

TIME WARNER INC.  
Form 10-K  
February 23, 2017  
Table of Contents

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

**Form 10-K**

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)**  
**OF THE SECURITIES EXCHANGE ACT OF 1934**  
**For the fiscal year ended December 31, 2016**  
**Commission file number 001-15062**

**TIME WARNER INC.**

*(Exact name of Registrant as specified in its charter)*

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

**13-4099534**  
*(I.R.S. Employer  
Identification No.)*

**One Time Warner Center**

**New York, NY 10019-8016**

*(Address of Principal Executive Offices)(Zip Code)*

**(212) 484-8000**

**Securities registered pursuant to Section 12(b) of the Act:**

<b>Title of each class</b>	<b>Name of each exchange on which registered</b>
Common Stock, \$.01 par value	New York Stock Exchange
1.95% Notes due 2023	New York Stock Exchange

**Securities registered pursuant to Section 12(g) of the Act:**

**None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  
Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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, and (2) has been subject to such filing requirements for the past 90 days. Yes  No

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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.

Large accelerated filer   
Non-accelerated filer

Accelerated filer   
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

As of the close of business on February 17, 2017, there were 774,334,281 shares of the registrant's Common Stock outstanding. The aggregate market value of the registrant's voting and non-voting common equity securities held by non-affiliates of the registrant (based upon the closing price of such shares on the New York Stock Exchange on June 30, 2016) was approximately \$56.86 billion.

**Documents Incorporated by Reference:**

<b>Description of document</b>	<b>Part of the Form 10-K</b>
Portions of the definitive Proxy Statement to be used in connection with the registrant's 2017 Annual Meeting of Stockholders	Part III (Item 10 through Item 14)  (Portions of Items 10 and 12 are not incorporated by reference and are provided herein)

---

**Table of Contents**

**PART I**

**Item 1. *Business.***

Time Warner Inc. (the *Company* or *Time Warner* ), a Delaware corporation, is a leading media and entertainment company. The *Company* classifies its businesses into the following three reportable segments:

Turner, consisting principally of cable networks and digital media properties;

Home Box Office, consisting principally of premium pay television and OTT services (as defined below) domestically and premium pay, basic tier television and OTT services internationally; and

Warner Bros., consisting principally of television, feature film, home video and videogame production and distribution.

For more information about the *Company*'s reportable segments, see *Management's Discussion and Analysis of Results of Operations and Financial Condition* Overview.

As used in this report, the term *affiliates* refers to distributors that deliver packages of networks to their subscribers, including cable system operators, satellite service distributors and telephone companies ( *traditional affiliates* ) and virtual multichannel video programming distributors ( *virtual MVPDs* ); and the term *OTT services* refers to services that deliver video content to consumers over the Internet and includes subscription video-on-demand ( *SVOD* ) services and advertising-supported VOD ( *AVOD* ) services such as social media platforms and user-generated content digital platforms, but does not include virtual MVPDs.

On October 22, 2016, Time Warner entered into an Agreement and Plan of Merger (the *Merger Agreement* ) with AT&T Inc. ( *AT&T* ), West Merger Sub, Inc. and West Merger Sub II, LLC, pursuant to which Time Warner will combine with AT&T in a stock-and-cash transaction. The *Merger Agreement* has been approved unanimously by the boards of directors of both companies. Time Warner shareholders adopted the *Merger Agreement* at a special meeting of shareholders held on February 15, 2017. Subject to the satisfaction of the remaining conditions in the *Merger Agreement*, upon consummation of the merger, Time Warner's shareholders will receive per share consideration consisting of \$53.75 in cash and a specified number of shares of AT&T stock, as set forth in the *Merger Agreement* and determined by reference to the average of the volume weighted averages of the trading price of AT&T common stock on the New York Stock Exchange ( *NYSE* ) on each of the 15 consecutive NYSE trading days ending on and including the trading day that is three trading days prior to the closing of the merger (the *Average Stock Price* ). The stock portion of the per share consideration will be subject to a collar such that if the *Average Stock Price* is between \$37.411 and \$41.349, Time Warner shareholders will receive shares of AT&T stock equal to \$53.75 in value for each share of Time Warner common stock. If the *Average Stock Price* is below \$37.411, Time Warner's shareholders will receive 1.437 AT&T shares for each share of Time Warner common stock. If the *Average Stock Price* is above \$41.349, Time Warner shareholders will receive 1.300 AT&T shares for each share of Time Warner common stock. The merger is conditioned on the receipt of certain antitrust and other required regulatory consents. The merger is expected to close before year-end 2017.

Time Warner's business is focused on the production and distribution of high-quality video content to take advantage of growing global demand. Time Warner's businesses work together to leverage their strong brands, distinctive

intellectual property and global scale to produce and distribute content that resonates deeply with consumers. As the television industry continues to evolve, with developments in technology, rapid growth of new video services and shifting consumer viewing habits, Time Warner is well-positioned to address and capitalize on these changes. Accordingly, the Company is focused on both strengthening its position within the traditional TV ecosystem and pursuing growth opportunities outside the ecosystem, including increasing the content and services offered directly to consumers.

Within the traditional TV ecosystem, the Company is a leader in improving the value of traditional multichannel video service subscriptions for consumers and affiliates. The Company is continuing to increase its investment in high-quality distinctive programming, make more of its content available on-demand and on a growing variety of devices and invest in technology to enhance the consumer experience. To make television advertising on Turner's networks more attractive and valuable to advertisers and more relevant to consumers, Turner is pursuing a number of initiatives, including developing new advertising offerings that use data and analytics to enable advertisers to better reach their target audiences and improve their ability to measure the effectiveness of their advertisements.

---

**Table of Contents**

The Company is also capitalizing on growth opportunities outside the traditional TV ecosystem by increasing its investments in new digital products and technologies, including launching OTT services, as well as investing in and obtaining distribution of its content through other companies' OTT services. To support this effort, Time Warner is investing in content that will appeal to consumers who view it in a multi-platform, on-demand environment and building technological capabilities, such as in data analytics, video transport and digital product management. In addition, the Company is focused on increasing the digital sales and rentals of its film and television content and is a leader in various initiatives designed to make digital ownership of content more compelling for consumers.

The merger with AT&T is consistent with the Company's strategy of ensuring that its content is available to consumers on a wide range of distribution platforms. The Company expects the merger will accelerate the Company's efforts to spur innovation in the media industry and improve the consumer experience in pay television bundles by creating compelling consumer offerings and developing more targeted advertising offerings, and it will accelerate and reduce the risk in Time Warner's strategy to distribute content through other online and mobile services, including those offered directly to consumers.

At December 31, 2016, the Company had a total of approximately 25,000 employees.

For convenience, the terms the Company, Time Warner and the Registrant are used in this report to refer to both the parent company alone and collectively to the parent company and the subsidiaries through which its various businesses are conducted, unless the context requires otherwise. In addition, the term Home Box Office is used to refer to Home Box Office, Inc., a subsidiary of Time Warner, the term Turner is used to refer to Turner Broadcasting System, Inc., a subsidiary of Time Warner, and the term Warner Bros. is used to refer to Warner Bros. Entertainment Inc., a subsidiary of Time Warner.

***Caution Concerning Forward-Looking Statements and Risk Factors***

This report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are based on management's current expectations and beliefs. As with any projection or forecast, forward-looking statements are inherently susceptible to uncertainty and changes in circumstances, and the Company is under no obligation to, and expressly disclaims any such obligation to, update or alter its forward-looking statements, whether as a result of new information, future events or otherwise. Time Warner's actual results may vary materially from those expressed or implied by the statements in this report due to changes in economic, business, competitive, technological, strategic and/or regulatory factors and other factors affecting the operation of Time Warner's businesses. For more detailed information about these factors and risk factors with respect to the Company's operations, see Item 1A, Risk Factors, and Management's Discussion and Analysis of Results of Operations and Financial Condition Caution Concerning Forward-Looking Statements.

***Available Information and Website***

The Company's annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments to such reports filed with or furnished to the Securities and Exchange Commission (the SEC) pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the Exchange Act), are available free of charge on the Company's website at [www.timewarner.com](http://www.timewarner.com) as soon as reasonably practicable after such reports are electronically filed with or furnished to the SEC. The Company is providing the address to its website solely for the information of investors. The Company does not intend the address to be an active link or to incorporate any information included on or accessible through its website into this report.

**TURNER**

Turner creates and programs branded news, entertainment, sports and kids multi-platform content for consumers around the world. Turner operates more than 175 channels globally. In the U.S., its networks and related businesses and brands include TNT, TBS, Adult Swim, truTV, Turner Classic Movies, Turner Sports, Bleacher Report, the NBA and NCAA digital properties, Cartoon Network, Boomerang, CNN, the CNN digital network, HLN and iStreamPlanet. Outside the U.S., Turner's portfolio of brands and digital businesses reaches consumers in more than 200 countries and territories.

---

**Table of Contents**

Turner's programming is primarily distributed by affiliates and is available to subscribers of the affiliates for viewing live and on demand on television and on various Internet-connected devices through the affiliates' services and Turner's network apps. Turner is also pursuing non-traditional distribution options for its programming. In November 2016, Turner launched its first domestic SVOD service, FilmStruck, aimed at arthouse film enthusiasts. Some of Turner's programming is also available on other companies' OTT services.

Turner's digital properties consist of its own digital properties and those it manages and/or operates for sports leagues where Turner holds the related programming rights. Turner's CNN digital network is the leading digital news destination, based on the number of average monthly domestic multi-platform unique visitors for the year ended December 31, 2016, and Turner's Bleacher Report was the leading digital sports destination across Facebook, Instagram and Twitter for the year ended December 31, 2016 (based on data sourced from CrowdTangle). Turner's other digital properties include its apps for CNN, TBS, TNT, Adult Swim and Cartoon Network, which enable viewers who subscribe to those networks through an affiliate to view the network programming live and on demand through the apps, as well as *tntdrama.com*, *TBS.com*, *adultswim.com* and *cartoonnetwork.com*. Digital properties Turner manages and/or operates for sports leagues include *NBA.com*, the *NBA* app, *NCAA.com*, the *NCAA March Madness Live* app and *PGA.com*.

Turner continues to focus on improving the value of traditional multichannel video service subscriptions for consumers and affiliates and enhancing the value of television advertising for advertisers. It is strengthening the programming on its cable networks by increasing its investment in high-quality original programming, modifying the mix of programming on its networks to increase the amount of original programming and re-branding some of its networks. In 2016, Turner launched rebrands of TNT and TBS, shifting its programming toward high-quality distinctive original series that are aimed at engaging younger audiences across multiple viewing platforms. In addition, over the past several years, Turner has broadened the scope of CNN's programming to include compelling storytelling about important events, people and places through original programming, long-form documentaries and films and has strengthened the programming at truTV, where it has rebranded the network to focus on comedy-driven reality and scripted series aimed at young adults. Turner also is continuing to expand the amount of its programming available on demand to its affiliates' subscribers, including complete current seasons of programming from Turner's networks. As part of its efforts to deliver more value to advertisers and improve the consumer experience, Turner continues to support industry efforts to improve the measurement of viewing and audience engagement across all platforms and is offering new data- and analytics-driven advertising products to enable advertisers to better reach their target audiences and measure the effectiveness of their advertisements, while making advertisements more relevant to consumers. In addition, in 2016, Turner began reducing the advertising loads on primetime original programs on truTV and on certain new original series on TNT.

Turner is also increasing its investments in new digital technology and products and different types of content to capitalize on growth opportunities outside the traditional TV ecosystem. To improve its digital streaming capabilities, in 2015, Turner acquired a majority ownership interest in iStreamPlanet Co., LLC (iStreamPlanet), a provider of streaming and cloud-based video and technology services that specializes in streaming large scale, live sporting events. In November 2016, Turner launched its first domestic SVOD service, FilmStruck, which offers contemporary and classic arthouse, independent and foreign films and related content. Turner is also developing content for distribution outside the traditional television ecosystem. These initiatives include Great Big Story, an independent storytelling brand that creates original digital content aimed at urban millennial audiences and is distributed via social media platforms, and Super Deluxe, a comedy-focused digital production studio that produces content for its own audiences on social media platforms, as well as other programming distributors and sponsors. Turner is also increasingly investing in programming for its networks that will engage audiences across multiple platforms.



Turner is continuing to increase its scale and strengthen its competitive position internationally through strategic regional channel launches, partnerships and acquisitions in key territories, and it is placing greater emphasis on creating local programming to strengthen its brands internationally.

## **Entertainment**

### *Domestic Entertainment*

Turner's domestic entertainment networks collectively provide a blend of original series, acquired series and movies, sports and reality programming. For the year ended December 31, 2016, Turner's TBS, TNT and Adult Swim were three of

---

**Table of Contents**

the top five primetime advertising-supported cable networks among adults 18-49 in the U.S., and Adult Swim was the top advertising-supported cable network in total day among adults 18-34 in the U.S. In 2016, Adult Swim received three Primetime Emmy Awards. Turner has been increasing the amount of original programming on TNT and TBS, and it plans to continue to do so over the next several years. Ownership of a larger portion of its content provides Turner the flexibility to offer consumers access to more of its content through on demand platforms and take advantage of increasing licensing opportunities both domestically and internationally. In addition, Turner has made significant investments in premium sports programming and motion pictures that air on its entertainment networks, including licensing the cable network television rights to popular films from franchises such as Warner Bros. franchise films based on DC Entertainment characters and the *Star Wars*, *Marvel Comics* and *The Hunger Games* film franchises, all of which will air exclusively on TBS and TNT. As described above, Turner began reducing the advertising loads for certain programs on truTV and TNT in 2016.

***TNT***

TNT is focused on distinctive dramas and is home to syndicated series and a growing roster of original series, as well as sports and network premiere motion pictures. As of December 2016, TNT reached 91.0 million domestic television households as reported by Nielsen Media Research (Nielsen). For the 2016-2017 season, TNT's returning original series include *The Last Ship*, *The Librarians* and *Major Crimes*, and its new original series include *Animal Kingdom* and *Good Behavior*. For the 2016-2017 season, TNT's syndicated series include *Bones*, *Castle*, *Charmed*, *Grimm* and *Supernatural*. The network's upcoming slate includes several new original dramas, including *The Alienist*, *Claws* and *Will*, many of which are co-produced and co-owned by Turner. TNT and TBS are home to the *Screen Actors Guild Awards*, and TNT, TBS and truTV are home to the *iHeartRadio Music Awards*.

***TBS***

TBS is focused on fresh comedies aimed at a younger audience, with a growing roster of original series, as well as sports and acquired television series and movies. As of December 2016, TBS reached 92.5 million domestic television households as reported by Nielsen. For the 2016-2017 season, TBS's returning original series include *American Dad*, *Angie Tribeca*, *The Detour* and *Wrecked*, and its new original series include *The Guest Book*, *People of Earth* and *Search Party*. Syndicated series for the 2016-2017 season include *2 Broke Girls*, *The Big Bang Theory*, *Family Guy*, *Friends*, *New Girl* and *Seinfeld*. TBS is also the home of the late night talk shows *Conan* and *Full Frontal with Samantha Bee*.

***Adult Swim***

Adult Swim is an evening and overnight block of programming airing on Turner's Cartoon Network. As of December 2016, Adult Swim reached 91.6 million domestic television households as reported by Nielsen. Adult Swim is aimed at millennial audiences and offers original and syndicated animated and live-action comedy programming. For the 2016-2017 season, Adult Swim's original series include *Black Jesus*, *Check It Out with Dr. Steve Brule*, *Dream Corp, LLC.*, *The Eric Andre Show*, *Infomercials*, *Mike Tyson Mysteries*, *Mr. Pickles*, *Rick & Morty*, *Robot Chicken*, *Samurai Jack*, *Squidbillies*, *Your Pretty Face is Going to Hell* and *The Venture Bros.*

***truTV***

truTV focuses on comedy-driven reality and scripted series aimed at young adult audiences with the tag line "Funny because it's tru." As of December 2016, truTV reached 87.6 million domestic television households as reported by Nielsen. For the 2016-2017 season, truTV's returning original series include *Adam Ruins Everything*, *Billy on the Street*, *The Carbonaro Effect*, *Fameless*, *Hack My Life*, *Impractical Jokers* and its first scripted series (*Those Who*

*Can't*), and its new original series include *Greater Ever*, *I'm Sorry*, *Jon Glaser Loves Gear*, *Talk Show the Game Show* and *Upscale with Prentice Penny*.

*Turner Classic Movies*

Turner Classic Movies is a commercial-free network that presents classic films from some of the largest film libraries in the world. Turner Classic Movies also offers interviews, original documentaries, specials and regular programming events that include *The Essentials*, *31 Days of Oscar* and *Summer Under the Stars*.

---

## **Table of Contents**

### *International Entertainment*

Outside the U.S., Turner owns and/or operates regional entertainment networks providing a variety of programming, such as motion pictures and series, documentaries, fashion and lifestyle content, music videos, sports and travel. In Latin America, Turner is the number one provider of multichannel television in the region and owns and operates regional entertainment networks, including Glitz\*, HTV, I-Sat, MuchMusic, Space, TBS, TCM, TNT, TNT Serie, truTV and Warner TV. Turner also owns and operates Chilevisión, a free-to-air television broadcaster in Chile, and Esporte Interativo, a Brazilian linear television channel and OTT service that airs sports programming, including programming from South American and European soccer leagues. Turner also operates several regional entertainment networks in Europe and the Middle East, including TCM, TNT, TNT Comedy, TNT Serie, TNT Film and truTV. In Asia, Turner operates several regional entertainment networks, including Oh!K, TCM and Warner TV in Hong Kong, HBO South Asia and WarnerTV in India, Oh!K, TCM, truTV and Warner TV in Indonesia and Singapore, and MondoTV and Tabi Channel in Japan.

### **Sports**

Turner Sports produces award-winning sports programming and content for Turner's TNT, TBS and truTV networks and related digital properties. Turner's sports programming helps drive value across its networks in the form of higher affiliate fees, ratings and advertising rates as well as more promotional opportunities.

Turner's sports programming features licensed programming from the National Basketball Association (NBA) through the 2024-2025 season, Major League Baseball (MLB) through 2021, The National Collegiate Athletic Association (the NCAA) for the Men's Division I Basketball Tournament through 2032, and the Professional Golfers' Association (PGA) through 2019. NBA games and PGA tournaments air on the TNT network, and MLB games air on the TBS network. TNT airs the studio program *Inside the NBA* and the reality competition series, *The Dunk King*. Turner also operates NBA TV, an advertising-supported cable network owned by the NBA, featuring NBA exhibition, regular season and playoff games and related programming. The NCAA Men's Division I Basketball Tournament games air on the TNT, TBS and truTV networks and on the CBS network under an agreement among Turner, CBS Broadcasting, Inc. and the NCAA. In 2016, Turner's networks carried the NCAA Final Four semifinal games and championship game and, after 2016, Turner's networks and CBS will carry the NCAA Final Four semifinal games and championship game in alternate years. Turner also has partnered with WME|IMG to form ELEAGUE, a multiplayer competitive videogaming league. Live coverage of ELEAGUE gaming events and a weekly showcase program airs on TBS and live coverage of the events and related on-demand programming are also available through the Twitch OTT platform.

Bleacher Report is a leading digital sports property that provides team-specific sports content and real-time event coverage and provides Turner with cross-platform programming and marketing opportunities. For the year ended December 31, 2016, Bleacher Report's Team Stream app was the most engaging sports app, with 147.5 average monthly minutes spent per visitor (based on data sourced from comScore Mobile Metrix). Turner also manages and operates *NCAA.com*, the *NCAA March Madness Live* app, which provides live and on-demand streaming video of games, *NBA.com* and the *NBA* app, which provide live streaming of games, and *PGA.com*.

### **Kids**

Cartoon Network and Boomerang offer original, acquired and classic animated and live-action entertainment aimed at kids in the U.S. and international territories. Turner has been focused on significantly expanding its global kids business, increasing its collaboration with Warner Bros. on television programming based on Warner Bros. and DC Entertainment's brands and characters and growing its consumer products business. The collaboration with Warner Bros. is intended to drive the success of Cartoon Network and Boomerang and foster broader global exposure for

Warner Bros. existing brands and franchises while also helping launch new long-term franchises and increase consumer product sales. Warner Bros. is producing original animated programming based on its characters and brands for Cartoon Network and Boomerang, and Turner and Warner Bros. are jointly producing original animated programming such as *Be Cool Scooby Doo*, *New Looney Tunes* and *The Tom and Jerry Show*. Turner and Warner Bros. are also producing and distributing content for DC Super Hero Girls, a franchise centered on iconic female *DC Entertainment* characters.

