 million for the three and six months ended June 30, 2010, respectively, compared to $165 million and $330 million for the three and six months ended June 30, 2009, respectively.

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

Amortization Expense. Amortization expense was flat at $66 million for both the three months ended June 30, 2010 and 2009 and decreased to $134 million for the six months ended June 30, 2010 from $143 million for the six months ended June 30, 2009.

Restructuring Costs. For the three and six months ended June 30, 2010, the Company incurred restructuring costs of $6 million and $15 million, respectively, primarily related to various employee terminations and other exit activities, consisting of $3 million and $7 million, respectively, at the Filmed Entertainment segment and $3 million and $8 million, respectively, at the Publishing segment.

For the three and six months ended June 30, 2009, the Company incurred restructuring costs of $27 million and $63 million, respectively, primarily related to various employee terminations and other exit activities, consisting of $31 million and $68 million, respectively, at the Filmed Entertainment segment for the three and six months ended June 30, 2009 and reversals of $4 million and $5 million, respectively, at the Publishing segment for the three and six months ended June 30, 2009.

Operating Income. Operating Income increased to $1.194 billion for the three months ended June 30, 2010 from $1.001 billion for the three months ended June 30, 2009. Excluding the items previously noted under Significant Transactions and Other Items Affecting Comparability totaling $8 million and $40 million of expense for the three months ended June 30, 2010 and 2009, respectively, Operating Income increased $161 million, primarily reflecting increases at the Networks and Publishing segments.

Operating Income increased to $2.657 billion for the six months ended June 30, 2010 from $2.025 billion for the six months ended June 30, 2009. Excluding the items previously noted under Significant Transactions and Other Items Affecting Comparability totaling $40 million of income and $47 million of expense for the six months ended June 30, 2010 and 2009, respectively, Operating Income increased $545 million, primarily reflecting increases at the Networks, Publishing and Filmed Entertainment segments.

The segment variations are discussed under Business Segment Results.

Interest Expense, Net. For the three months ended June 30, 2010, interest expense, net, was essentially flat at $300 million compared to $297 million for the three months ended June 30, 2009 as higher average net debt was offset by lower rates. For the six months ended June 30, 2010, interest expense, net decreased to $596 million from $610 million for the six months ended June 30, 2009, primarily due to lower rates.

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

	Three Months Ended		Six Months Ended	
	6/30/10	**6/30/09**	**6/30/10**	**6/30/09**
Investment gains, net	$ 3	$ 37	$ -	$ 24
Amounts related to the separation of TWC	(4)	7	(7)	2
Costs related to the separation of AOL	-	(15)	-	(15)
Premium paid and transaction costs incurred on debt redemption	(14)	-	(69)	-
Loss from equity method investees	(3)	(2)	(3)	(12)
Other	1	(3)	9	3
Other income (loss), net	$ (17)	$ 24	$ (70)	$ 2

The changes in investment gains, net, amounts related to the separation of TWC, costs related to the separation of AOL and premium paid and transaction costs incurred on debt repurchase and redemption are discussed under Significant Transactions and Other Items Affecting Comparability.

Income Tax Provision. Income tax expense from continuing operations increased to $317 million and $706 million for the three and six months ended June 30, 2010, respectively, from $299 million and $526 million for the three and six months ended June 30, 2009, respectively. The Company s effective tax rate for continuing operations was 36% and 35%

8

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

for the three and six months ended June 30, 2010, respectively, compared to 41% and 37% for the three and six months ended June 30, 2009, respectively. The decrease for the three months ended June 30, 2010 was primarily due to lower interest on uncertain tax positions during the three months ended June 30, 2010 and the loss on the sale of the Warner Bros. Italian cinema assets for which no benefit was recognized during the three months ended June 30, 2009. The decrease for the six months ended June 30, 2010 also reflected the tax benefits related to TWC, as previously discussed, during the six months ended June 30, 2009, partially offset by the benefit of valuation allowance releases during the six months ended June 30, 2010.