---

## **Table of Contents**

### *Cartoon Network*

Cartoon Network offers original and syndicated animated and live-action series and motion pictures for youth and families. As of December 2016, Cartoon Network reached 91.6 million domestic television households as reported by Nielsen. For the 2016-2017 season, Cartoon Network's original animated series include Warner Bros. *Be Cool, Scooby Doo*, *Justice League Action* and *Teen Titans Go!*, as well as *Adventure Time*, *The Amazing World of Gumball*, *Clarence*, *Mighty Magiswords*, *The Powerpuff Girls*, *Steven Universe*, *Uncle Grandpa* and *We Bare Bears*.

### *Boomerang*

Boomerang offers exclusive new original content from Warner Bros., as well as classic animated entertainment from the Warner Bros., Hanna-Barbera, MGM and Cartoon Network libraries, such as *The Flintstones*, *The Jetsons*, *Pink Panther*, *Tom and Jerry* and *Yogi Bear*. For the 2016-2017 season, Boomerang is offering exclusive new original series, such as *Bunnicula*, *New Looney Tunes* and *The Tom and Jerry Show* from Warner Bros., as well as *Inspector Gadget* and *Mr. Bean*.

Turner's kids business is a key part of its international operations, and Cartoon Network is the number one kids network in several territories outside the U.S., including Australia, Brazil, Chile, Colombia, Italy, Mexico, South Africa and the Philippines. In addition to Cartoon Network and Boomerang, Turner's kids networks outside the U.S. include Tooncast in Latin America, BOING and Cartoonito in Europe and the Middle East, and POGO and Toonami in Asia.

## **News**

### *CNN*

CNN is the original cable television news service. As of December 2016, CNN reached 92.3 million domestic television households as reported by Nielsen. As of December 31, 2016, CNN managed 39 news bureaus and editorial operations, 29 of which are located outside the U.S. Turner is focused on maintaining CNN's leadership in worldwide breaking-news, investigative and political coverage while continuing to broaden the scope of its programming, including by increasing the number of original series and films, mini-series and documentaries. In 2016, CNN received seven Emmy Awards. For the 2016-2017 season, CNN's news programs include *Anderson Cooper 360*, *CNN Tonight with Don Lemon*, *Erin Burnett OutFront*, *New Day* and *The Situation Room with Wolf Blitzer*. CNN's original series for the 2016-2017 season include *Anthony Bourdain: Parts Unknown*, *Believer with Reza Aslan*, *Declassified: Untold Stories of American Spies*, *Finding Jesus*, *The History of Comedy*, *Morgan Spurlock Inside Man*, *This is Life with Lisa Ling* and *United Shades of America with W. Kamau Bell*. For the 2016-2017 season, CNN has aired films and mini-series including *9/11 Fifteen Years Later*, *The End: Inside the Last Days of the Obama White House* and *We Will Rise: Michelle Obama's Mission to Educate Girls Around the World*. CNN is also focused on expanding its leading digital presence by developing mobile products, increasing the amount of original short form video content it offers through digital platforms, including through its independent storytelling brand Great Big Story, and growing its digital presence in several brand extensions, including personal finance (CNN Money) and political news (CNN Politics).

Internationally, CNN reaches approximately 300 million households outside the U.S. as of December 31, 2016. CNN Worldwide is a portfolio of more than 20 news and information services across cable, satellite, radio, wireless devices and the Internet in more than 200 countries and territories as of December 31, 2016. CNN Worldwide's networks and businesses include CNN U.S., CNN International, CNN en Español, CNNj, CNN.com, CNN Airport Network, CNN Radio, CNN Newsource and HLN.

*HLN*

HLN is a CNN Worldwide network that focuses on news, information, videos and talk shows. For the 2016-2017 season, HLN's programs include *How It Really Happened with Hill Harper*, *Michaela*, *Morning Express with Robin Meade*, *On the Story with Erica Hill* and *Primetime Justice with Ashleigh Banfield*.

---

**Table of Contents**

**How Turner Generates Revenues**

Turner generates revenues principally from licensing programming to affiliates that have contracted to receive and distribute the programming to subscribers, the sale of advertising on its networks and the digital properties it owns or manages for other companies, and the license of its original programming and its brands and characters for consumer products and other business ventures. Turner's license agreements with its affiliates are typically multi-year arrangements that provide for annual service fee increases and have fee arrangements that are generally related to the number of subscribers served by the affiliate, the package of programming provided to the affiliate by each network and the competitive environment. Turner's advertising revenues are generated from a wide variety of advertiser categories, and the advertising arrangements for its networks generally have terms of one year or less. In the U.S., the advertising revenues generated by Turner are a function of the size and demographics of the audience delivered, the number of units of time sold and the price per unit. Turner sells some of its advertising inventory in the upfront market in advance each year and other inventory in the scatter market closer to the time a program airs. Outside the U.S., advertising is generally sold at a fixed rate for the unit of time sold, determined by the time of day and network.

**HOME BOX OFFICE**

Home Box Office owns and operates leading multichannel premium pay television services, HBO and Cinemax. Its businesses consist principally of premium pay television and OTT services domestically and premium pay, basic tier television and OTT services internationally, as well as home entertainment and content licensing. Home Box Office is a leader in offering high-quality programming, and it continues to invest in a diverse roster of programming and make its programming available to consumers on a variety of devices and platforms to enhance the appeal of its products and services.

In the U.S., Home Box Office's programming and services are distributed in several different ways. HBO and Cinemax programming is available to subscribers of traditional affiliates for viewing live and on demand on television and various Internet-connected devices. In addition, to reach households that do not subscribe to multichannel video services provided by traditional affiliates (traditional MVPD services), Home Box Office operates HBO NOW, a domestic stand-alone OTT service that is distributed by digital distributors, such as Apple, Google, Amazon and Roku, as well as by some affiliates. Home Box Office has also entered into arrangements with a number of digital distributors to provide their subscribers access to HBO and Cinemax services and programming on a variety of digital platforms and devices, and continues to explore additional distribution platforms while investing in technology to add features and enhance the overall consumer experience on its OTT services. Home Box Office also sells its original programming in both physical and digital formats and licenses some of its library programming to the Amazon Prime SVOD service.

Internationally, Home Box Office tailors the distribution of its programming for each territory using one or more of the following distribution models: premium pay and basic tier television services distributed by traditional affiliates, licensing of programming to third-party providers, OTT services distributed by third parties and direct-to-consumer OTT services. HBO- and Cinemax-branded premium pay, basic tier television and OTT services are distributed in over 60 countries in Latin America, Europe and Asia. Home Box Office's original programming is also available to consumers in over 150 countries, both via licenses to international television networks and OTT services and through sales of programming in physical and digital formats.

**Home Box Office Programming**

*Domestic Original Programming*



Home Box Office continues to invest in high-quality original programming for HBO and Cinemax.

HBO's original programming features award-winning and critically acclaimed dramatic and comedy series, such as *Game of Thrones*, *Girls*, *Silicon Valley*, *Veep* and *Westworld*, as well as talk shows and political satire, such as *Last Week Tonight with John Oliver* and *Real Time with Bill Maher*, HBO films, such as *All The Way* and *Confirmation*, mini-series, such as *The Night Of*, boxing matches and other sports programming, documentaries, such as *A Girl in the River: The Price of Forgiveness* and *Everything is Copy*, and comedy and music specials. The quality and diversity of HBO's original

---

## **Table of Contents**

programming differentiates HBO from other premium pay television services, basic television networks and OTT services, while enhancing the value of the HBO brand both domestically and internationally. This programming also continues to build the value of Home Box Office's content library while increasing the value of HBO across its businesses.

Home Box Office continues to expand HBO's roster of original series. In 2016, Home Box Office premiered seven new series: *Animals.*, *Divorce*, *High Maintenance*, *Insecure*, *VICE News Tonight*, *Vice Principals* and *Westworld*. In 2017, Home Box Office has premiered *The Young Pope* (a limited series starring Jude Law and Diane Keaton) and *Big Little Lies* (a limited series starring Reese Witherspoon, Nicole Kidman and Shailene Woodley) and plans to premiere additional new series, including *The Deuce* (starring James Franco and Maggie Gyllenhaal). Home Box Office has also worked closely with Warner Bros. on original programming such as *Westworld* and *The Leftovers*.

In 2016, Home Box Office received 22 Primetime Emmy Awards, the most of any network for the 15th year in a row, with *Game of Thrones* winning 12 awards. In 2016, Home Box Office also won the Academy Award for Best Documentary Short (*A Girl in the River: the Price of Forgiveness*), a Golden Globe Award (*Show Me a Hero*), six George Foster Peabody Awards, five Sports Emmy Awards and three News & Documentary Emmy Awards.

Cinemax's original primetime series in 2016 included *Banshee*, *Outcast* and *Quarry*.

### *Domestic Licensed Programming*

Domestically, a significant portion of the programming on HBO and Cinemax consists of uncut and uncensored feature films, including recently-released feature films. Home Box Office has long-term licensing agreements with major film studios and independent producers and distributors, including Warner Bros., Twentieth Century Fox (Fox), Universal Pictures (Universal) and Summit Entertainment. The agreements provide Home Box Office the exclusive right during the applicable license period to exhibit and distribute on its premium pay television and OTT services the entire feature film slate theatrically released in the U.S. by these studios during specified release years (other than certain animated films and certain other specified films). A majority of these agreements cover theatrical film slates through release year 2021 or beyond. Half of the top eighty feature films theatrically released in 2016 (as determined based on domestic box office receipts) will be exhibited exclusively on the HBO and Cinemax premium pay television and OTT services during the applicable license periods. Home Box Office also has agreements to license older films with Fox, Universal, Warner Bros. and a number of other major studios and independent distributors.

### *International Programming*

A substantial portion of the programming on Home Box Office's international premium pay, basic tier television and OTT services consists of feature films licensed from major studios in the U.S. and domestic HBO- and Cinemax-branded original programming. Home Box Office also has agreements to license older films from a number of major U.S. studios and other domestic and international independent distributors. In addition to films, Home Box Office's international content offerings may feature local language original programming and/or U.S. television programming produced by other production studios.

## **Home Box Office's Businesses and Revenues**

### *Domestic Premium Pay Television and OTT Services*

Home Box Office generates revenues principally from licensing its programming to affiliates and digital distributors that have contracted to receive and distribute the programming to their customers who subscribe to the HBO and

Cinemax services. At December 31, 2016, Home Box Office had approximately 49 million domestic subscribers, including subscribers to HBO's OTT service, and HBO was the most widely distributed domestic multi-channel premium pay television service.

Home Box Office's license agreements with affiliates are typically long-term arrangements that provide for annual service fee increases and marketing support. The relationship between subscriber totals and the amount of revenues earned under Home Box Office's license agreements 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.

---

**Table of Contents**

Home Box Office has entered into arrangements with a number of digital distributors to distribute HBO NOW and/or provide their subscribers access to the HBO and Cinemax services and programming on a variety of digital platforms and devices, and Home Box Office is continuing to expand the number of digital distribution partners.

Subscribers of traditional affiliates can view HBO and Cinemax programming on an HBO or Cinemax multiplex television channel as well as through on-demand products, HBO On Demand, Cinemax On Demand, HBO GO and MAX GO. HBO NOW, HBO GO and MAX GO offer nearly all seasons of HBO's and Cinemax's original series, respectively, as well as feature films, HBO mini-series and films, sports programming, documentaries, comedy and music specials, bonus features and behind-the-scenes extras.

*International Premium Pay, Basic Tier Television and OTT Services*

Unique, country-specific HBO- and Cinemax-branded premium pay, basic tier television and OTT services are distributed in more than 60 countries in Latin America, Europe and Asia. In Europe and Asia, Home Box Office operates through consolidated, wholly-owned subsidiaries. In Latin America, Home Box Office operates through an unconsolidated joint venture. Home Box Office had approximately 85 million international premium pay, basic tier television service and OTT service subscribers at December 31, 2016, including subscribers through Home Box Office's unconsolidated joint ventures. HBO GO was available to HBO premium pay television subscribers in over 30 countries and territories at December 31, 2016, and Home Box Office plans to make HBO GO available to HBO premium pay television subscribers in additional countries and territories in 2017. Home Box Office generates revenues primarily from licensing its programming to international affiliates. The terms of Home Box Office's agreements with its international affiliates vary from country to country, and the amount of revenues attributable to such agreements can be based on a number of factors such as basic and/or pay television subscriber thresholds, performance-based or volume discounts, negotiated minimum guarantees or flat-fee arrangements.

Home Box Office operates OTT services in the Nordic region and Spain (launched in November 2016). In addition, HBO Latin America (Home Box Office's largest joint venture) provides OTT services in Colombia, Mexico, Brazil (launched in December 2016) and Argentina (launched in December 2016). Home Box Office expects to expand the distribution of OTT services to additional territories around the world.

*Home Entertainment and Content Licensing*

Home Box Office also generates revenues from the exploitation of its original programming through multiple other distribution outlets. Home Box Office sells its original programming in both physical and digital formats in the U.S. and various international regions through a wide variety of digital storefronts and traditional retailers. Significant home entertainment releases in 2016 included *Game of Thrones: The Complete Fifth Season*, *Game of Thrones: The Complete Sixth Season*, *Silicon Valley: The Complete Second Season* and *Veep: The Complete Fourth Season*. In addition, Home Box Office also licenses some of its library programming to the Amazon Prime SVOD service. Finally, Home Box Office has also licensed some of its original programming, such as *Sex and the City*, as well as *Everybody Loves Raymond*, which was produced by Home Box Office but originally aired on broadcast television, to domestic basic cable networks and local television stations.

Home Box Office licenses both individual programs and packages of programs to television networks and OTT services in over 150 countries, including arrangements under which it licenses programming to television networks that are branded as the "Home of HBO" in countries such as the U.K., Australia, France, Germany and Israel and as "HBO Canada" in Canada. In 2016, Home Box Office expanded its agreement with Sky Television, which provides Sky Atlantic exclusive rights to air HBO programming in Austria, Germany, Ireland, Italy and the U.K. until 2020.

**WARNER BROS.**

Warner Bros. is the largest television and film studio in the world based on total television and film revenues as of December 31, 2016. Its businesses consist principally of the production, distribution and licensing of television programming and feature films and the distribution of home entertainment product in both physical and digital formats, as well as the production and distribution of videogames and consumer product and brand licensing. In recent years, Warner Bros. has

**Table of Contents**

increased its production of new forms of content, including short-form online and mobile content, and has launched new direct-to-consumer offerings, such as OTT services. Warner Bros. businesses benefit from a shared infrastructure, including shared production, distribution, marketing and administrative functions and resources.

Warner Bros. is the #1 producer of primetime television series for the U.S. broadcast networks for the 2016-2017 television season, producing over 30 series, a position it has held for each of the past eight television seasons. Warner Bros. has at least four series, including at least one new series, on each of the five broadcast networks. Overall, Warner Bros. is producing 75 television series in the U.S. for the 2016-2017 television season. In addition, Warner Bros. licenses its U.S. programming in over 190 countries at December 31, 2016. Warner Bros. is expanding and diversifying the genres and types of television programming it produces as well as the buyers of its programming domestically, and is expanding its international television production business through its global network of local production companies in 16 international territories.

Warner Bros. films generated almost \$5 billion at the global box office, and Warner Bros. was the #2 film studio in global box office receipts in 2016. Warner Bros. has been the #1 or #2 film studio in domestic box office receipts for eight of the past 10 years and the #1 or #2 film studio in global box office receipts for nine of the past 10 years. Warner Bros. has exceeded \$4 billion in global box office receipts for seven of the past eight years.

Warner Bros. is the largest videogame publisher among television and film studios, built on key brands and franchises. Warner Bros. plans to expand its production of videogames for consoles and mobile devices using its portfolio of videogame production studios and strong global brands and franchises.

Warner Bros. is focused on increasing the digital sales and rentals of its film and television content and is a leader in a variety of initiatives designed to make digital ownership more compelling for consumers. Warner Bros. has led the U.S. home entertainment industry in sales of home entertainment products for 15 years. At December 31, 2016, Warner Bros. vast content library consists of more than 80,000 hours of programming, including over 7,000 feature films and 5,000 television programs comprised of tens of thousands of individual episodes.

Warner Bros. portfolio of leading brands includes DC Entertainment's brands (DC Comics, Vertigo and MAD Magazine) as well as the Looney Tunes and Hanna-Barbera brands. DC Comics characters include such iconic characters as Batman, the Flash, Green Arrow, Superman and Wonder Woman, while Warner Bros. other characters include Bugs Bunny, Harry Potter, Scooby-Doo and Tom and Jerry, among many others. Warner Bros. is focused on expanding its brands and characters across all its businesses, including film, television programming, videogames and consumer products.

Warner Bros. has developed strong global franchise properties from its brands and featuring its characters, including film franchises such as the *Batman* and *Harry Potter* series and *The Hobbit* and *The Lord of the Rings* trilogies, and it is focused on extending its existing global film franchises. Warner Bros. released two films based on DC Entertainment characters in 2016 (*Batman v Superman: Dawn of Justice* and *Suicide Squad*) and plans to release several additional films based on DC Entertainment characters, including *Justice League* and *Wonder Woman* in 2017 and *Aquaman* in 2018. Warner Bros. also released *Fantastic Beasts and Where to Find Them* in 2016, the first of five films in partnership with J.K. Rowling based on J.K. Rowling's Wizarding World. In February 2017, Warner Bros. released *The LEGO Batman Movie*. Warner Bros. has also developed a successful slate of horror films and plans to release the next installment in *The Conjuring* franchise (*Annabelle 2*) in 2017. Warner Bros. is also focused on creating new global film franchises and plans to release *Kong: Skull Island* and *King Arthur* in 2017, *Ready Player One* in 2018 and *Minecraft* in 2019.

In television, 10 series based on DC Entertainment characters (including *Arrow*, *DC's Legends of Tomorrow*, *The Flash*, *iZombie*, *Lucifer*, *Gotham* and *Supergirl*) are airing on broadcast and cable television during the 2016-2017 television season. Warner Bros. is also producing three new series based on Warner Bros. theatrical titles (*Lethal Weapon*, *Frequency* and *Training Day*) for the 2016-2017 television season.

In 2016, Warner Bros. formed Warner Bros. Digital Networks, a division focused on taking advantage of the changes in the TV ecosystem, consumer viewing patterns and technology. The division includes DramaFever (acquired by Warner Bros. in 2016), which owns and operates an OTT service in the U.S. that specializes in Korean dramas. DramaFever has both the technology platform and direct consumer expertise that will enable Warner Bros. to build, launch and operate a portfolio of

---

## **Table of Contents**

OTT service offerings. Warner Bros. Digital Networks also oversees Machinima (acquired by Warner Bros. in 2016), a global aggregator of gaming, superhero and fandom-generated content. Warner Bros. Digital Networks manages Warner Bros. investments in Uninterrupted, a partnership with LeBron James and Turner Sports focused on developing and distributing an original production slate across multiple platforms, and the Ellen Digital Network, a partnership with Ellen DeGeneres focused on digital content and social games. In addition, Warner Bros. has ownership interests in two SVOD services that operate outside the United States.

## **Television**

Warner Bros. is a leader in the global television production and distribution business. Warner Bros. is focused on maintaining its leadership position in producing primetime series for the U.S. broadcast networks (including The CW broadcast network ( The CW )) while increasing production of high-quality original series for basic cable networks (including expanding its collaboration with Turner), premium pay television services (including HBO) and OTT services. Warner Bros. is also expanding its international local television production business by using its global network of local production companies.

Warner Bros. is actively collaborating with Turner to significantly expand their global kids businesses and maximize the related consumer product opportunities. This collaboration is intended to drive the success of Cartoon Network and Boomerang and foster broader global exposure for Warner Bros. existing brands and franchises while also helping launch new global franchises and increase consumer product sales. Warner Bros. is producing original animated programming based on its characters and brands for Turner's Cartoon Network and Boomerang network and Warner Bros. and Turner are jointly producing original animated programming such as *New Looney Tunes*, *Be Cool, Scooby Doo!* and *The Tom and Jerry Show*. Warner Bros. and Turner are also producing and distributing content for DC Super Hero Girls, a franchise centered on iconic female DC Entertainment characters.

### *Domestic Business*

Warner Bros. produces and distributes its television programming for initial airing on broadcast and basic cable television networks, premium pay television and OTT services and local television stations in the U.S. Warner Bros. also produces and distributes short-form live-action series and animated programming for initial viewing on digital platforms. Warner Bros. programming includes the following:

scripted television series produced by Warner Bros. Television and Warner Horizon Television Inc., including *2 Broke Girls*, *Arrow*, *The Big Bang Theory*, *Blindspot*, *DC's Legends of Tomorrow*, *The Flash*, *Gotham*, *iZombie*, *Lethal Weapon*, *Lucifer*, *The Middle*, *Mom*, *Riverdale*, *Supergirl*, *Supernatural*, *Training Day*, *Trial & Error* and *The Vampire Diaries* for broadcast networks (including The CW); *Animal Kingdom*, *Major Crimes*, *People of Earth*, *Pretty Little Liars* and *Queen Sugar* for basic cable networks (including TNT and TBS); *The Leftovers* and *Westworld* (for HBO) and *Shameless* for premium pay television services; and *Disjointed*, *Fuller House*, *Gilmore Girls: A Year in the Life* and *Longmire* for OTT services;

reality-based non-scripted television series produced by Warner Horizon Television Inc., including *The Bachelor*, *Bachelor in Paradise*, *The Bachelorette*, *First Dates*, *Little Big Shots* and *The Voice*;



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

first-run syndication series produced and/or distributed by Telepictures Productions Inc., including *The Ellen DeGeneres Show*, *Extra*, *The Real*, *TMZ* and *TMZ Sports*;

animated television programming and original made-for-home entertainment animated releases produced by Warner Bros. Animation Inc., including programming based on characters from DC Entertainment, Looney Tunes and Hanna-Barbera. Programs include *Be Cool*, *Scooby Doo!*, *Bunnicula*, *Justice League Action*, *Mike Tyson Mysteries*, *Teen Titans Go!*, *The Tom and Jerry*, *New Looney Tunes* (for Adult Swim, Boomerang and Cartoon Network) and *Right Now Kapow*; and

short-form live-action series and animated programming for digital platforms produced by (i) Blue Ribbon Content, including *Justice League: Gods and Monsters Chronicles* and *Vixen* based on DC Entertainment characters, and (ii) Machinima, including *Transformers: Combiner Wars*.

## **Table of Contents**

Warner Bros. has continued to strategically license in-season stacking rights to the networks and OTT services licensing Warner Bros. programming. After the initial domestic television airing, Warner Bros. licenses its television programming for subsequent airing on basic cable networks, local television stations and OTT services. These licenses enable Warner Bros. to generate significant revenues from hit television series for years beyond their initial airing on television.

Warner Bros. also licenses its feature films to broadcast and cable networks, OTT services and premium pay television services (including HBO) starting approximately eight to nine months following their theatrical release. During 2016, Warner Bros. licensed hundreds of feature films and thousands of hours of feature film programming to television networks, premium pay television services and OTT services.

### *International Business*

Warner Bros. licenses rights to exhibit its feature films and original television series in international territories through agreements with television networks, premium pay television services, basic tier television services and OTT services. Warner Bros. licenses rights to exhibit feature films to an SVOD service in China, and feature films and original television series to HOOQ, an SVOD service operating in India, Indonesia, the Philippines, Singapore and Thailand, which is owned by Warner Bros., Singtel Telecommunications Limited and Sony Pictures Television. During 2016, Warner Bros. licensed thousands of hours of programming, dubbed or subtitled in more than 90 languages, to international distributors in more than 190 countries.

As the worldwide demand for locally produced, local language programming increases, Warner Bros. is focused on expanding its international local production business. Warner Bros. is developing programming specifically tailored for local audiences through its global network of production companies. Warner Bros. is also adapting international local programming into formats that can be produced by its local production companies in additional territories, including the U.S. For example, *The Bachelor* (a format owned by Warner Bros. that originated in the U.S.) is being adapted and produced in multiple international territories, including Australia, Finland, Germany, New Zealand, Sweden and Switzerland.

### *Television Business Revenues*

The revenues generated by Warner Bros. television business consist of (1) fees for the initial broadcast of Warner Bros. television programming on U.S. broadcast and cable television networks and premium pay television and OTT services, (2) fees for the airing or other distribution of its television programming after its initial broadcast in secondary U.S. distribution channels (such as basic cable networks, local television stations and OTT services), (3) fees for the international distribution of Warner Bros. television programming for free-to-air television, basic tier television services, premium pay television services and OTT services, and (4) revenues from the sale of the television programming of Warner Bros. and other companies in physical and digital formats. Warner Bros. television programming also supports Warner Bros. key brands and franchises, which helps generate consumer product and brand licensing revenues based on the programming for years beyond the initial airing of the programming on television.

## **Feature Films**

Warner Bros. is a leader in the feature film business and produces feature films under its Warner Bros. and New Line Cinema banners. Warner Bros. also enters into arrangements with others to co-produce and co-finance feature films. Warner Bros. produces and distributes a wide-ranging slate of films, and it is focused on building its film slate around its strongest franchises with global appeal. Warner Bros. plans to release six to eight event films each year that target a

wide audience domestically and internationally.

During 2016, Warner Bros. released 19 original feature films for distribution in the U.S., including *Batman v Superman: Dawn of Justice*, *Central Intelligence*, *The Conjuring 2*, *Fantastic Beasts and Where to Find Them*, *The Legend of Tarzan*, *Lights Out*, *Me Before You*, *Suicide Squad*, *Storks* and *Sully*. Of the films released during 2016, five were released in 3D format and five were formatted for viewing on IMAX screens. In February 2017, Warner Bros. released *Fist Fight* and *The LEGO Batman Movie*. Warner Bros. plans to release an additional 17 films during 2017, including *Dunkirk* from Christopher Nolan and two films based on DC Entertainment characters (*Justice League* and *Wonder Woman*).

## **Table of Contents**

Internationally, Warner Bros. produces and distributes both English language and local language films for theatrical exhibition in more than 125 territories outside the U.S. Warner Bros. uses both day and date and a staggered release schedule for its international releases. In 2016, Warner Bros. released internationally 15 English-language films and 43 local-language films that it either produced itself or acquired from other companies. In March 2016, Flagship Entertainment, a joint venture between Warner Bros. and China Media Capital, announced its inaugural slate of Chinese-language films for distribution in China and elsewhere around the world.

After the theatrical exhibition of its feature films, Warner Bros. releases them both domestically and internationally for distribution in various time periods through a variety of distribution channels, including retail stores, online and digital retailers; premium pay television services; broadcast and basic cable networks; OTT services and other exhibitors such as airlines and hotels. Feature films are released for sale through physical and digital formats and for rental via transactional VOD beginning approximately three to six months after their release in theaters. The date for that release is influenced by seasonality, competitive conditions, film attributes and expected performance. Feature films are typically released for rental in physical formats 28 days later. After that, Warner Bros. licenses the feature films for domestic and international distribution to premium pay television services (including HBO and Cinemax), broadcast and basic cable networks (including Turner's networks), and OTT services and, in most cases, other exhibitors such as airlines and hotels.

Warner Bros. produces most of the films it releases in the U.S. under co-financing arrangements, which give Warner Bros. a greater ability to manage the financial risks of its film slate and offset some of the significant costs involved in the production, marketing and distribution of feature films, particularly event films. In most cases, Warner Bros. maintains worldwide distribution rights for the films it co-finances with others. Warner Bros. has co-financing arrangements with MGM Holdings Inc., RatPac Dune Entertainment and Village Roadshow Pictures. Warner Bros. also enters into co-financing arrangements with other studios. Warner Bros. monetizes its distribution and marketing operations by distributing films that other companies wholly finance and produce, and it has an exclusive distribution arrangement with Alcon Entertainment.

### *Feature Film Business Revenues*

The revenues generated by Warner Bros. feature film business primarily consist of (1) rental fees paid by theaters for the theatrical exhibition of feature films produced (or co-produced) and/or distributed by Warner Bros., (2) licensing fees paid by television networks, premium pay television services and OTT services for the exhibition of feature films produced or co-produced by Warner Bros. and (3) revenues from the distribution of Warner Bros. and other companies feature films in physical and digital formats. Warner Bros. feature films also support Warner Bros. key brands and franchises, which helps generate consumer product and brand licensing revenues based on its films and characters.

### **Home Entertainment**

Warner Bros. also generates revenues through the home entertainment distribution of its film and television content in physical and digital formats. Warner Bros. continues to be a leader in the home entertainment industry, and its significant home entertainment releases during 2016 included *Batman v Superman: Dawn of Justice*, *Central Intelligence*, *The Conjuring 2* and *Suicide Squad*.

The home entertainment industry has been undergoing significant changes as it transitions from the distribution of film and television content via physical formats to digital formats. In recent years, consumer spending on home entertainment product in physical formats has declined as a result of several factors, including consumers shifting to digital purchases and transactional VOD rentals of content; changing retailer initiatives and strategies; retail store

closures; increasing competition for consumer discretionary time and spending; and piracy. Consumers have also been increasingly shifting to OTT services that are based on a subscription model rather than a transactional model. Consumer spending on film and television content in higher margin digital formats has been increasing in recent years, but that growth has not fully offset declines in consumer spending on home entertainment product in physical formats.

In response to these dynamics, Warner Bros. has been focusing on increasing the more profitable electronic sell-through ( EST ) sales and transactional VOD rentals of its film and television content and is an innovator in a variety of initiatives designed to make digital ownership more compelling for consumers, including providing enhanced content offerings, improving digital storefronts and promoting industry standards for content portability across retail platforms. Warner Bros. licenses its newly released feature films as well as films from its library and its television content to EST and transactional VOD services for viewing online and on mobile platforms in the U.S. and internationally. In the U.S. and most major international territories, Warner Bros. recent theatrical releases are generally released for sale via EST at least two weeks before their release in physical formats and transactional VOD.

**Table of Contents**

Although consumer spending on home entertainment product in physical formats has declined in recent years, the distribution of home entertainment product in physical formats still generates significant revenues for Warner Bros. The home entertainment product it distributes in physical formats includes its own feature films and television content, including library content, as well as content acquired from others. Warner Bros. also distributes content in physical formats for others, such as Home Box Office, Turner, the BBC and Sesame Street in the U.S., as well as several content producers outside the U.S.

**Videogames**

Warner Bros. develops, publishes and distributes videogames, including mobile and console games. Its videogames are based on intellectual property owned or licensed by Warner Bros. (including DC Entertainment properties, Harry Potter and Mortal Kombat). Warner Bros. is focused on increasing its monetization of its franchises in its videogames business in the future. In 2016, Warner Bros. released 12 videogames, including *Batman: Arkham VR*, *LEGO Marvel's Avengers* and *Mortal Kombat XL*. Warner Bros. also released additional character packages for the toys-to-life videogame *LEGO: Dimensions*, which includes Harry Potter, LEGO Batman and many other DC Entertainment characters among its cast of characters. Warner Bros. plans to release 15 videogames in 2017, including *Injustice 2* and *LEGO Worlds*. Warner Bros. also licenses Warner Bros. and DC Entertainment properties for videogames to other companies. Warner Bros. videogames revenues consist of revenues from the development and distribution of the videogames of Warner Bros. and other companies.

**OTHER TELEVISION NETWORK ASSETS**

The Company also holds interests in companies that operate broadcast networks.

**Central European Media Enterprises Ltd.**

As of December 31, 2016, Time Warner held an approximate 47% voting interest and an approximate 76% economic interest in the equity interests of Central European Media Enterprises Ltd. ( CME ), a publicly-traded broadcasting company that operates leading television networks in Bulgaria, Croatia, the Czech Republic, Romania, the Slovak Republic and Slovenia. CME also develops and produces content for its television networks. Time Warner's investment consists of (i) common stock, (ii) convertible preferred stock that has voting rights, (iii) convertible redeemable preferred shares that do not have voting rights and (iv) warrants to purchase common stock of CME. Time Warner accounts for its investment in CME's common stock and convertible preferred stock under the equity method of accounting, and it accounts for its investment in CME's convertible redeemable preferred shares under the cost method of accounting. Time Warner also guarantees all of CME's outstanding senior indebtedness and provides financing to CME under a revolving credit facility.

**The CW**

The CW is a 50-50 joint venture between Warner Bros. and CBS Corporation. The CW's 2016-2017 schedule includes a 5-night, 10-hour primetime lineup of advertising-supported original programming such as *The 100*, *Arrow*, *Crazy Ex-Girlfriend*, *DC's Legends of Tomorrow*, *The Flash*, *Frequency*, *iZombie*, *Jane the Virgin*, *No Tomorrow*, *The Originals*, *Reign*, *Riverdale*, *Supergirl*, *Supernatural* and *The Vampire Diaries*, as well as a five-hour block of advertising-supported programming on Saturday mornings. The CW has entered into an agreement with a third party pursuant to which the third party is programming the Saturday morning programming block through the 2020-2021 season and pays The CW a license fee. For the 2016-2017 season, Warner Bros. and CBS are producing 15 series for The CW, including five based on DC Entertainment characters. Advertising-supported full episodes of The CW's original series are also available on *cwtv.com* and through The CW's apps for mobile devices and Internet-connected

televisions. The CW does not require any login or authentication of a cable subscription to stream its content. The CW's programming is also available through an OTT service after the full season of programming airs on The CW. The CW also operates CW Seed, The CW's digital-only platform for original programming, which is available online and on mobile devices. The Company accounts for its investment in The CW under the equity method of accounting.

### **COMPETITION**

The Company's businesses operate in highly competitive industries. Competition in these industries has intensified as leisure and entertainment options have proliferated and audience fragmentation has increased. The Company's businesses compete for consumers' entertainment and leisure time and spending with each other, as well as other forms of

## **Table of Contents**

entertainment, including other television networks, premium pay television services, local over-the-air television stations, OTT services, motion pictures, home entertainment products and services, videogames, print media, live events, radio broadcasts and other forms of news, information and entertainment, as well as pirated content.

The Company's competitive position is greatly affected by the quality of, and public response to, its content. The Company's businesses compete with other production companies and studios for the services of producers, directors, writers, actors and others and for the acquisition of literary properties. The Company's television networks and premium pay television services compete for programming with other television networks and premium pay television services, local television stations and OTT services, and competition for programming, particularly licensed and sports programming, is intense.

The Company also faces competition for the licensing and distribution of its programming. As a producer and distributor of programming, the Company competes with other studios and television production groups, and independent producers to produce and sell programming. Many television networks have affiliated production companies from which they are increasingly obtaining their programming, which has reduced the demand for programming from non-affiliated production companies. The Company also faces competition from other television networks and premium pay television services for distribution and marketing of its television networks and premium pay and basic tier television services by affiliates.

The Company's businesses face significant competition in other areas as well. For example, the Company's television networks and websites compete for advertising with networks, websites, print, radio, outdoor display and other media, and the Company's businesses compete in their character and brand merchandising and other licensing activities with other licensors of characters and brands.

## **REGULATORY MATTERS**

The Company's businesses are subject to and affected by laws and regulations of U.S. federal, state and local governmental authorities as well as the laws and regulations of other countries and international bodies such as the European Union (the EU), and these laws and regulations are subject to change, including due to regulatory reform measures that might be pursued during the new U.S. Presidential administration. The following descriptions of significant U.S. federal, state, local and international laws, regulations, regulatory agency inquiries, rulemaking proceedings and other developments should be read in conjunction with the texts of the respective laws and regulations and other related materials.

### **Intellectual Property Laws**

Time Warner is one of the world's leading creators, owners and distributors of intellectual property. The Company's vast intellectual property assets include copyrights in films, television programs, software, comic books and mobile apps; trademarks in names, logos and characters; patents or patent applications for inventions related to products and services; and licenses of intellectual property rights of various kinds. The Company derives value from these assets through its business activities.

To protect the Company's intellectual property, the Company relies on a combination of copyright, trademark, unfair competition, patent and trade secret laws and license agreements. The duration of the protection afforded to the Company's intellectual property depends on the type of property, the laws and regulations of the relevant jurisdiction and the terms of its license agreements. With respect to the Company's trademarks and trade names, trademark laws and rights are generally territorial in scope and the Company's rights are generally limited to those countries where a mark has been registered or otherwise protected. While trademark registrations may generally be maintained in effect



for as long as the mark is in use in the respective jurisdictions, there may be occasions where a mark or title is not registrable or protectable or cannot be used in a particular country. In addition, a trademark registration may be cancelled or invalidated if challenged by others based on certain use requirements or other limited grounds. In the U.S., the usual copyright term for authored works is the life of the author plus 70 years, and the copyright term for works made for hire is the shorter of 95 years from the first publication or 120 years from the date the work was created. The Company also relies on laws that prohibit the circumvention of technological protection measures and trafficking in circumvention devices. The extent of copyright protection and benefit from laws prohibiting the circumvention of technological protection measures vary in different countries.

---

**Table of Contents**

Piracy, particularly of digital content, continues to present a threat to the Company's revenues from products and services based on intellectual property. The Company seeks to limit that threat through a combination of approaches, including working with cross-industry groups, trade associations and strategic partners to develop and implement technological solutions to control piracy, promoting legitimate market alternatives, applying technological protection measures, engaging in efforts to ensure effective and appropriately tailored legal remedies for infringement, enhancing public awareness of the meaning and value of intellectual property and promoting and advocating for appropriate legislative and policy initiatives both in the U.S. and internationally. The Company vigorously pursues appropriate avenues to protect its intellectual property, including sending takedown notices in appropriate circumstances and pursuing litigation and referrals to law enforcement against websites that distribute or facilitate the unauthorized distribution of the Company's content. The volume of actions against websites dedicated to copyright theft is increasing internationally, and certain countries have implemented or are considering implementing programs or remedies designed to address and deter widespread infringement.

Outside the U.S., laws and regulations relating to intellectual property protection and the effective enforcement of these laws and regulations vary greatly from country to country and continue to evolve. Judicial, legislative and administrative developments are taking place in certain jurisdictions that may limit the ability of rights holders to exploit and enforce certain of their exclusive intellectual property rights outside the U.S. For example, in October 2011, the European Court of Justice held, in the context of satellite broadcasts of live soccer matches, that it was an unlawful restriction on competition for England's Football Association Premier League to prohibit broadcasting licensees from distributing satellite decoder cards outside the territory for which the broadcasts were licensed for reception. As a result of that decision, in January 2014, the European Commission (the "EC") began an antitrust investigation of the cross-border access to satellite and online services, and is examining certain provisions in licensing agreements between a number of U.S. film studios, including Warner Bros., and several large European satellite pay TV broadcasters. The EC has stated that its investigation is focusing on contractual restrictions that prevent broadcasters in one EU country from selling subscriptions in response to unsolicited requests from viewers in other EU countries. In July 2015, the EC sent a Statement of Objections to a number of U.S. film studios, including Warner Bros., reflecting its preliminary view that such contractual provisions may violate EU competition rules prohibiting anti-competitive agreements. In January 2016, the EC held a hearing on the matter. The Statement of Objections and hearing are steps in the process, but do not represent a finding of infringement or indicate the outcome of the EC's investigation, which is ongoing. Separately, in 2015, the EC published its Digital Single Market strategy, which includes a broad range of high-level proposals that are intended to promote access to online services and entertainment content across national borders within the EU to foster the creation of a single digital market in the EU. For example, in December 2015, the EC announced a proposal for a regulation to provide content portability to subscribers to certain online content services in an EU Member State who travel temporarily to another EU Member State. It is not possible to predict the impact the EC's investigation or potential regulations and directives in the EU related to the Digital Single Market strategy could have on the Company's businesses.

**Regulation Relating to Data Privacy, Data Security and Cybersecurity**

The Company's businesses are subject to laws and regulations governing data privacy, data security and cybersecurity. For example, in the U.S., the Company is subject to: (1) the Children's Online Privacy Protection Act ("COPPA"), which applies to certain of the Company's websites, mobile apps and other online business activities and restricts the collection, maintenance and use of personal information regarding children; (2) the Privacy and Security Rules under the Health Insurance Portability and Accountability Act, which imposes privacy and security requirements on the Company's health plans for its employees and on service providers under those plans; (3) the Video Privacy Protection Act, which restricts disclosure of video viewing information; (4) state statutes requiring data security controls and notice to individuals when personally identifiable information ("PII") has been accessed or acquired in a data breach; and (5) privacy and security rules imposed by the payment card industry, as well as regulations designed to protect

against identity theft and fraud in connection with the collection of credit and debit card payments from consumers.