Income from Continuing Operations. Income from continuing operations increased to $560 million for the three months ended June 30, 2010 from $429 million for the three months ended June 30, 2009. Excluding the items previously noted under Significant Transactions and Other Items Affecting Comparability totaling $18 million and $14 million of expense, net for the three months ended June 30, 2010 and 2009, respectively, income from continuing operations increased by $135 million, primarily reflecting higher Operating Income. Basic and diluted income per common share from continuing operations attributable to Time Warner Inc. common shareholders were both $0.49 for the three months ended June 30, 2010 compared to $0.36 for both for the three months ended June 30, 2009.

Income from continuing operations increased to $1.285 billion for the six months ended June 30, 2010 from $891 million for the six months ended June 30, 2009. Excluding the items previously noted under Significant Transactions and Other Items Affecting Comparability totaling $8 million and $9 million of expense, net for the six months ended June 30, 2010 and 2009, respectively, income from continuing operations increased by $393 million, primarily reflecting higher Operating Income, partially offset by higher income tax expense. Basic and diluted income per common share from continuing operations attributable to Time Warner Inc. common shareholders were $1.12 and $1.11, respectively, for the six months ended June 30, 2010 compared to $0.75 for both for the six months ended June 30, 2009.

Discontinued Operations, Net of Tax. The financial results for the three and six months ended June 30, 2009 included the impact of treating the results of operations and financial condition of AOL Inc. (AOL) as discontinued operations, and for the six months ended June 30, 2009 included the impact of treating the results of operations and financial condition of TWC as discontinued operations. Discontinued operations, net of tax was income of $100 million and $326 million for the three and six months ended June 30, 2009, respectively. Discontinued operations, net of tax for the three and six months ended June 30, 2009 included AOL s results for the period January 1, 2009 through June 30, 2009 and for the six months ended June 30, 2009 included TWC s results for the period from January 1, 2009 through March 12, 2009. For additional information, see Note 2 to the accompanying consolidated financial statements.

Net Income (Loss) Attributable to Noncontrolling Interests. For both the three and six months ended June 30, 2010, net loss attributable to noncontrolling interests was $2 million. For the three and six months ended June 30, 2009, net income attributable to noncontrolling interests was $5 million and $33 million, respectively.

Net Income Attributable to Time Warner Inc. Shareholders. Net income attributable to Time Warner Inc. shareholders was $562 million and $524 million for the three months ended June 30, 2010 and 2009, respectively. Basic and diluted net income per common share attributable to Time Warner Inc. common shareholders were both $0.49 for the three months ended June 30, 2010 compared to $0.44 and $0.43, respectively, for the three months ended June 30, 2009.

Net income attributable to Time Warner Inc. shareholders was $1.287 billion and $1.184 billion for the six months ended June 30, 2010 and 2009, respectively. Basic and diluted net income per common share attributable to Time Warner Inc. common shareholders were $1.12 and $1.11, respectively, for the six months ended June 30, 2010 compared to $0.99 and $0.98, respectively, for the six months ended June 30, 2009.

Table of Contents

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

Business Segment Results

Networks. Revenues and Operating Income of the Networks segment for the three and six months ended June 30, 2010 and 2009 are as follows (millions):

	Three Months Ended			Six Months Ended		
	6/30/10	6/30/09	% Change	6/30/10	6/30/09	% Change
Revenues:						
Subscription	$ 1,916	$ 1,763	9%	$ 3,804	$ 3,520	8%
Advertising	1,002	876	14%	1,792	1,599	12%
Content	218	198	10%	470	404	16%
Other	34	18	89%	62	38	63%
Total revenues	3,170	2,855	11%	6,128	5,561	10%
Costs of revenues[a]	(1,534)	(1,425)	8%	(2,768)	(2,638)	5%
Selling, general and administrative[a]	(556)	(480)	16%	(1,047)	(943)	11%
Gain on operating assets	-	-	-	59	-	NM
Depreciation	(88)	(83)	6%	(172)	(167)	3%
Amortization	(11)	(9)	22%	(18)	(19)	(5%)
Operating Income	$ 981	$ 858	14%	$ 2,182	$ 1,794	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, 2010 was comprised of an increase in domestic subscription revenues of $107 million and $191 million, respectively, mainly due to higher domestic subscription rates and an increase in international subscription revenues of $46 million and $93 million, respectively, primarily due to international growth, including the consolidation of HBO CE and the favorable impact of foreign exchange rates.