Moreover, several laws, regulations and policies that could affect how the Company collects, uses and protects data are in effect or are being considered in the U.S. and internationally. In the U.S., for example, the Federal Trade Commission (the *FTC* ) frequently issues guidance that sets forth best practices for businesses to build privacy protections into their products and provide consumers greater control over the collection and use of their personal information. In addition, in 2013, the *FTC* updated its regulations implementing *COPPA* by expanding the categories of data that are considered personal

---

**Table of Contents**

information, such as IP addresses, geolocation data and screen names, and updating the requirements for notice, parental consent, confidentiality and security. Self-regulatory bodies also have established requirements to implement notice and opt-out mechanisms and place other limitations on data tracking and usage.

Congress, the White House and federal agencies continue to examine and focus on data security and consumer privacy in light of several recent high-profile data security breaches. For example, in December 2015, President Obama signed into law the Cybersecurity Information Sharing Act of 2015 ( CISA ). The aim of CISA is to promote voluntary sharing of information regarding cybersecurity threats and defensive measures undertaken in response to those threats with the government and other businesses. Members of Congress also remain focused on privacy, data security and cybersecurity, particularly in light of the confirmed and alleged cybersecurity attacks surrounding the 2016 U.S. Presidential election. The adoption of new privacy, data security and cybersecurity laws or regulations may in some cases increase the Company's compliance costs.

Several state legislatures have also adopted legislation that regulates how businesses operate online, including measures relating to privacy, data security and data breaches. For example, California law requires operators of websites and online services (including mobile apps) to make disclosures about how the operator or other parties may collect PII about a consumer's online activities, including in some cases disclosure of how the operator responds to Web browser "do not track" signals or other mechanisms that enable consumers to opt out of the collection of such information. Furthermore, California law requires operators of commercial websites and online services to post a privacy policy that meets designated requirements, including providing a list of categories of PII that the operator collects and a list of third parties with whom the PII may be shared.

Foreign governments have also focused on data privacy and security concerns for many years. The EC adopted a data directive in 1995 to protect the privacy rights of individuals within the European Union and the transfer of personal information outside the EU (the Directive ). In October 2015, the Court of Justice of the European Union (the CJEU ) issued an opinion ruling that the U.S. EU Safe Harbor framework (the Safe Harbor framework ), which had been in place since 2000 and was a central mechanism relied on by U.S. organizations, including the Company, to transfer personal data from the EU to the U.S., was invalid. The decision did not invalidate any other legal mechanisms or bases that can be utilized or relied on to transfer personal data from the EU to the U.S. in compliance with the Directive, such as standard contractual clauses, binding corporate rules or individual consent. A new framework called the EU U.S. Privacy Shield (the Privacy Shield framework), which replaces the Safe Harbor framework, was formally approved by the EC in July 2016. The Privacy Shield framework imposes greater obligations on U.S. companies to protect personal data transferred from the EU to the U.S. and requires the U.S. Department of Commerce and the FTC to carry out stricter monitoring and enforcement. The Company continues to evaluate the mechanisms available to comply with EU/U.S. data transfer requirements to be able to continue to operate its businesses.

In April 2016, the European Parliament and the EC adopted the General Data Protection Regulation ( GDPR ), which will become enforceable in May 2018 and will replace the Directive. The GDPR is intended to support the Single Digital Market strategy within the EU by providing a single set of rules on data protection across the EU, while enabling individuals to better control their personal data. The Company is evaluating the final text of the GDPR to determine its impact on the Company's operations and businesses.

**Regulation of Television Networks, Internet/Broadband Services, Programming and Advertising**

The Company's businesses are also subject to a number of laws and regulations relating to the distribution and licensing of television programming, the content of that programming, and advertising and marketing. In the U.S., cable networks and premium pay television services, either directly or indirectly through their distribution partners, are subject to various obligations under the Communications Act of 1934, as amended (the Communications Act ), and

related regulations issued by the Federal Communications Commission (the FCC ). These obligations and regulations, among other things, require closed captioning of programming for the hearing impaired, require certain content providers to make available audio descriptions of programming for the visually impaired, limit the amount and content of commercial matter that may be shown during programming aimed primarily at an audience of children aged 12 and under, and require the identification of (or the maintenance of lists of) sponsors of political advertising.

## **Table of Contents**

The FCC continues to examine policies for video programming and distribution, and in 2014 and 2015 it adopted and proposed regulations that could directly or indirectly restrict the Company's ability to produce, distribute or fully monetize its content. For example, in March 2015, the FCC adopted net neutrality regulations that constrain how ISPs can offer broadband and related services that can be used to distribute the Company's programming via the Internet. The net neutrality regulations subject ISPs to the requirements of Title II of the Communications Act, including imposing limitations on unreasonable practices, obligations regarding customer privacy and protections for people with disabilities and authorize the FCC to investigate and act on consumer complaints. The regulations prohibit ISPs from: (i) blocking access to legal content, applications or services or to devices that do not harm their network, (ii) impairing or degrading lawful Internet content and (iii) implementing paid prioritization or fast lanes for content or applications. ISPs generally are permitted to engage in reasonable network management (other than paid prioritization), but only if the purpose of their actions is related to managing their network. In 2015, a trade group, several broadband providers and others ( Petitioners ) filed lawsuits in the U.S. Court of Appeals for the District of Columbia challenging the net neutrality regulations and, in June 2016, the court found in favor of the FCC and upheld the net neutrality regulations. The Petitioners have filed for rehearing of the case en banc. It is not possible to predict how these lawsuits and net neutrality regulations will impact the Company.

In addition, in December 2014, the FCC proposed rules to expand its interpretation of multichannel video programming distributor under the Communications Act to include over-the-top providers of multiple streams of linear programming (i.e., television programming delivered via the Internet in a regularly scheduled, continuous manner, either live or on a delayed basis), which would give these over-the-top providers rights to distribute broadcast network television programming and cable-operator affiliated programming, while also subjecting them to various obligations such as retransmission fees. Depending on the scope and specific provisions of any final rules, they could affect the Company's negotiations regarding, and provision of, online linear video.

In February 2016, the FCC proposed rules regarding the interoperability of set-top boxes provided by affiliates with other devices and services. In January 2017, the newly appointed FCC Chairman removed the pending proposals from immediate consideration by the FCC commissioners. If proceedings relating to these proposed rules move forward in the future, any final rules could affect the way the Company's programming is presented to consumers, including with respect to channel placement, branding and the type and placement of advertisements, and could have a negative impact on the Company's copyright protections, as well as the value of the Company's programming, and make it more difficult for the Company to roll out new services.

In September 2016, the FCC proposed rules that would constrain how affiliates negotiate carriage agreements with programming providers that are independent of the affiliate or major production studios. The proposed rules would prohibit affiliates from including in such carriage agreements most favored nation clauses that enable the affiliate to receive favorable contract terms that a programming provider has given to another distributor without requiring the affiliate to be subject to any corresponding obligations included in the other distribution agreement. The proposed rules would also prohibit contract provisions that restrict a programming provider's ability to distribute its programming through alternative video distribution platforms, including online platforms. It is not possible to predict the impact that any such rules could have on the Company.

From time to time, the FCC also conducts inquiries and rulemaking proceedings, which could lead to additional regulations that could have a material effect on the Company's businesses. The FCC has also initiated the following proceedings:

The FCC is engaged in a number of proceedings designed to make more of the electromagnetic spectrum that is currently used for broadcast television and satellite distribution available for wireless broadband. These proceedings include conducting voluntary incentive auctions, which began in March 2016, for portions of the spectrum used by television broadcasters to provide additional spectrum for wireless broadband, and evaluating the potential use of certain portions of the satellite spectrum for wireless broadband. The potential changes to the satellite spectrum could negatively impact the Company's ability to deliver linear network feeds of its domestic basic cable networks to its affiliates. It may take several years for these proceedings and any related spectrum reallocation to be completed, and it is not possible to predict the impact that any such proceedings and reallocation could have on the Company.

## Table of Contents

The FCC has initiated several rulemaking proceedings to implement the 21st Century Communications and Video Accessibility Act of 2010 (the Accessibility Act). The FCC changed its television closed captioning rules effective in March 2015 to, among other things, extend certain obligations regarding the quality of closed captioning of television programming to companies that produce video programming. In February 2016, the FCC also announced (i) further changes to the complaint and compliance procedures used for these rules and (ii) that it would require video programmers to submit television captioning certifications directly to the FCC and maintain contact information for captioning complaints on the FCC website. These new rules, which generally have not yet taken effect pending further procedural requirements, will increase the captioning compliance obligations of video programmers such as the Company.

In early 2016, pursuant to the Accessibility Act, the FCC proposed rules that would increase the number of hours of audio descriptions of video content required to be provided by video distributors, as well as the number of video distributors subject to such rules. If adopted, the new rules would nearly double the number of required hours of audio-described programming on two Turner networks.

Pursuant to the Accessibility Act, in July 2014, the FCC issued an order requiring closed captioning for clips of video programming that previously aired on television and are posted online or available through online applications in certain circumstances. Under the FCC's rules, video clips that contain a single excerpt of a captioned television program with the same video and audio that was shown on television (straight lift clips) must be captioned, and, beginning in January 2017, the rule was expanded to apply to newly posted video clips that contain compilations of straight lift clips containing content previously shown on television with captions. Starting in July 2017, video clips of live and near-live television programming (such as news or sporting events) must also be captioned. These rules will increase the costs of making video clips available online.

Various other federal laws also contain provisions that place restrictions on violent and sexually explicit programming. Regulators, legislatures and other policymakers are interested in laws and regulations intended to protect the interests of children by placing limitations on food and beverage marketing in media popular with children and teens.

In international territories, there are various laws and regulations relating to the distribution or licensing of television programming and other products. These include television licensing requirements relating to closed captioning of programming for the hearing impaired, descriptive audio versions for the visually impaired and mandatory local language dubbed and/or subtitled versions of programming, laws providing for minimum percentages of local content and maximum percentages of foreign content on television, local language advertising requirements, laws and regulations imposing pricing, exclusivity and importing restrictions, editorial control, translation or local editing requirements and other nationality-based restrictions. There are also a number of laws and regulations in these international territories relating to the nature of content and advertising and marketing efforts, including content codes and laws requiring government approval of certain content prior to exhibition, consumer protection laws (particularly those relating to advertisements and programming aimed at children) and laws restricting the amount of advertising permitted on television networks. For example, the EU Audio Visual Media Services directive, which allows EU member states to adopt more restrictive regimes and applies to all programs produced after December 2009, obligates broadcasters to notify viewers if an audiovisual program contains paid product placement, bans any form of product placement in children's and news programming and prohibits product placement of tobacco products and prescription medication. The directive also imposes an obligation on EU member states and the EC to encourage broadcasters and channel providers to develop codes of conduct regarding advertising for foods high in fat, salt and sugar in or around children's programming. Accordingly, in the U.K., the Office of Communications has restricted such television



advertising, and other EU jurisdictions have required that nutritional information be included in food advertisements. In May 2016, the EC proposed an amendment to the directive to require that the rules implemented under the directive by EU member states are applied consistently across various platforms, including traditional broadcast networks, VOD providers and video-sharing platforms. The Council of the EU and the European Parliament are reviewing the legislative proposal. Outside the EU, other governments are considering or have already implemented food advertising restrictions similar to those in the U.K., including in Argentina, Brazil, Colombia, Chile, Ecuador, Mexico, Norway, Peru, Singapore and Uruguay. Finally, several governments, including in Argentina, Brazil, India, Mexico and Uruguay, have recently proposed, enacted or more strictly enforced regulations that limit the amount of advertising content that can be aired on television networks.

---

**Table of Contents**

**Regulation of the Distribution and Licensing of Feature Films**

In countries outside the U.S., there are a variety of laws and regulations relating to the distribution or licensing of feature films for exhibition in theaters and on broadcast and cable networks. These include copyright laws and regulations, television licensing requirements similar to those applicable to made-for-television programming, trade and customs regulations, laws providing for minimum percentages of local content in theaters and on broadcast television and maximum percentages of foreign content on television and laws that limit increases in prices paid by distributors to content providers. In certain countries, laws and regulations limit the number of foreign films exhibited in such countries in a calendar year. For example, China, which was the second-largest box office territory based on box office receipts in 2016, limits the number of foreign films that can be distributed annually using revenue-sharing arrangements as well as the percentage of revenue shared with the foreign film distributor.

**Marketing Regulation**

The Company's marketing and advertising sales activities are subject to regulation by the FTC, the FCC, and each of the states under general consumer protection statutes prohibiting unfair or deceptive acts or practices. Certain marketing activities are also subject to specific federal statutes and rules, such as COPPA and the Telephone Consumer Protection Act (the TCPA), which restricts telephone, fax or mobile text messages to consumers without their prior consent. Outside the U.S., laws restricting marketing and sales activities also continue to be adopted. For example, the Canadian Anti-Spam legislation (the CASL), which went into effect July 1, 2014, restricts commercial electronic messages to consumers without their prior permission. Both the TCPA and CASL provide for private rights of action, and violations of these laws can result in potential liability, including substantial administrative fines and class action lawsuits.

**FINANCIAL INFORMATION ABOUT SEGMENTS, GEOGRAPHIC AREAS AND BACKLOG**

Financial and other information by segment and revenues by geographic area for each year in the three-year period ended December 31, 2016 are set forth in Note 16 to the Company's consolidated financial statements, Segment Information. Information with respect to the Company's backlog, representing future revenue not yet recorded from cash contracts for the worldwide licensing of theatrical and television product for premium pay television services, basic cable and network and syndicated television exhibition, at December 31, 2016 and December 31, 2015, is set forth in Note 17 to the Company's consolidated financial statements, Commitments and Contingencies Commitments Programming Licensing Backlog.

**Item 1A. Risk Factors.**

***The Company must respond successfully to ongoing changes in the U.S. television industry and consumer viewing patterns to remain competitive.*** The Company derives a substantial portion of its revenues and profits from its cable networks and premium pay television services and the production and licensing of television programming to broadcast and cable networks and premium pay television services. The U.S. television industry is continuing to evolve rapidly, with developments in technology leading to new methods for the distribution of video content and changes in when, where and how audiences consume video content. These changes pose risks to the traditional U.S. television industry and some of the Company's longest-standing business models, including (i) the disruption of the traditional television content distribution model by OTT services, which are increasing in number and some of which have a significant and growing subscriber base, and (ii) the disruption of the advertising supported television model resulting from increased video consumption through OTT services with no advertising or less advertising than on television networks, time shifted viewing of television programming and the use of DVRs to skip advertisements. In

part as a result of these changes, over the past few years, the number of subscribers to traditional MVPD services in the U.S. has declined slightly and the U.S. television industry has experienced declines in ratings for programming, which has negatively affected subscription and advertising revenues. Developments in technology and new content delivery products and services have also led to an increasing amount of video content, as well as changes in consumers' expectations regarding the availability of video content, their willingness to pay for access to or ownership of such content, their perception of what quality entertainment is and their tolerance for commercial interruptions. The Company is engaged in efforts to respond to and mitigate the risks from these changes, such as initiatives to improve the monetization of television advertising, but the success of some of these initiatives depends in part on the cooperation of measurement companies, advertisers and affiliates and, therefore, is not within the Company's control. The Company may incur significant costs to implement its strategy and initiatives, and if they are not successful, the Company's competitive position, businesses and results of operations could be adversely affected.

---

**Table of Contents**

***The popularity of content is difficult to predict and can change rapidly, and low public acceptance of the Company's content will adversely affect its results of operations.*** The revenues derived from the sale, distribution and licensing of television programming, feature films, videogames and other content depend primarily on widespread public acceptance of that content, which is difficult to predict and can change rapidly. The Company must invest substantial amounts in the production and marketing of its content before it learns whether such content will reach anticipated levels of popularity with consumers. The popularity of the Company's content depends on many factors, only some of which are within the Company's control. Examples include the popularity, quality and amount of competing content (including locally-produced content internationally), the availability of alternative forms of leisure and entertainment activities, the Company's ability to maintain or develop strong brand awareness and target key audiences, and the Company's ability to successfully anticipate (and timely adapt its content to) changes in consumer tastes in the many countries and territories in which the Company operates. Low public acceptance of the Company's content will adversely affect its results of operations.

As a significant element of the Company's strategy, Warner Bros. focuses on building global franchises based on existing intellectual property that it can monetize across its businesses and distribution channels. Generally, feature films that perform well at the global box office also have commercial success in subsequent distribution channels. The underperformance of a feature film, especially an event film, at the global box office typically results in lower than expected revenues for the Company from the license of the film to broadcast and cable networks and OTT services, sales of the film in digital and physical formats, and from the sale of videogames or licenses for consumer products based on such film. If a new event film fails to achieve commercial success at the global box office, it would also limit the Company's ability to create a new theatrical franchise based on the film or characters featured in the film. The failure to develop successful new theatrical franchises could have an adverse effect on the Company's results of operations.

Low ratings for television programming produced by the Company may lead to the cancellation of a program and can negatively affect future license fees for the cancelled program. A decline in the ratings or popularity of the television programming aired on Turner's cable networks can negatively affect advertising revenues for Turner's cable networks in the near term and, over a longer period of time, could adversely affect subscription revenues and the distribution potential of a Turner network. A decline in the popularity of HBO's and Cinemax's programming could, over a period of time, cause subscribers to cancel their subscriptions, which in turn could adversely affect both the Company's subscription and content licensing revenues. If the Company decides to no longer air programming due to low ratings or other factors, the Company could incur significant programming impairments, which could have a material adverse effect on the Company's results of operations in a given period.

***The failure to enter into or renew agreements with affiliates on favorable terms or at all could cause the Company's subscription and advertising revenues to decline.*** The Company depends on agreements with affiliates for the distribution of the Company's cable networks and premium pay television services and certain of its OTT services. Competition from third-party OTT services and new distribution platforms and declines in subscribers to traditional MVPD services is increasing the pressure on affiliates to control their programming costs in order to operate at a profit while offering their services at competitive prices that enable them to attract and retain subscribers. As affiliates continue to try to control their programming costs, it may be more difficult for the Company to secure favorable terms, including those related to pricing, positioning and packaging, during affiliate agreement negotiations, and the Company may face greater difficulty in achieving placement of its networks and premium pay television services in smaller bundles or virtual MVPDs offered by affiliates. Factors that may make it more difficult for the Company to secure favorable terms during renewal negotiations with traditional affiliates include the Company's efforts to capitalize on new growth opportunities outside the traditional TV ecosystem and the consolidation of traditional affiliates in the U.S. and growth of large multi-territory distribution companies internationally, which increases their scale and negotiating power. In addition, the Company's potential merger with AT&T may make it

more difficult for the Company to secure favorable terms during renewal negotiations with other affiliates. If the Company is not able to secure favorable terms when it enters into or renews its affiliate agreements, its subscription revenues may not increase as much as the Company expects or could decline. In addition, if the Company and an affiliate reach an impasse in contract renewal negotiations, applicable networks or premium pay television services could become unavailable to the affiliate's subscribers (i.e., "go dark"), which, depending on the length of time and the size of the affiliate, could have a negative impact on the Company's subscription and advertising revenues. The inability to renew one or more of the Company's larger affiliate arrangements would reduce the number of households that have access to Turner's cable networks and result in lower ratings for programming, which could make those networks less attractive to advertisers and result in lower growth or a decline in advertising revenues.

---

**Table of Contents**

***If the rate of decline in the number of subscribers to traditional MVPD services increases or these subscribers shift to other services or bundles that do not include the Company's cable networks and premium pay television services, the Company's subscription revenues will be negatively affected.*** During the last few years, the number of subscribers to traditional MVPD services in the U.S. has been declining slightly, and the Company expects these declines to continue. If traditional MVPD service offerings are not attractive to consumers due to pricing, increased competition from OTT services, increased dissatisfaction with the quality of traditional MVPD services, worse economic conditions or other factors, more consumers may (i) cancel their traditional MVPD service subscriptions or choose not to subscribe to traditional MVPD services, (ii) cancel their subscriptions to premium pay television services, (iii) elect to subscribe to lower-priced OTT services or (iv) elect to subscribe to smaller bundles of networks offered by affiliates, which may not include HBO, Cinemax or some of Turner's cable networks. The number of HBO and Cinemax subscribers could also decline if affiliates choose not to market, or reduce their marketing of, HBO or Cinemax. If the rate of decline in the number of traditional MVPD service subscribers increases or if subscribers shift to lower-cost OTT services or smaller bundles of networks or virtual MVPD services that do not include all the Company's cable networks and premium pay television services, the Company's subscription revenues will be negatively affected.

***A decrease in demand for the television programming produced by Warner Bros. or changes in the terms for licensed programming could adversely affect the Company's revenues.*** Warner Bros. is a leading producer of high-quality television programming, as well as a leader in the international distribution of U.S.-produced television programming. Even with its strong competitive position, Warner Bros. television production business is largely dependent on the strength of the U.S. broadcast networks, basic cable networks and local television stations, and their continued demand for Warner Bros. television programming. If there is a decrease in such demand, it could decrease the overall scale of Warner Bros. television production business and reduce the aggregate license fees for its television programming. The following factors could increase the likelihood of a decrease in such demand in the U.S.: (i) vertically-integrated networks favoring programming from their in-house and affiliated television production studios over Warner Bros. programming, because ownership of the programming enables the networks to license the programming to third parties in the U.S. and internationally and thus control where and when the programming is made available and access the increasing revenue opportunities for programming in subsequent distribution windows; (ii) emerging technologies and alternative viewing options that could reduce the lifetime value of television programming; and (iii) consolidation among television station groups, thereby reducing the number of buyers for Warner Bros. programming. The increasing revenue opportunities in subsequent distribution windows can also result in pressure by networks licensing new programming to share in these revenue opportunities. In international territories, the increasing popularity of locally produced television content also could result in decreased demand and lower license fees for the Company's U.S.-produced television programming.

***An increase in the costs to acquire or produce popular programming could adversely affect the Company's operating results.*** Competition to acquire popular programming is intense both in the U.S. and internationally among networks, premium pay television services and OTT services. More networks, premium pay television services and OTT services are seeking to offer distinctive programming, including sports programming, and are willing to invest more to do so. In some cases, Turner and Home Box Office have had to increase the prices they are willing to pay for sports and acquired programming, including the renewal of licensed programming, and have been outbid by competitors, which could occur again in the future. In addition, the increased investments by networks, premium pay television services and OTT services in high quality original programming may make it more challenging for Home Box Office, Turner and Warner Bros. to attract and retain talent and could drive up talent and production costs. Increased competition has also forced some networks and OTT services to commit to straight-to-series orders for programming instead of a pilot order. If Home Box Office or Turner commit to straight-to-series orders and those series do not meet anticipated production or quality standards or are otherwise not accepted by audiences, revisions to the programming may be necessary, which could increase production costs. The increased financial commitment for a

straight-to-series order also could increase the risks associated with such an order. If increases in Warner Bros. costs to produce programming are not offset by higher content licensing revenues or if increases in Turner's and Home Box Office's costs to produce or acquire popular programming are not offset by increases in subscription revenues and increases in advertising revenues for Turner's cable networks, the Company's results of operations could be adversely affected.

***The Company's results of operations could be adversely affected if there is a decline in advertising spending, which could be caused by a number of factors.*** A decline in the economic prospects of advertisers or the economy in general could cause advertisers to spend less on advertising. In addition, television advertising expenditures could be negatively affected by

---

**Table of Contents**

(i) further declines in traditional MVPD service subscribers; (ii) shifts in consumer viewing patterns, including consumers watching more non-traditional and shorter-form video content online, increased viewership of programming on demand on a time-delayed basis (to the extent it either does not contain advertising or such viewing is not measured for audience delivery purposes) and the increased use of DVRs to skip advertisements; (iii) declining consumer tolerance for commercial interruptions; (iv) an increasing shift of advertising expenditures to online and mobile offerings; (v) increasing audience fragmentation caused by increased availability of alternative forms of leisure and entertainment activities; (vi) pressure from public interest groups to reduce or eliminate advertising of certain products on television; (vii) new laws and regulations that prohibit or restrict certain types of advertisements; and (viii) natural disasters, extreme weather, acts of terrorism, political uncertainty or hostilities resulting in uninterrupted news coverage of such events that disrupts regular television programming. In addition, advertisers' willingness to purchase advertising time from the Company may be adversely affected by a decline in audience ratings for the programming aired on Turner's cable networks. If ratings decline significantly, Turner's cable networks generally will be required to provide additional advertising time to advertisers to reach agreed-on audience delivery thresholds. This may result in Turner's cable networks having less advertising time available to sell or use to promote their own programming. In addition, although audience measurement systems have improved and better capture the viewership of programming through DVRs, affiliates and networks' VOD offerings and digital platforms and devices, they still do not fully capture all viewership and advertisers may not be willing to pay advertising rates based on the viewership that is not being measured. Turner is engaged in a variety of efforts to make advertising on its networks more valuable to advertisers and improve the consumer experience, including investing in advertising technology and data analytics platforms that provide targeting and measurement capabilities and reducing the amount of advertising on select programming on some of its cable networks; however, these efforts may not be successful or may take several years to become successful. Turner's advertising revenues from digital offerings also could be adversely affected by technology that enables consumers to block advertisements.

***The Company's results of operations may be adversely affected by shifts in home entertainment consumption patterns.*** Several factors have contributed to an industry-wide decline in sales of home entertainment product in physical formats in recent years, including consumers shifting to digital purchases and transactional VOD rentals of content; changing retailer initiatives and strategies (e.g., reduction in floor space devoted to home entertainment product in physical formats); retail store closures; increasing competition for consumer discretionary time and spending; and piracy. Consumers have also been increasingly shifting to OTT services that are based on a subscription model rather than a transactional model. Although digital sales are becoming an increasing share of total sales of film and television content and, with greater per-unit profitability, have helped offset some of the declines in physical sales of content, digital sales may never generate aggregate profits that equal or exceed the peak profits generated by physical sales in prior years or it may take several years for the increased profits from higher-margin digital sales to fully offset the decrease in lower-margin physical sales and rentals.

***If the Company fails to compete successfully against alternative sources of entertainment and news, there may be an adverse effect on the Company's results of operations.*** The Company competes for consumers' leisure and entertainment time and discretionary spending with all other sources of entertainment and news, including television networks, premium pay television services, OTT services, feature films, the Internet, home entertainment products and services, videogames, print media, pirated content, live sports and other events. The increased number of media and entertainment choices available to consumers has made it much more difficult to attract and obtain their attention and time. There can be no assurance that the Company will be able to compete successfully in the future against existing or new competitors.

***The Company is exposed to risks associated with weak economic conditions, geopolitical and economic uncertainties and increased volatility and disruption in the financial markets.*** The Company's financial condition and results of operations may be adversely affected by weak economic conditions in the U.S. and other countries



where the Company does business and the impact of those conditions on advertisers, affiliates, suppliers, retailers, insurers, theater operators and others with which it does business. The global economy continues to be volatile, with slower economic growth in some large emerging economies such as China, India and Brazil and economic uncertainties arising from governmental actions in some countries such as Russia and Venezuela. Additional geopolitical and economic uncertainties exist due to key elections and referendums during 2016, such as the United Kingdom's referendum to exit the European Union and the 2016 U.S. Presidential and Congressional elections, the impacts of which are unknown. These impacts could include changes in international trade policies and taxation. Weak economic conditions and geopolitical and economic uncertainties could lead to lower consumer spending for the Company's content and products in these regions and countries, particularly if advertisers, licensees, retailers, theater operators and consumers reduce their demand for the Company's content and

---

**Table of Contents**

products due to the negative impact of these conditions and uncertainties on them. Consumer spending in these regions and countries may be further negatively impacted by governmental actions to manage national economic matters, whether through austerity or stimulus measures or initiatives intended to control wages, unemployment, credit availability, inflation, international trade, taxation and other economic drivers.

Increased volatility and disruptions in the financial markets could make it more difficult and more expensive for the Company to refinance outstanding indebtedness and obtain new financing. The adoption of new statutes and regulations, new interpretations of existing statutes and regulations or the enforcement of laws and regulations applicable to the financial markets or the financial services industry could result in a reduction in the amount of available credit or an increase in the cost of credit. Disruptions in the financial markets can also adversely affect the Company's lenders, insurers and counterparties, including vendors, retailers and film co-financing partners. The inability of the Company's counterparties to obtain capital on acceptable terms could impair their ability to perform under agreements with the Company and lead to negative effects on the Company, including business disruptions, decreased revenues, increases in bad debt expenses and, in the case of film co-financing partners, greater risk to the Company with respect to the performance of its feature films.

***The Company faces risks relating to conducting business internationally that could adversely affect its businesses and operating results.*** It is important for the Company to achieve sufficient scale in key international territories in a cost-effective manner to be able to compete successfully in those territories. Failure to achieve sufficient scale could adversely affect the Company's results of operations. The increasing number of U.S. media companies focused on extending their global reach and the significant growth in the number of OTT services launched by international networks and distributors have intensified competition internationally, which could make it more difficult and expensive for the Company to achieve sufficient scale in key international territories. There are also risks inherent in international business operations, including:

- issues related to integrating and managing international operations and investments;
- potentially adverse tax developments;
- lack of sufficient protection for intellectual property in some countries;
- territorial restrictions on content licensing;
- currency exchange restrictions, export controls and currency devaluation risks in some foreign countries;
- the existence in some countries of statutory shareholder minority rights and restrictions on foreign direct ownership;
- the existence in some countries of regulatory or other restrictions that impede the ability of foreign companies to conduct business in such countries;
- the existence of quotas and other content-related limitations or restrictions (e.g., government censorship);
- restrictions on television advertising, marketing and network packaging;
- issues related to occupational safety and adherence to local labor laws and regulations;
- political or social unrest;
- higher than anticipated costs of entry;
- the presence of corruption in certain countries;
- the absence of good diplomatic relations between the U.S. and certain countries; and
- the potential for government appropriation of the Company's assets.

One or more of these factors could harm the Company's international operations or investments and its operating results.

Some of the Company's operations are conducted in foreign currencies, and the value of these currencies fluctuates in relation to the U.S. dollar. Although the Company hedges a portion of its foreign currency exposures, significant fluctuations in exchange rates in the past have had, and in the future could have, an adverse effect on the Company's results of operations in a given period. As the Company expands its international operations, its exposure to foreign currency fluctuations will increase.

***Increased piracy of the Company's content, products and other intellectual property may further decrease the revenues received from the legitimate sale, licensing and distribution of its content and adversely affect its business and profitability.*** The Company continues to be negatively affected by piracy, and an increase in the piracy of the Company's content, products and other intellectual property could reduce the revenues the Company earns from the legitimate sale, licensing and distribution of its content, products and other intellectual property. The risks relating to piracy continue to

---

**Table of Contents**

increase as technological developments have made it easier to access, reproduce, distribute and store high-quality unauthorized copies of content, such as increased broadband Internet speeds and penetration rates and increased availability and speed of mobile data transmission. Piracy is particularly prevalent in countries that lack effective copyright and other legal protections or enforcement measures, and illegitimate operators based in those parts of the world can attract users from anywhere in the world. The Company devotes substantial resources to protecting its content, products and intellectual property, but the Company's efforts to enforce its rights and combat piracy may not be successful.

***The Company's operating results may suffer if it cannot continue to license and exploit its intellectual property rights.*** The Company relies on a combination of patents, copyrights, trademarks, tradenames and other proprietary rights, as well as contractual arrangements, including licenses, to establish, maintain and protect its intellectual property rights. Effective intellectual property protection may not be available in every country in which the Company does business. The Company may not be able to acquire or maintain appropriate domain names in all countries in which it does business or prevent others from acquiring domain names that are similar to, infringe on, or diminish the value of, the Company's trademarks and other proprietary rights. Companies that license the Company's intellectual property also may take actions that diminish the value of the Company's intellectual property or harm the Company's reputation.

The Company's intellectual property rights may not be sufficient to permit it to take advantage of some business opportunities, such as new distribution platforms. As a result, the Company may be required to change its plans or acquire the necessary intellectual property rights, which could be costly.

The protection of the Company's intellectual property may require the Company to spend significant amounts of money. Further, the steps the Company takes to protect its intellectual property may not adequately protect its rights or prevent others from infringing or misappropriating its intellectual proprietary rights. Any impairment of the Company's intellectual property rights, including due to changes in U.S. or foreign intellectual property laws or the absence of effective legal protections or enforcement measures, could adversely impact the Company's businesses, financial condition and results of operations.

***The Company has been, and may be in the future, subject to claims that it infringed intellectual property rights of others, which could require the Company to change its business practices.*** Successful claims that the Company infringes on the intellectual property rights of others could require the Company to enter into royalty or licensing agreements on unfavorable terms, incur substantial monetary liability, be prohibited preliminarily or permanently from further use of the intellectual property in question or require the Company to change its business practices to stop the infringing use, which could limit its ability to compete effectively. Even if the Company believes a claim of intellectual property infringement is without merit, defending against the claim can be time-consuming and costly and divert management's attention and resources away from its businesses.

***The Company's businesses are subject to labor interruption.*** The Company and some of its suppliers and business partners retain the services of writers, directors, actors, announcers, athletes, technicians, trade employees and others involved in the development and production of its television programming, feature films and videogames who are covered by collective bargaining agreements. Collective bargaining agreements with the Writers Guild of America, West Inc. and the Writers Guild of America, East Inc., as well as the collective bargaining agreement with the Screen Actors Guild-American Federation of Television and Radio Artists ( SAG-AFTRA ) covering artists who perform in theatrical and television productions, expire in mid-2017. If negotiations to renew expiring collective bargaining agreements are not successful or become unproductive, the affected unions could take actions such as strikes, work slowdowns or work stoppages. Strikes, work slowdowns, work stoppages or the possibility of such actions could result in delays in the production of the Company's television programming, feature films and videogames. The

Company could also incur higher costs from such actions, new collective bargaining agreements or the renewal of collective bargaining agreements on less favorable terms. Many of the collective bargaining agreements that cover individuals providing services to the Company are industry-wide agreements, and the Company may lack practical control over the negotiations and terms of these agreements. Union or labor disputes or player lock-outs relating to certain professional sports leagues may preclude the Company from producing and telecasting scheduled games or events and could negatively impact the Company's promotional and marketing opportunities. Depending on their duration, union or labor disputes or player lock-outs could have an adverse effect on the Company's results of operations.

---

**Table of Contents**

***Service disruptions or failures of the Company's or its vendors' information systems and networks as a result of computer viruses, misappropriation of data or other bad acts, natural disasters, extreme weather, accidental releases of information or other similar events, may disrupt the Company's businesses, damage its reputation or have a negative impact on its results of operations.*** Shutdowns or service disruptions of information systems or networks at the Company or vendors that provide information systems, networks or other services to the Company pose increasing risks. Such disruptions may be caused by third-party hacking of computers and systems; dissemination of computer viruses, worms and other destructive or disruptive software; denial of service attacks and other bad acts, as well as power outages, natural disasters, extreme weather, terrorist attacks, or other similar events. Shutdowns or disruption from such events could have an adverse impact on the Company and its customers, including degradation or disruption of service, loss of data and damage to equipment and data. System redundancy may be ineffective or inadequate, and the Company's disaster recovery planning may not be sufficient to cover everything that could happen. Significant events could result in a disruption of the Company's operations, reduced revenues, the loss of or damage to the integrity of data used by management to make decisions and operate the Company's business, customer or advertiser dissatisfaction, damage to the Company's reputation or brands or a loss of customers. The Company may not have adequate insurance coverage to compensate it for any losses associated with such events.

The Company is also subject to risks caused by the misappropriation, misuse, falsification or intentional or accidental release or loss of data maintained in the information systems and networks of the Company or its vendors, including sensitive or confidential personnel, customer or vendor data. Outside parties may attempt to penetrate the Company's systems or those of its vendors or fraudulently induce employees or customers of the Company or employees of its vendors to disclose sensitive information to obtain or gain access to the Company's data. The number and sophistication of attempted and successful information security breaches in the U.S. have increased in recent years. If a material breach of the Company's information systems or those of its vendors occurs, the market perception of the effectiveness of the Company's information security measures could be harmed, the Company could lose customers and advertisers, and its reputation, brands and credibility could be damaged. In addition, if a material breach of its information systems occurs, the Company could be required to expend significant amounts of money and other resources to repair or replace information systems or networks or to comply with notification requirements. The Company also could be subject to actions by regulatory authorities and claims asserted in private litigation in the event of a breach of the information systems of the Company or its vendors.

Although the Company develops and maintains information security practices and systems designed to prevent these events from occurring, the development and maintenance of these systems are costly and require ongoing monitoring and updating as technologies change and tactics to overcome information security measures become more sophisticated. Moreover, despite the Company's efforts, the possibility of these events occurring cannot be eliminated entirely. Information security risks will continue to increase, and the Company will need to expend additional resources to protect its information systems, networks and data as the Company distributes more of its content digitally, engages in more electronic transactions directly with consumers, acquires more consumer data, including information about consumers' viewing behavior, their credit card information and other personal data, increases the number of information technology systems used in its business operations, relies more on cloud-based services and information systems and increases its use of third-party service providers to perform information technology services.

***Service disruptions or the failure of communications satellites or transmitter facilities relied on by the Company could have a negative impact on the Company's revenues.*** Turner and Home Box Office rely on their own and their vendors' communications satellites and transmitter facilities to transmit their programming to affiliates and other distributors. Shutdowns of satellites and transmitter facilities or service disruptions pose significant risks to the Company's operations. Such disruptions may be caused by power outages, natural disasters, extreme weather, terrorist attacks, failures or impairments of communications satellites or on-ground uplinks or downlinks used to transmit programming, or other similar events. If a satellite is not able to transmit the Company's programming, the Company

may not be able to secure an alternative communication satellite in a timely manner, because there are a limited number of communications satellites available for the transmission of programming. If such an event were to occur, there could be a disruption in the delivery of the Company's programming, which could harm the Company's reputation and adversely affect the Company's results of operations.

***The Company's businesses are subject to regulation in the U.S. and internationally, which could cause the Company to incur additional costs or liabilities or disrupt its business practices.*** The Company's businesses are subject to a variety of U.S. and international laws and regulations. See Item 1, Business Regulatory Matters, for a description of significant

---

**Table of Contents**

U.S. federal, state, local and international laws, regulations, regulatory agency inquiries, rulemaking proceedings and other developments affecting the Company and its businesses. The Company could incur significant costs to comply with new laws or regulations or changes in interpretations of laws or regulations or substantial penalties or other liabilities if it fails to comply with them. Compliance with new laws or regulations also could cause the Company to change or limit its business practices in a manner that is adverse to its businesses. In addition, if there are changes in laws or regulations that provide protections that the Company relies on in conducting its businesses, these changes could subject the Company to greater risk of liability and could increase compliance costs or limit the Company's ability to operate certain lines of business.

***If the separation of any of Time Inc., AOL Inc. ( AOL ) or Time Warner Cable Inc. ( TWC ) is determined to be taxable for income tax purposes, Time Warner and/or Time Warner's shareholders who received shares of Time Inc., AOL or TWC (as applicable) in connection with the respective spin-off of those companies could incur significant income tax liabilities.*** In connection with the separation from the Company of (i) Time Inc. in June 2014 and (ii) AOL in December 2009, Time Warner received an opinion of counsel confirming that the applicable separation transaction should not result in the recognition, for U.S. Federal income tax purposes, of gain or loss to Time Warner or its shareholders, except to the extent of cash received in lieu of fractional shares in such transaction. In connection with the separation of TWC from the Company in March 2009, Time Warner received a private letter ruling from the Internal Revenue Service ( IRS ) and opinions of counsel confirming that the TWC separation should not result in the recognition, for U.S. Federal income tax purposes, of gain or loss to Time Warner or its shareholders, except to the extent of cash received in lieu of fractional shares. The IRS ruling and the opinions of counsel in connection with these transactions were based on, among other things, certain facts, assumptions, representations and undertakings that were made by Time Warner and Time Inc., AOL or TWC, as applicable, in connection with the applicable separation transaction. If any of these facts, assumptions, representations or undertakings is incorrect or not otherwise satisfied, Time Warner and its shareholders may not be able to rely on the IRS ruling (in the case of the TWC separation transaction) or opinion and could be subject to significant tax liabilities. Furthermore, opinions of counsel are not binding on the IRS or state or local tax authorities or the courts, and a tax authority or court could determine that one or more of the separation transactions should be treated as a taxable transaction. Time Warner is entitled to indemnification from Time Inc., AOL and TWC for taxes resulting from the failure of the applicable separation transaction to qualify as tax-free as a result of (i) certain actions or failures to act by the former subsidiary or (ii) the failure of certain representations made by the former subsidiary to be true. However, if transaction taxes are incurred for other reasons, Time Warner would not be entitled to indemnification.

***The proposed acquisition of Time Warner by AT&T may cause disruption in Time Warner's business.*** On October 22, 2016, the Company entered into the Merger Agreement with AT&T, pursuant to which Time Warner will combine with AT&T in a stock-and-cash transaction. The Merger Agreement generally requires the Company to operate its business in the ordinary course pending consummation of the proposed merger and restricts the Company, without AT&T's consent, from taking certain specified actions until the merger is completed. These restrictions may affect the Company's ability to execute its business strategies and attain its financial and other goals and may impact its financial condition, results of operations and cash flows.