The increase in Advertising revenues for the three and six months ended June 30, 2010 was due to growth at Turner s domestic networks of $67 million and $104 million, respectively, mainly as a result of strong scatter demand and yield management, which was partially offset by audience declines as well as growth at its international networks of $59 million and $89 million, respectively, mainly due to increased demand and expansion.

The increase in Content revenues for the three and six months ended June 30, 2010 was due primarily to higher sales of HBO s original programming of $15 million and $35 million, respectively, which for the six months ended June 30, 2010 included the domestic basic cable television sale of *Entourage* as well as higher international licensing revenues.

For the three and six months ended June 30, 2010, Costs of revenues increased 8% and 5%, respectively, and as a percentage of revenues were 48% and 45% for the three and six months ended June 30, 2010, respectively, compared to 50% and 47% for the three and six months ended June 30, 2009, respectively. For the three months ended June 30, 2010, programming costs increased 8% to $1.200 billion from $1.115 billion for the three months ended June 30, 2009, and, for the six months ended June 30, 2010, increased 3% to $2.080 billion from $2.015 billion for the six months ended June 30, 2009. The increase in programming costs for the three and six months ended June 30, 2010 was due primarily to higher original programming costs, and, for the three months ended June 30, 2010, higher licensed programming costs. The increases in Costs of revenues for the three and six months ended June 30, 2010 also reflected higher operating costs of $24 million and $65 million, respectively, primarily related to international expansion.

For the three and six months ended June 30, 2010, selling, general and administrative expenses increased due primarily to an increase in marketing expenses, merit-based increases in compensation, higher overhead expenses and the unfavorable effect of foreign exchange rates.

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

As previously noted under Significant Transactions and Other Items Affecting Comparability, the results for the six months ended June 30, 2010 included a $59 million gain that was recognized upon the acquisition of the controlling interest in HBO CE, reflecting the excess of the fair value over the Company s carrying costs of its original investment in HBO CE.

Operating Income for the three and six months ended June 30, 2010 increased primarily due to the increase in revenues, partially offset by higher costs of revenues and selling, general and administrative expenses. Operating Income for the six months ended June 30, 2010 also benefited from the $59 million gain relating to HBO CE.

Filmed Entertainment. Revenues and Operating Income of the Filmed Entertainment segment for the three and six months ended June 30, 2010 and 2009 are as follows (millions):

	Three Months Ended			Six Months Ended		
	6/30/10	6/30/09	% Change	6/30/10	6/30/09	% Change
Revenues:						
Subscription	$ 13	$ 10	30%	$ 25	$ 19	32%
Advertising	17	20	(15%)	30	34	(12%)
Content	2,459	2,257	9%	5,100	4,810	6%
Other	27	46	(41%)	55	103	(47%)
Total revenues	2,516	2,333	8%	5,210	4,966	5%
Costs of revenues[a]	(1,839)	(1,638)	12%	(3,708)	(3,517)	5%
Selling, general and administrative[a]	(411)	(401)	2%	(834)	(810)	3%
Loss on operating assets	-	(33)	(100%)	-	(33)	(100%)
Restructuring costs	(3)	(31)	(90%)	(7)	(68)	(90%)
Depreciation	(45)	(41)	10%	(87)	(81)	7%
Amortization	(45)	(46)	(2%)	(94)	(100)	(6%)
Operating Income	$ 173	$ 143	21%	$ 480	$ 357	34%

[a] Costs of revenues and selling, general and administrative expenses exclude depreciation.

Table of Contents

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

Content 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 Content revenues for the three and six months ended June 30, 2010 and 2009 are as follows (millions):

	Three Months Ended			Six Months Ended		
	6/30/10	**6/30/09**	**% Change**	**6/30/10**	**6/30/09**	**% Change**
Theatrical product:						
Theatrical film	$ 470	$ 385	22%	$ 967	$ 871	11%
Home video and electronic delivery	550	581	(5%)	1,246	1,058	18%
Television licensing	389	349	11%	799	731	9%
Consumer products and other	31	16	94%	48		