In connection with the pending merger, current and prospective employees of Time Warner may experience uncertainty about their future roles with the combined company following the merger, which may materially adversely affect the ability of Time Warner to attract and retain key personnel while the merger is pending. Key employees may depart because of issues relating to the uncertainty and difficulty of integration or a desire not to remain with the combined company following the merger, and may depart prior to payments that may be due pursuant to the retention plan put in place in connection with the merger. Accordingly, no assurance can be given that Time Warner will be able to attract and retain key employees to the same extent that Time Warner has been able to in the past.



The proposed merger further could cause disruptions to the Company's business or business relationships, which could have an adverse impact on results of operations. Parties with which the Company has business relationships may experience uncertainty as to the future of such relationships and may delay or defer certain business decisions, seek alternative relationships with third parties or seek to alter their present business relationships with the Company. Parties with whom the Company otherwise may have sought to establish business relationships may seek alternative relationships with third parties.

The pursuit of the merger and the preparation for the integration may place a significant burden on management and internal resources. The diversion of management's attention away from day-to-day business concerns could adversely affect the Company's financial results.

---

**Table of Contents**

The Company also could be subject to litigation related to the proposed merger, which could result in significant costs and expenses. In addition to potential litigation-related expenses, the Company has incurred and will continue to incur other significant costs, expenses and fees for professional services and other transaction costs in connection with the proposed merger, and many of these fees and costs are payable regardless of whether or not the proposed merger is consummated.

***Failure to complete the merger in a timely manner or at all could negatively impact the market price of the Time Warner common stock, as well as the Company's future business and its financial condition, results of operations and cash flows.*** The Company currently anticipates the merger will close before year-end 2017, but it cannot be certain when or if the conditions for the proposed merger will be satisfied or (if permissible under applicable law) waived. The merger cannot be completed until the conditions to closing are satisfied or (if permissible under applicable law) waived, including the adoption of the Merger Agreement by the holders of Time Warner common stock (which has been obtained) and the receipt of required antitrust and other regulatory approvals. In the event that the merger is not completed for any reason, the holders of Time Warner common stock will not receive any payment for their shares of Time Warner common stock in connection with the proposed merger. Instead, Time Warner will remain an independent public company and holders of Time Warner common stock will continue to own their shares of Time Warner common stock.

Additionally, if the merger is not consummated in a timely manner or at all, Time Warner's ongoing business may be adversely affected as follows:

Time Warner may experience negative reactions from financial markets and the stock price could decline; it may experience negative reactions from employees, customers, suppliers or other third parties; management's focus would have been diverted from pursuing other opportunities that could have been beneficial to Time Warner; and the costs of pursuing the merger may be higher than anticipated and would be borne entirely by Time Warner.

If the merger with AT&T is not completed, there can be no assurance that these risks will not materialize and will not materially adversely affect Time Warner's stock price, business, financial conditions, results of operations or cash flows.

***Completion of the merger is subject to conditions and if these conditions are not satisfied or waived, the merger will not be completed.*** The obligations of AT&T and Time Warner to complete the merger are subject to satisfaction or waiver of a number of conditions, some of which have been satisfied as of the date of this report. The obligations of AT&T and Time Warner are each subject to, among other conditions: (i) adoption of the Merger Agreement by Time Warner shareholders (which has been obtained), (ii) approval for the listing on the NYSE of the shares of AT&T common stock to be issued in the merger, upon official notice of issuance, (iii) expiration or termination of any applicable waiting period (or extension thereof) under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, (iv) if required in connection with the consummation of the merger, receipt of any necessary consents from the FCC, (v) receipt of consents from specified foreign regulators, (vi) if required in connection with the merger, receipt of consents from state public utility commissions, (vii) absence of any applicable law or order that prohibits completion of the merger, (viii) accuracy of the representations and warranties made in the Merger Agreement by the other party, subject to certain materiality qualifications, and (ix) performance in all material respects by the other party of the material obligations required to be performed by it at or prior to completion of the merger. In addition, AT&T's obligation to complete the merger is further subject to the governmental consents described in clauses (iii)-(vi) above having been received without the imposition of any regulatory conditions that, individually or in the aggregate, would

be reasonably likely to have a regulatory material adverse effect, as defined in the Merger Agreement. The satisfaction of the required conditions could delay the completion of the merger for a significant period of time or prevent it from occurring. Further, there can be no assurance that the conditions to the closing of the merger will be satisfied or waived or that the merger will be completed.

***In order to complete the merger, AT&T and Time Warner must obtain certain governmental approvals, and if such approvals are not granted or are granted with conditions, completion of the merger may be jeopardized or the anticipated benefits of the merger could be reduced.*** Although AT&T and Time Warner have agreed in the Merger Agreement to use their reasonable best efforts, subject to certain limitations, to make certain governmental filings and obtain the required governmental approvals or expiration or earlier termination of relevant waiting periods, as the case may be, there can be no assurance that the relevant waiting periods will expire or be terminated early or that the relevant approvals will be obtained. In addition, in certain instances, the governmental authorities that provide these approvals have broad discretion in

**Table of Contents**

administering the governing regulations. As a condition to approving the merger or related transactions, these governmental authorities may impose conditions, terms, obligations or restrictions or require divestitures or place restrictions on the conduct of AT&T's business after completion of the merger. Under the terms of the Merger Agreement, AT&T and its subsidiaries are required to take any and all actions necessary to obtain the consents, registrations, approvals, permits, waiting period expirations or authorizations imposed by governmental authorities required to consummate the merger (including accepting any conditions imposed by governmental authorities that would have a serious and significant adverse impact on the current or future business or operations of AT&T and its subsidiaries, including Time Warner and its subsidiaries), except those actions which would result in a regulatory material adverse effect as defined in the Merger Agreement. There can be no assurance that regulators will not impose conditions, terms, obligations or restrictions and that such conditions, terms, obligations or restrictions will not have the effect of delaying completion of the merger or imposing additional material costs on or materially limiting the revenues of the combined company following the merger, or otherwise adversely affecting, including to a material extent, AT&T's businesses and results of operations after completion of the merger. In addition, there can be no assurance that these conditions, terms, obligations or restrictions will not result in the abandonment of the merger.

**Item 1B. Unresolved Staff Comments.**

Not applicable.

**Item 2. Properties.**

Time Warner's headquarters are located in New York City at One Time Warner Center. The Company also owns or leases offices; studios; technical, production and warehouse spaces; communications facilities and other properties in numerous locations in the United States and around the world for its businesses. The Company considers its properties adequate for its current needs. The following table sets forth information as of December 31, 2016 with respect to the Company's principal properties:

<b>Location</b>	<b>Principal Use</b>	<b>Approximate Square Feet Floor Space</b>	<b>Type of Ownership; Expiration Date of Lease</b>
New York, NY	Executive, business and administrative offices, studios, technical space and screening room (Corporate HQ and Turner)	940,000	Leased by the Company. Lease expires in 2019. <sup>(a)</sup>
One Time Warner Center			
Hong Kong	Executive, business and administrative offices, a studio, technical space and screening room (Corporate, Turner and Warner Bros.)	88,000	Leased by the Company. Lease expires in 2018. Approx. 16,000 sq. ft. is sublet to unaffiliated third-party tenants.
979 King's Rd. Oxford House			
London, England	Executive, business and administrative offices, studios	100,000	Leased by the Company. Lease expires in 2019.

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

Turner House 16 Great Marlborough St. Atlanta, GA	and technical space (Corporate, Turner and Home Box Office)	1,280,000	Owned by the Company. Approx. 45,000 sq. ft. is leased to unaffiliated third-party tenants.
One CNN Center Atlanta, GA	Executive, business and administrative offices, studios and technical and retail space (Turner)	1,170,000	Owned by the Company.
1050 Techwood Dr. Santiago, Chile	Executive, business and administrative offices, studios and technical space (Turner)	254,000	Owned by the Company.
Pedro Montt 2354	Business offices, studios and technical space (Turner)		

**Table of Contents**

<b>Location</b>	<b>Principal Use</b>	<b>Approximate Square Feet Floor Space</b>	<b>Type of Ownership; Expiration Date of Lease</b>
Buenos Aires, Argentina 599 & 533 Defensa St. Washington, DC 820 First St.	Business offices, studios and technical space (Turner)	129,000	Owned by the Company.
Los Angeles, CA 6430 Sunset Blvd.	Business offices, studios and technical space (Turner)	37,000	Leased by the Company. Lease expires in 2022.
New York, NY 1100 and 1114 Ave. of the Americas	Executive, business and administrative offices and technical space (Home Box Office)	673,000	Leased by the Company under two leases expiring in 2018.
Santa Monica, CA 2500 Broadway	Executive, business and administrative offices and technical space (Home Box Office)	128,000	Leased by the Company. Lease expires in 2019.
Hauppauge, NY 300 New Highway	Business offices, communications center, production facility and technical space (Home Box Office)	115,000	Owned by the Company.
New York, NY 120A East 23 <sup>rd</sup> Street	Business and administrative offices, studios and technical space (Home Box Office)	82,000	Leased by the Company. Lease expires in 2018.
Seattle, WA 1099 Stewart Street	Business and administrative offices, and technical space (Home Box Office)	112,000	Leased by the Company. Lease expires in 2025.
Burbank, CA The Warner Bros. Studio	Executive, business and administrative offices, sound stages, administrative, technical and dressing room structures, screening theaters, machinery and equipment facilities, tour operations, back lot and parking lot/structures (Warner Bros.)	3,825,000 <sup>(b)</sup>	Owned by the Company.
Leavesden, UK Leavesden Studios	Business and administrative offices, sound stages, technical and dressing room structures,	1,024,000	Owned by the Company.

	machinery and equipment facilities, tour operations, back lot and parking lots (Warner Bros.)		
Burbank, CA 3400 Riverside Dr.	Executive, business and administrative offices (Warner Bros.)	421,000	Leased by the Company. Lease expires in 2019.
Burbank, CA 3300 W. Olive Ave.	Executive, business and administrative offices and technical space (Warner Bros.)	231,000	Leased by the Company. Lease expires in 2021.
London, England 98 Theobald Rd.	Business and administrative offices and screening room (Warner Bros.)	135,000	Leased by the Company. Lease expires in 2019.
Burbank, CA 3903 W. Olive Ave.	Executive, business and administrative offices (Warner Bros.)	128,000	Owned by the Company.
Burbank, CA 4001 W. Olive Ave.	Executive, business and administrative offices (Warner Bros.)	153,000	Owned by the Company.

- (a) The Company plans to move to a new corporate headquarters in the Hudson Yards development project in New York in early 2019.
- (b) Represents 3,825,000 sq. ft. of improved space on 148 acres.

---

**Table of Contents**

**Item 3. *Legal Proceedings.***

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

On April 4, 2007, the National Labor Relations Board ( NLRB ) issued a complaint against CNN America Inc. ( CNN America ) and Team Video Services, LLC ( Team Video ) related to CNN America s December 2003 and January 2004 terminations of its contractual relationships with Team Video, under which Team Video had provided electronic news gathering services in Washington, DC and New York, NY. The National Association of Broadcast Employees and Technicians, under which Team Video s employees were unionized, initially filed charges of unfair labor practices with the NLRB in February 2004, alleging that CNN America and Team Video were joint employers, that CNN America was a successor employer to Team Video, and/or that CNN America discriminated in its hiring practices to avoid becoming a successor employer or due to specific individuals union affiliation or activities. In the complaint, the NLRB sought, among other things, the reinstatement of certain union members and monetary damages. On November 19, 2008, the presiding NLRB Administrative Law Judge ( ALJ ) issued a non-binding recommended decision and order finding CNN America liable. On September 15, 2014, a three-member panel of the NLRB affirmed the ALJ s decision and adopted the ALJ s order with certain modifications. On November 12, 2014, both CNN America and the NLRB General Counsel filed motions with the NLRB for reconsideration of the panel s decision. On March 20, 2015, the NLRB granted the NLRB General Counsel s motion for reconsideration to correct certain inadvertent errors in the panel s decision, and it denied CNN America s motion for reconsideration. On July 9, 2015, CNN America filed a notice of appeal with the U.S. Court of Appeals for the D.C. Circuit regarding the panel s decision and the denial of CNN America s motion for reconsideration.

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

The Company has estimated a range of possible loss for legal claims for which the Company has determined a loss is probable or reasonably possible, including the matter disclosed above. The Company believes the estimate of the aggregate range of possible loss for such matters in excess of accrued liabilities is between \$0 and \$100 million at December 31, 2016. The estimated aggregate range of possible loss is subject to significant judgment and a variety of assumptions. The matters represented in the estimated aggregate range of possible loss will change from time to time and actual results may vary significantly from the current estimate.

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

**Item 4. *Mine Safety Disclosures.***

Not applicable.





**Table of Contents****EXECUTIVE OFFICERS OF THE COMPANY**

Pursuant to General Instruction G(3) to Form 10-K, the information regarding the Company's executive officers required by Item 401(b) of Regulation S-K is hereby included in Part I of this report.

The following table sets forth the name of each executive officer of the Company, the office held by such officer and the age of such officer as of February 1, 2017.

<b>Name</b>	<b>Age</b>	<b>Office</b>
Jeffrey L. Bewkes	64	Chairman and Chief Executive Officer
Howard M. Averill	53	Executive Vice President and Chief Financial Officer
Paul T. Cappuccio	55	Executive Vice President and General Counsel
Gary Ginsberg	54	Executive Vice President, Corporate Marketing & Communications
Karen Magee	55	Executive Vice President and Chief Human Resources Officer
Carol A. Melton	62	Executive Vice President, Global Public Policy
Olaf Olafsson	54	Executive Vice President, International & Corporate Strategy

Set forth below are the principal positions held by each of the executive officers named above:

Mr. Bewkes	Chairman and Chief Executive Officer since January 2009; prior to that, Mr. Bewkes served as President and Chief Executive Officer from January 2008 and President and Chief Operating Officer from January 2006. Mr. Bewkes has been a Director of the Company since January 2007. Prior to January 2006, Mr. Bewkes served as Chairman, Entertainment & Networks Group from July 2002 and, prior to that, Mr. Bewkes served as Chairman and Chief Executive Officer of HBO from May 1995, having served as President and Chief Operating Officer from 1991.
Mr. Averill	Executive Vice President and Chief Financial Officer since January 2014; prior to that, Mr. Averill served as Senior Vice President & Deputy Chief Financial Officer from September 2013 through December 2013. Mr. Averill served as Executive Vice President & Chief Financial Officer of Time Inc. from 2007 to September 2013. Prior to that, Mr. Averill was Executive Vice President and Chief Financial Officer at NBC Universal Television from 2005 to 2007 and held other executive positions at NBC Universal, Inc. from 1997 to 2005. Prior to these positions, he held positions with ITT/Sheraton Corporation, Pepsi-Cola Company and Arthur Andersen & Co.
Mr. Cappuccio	Executive Vice President and General Counsel since January 2001; prior to that, Mr. Cappuccio served as Senior Vice President and General Counsel of AOL from August 1999. From 1993 to 1999, Mr. Cappuccio was a partner at the Washington, D.C. office of the law firm of Kirkland & Ellis. Mr. Cappuccio was an Associate Deputy Attorney General at the U.S. Department of Justice from 1991 to 1993.

Mr. Ginsberg

Executive Vice President, Corporate Marketing & Communications since April 2010; prior to that, Mr. Ginsberg served as an Executive Vice President at News Corporation from January 1999 to December 2009, most recently serving as Executive Vice President of Global Marketing and Corporate Affairs. Prior to that, Mr. Ginsberg served as Managing Director at the strategic consulting firm Clark & Weinstock from November 1996 to December 1998, Senior Editor and Counsel of *George* magazine from March 1995 to November 1996, and Assistant Counsel to President Clinton and Senior Counsel at the U.S. Department of Justice from January 1993 to November 1994.

**Table of Contents**

Ms. Magee	Executive Vice President and Chief Human Resources Officer since January 2014; prior to that, Ms. Magee served as Senior Vice President and Chief Human Resources Officer from January 2011 through December 2013 and as Senior Vice President, Administration, Shared Services from March 2010 to January 2011. Prior to that, Ms. Magee served as the Chief Executive Officer of PlanetOut Inc. from 2006 to 2009. Prior to that, Ms. Magee served as Senior Vice President of Strategic Planning at the Company from 2004 to 2006, as Vice President and then Senior Vice President of Strategic Planning at Time Inc. from 2001 to 2004. Prior to these positions, Ms. Magee served in various roles at Time Inc.
Ms. Melton	Executive Vice President, Global Public Policy since June 2005; prior to that, Ms. Melton worked for eight years at Viacom Inc., serving as Executive Vice President, Government Relations at the time she left to rejoin Time Warner. Prior to that, Ms. Melton served as Vice President in Time Warner's Public Policy Office until 1997, having joined the Company in 1987 after having served as Legal Advisor to the Chairman of the FCC.
Mr. Olafsson	Executive Vice President, International & Corporate Strategy since March 2003. During 2002, Mr. Olafsson pursued personal interests, including working on a novel that was published in the fall of 2003. Prior to that, he was Vice Chairman of Time Warner Digital Media from November 1999 through December 2001 and, prior to that, Mr. Olafsson served as President of Advanta Corp. from March of 1998 until November 1999.

**Table of Contents****PART II****Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.**

The Company is a corporation organized under the laws of Delaware, and was formed on February 4, 2000 in connection with the Company's January 2001 merger with America Online, Inc. The principal market for the Company's Common Stock is the NYSE. For quarterly price information with respect to the Company's Common Stock for the two years ended December 31, 2016, see Quarterly Financial Information at pages 140 through 141 herein, which information is incorporated herein by reference. The number of holders of record of the Company's Common Stock as of February 17, 2017 was 14,640.

The Company paid a cash dividend of \$0.35 per share in each quarter of 2015 and a cash dividend of \$0.4025 per share in each quarter of 2016.

On February 7, 2017, the Company's Board of Directors declared the next regular quarterly cash dividend of \$0.4025 per share to be paid on March 15, 2017 to stockholders of record on February 28, 2017. The Company currently expects to continue to pay comparable cash dividends in the future. The Merger Agreement restricts the Company, without AT&T's prior written consent, from increasing the quarterly cash dividends above \$0.4025 per share. In addition, changes to the Company's dividend policy will depend on the Company's earnings, investment opportunities, capital requirements, financial condition, economic conditions and other factors considered relevant by the Company's Board of Directors.

**Company Purchases of Equity Securities**

The following table provides information about the Company's purchases of equity securities registered by the Company pursuant to Section 12 of the Exchange Act, as amended, during the quarter ended December 31, 2016.

**Issuer Purchases of Equity Securities**

<b>Period</b>	<b>Total Number of Shares Purchased</b>	<b>Average Price Paid Per Share<sup>(1)</sup></b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs<sup>(2)</sup></b>	<b>Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs<sup>(1)</sup></b>
October 1, 2016 -				
October 31, 2016	2,120,718	\$ 79.98	2,120,718	\$ 2,693,315,245
November 1, 2016 -				
November 30, 2016	0	\$ --	0	\$ 2,693,315,245
December 1, 2016 -	0	\$ --	0	\$ 2,693,315,245

December 31, 2016

Total	2,120,718	\$	79.98	2,120,718	\$	2,693,315,245
-------	-----------	----	-------	-----------	----	---------------

- (1) These amounts do not give effect to any fees, commissions or other costs associated with the share repurchases.
- (2) On February 10, 2016, the Company announced that its Board of Directors had authorized a total of \$5.0 billion in share repurchases beginning January 1, 2016, including the approximately \$902 million remaining at December 31, 2015 from the prior \$5.0 billion authorization. Purchases under the stock repurchase program may be made, from time to time, on the open market or in privately negotiated transactions, with the size and timing of these purchases based on a number of factors, including price and business and market conditions. The Company has repurchased shares of its common stock pursuant to trading plans under Rule 10b5-1 promulgated under the Securities Exchange Act of 1934, as amended. In connection with entering into the Merger Agreement, the Company discontinued share repurchases under the stock repurchase program.

**Item 6. Selected Financial Data.**

The selected financial information of the Company for the five years ended December 31, 2016 is set forth at page 139 herein and is incorporated herein by reference.

**Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.**

The information set forth under the caption Management's Discussion and Analysis of Results of Operations and Financial Condition at pages 41 through 75 herein is incorporated herein by reference.

**Table of Contents**

**Item 7A. *Quantitative and Qualitative Disclosures About Market Risk.***

The information set forth under the caption **Market Risk Management** at pages 71 through 73 herein is incorporated herein by reference.

**Item 8. *Financial Statements and Supplementary Data.***

The consolidated financial statements and supplementary data of the Company and the report of independent registered public accounting firm thereon set forth at pages 76 through 135, 142 through 150 and 137 herein, respectively, are incorporated herein by reference.

Quarterly Financial Information set forth at pages 140 through 141 herein is incorporated herein by reference.

**Item 9. *Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.***

Not applicable.

**Item 9A. *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.

**Management's Report on Internal Control Over Financial Reporting**

Management's report on internal control over financial reporting and the report of independent registered public accounting firm thereon set forth at pages 136 and 138 herein are incorporated herein by reference.

**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 December 31, 2016 that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

**Item 9B. *Other Information.***

Not applicable.





**Table of Contents****PART III****Items 10, 11, 12, 13 and 14. *Directors, Executive Officers and Corporate Governance; Executive Compensation; Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters; Certain Relationships and Related Transactions, and Director Independence; Principal Accounting Fees and Services.***

Information called for by Items 10, 11, 12, 13 and 14 of Part III is incorporated by reference from the Company's definitive Proxy Statement to be filed in connection with its 2017 Annual Meeting of Stockholders pursuant to Regulation 14A, except that (i) the information regarding the Company's executive officers called for by Item 401(b) of Regulation S-K has been included in Part I of this report and (ii) the information regarding certain Company equity compensation plans called for by Item 201(d) of Regulation S-K is set forth below.

The Company has adopted a Code of Ethics for its Senior Executive and Senior Financial Officers. A copy of the Code is publicly available on the Company's website at <http://www.timewarner.com/our-company/corporate-governance/codes-of-conduct>. Amendments to the Code or any grant of a waiver from a provision of the Code requiring disclosure under applicable SEC rules will also be disclosed on the Company's website.

**Equity Compensation Plan Information**

The following table summarizes information as of December 31, 2016 about the Company's outstanding equity compensation awards and shares of Common Stock reserved for future issuance under the Company's equity compensation plans.

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights <sup>(2)</sup> (a)	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights <sup>(2)</sup> (b)	Number of Securities Remaining
			Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a)) (c)
Equity compensation plans approved by security holders <sup>(1)</sup>	37,104,111	\$ 47.07	13,496,528 <sup>(3)</sup>
Equity compensation plans not approved by security holders	--	\$ --	--
Total <sup>(2)</sup>	37,104,111	\$ 47.07	13,496,528 <sup>(3)</sup>

(1)

Equity compensation plans approved by security holders are the (i) Time Warner Inc. 2013 Stock Incentive Plan (will expire on August 31, 2017), (ii) Time Warner Inc. 2010 Stock Incentive Plan (terminated effective August 8, 2013), (iii) Time Warner Inc. 2006 Stock Incentive Plan (terminated effective September 16, 2010), (iv) Time Warner Inc. 2003 Stock Incentive Plan (expired on May 16, 2008) and (v) Time Warner Inc. 1999 Stock Plan (expired on October 28, 2009). The Time Warner Inc. 1999 Stock Plan was approved in 1999 by the stockholders of America Online, Inc. and was assumed by the Company in connection with the merger of America Online, Inc. and Time Warner Inc. (now known as Historic TW Inc.), which was approved by the stockholders of both America Online, Inc. and Historic TW Inc. on June 23, 2000.

- (2) Column (a) includes 11,559,816 shares of Common Stock underlying outstanding restricted stock units ( RSUs ) and 977,614 shares of Common Stock underlying outstanding performance stock units ( PSUs ), assuming a maximum payout of 200% of the target number of PSUs at the end of the applicable performance period. Because there is no exercise price associated with RSUs or PSUs, these stock awards are not included in the weighted-average exercise price calculation presented in column (b).
- (3) Because plan provisions limit the number of shares with respect to which awards may be granted during a calendar year, awards covering only approximately 85% of these shares may be granted prior to the expiration of the plan on August 31, 2017. The Company expects the number of shares underlying awards granted during 2017 will be significantly lower than either the number that could be awarded or the number that typically has been awarded in a year because the Company does not expect to make equity awards in 2017 to employees who were granted special retention restricted stock units in 2016 in connection with the Company entering into the Merger Agreement.

**Table of Contents**

**PART IV**

**Item 15. *Exhibits and Financial Statement Schedules.***

*(a)(1)-(2) Financial Statements and Schedules:*

(i) The list of consolidated financial statements and schedules set forth in the accompanying Index to Consolidated Financial Statements and Other Financial Information at page 40 herein is incorporated herein by reference. Such consolidated financial statements and schedules are filed as part of this report.

(ii) All other financial statement schedules are omitted because the required information is not applicable, or because the information required is included in the consolidated financial statements and notes thereto.

*(3) Exhibits:*

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

**Item 16. *Form 10-K Summary.***

None.

Table of Contents

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

TIME WARNER INC.

By: /s/ Howard M. Averill  
 Name: Howard M. Averill  
 Title: Executive Vice President and  
 Chief Financial Officer

Date: February 23, 2017

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Jeffrey L. Bewkes <b>Jeffrey L. Bewkes</b>	Director, Chairman of the Board and Chief Executive Officer (principal executive officer)	February 23, 2017
/s/ Howard M. Averill <b>Howard M. Averill</b>	Executive Vice President and Chief Financial Officer (principal financial officer)	February 23, 2017
/s/ Douglas E. Horne <b>Douglas E. Horne</b>	Senior Vice President & Controller (principal accounting officer)	February 23, 2017
/s/ James L. Barksdale	Director	February 23, 2017

**James L. Barksdale**

/s/ William P. Barr

Director

February 23, 2017

**William P. Barr**

/s/ Robert C. Clark

Director

February 23, 2017

**Robert C. Clark**

---

**Table of Contents**

<b>Signature</b>	<b>Title</b>	<b>Date</b>
/s/ Mathias Döpfner <b>Mathias Döpfner</b>	Director	February 23, 2017
/s/ Jessica P. Einhorn <b>Jessica P. Einhorn</b>	Director	February 23, 2017
/s/ Carlos M. Gutierrez <b>Carlos M. Gutierrez</b>	Director	February 23, 2017
/s/ Fred Hassan <b>Fred Hassan</b>	Director	February 23, 2017
/s/ Paul D. Wachter <b>Paul D. Wachter</b>	Director	February 23, 2017
/s/ Deborah C. Wright <b>Deborah C. Wright</b>	Director	February 23, 2017

**Table of Contents**

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

	<b>Page</b>
<u>Management's Discussion and Analysis of Results of Operations and Financial Condition</u>	41
Consolidated Financial Statements:	
<u>Consolidated Balance Sheet</u>	76
<u>Consolidated Statement of Operations</u>	77
<u>Consolidated Statement of Comprehensive Income</u>	78
<u>Consolidated Statement of Cash Flows</u>	79
<u>Consolidated Statement of Equity</u>	80
<u>Notes to Consolidated Financial Statements</u>	81
<u>Management's Report on Internal Control Over Financial Reporting</u>	136
<u>Reports of Independent Registered Public Accounting Firm</u>	137
<u>Selected Financial Information</u>	139
<u>Quarterly Financial Information</u>	140
<u>Supplementary Information</u>	142
<u>Financial Statement Schedule II - Valuation and Qualifying Accounts</u>	151

**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 its 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 years ended December 31, 2016. 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 provided.

*Financial condition and liquidity.* This section provides an analysis of the Company's cash flows for the three years ended December 31, 2016 and the Company's outstanding debt and commitments as of December 31, 2016. Included in the analysis of outstanding debt is a discussion of the amount of financial capacity available to fund the Company's ongoing operations and future commitments, as well as a discussion of other financing arrangements.

*Market risk management.* This section discusses how the Company monitors and manages exposure to potential gains and losses arising from changes in market rates and prices, such as interest rates, foreign currency exchange rates and changes in the market value of financial instruments.

*Critical accounting policies.* This section identifies those accounting policies that are considered important to the Company's results of operations and financial condition, require significant judgment and involve significant management estimates. The Company's significant accounting policies, including those considered to be critical accounting policies, are summarized in Note 1, Description of Business, Basis of Presentation and Summary of Significant Accounting Policies, to the accompanying consolidated financial statements.

*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. Such information is based on management's current expectations about future events, which are inherently susceptible to uncertainty and changes in circumstances. Refer to Item 1A, Risk Factors, in Part I of this report for a discussion of the risk factors applicable to the Company.

## 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 year ended December 31, 2016, the Company generated Revenues of \$29.318 billion (up 4% from \$28.118 billion in 2015), Operating Income of \$7.547 billion (up 10% from \$6.865 billion in 2015), Income from continuing operations of \$3.914 billion (up 3% from \$3.795 billion in 2015), Net Income attributable to Time Warner shareholders of \$3.926 billion (up 2% from \$3.833 billion in 2015) and Cash provided by operations from continuing operations of \$4.683 billion (up 22% from \$3.851 billion in 2015). The Company's results for the year ended December 31, 2016 were significantly impacted by \$1.008 billion of premiums paid and costs incurred on debt redemptions. The Company's results for the year ended December 31, 2014 were significantly impacted by the sale and leaseback of the Company's space in Time Warner Center in January 2014 and the reversal of certain tax reserves in connection with an audit settlement. See Results of Operations Transactions and Other Items Affecting Comparability for a discussion of transactions and other items that affected the comparability of Time Warner's results.

---

**Table of Contents**

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

**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 16, Segment Information, to the accompanying consolidated financial statements.

As used in MD&A, the term *affiliates* refers to distributors that deliver packages of networks to their subscribers, including cable system operators, satellite service distributors and telephone companies ( *traditional affiliates* ) and virtual multichannel video programming distributors ( *virtual MVPDs* ); and the term *OTT services* refers to services that deliver video content to consumers over the internet and includes subscription video-on-demand ( *SVOD* ) services and advertising-supported VOD ( *AVOD* ) services such as social media platforms and user-generated content digital platforms, but does not include virtual MVPDs.

**Turner.** Time Warner's Turner segment consists of businesses managed by Turner Broadcasting System, Inc. ( *Turner* ). During the year ended December 31, 2016, the Turner segment recorded Revenues of \$11.364 billion (38% of the Company's total Revenues) and Operating Income of \$4.372 billion.

Turner creates and programs branded news, entertainment, sports and kids multi-platform content for consumers around the world. The Turner networks and related businesses and brands include TNT, TBS, Adult Swim, truTV, Turner Classic Movies, Turner Sports, Bleacher Report, Cartoon Network, Boomerang, CNN, HLN and iStreamPlanet. The Turner networks generate revenues principally from licensing 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 and its brands and characters for consumer products and other business ventures. Turner also generates revenues from the sale of advertising and sponsorships through its digital properties. Turner's programming is available to subscribers of affiliates for viewing live and on demand on television and various internet-connected devices on services provided by affiliates and on Turner's digital properties. Turner is also pursuing direct-to-consumer distribution options for its programming and networks. For example, in November 2016, Turner launched its first domestic SVOD service, FilmStruck, aimed at arthouse film enthusiasts.

**Home Box Office.** Time Warner's Home Box Office segment consists of businesses managed by Home Box Office, Inc. ( *Home Box Office* ). During the year ended December 31, 2016, the Home Box Office segment recorded Revenues of \$5.890 billion (20% of the Company's total Revenues) and Operating Income of \$1.917 billion.

Home Box Office operates the HBO and Cinemax multichannel premium pay television services, with the HBO service ranking as the most widely distributed multichannel premium pay television service. HBO and Cinemax programming is available in the U.S. to subscribers of affiliates for viewing live and on demand on television and various internet-connected devices on services provided by affiliates and on Home Box Office's digital properties. In addition, Home Box Office offers HBO NOW, a domestic stand-alone OTT service available through digital distributors and some affiliates on a variety of internet-connected devices. Home Box Office has entered into arrangements with a number of digital distributors to provide their subscribers access to HBO and Cinemax services

and programming on a variety of digital platforms and devices. HBO- and Cinemax-branded premium pay, basic tier television and OTT services are distributed in over 60 countries in Latin America, Asia and Europe.

In the U.S., Home Box Office generates revenues principally from licensing programming to affiliates and digital distributors that have contracted to receive and distribute such programming to their customers who subscribe to the HBO or Cinemax services. Home Box Office's agreements with its domestic affiliates are typically long-term arrangements that provide for annual service fee increases and marketing support. The relationship between subscriber totals and the amount of revenues earned under Home Box Office affiliate agreements 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

---

**Table of Contents**

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

impact revenue earned. Internationally, Home Box Office generates subscription revenues by licensing programming to international affiliates that have contracted to receive and distribute such programming to their customers. In some countries, Home Box Office also generates subscription revenues from OTT services that are distributed to consumers either directly or through third parties. Additional sources of revenues for Home Box Office are the home entertainment sales of its original programming, including *Game of Thrones*, *True Detective*, *True Blood* and *Girls*, via physical and digital formats and the licensing of its original programming.

**Warner Bros.** Time Warner's 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 year ended December 31, 2016, the Warner Bros. segment recorded Revenues of \$13.037 billion (42% of the Company's total Revenues) and Operating Income of \$1.734 billion.

Warner Bros. is a leader in television production and distribution. Warner Bros. generates television product revenues principally from the licensing of programs to broadcast and cable television networks and premium pay television and OTT services. For the 2016/2017 season, Warner Bros. is producing 75 original series in the U.S., including (i) at least four series for each of the five broadcast networks (including *2 Broke Girls*, *Arrow*, *The Bachelor*, *The Big Bang Theory*, *Blindspot*, *DC's Legends of Tomorrow*, *The Flash*, *Gotham*, *iZombie*, *Lethal Weapon*, *Little Big Shots*, *Lucifer*, *The Middle*, *Mom*, *Riverdale*, *Supergirl*, *Supernatural*, *The Vampire Diaries* and *The Voice*), (ii) series for basic cable networks (including *Animal Kingdom*, *People of Earth*, *Pretty Little Liars* and *Queen Sugar*), (iii) series for premium pay television services (including *The Leftovers*, *Shameless* and *Westworld*), (iv) series for SVOD services (including *Disjointed*, *Fuller House*, *Gilmore Girls: A Year in the Life* and *Longmire*), (v) series for first-run syndication (including *The Ellen DeGeneres Show*, *Extra*, *The Real* and *TMZ*) and (vi) animated series for Cartoon Network, Boomerang, Adult Swim and third party networks (including *Be Cool*, *Scooby Doo!*, *Mike Tyson Mysteries*, *New Looney Tunes* and *Teen Titans Go!*). 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 many 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.

Warner Bros. is a leader in the feature film industry and produces feature films under its Warner Bros. and New Line Cinema banners. Warner Bros. generates theatrical product revenues principally through rental fees from theatrical exhibition of feature films, including the following recently released films: *The Accountant*, *Batman v Superman: Dawn of Justice*, *Central Intelligence*, *The Conjuring 2*, *Fantastic Beasts and Where to Find Them*, *The Legend of Tarzan*, *The LEGO Batman Movie*, *Lights Out*, *Me Before You*, *Storks*, *Suicide Squad* and *Sully*, and subsequently through licensing fees received from the distribution of films on premium pay television services, broadcast and cable television networks and OTT services.

Warner Bros. is a leader in the home entertainment and videogame industries. The segment generates television and theatrical product revenues from the distribution of television and theatrical product in various physical and digital

formats (e.g., electronic sell-through ( EST ) and video-on-demand ( VOD )). In addition, the segment generates revenues through the development and distribution of videogames, including the following recently released videogames: *LEGO Marvel s Avengers* and *Mortal Kombat XL*.

The distribution and sale of home entertainment product in physical formats is a large contributor to the segment s revenues and profits. For the past several years, sales of home entertainment product in physical formats have declined as the home entertainment industry has been undergoing significant changes as home entertainment consumption patterns have shifted. Several factors have contributed to this decline, including consumers shifting to digital purchases and transactional VOD rentals of content; changing retailer initiatives and strategies (e.g., reduction of floor space devoted to home entertainment product in physical formats); retail store closures; increasing competition for consumer discretionary time and spending; and piracy. Consumers have also been increasingly shifting to OTT services that are based on a subscription model rather than a transactional model. During 2016, across the home entertainment industry, consumer spending on home

**Table of Contents**

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

entertainment product in physical formats continued to decline and consumer spending on electronic delivery continued to increase. 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 home entertainment product in physical formats.

**Television Industry**

The television industry continues to evolve, with changes in technology, rapid growth in new video services, and a corresponding increase in overall video content consumption and shift in consumer viewing patterns. Consumers are watching an increasing amount of programming on demand and across a wide variety of services and internet-connected devices. Over the past few years, the number of subscribers to multichannel video services provided by traditional affiliates in the U.S. has declined slightly, and the Company expects further modest declines to continue in the future. To counteract this trend, some traditional affiliates are placing greater emphasis on selling smaller bundles of networks, resulting in higher subscriber declines for most individual networks than for traditional affiliates in total.

At the same time, the penetration of internet-connected devices has grown, which has led to a growing number and variety of internet-delivered video services that do not require a traditional affiliate subscription or set-top box hardware. These include SVOD services, such as Amazon Prime Video, Hulu and Netflix, which have continued to increase their number of subscribers and have been, and are expected to continue, making significant investments in acquired and original programming. Some television networks and premium pay television services have also launched OTT services, such as HBO. In addition, some traditional affiliates as well as media and technology companies have launched, or have announced that they will launch, virtual MVPD services, and AVOD services, such as YouTube and Facebook, also have continued to gain in popularity.

As a result of these changes, consumers have more options for obtaining video content, including lower-cost alternatives. The combination of new competitors, changes in viewing habits and declines in subscribers to traditional affiliates' multichannel video services has negatively affected overall television ratings and, as a result, television advertising revenues for the industry and certain of the Company's networks. There also has been a corresponding shift of advertising dollars to non-traditional video outlets.

To address these changes, the Company's strategy over the past few years has focused on strengthening its position within the traditional TV ecosystem, enhancing the value of traditional multichannel video service subscriptions for consumers and affiliates and the value of television advertising for advertisers, and pursuing new opportunities outside the traditional TV ecosystem. As part of this strategy, the Company plans to continue increasing its investment in high-quality distinctive programming to enhance the value of its networks, as well as expanding the amount of its content that is available on demand to capitalize on the shift in consumption habits. In addition, Turner has introduced new advertising products that provide greater data analytic tools and targeting capabilities to advertisers in order to compete more effectively with non-traditional outlets. The Company is also pursuing a number of initiatives to capitalize on the new opportunities presented by these changes, including launching OTT services and investing in

and obtaining distribution of its content through other companies' OTT services, as well as investing in short-form content production and digital-first news and entertainment networks. In addition, the Company is focused on increasing the digital sales and rentals of its television and film content and is a leader in various initiatives designed to make digital ownership of content more compelling for consumers.

### **AT&T and Time Warner Merger Agreement**

On October 22, 2016, Time Warner entered into an Agreement and Plan of Merger (the "Merger Agreement") with AT&T Inc. ("AT&T"), West Merger Sub, Inc. and West Merger Sub II, LLC, pursuant to which Time Warner will combine with AT&T in a stock-and-cash transaction. The Merger Agreement has been approved unanimously by the boards of directors of both companies. Time Warner shareholders adopted the Merger Agreement at a special meeting of shareholders held on February 15, 2017. Subject to the satisfaction of the remaining conditions in the Merger Agreement, upon consummation of the merger, Time Warner's shareholders will receive per share consideration consisting of \$53.75 in cash

---

**Table of Contents**

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

and a specified number of shares of AT&T stock, as set forth in the Merger Agreement and determined by reference to the average of the volume weighted averages of the trading price of AT&T common stock on the New York Stock Exchange ( NYSE ) on each of the 15 consecutive NYSE trading days ending on and including the trading day that is three trading days prior to the closing of the merger (the Average Stock Price ). The stock portion of the per share consideration will be subject to a collar such that if the Average Stock Price is between \$37.411 and \$41.349, Time Warner shareholders will receive shares of AT&T stock equal to \$53.75 in value for each share of Time Warner common stock. If the Average Stock Price is below \$37.411, Time Warner's shareholders will receive 1.437 AT&T shares for each share of Time Warner common stock. If the Average Stock Price is above \$41.349, Time Warner shareholders will receive 1.300 AT&T shares for each share of Time Warner common stock. The merger is conditioned on the receipt of certain antitrust and other required regulatory consents. The merger is expected to close before year-end 2017. Should Time Warner terminate the Merger Agreement in specified circumstances, Time Warner may be required to pay AT&T a termination fee equal to \$1.725 billion if Time Warner enters into or consummates an alternative transaction with a third party following such termination of the Merger Agreement.

The merger with AT&T is consistent with the Company's strategy of ensuring that its content is available to consumers on a wide range of distribution platforms. The Company expects the merger will accelerate the Company's efforts to spur innovation in the media industry and improve the consumer experience in pay television bundles by creating compelling consumer offerings and developing more targeted advertising offerings, and it will accelerate and reduce the risk in Time Warner's strategy to distribute content through other online and mobile services, including those offered directly to consumers.

**Recent Developments**

***Strategic Review of Programming***

As part of its strategic planning process, the Company routinely reviews opportunities to streamline its operations and optimize its programming. In connection with that review, the Company evaluated its future use of certain owned and licensed programming, decided no longer to air this programming and incurred charges of approximately \$100 million at the Turner segment in the fourth quarter of 2016, which were partially offset by \$6 million of intersegment eliminations related to programming licensed by the Warner Bros. segment to the Turner segment.

***Debt Tender Offers***

On December 14, 2016, Time Warner purchased through cash tender offers \$3.0 billion aggregate principal amount of its outstanding debt from the following series: 7.700% Debentures due 2032, 7.625% Debentures due 2031, 6.500% Debentures due 2036 and 6.625% Debentures due 2029, each of which continues to have amounts outstanding (the Debt Tender Offers ). The premiums paid and costs incurred in connection with this purchase were \$1.008 billion for the year ended December 31, 2016 and were recorded in Other loss, net in the accompanying Consolidated Statement of Operations.



***2016 Debt Offerings***

On December 8, 2016, Time Warner issued \$1.5 billion aggregate principal amount of 3.80% Notes due 2027 under a shelf registration statement. On May 10, 2016, Time Warner issued \$800 million aggregate principal amount of 2.95% Notes due 2026 under a shelf registration statement. See [Financial Condition and Liquidity](#) [Outstanding Debt and Other Financing Arrangements](#) for further information.

***Revolving Credit Facilities Maturity Date Extension***

On December 16, 2016, Time Warner amended its \$5.0 billion of senior unsecured credit facilities (the [Revolving Credit Facilities](#) ), which consist of two \$2.5 billion revolving credit facilities to extend the maturity dates of both facilities

---

**Table of Contents**

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

from December 18, 2020 to December 18, 2021 and eliminate the swingline loan subfacility included in one of its facilities. At December 31, 2016, there were no borrowings outstanding under the Revolving Credit Facilities, and Time Warner had \$1.394 billion of commercial paper outstanding, which is supported by the Revolving Credit Facilities. See **Financial Condition and Liquidity Outstanding Debt and Other Financing Arrangements** for further information.

***Time Warner Pension Plan Amendment***

On August 1, 2016, the Time Warner Pension Plan (the **Pension Plan**) was amended to provide a window for a one-time lump sum payment for eligible vested participants who (i) had terminated employment as of May 31, 2016, (ii) had not yet commenced payment of their benefits as of May 31, 2016, (iii) are not otherwise eligible for an immediate lump sum payment of their benefits and (iv) have benefits with a present value of less than \$50,000. Eligible participants had the opportunity to elect, during the period beginning on August 16, 2016 and ending on October 7, 2016, to receive their benefits in the form of an immediate lump sum payment. Certain annuity options were also available. Payments to those eligible participants who elected to receive their benefit under the window program were made or commenced in December 2016. During the three months ended December 31, 2016, the Company recognized settlement losses of \$52 million principally in connection with this amendment to the Pension Plan, \$38 million of which was related to businesses the Company previously disposed of. For the year ended December 31, 2016, the Company recognized settlement losses of \$70 million, \$46 million of which was related to businesses the Company previously disposed of. The settlement losses related to businesses the Company previously disposed of are included in Discontinued operations, net of tax in the accompanying Consolidated Statement of Operations. The settlement losses related to continuing operations are included in Selling, general and administrative expenses in the accompanying Consolidated Statement of Operations.

***Hulu***

On August 2, 2016, Time Warner purchased a 10% ownership interest in Hulu, LLC, a company that provides OTT services, for \$590 million in cash, including transaction costs. Time Warner accounts for this investment under the equity method of accounting.

***NCAA***

On March 14, 2016, Turner and CBS entered into an agreement with the National Collegiate Athletic Association (the **NCAA**) to license the television, digital and marketing rights to the NCAA Division I Men's Basketball Championship Tournament (the **NCAA Tournament**) from 2025 through 2032 for an aggregate rights fee of \$8.8 billion. While the aggregate rights fee will be paid by Turner to the NCAA, the rights fee, production costs, advertising revenues and sponsorship revenues related to the NCAA Tournament and related programming will continue to be shared by Turner and CBS. Annually, for 2025 through 2032, Turner will be allocated the first \$90 million of revenue subject to the arrangement. However, if the amount paid for the rights fee and production costs in any year during that period exceeds advertising and sponsorship revenues for that year, including the \$90 million of revenue allocated to Turner,

CBS' share of such shortfall will be limited to \$45 million. Under the current agreement among Turner, CBS and the NCAA, Turner and CBS have licensed rights to the NCAA Tournament through 2024.

***Fandango***

In April 2016, Warner Bros. sold its Flixster business to Fandango Media, LLC ( Fandango ), a subsidiary of NBCUniversal Media LLC, in exchange for a 25% interest in Fandango. For the year ended December 31, 2016, Warner Bros. recorded a pre-tax gain of \$90 million in connection with this transaction. Time Warner accounts for its investment in Fandango under the equity method of accounting.

---

**Table of Contents**

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

***Central European Media Enterprises Ltd.***

On February 19, 2016, CME Media Enterprises B.V. ( CME BV ), a subsidiary of Central European Media Enterprises Ltd. ( CME ), entered into a credit agreement (the 2016 Credit Agreement ) with third-party financial institutions for an approximate 470 million senior unsecured term loan (the 2016 Term Loan ) that was funded in April 2016 and matures on February 19, 2021. Time Warner has guaranteed CME BV's obligations under the 2016 Credit Agreement for a fee equal to a rate based on CME's net leverage, which was 9% as of December 31, 2016, less the interest rate on the 2016 Term Loan, which was 1.78% as of December 31, 2016, to be paid to Time Warner semi-annually. CME BV must pay a portion of the fee in cash and may, at CME BV's option, pay the remainder in cash or in kind. In April 2016, CME used cash on hand and the proceeds of the 2016 Term Loan to repay in their entirety both its Senior Secured Notes due 2017 (the Senior Secured Notes ) and the term loan Time Warner provided CME in 2014 (the TW Term Loan ), which also was due in 2017. Time Warner received approximately \$485 million in connection with CME's repayment of the Senior Secured Notes and the TW Term Loan. As consideration for assisting CME in refinancing its debt due in 2017, Time Warner earned a fee equal to 1% of the aggregate principal amount of the 2016 Term Loan borrowed at funding. Prior to the funding, CME BV entered into unsecured interest rate hedge arrangements to protect against changes in the interest rate on the 2016 Term Loan during its term, and Time Warner has guaranteed CME BV's obligations under such arrangements.

In addition, on February 19, 2016, CME entered into an amendment to extend the maturity of its 251 million senior unsecured term loan obtained in 2014 from third-party financial institutions (the 2014 Term Loan ) from November 1, 2017 to November 1, 2018. Time Warner continues to guarantee CME's obligations under the 2014 Term Loan.

Time Warner and CME also agreed on February 19, 2016 to amend and restate the \$115 million revolving credit facility Time Warner provided CME in 2014 to reduce the size of the facility to \$50 million as of January 1, 2018 and to extend its term from December 2017 to February 2021. Amounts outstanding under the revolving credit facility bear interest at a rate based on CME's net leverage. Beginning in April 2016, CME must pay a portion of the interest for each applicable quarterly interest period in cash and may, at CME's option, pay the remainder in kind by adding such amount to the outstanding principal amount of the revolving credit facility. As of December 31, 2016, there were no amounts outstanding under the revolving credit facility.

The Company recorded a pretax gain of \$95 million in Investment gains (losses), net in the accompanying Consolidated Statement of Operations in the second quarter of 2016 in connection with these transactions. Additionally, when recognizing CME's results in the second quarter of 2016 under the equity method of accounting, the Company recorded a pretax charge of \$150 million in Other loss, net in the accompanying Consolidated Statement of Operations related to these transactions.

As discussed in Note 5, Investments, to the accompanying consolidated financial statements, the Company has guaranteed an aggregate amount of 955 million of CME's outstanding senior debt. Pursuant to the terms of CME's outstanding senior debt, a change of control of Time Warner provides the administrative agent and/or lenders of this debt the right to declare the debt immediately due and payable. If that were to occur, Time Warner would be obligated

under the terms of its guarantees to pay the full amount of the debt, subject to reimbursement from CME on the scheduled maturity dates for the debt in 2018, 2019 and 2021.

Table of Contents

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

**RESULTS OF OPERATIONS****Recent Accounting Guidance**

See Note 1, Description of Business, Basis of Presentation and Summary of Significant Accounting Policies, 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):

	<b>Year Ended December 31,</b>		
	<b>2016</b>	<b>2015</b>	<b>2014</b>
Asset impairments	\$ (43)	\$ (25)	\$ (69)
Gain (loss) on operating assets, net	78	(1)	464
Venezuelan foreign currency loss		(22)	(173)
Costs related to the AT&T merger	(42)		
Other	(47)	(10)	(80)
Impact on Operating Income	(54)	(58)	142
Investment gains (losses), net	148	(31)	30
Amounts related to the separation or disposition of former Time Warner segments	(19)	(17)	(6)
Premiums paid and costs incurred on debt redemption	(1,008)	(72)	
Items affecting comparability relating to equity method investments	(136)	(27)	(97)
Pretax impact	(1,069)	(205)	69
Income tax impact of above items	343	57	165
Impact of items affecting comparability on income from continuing operations attributable to Time Warner Inc. shareholders	\$ (726)	\$ (148)	\$ 234

In addition to the items affecting comparability described above, the Company incurred Restructuring and severance costs of \$117 million, \$60 million and \$512 million for the years ended December 31, 2016, 2015 and 2014, respectively. For the years ended December 31, 2016, 2015 and 2014, the Turner segment incurred programming impairments of \$136 million, \$131 million and \$526 million, respectively, which were partially offset by intersegment eliminations of \$6 million, \$2 million and \$138 million, respectively. For further discussion of Restructuring and severance costs and the programming impairments, see Overview, Consolidated Results and Business Segment Results.

### *Asset Impairments*

During the year ended December 31, 2016, the Company recognized asset impairments of \$43 million, which consisted of \$28 million at the Turner segment primarily related to an international broadcast license, \$9 million at the Warner Bros. segment related to certain internally developed software and \$6 million at Corporate related to miscellaneous assets.

During the year ended December 31, 2015, the Company recognized asset impairments of \$15 million at Corporate primarily related to an asset held for disposal and certain internally developed software, \$7 million at the Warner Bros. segment primarily related to certain internally developed software and \$3 million at the Turner segment related to miscellaneous assets.

**Table of Contents**

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

During the year ended December 31, 2014, the Company recognized asset impairments of \$17 million at the Turner segment related to miscellaneous assets; \$4 million at the Home Box Office segment related to an international tradename; \$41 million at the Warner Bros. segment, including \$12 million related to a tradename, and the remaining amount primarily related to various fixed assets and certain internally developed software; and \$7 million at Corporate related to certain internally developed software.

***Gain (Loss) on Operating Assets, Net***

For the year ended December 31, 2016, the Company recognized \$78 million of net gains on operating assets, consisting of \$92 million of gains at the Warner Bros. segment, principally relating to the gain on the sale of Flixster's net assets to Fandango, and \$14 million of net losses at the Turner segment, principally relating to the pending disposition of a business.

For the year ended December 31, 2015, the Company recognized losses on operating assets of \$1 million at the Warner Bros. segment.

For the year ended December 31, 2014, the Company recognized net gains on operating assets of \$464 million, including \$16 million of net gains at the Turner segment, consisting of a \$13 million gain related to the sale of Zite, Inc., a news content aggregation and recommendation platform, a \$4 million gain related to the sale of certain fixed assets, a \$3 million loss related to the shutdown of a business and a \$2 million gain primarily related to the sale of a building in South America; a \$7 million gain at the Warner Bros. segment primarily related to the sale of certain fixed assets; 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 year ended December 31, 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.

For the year ended December 31, 2014, the Company recognized a pretax foreign exchange loss of \$173 million, consisting of \$137 million at the Turner segment and \$36 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 official rate to the SICAD 2 exchange rate.

The Venezuelan foreign currency losses are included in Selling, general and administrative expenses in the accompanying Consolidated Statement of Operations.

***Costs Related to the AT&T Merger***



For the year ended December 31, 2016, the Company recognized \$42 million of costs related to the AT&T merger, consisting of \$28 million at Corporate, \$7 million at the Warner Bros. segment, \$5 million at the Turner segment and \$2 million at the Home Box Office segment. These costs reflect \$24 million of external transaction costs and \$18 million of costs from employee retention programs (as discussed below). Approximately \$40 million of these costs are included in Selling, general and administrative expenses in the accompanying Consolidated Statement of Operations and the remainder in Costs of revenues in the accompanying Consolidated Statement of Operations.

In connection with entering into the Merger Agreement, as of December 31, 2016, the Company has granted 5.3 million special retention restricted stock units ( Special Retention RSUs ) to certain employees of Time Warner and its divisions, including all executive officers of Time Warner. Half of the Special Retention RSUs will vest 25% per year on each of the first four anniversaries of February 15, 2017, and the remaining half will vest 25% per year on each of the first four anniversaries of February 15, 2018. Pursuant to the Special Retention RSU agreements, vesting as a result of retirement is not permitted unless the employee retires after the merger has closed. In addition, the awards do not accelerate

---

**Table of Contents**

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

automatically following the closing of the merger. Instead, the employee must remain employed following the closing, and the awards will vest only upon the scheduled vesting date or upon termination of employment under certain circumstances, such as termination without cause, for good reason or due to retirement.

In addition, certain employees of Time Warner and its divisions, including executive officers other than the Chairman and CEO, have received or will receive a cash retention award. Half of the award will become payable upon the closing of the merger, and the remaining half will become payable six months thereafter, in both cases, subject to continued employment on the relevant payment date. Payment will also be made upon termination without cause or for good reason.

***Other***

Other reflects external costs related to mergers, acquisitions or dispositions of \$14 million, \$10 million and \$80 million for the years ended December 31, 2016, 2015 and 2014, respectively. External costs related to mergers, acquisitions or dispositions for the year ended December 31, 2016 consisted of \$7 million at the Turner segment, \$4 million at the Warner Bros. segment and \$3 million at Corporate. External costs related to mergers, acquisitions or dispositions for the year ended December 31, 2015 consisted of \$3 million at the Turner segment, \$6 million at the Warner Bros. segment and \$1 million at Corporate. External costs related to mergers, acquisitions or dispositions for the year ended December 31, 2014 consisted of \$14 million at the Turner segment primarily related to exit costs in connection with the shutdown of CNN Latino, \$19 million at the Warner Bros. segment primarily related to the acquisition of the operations outside the U.S. of Eyeworks Group and \$47 million at Corporate primarily related to the legal and structural separation of the Company's former Time Inc. segment from the Company (the Time Separation).

For the year ended December 31, 2016, other also includes \$24 million of pension settlement charges at Corporate and \$9 million of expenses at the Home Box Office segment related to Home Box Office's withdrawal from a multiemployer benefit plan.

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

***Investment Gains (Losses), Net***

For the year ended December 31, 2016, the Company recognized \$148 million of net investment gains, consisting of a \$95 million gain in connection with financing transactions of CME, a \$41 million gain associated with an agreement to dissolve a Home Box Office joint venture in the Netherlands, \$32 million of net miscellaneous investment gains and \$20 million of losses relating to fair value adjustments on warrants to purchase common stock of CME held by the Company.

For the year ended December 31, 2015, the Company recognized \$31 million of net investment losses, consisting of \$63 million of net losses related to fair value adjustments on warrants to purchase common stock of CME held by the

Company and \$32 million of net miscellaneous investment gains.

For the year ended December 31, 2014, the Company recognized \$30 million of net investment gains, consisting of \$29 million of gains related to fair value adjustments on warrants to purchase common stock of CME held by the Company and \$1 million of net miscellaneous investment gains.

These amounts have been reflected in Other 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)**

***Amounts Related to the Separation or Disposition of Former Time Warner Segments***

For the year ended December 31, 2016, the Company recognized \$19 million of losses related to the separation or disposition of former Time Warner segments, consisting of \$15 million of losses primarily reflecting pension and other retirement benefits related to employees and former employees of Time Inc. and \$4 million of losses primarily related to the disposition of Warner Music Group ( WMG ) in 2004, primarily related to a legal settlement.

For the year ended December 31, 2015, the Company recognized \$17 million of losses related to the separation or disposition of former Time Warner segments, consisting of \$9 million of losses primarily reflecting pension and other retirement benefits related to employees and former employees of Time Inc., losses of \$4 million related to changes in the value of a Time Warner Cable Inc. ( TWC ) tax indemnification receivable and losses of \$4 million related to payments made to TWC in accordance with a tax sharing arrangement.

For the year ended December 31, 2014, the Company recognized \$6 million of losses related to the separation or disposition of former Time Warner segments, consisting of losses of \$10 million related to changes in the value of a TWC tax indemnification receivable, a loss of \$1 million related to the expiration, exercise and net change in the estimated fair value of Time Warner equity awards held by TWC employees, income of \$3 million related to the expiration, exercise and net change in the estimated fair value of Time Warner equity awards held by certain Time Inc. employees and income of \$2 million primarily related to a tax indemnification obligation associated with the disposition of WMG.

These amounts have been reflected in Other loss, net in the accompanying Consolidated Statement of Operations.

***Premiums Paid and Costs Incurred on Debt Redemption***

For the year ended December 31, 2016, the Company recognized \$1.008 billion of premiums paid and costs incurred in connection with the Debt Tender Offers. For the year ended December 31, 2015, the Company recognized \$72 million of premiums paid and costs incurred principally to retire its 5.875% Notes due 2016 through a tender offer and redemption. These amounts have been reflected in Other loss, net in the accompanying Consolidated Statement of Operations.

***Items Affecting Comparability Relating to Equity Method Investments***

For the year ended December 31, 2016, the Company recognized \$150 million of losses related to the financing transactions with CME in 2016 and \$14 million of income primarily related to net investment gains recorded by equity method investees. For the year ended December 31, 2015, the Company recognized \$18 million related to asset impairments recorded by an equity method investee, \$8 million related to net losses from discontinued operations recorded by an equity method investee and \$1 million related to expenses recorded by an equity method investee related to government investigations. For the year ended December 31, 2014, the Company recognized \$70 million related to losses from discontinued operations recorded by an equity method investee and \$27 million related to a loss

on the extinguishment of debt recorded by an equity method investee. These amounts have been reflected in Other loss, net in the accompanying Consolidated Statement of Operations.

***Income Tax Impact***

The income tax impact reflects the estimated tax provision or tax benefit associated with each item affecting comparability using the effective tax rate for the item. The estimated tax provision or tax benefit can vary based on certain factors, including the taxability or deductibility of the item and the applicable tax jurisdiction for the item. The income tax provision on the gain on the sale and leaseback of the Company's space in Time Warner Center in 2014 was offset by the utilization of tax attributes.

Table of Contents

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

**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):

	Year Ended December 31,			% Change	
	2016	2015	2014	2016 vs. 2015	2015 vs. 2014
Turner	\$ 11,364	\$ 10,596	\$ 10,396	7%	2%
Home Box Office	5,890	5,615	5,398	5%	4%
Warner Bros.	13,037	12,992	12,526	%	4%
Intersegment eliminations	(973)	(1,085)	(961)	(10)%	13%
<b>Total revenues</b>	<b>\$ 29,318</b>	<b>\$ 28,118</b>	<b>\$ 27,359</b>	<b>4%</b>	<b>3%</b>

For the year ended December 31, 2016, Revenues at the Turner segment increased primarily driven by higher Subscription and Advertising revenues, Revenues at the Home Box Office segment increased due to higher Subscription revenues and Revenues at the Warner Bros. segment increased driven by higher Theatrical and Television product revenues, partially offset by lower Videogames and other revenues. Changes in exchange rates associated with the foreign currencies to which the Company is exposed negatively impacted the Company's Revenues by approximately \$340 million for the year ended December 31, 2016 as compared to the year ended December 31, 2015, with negative impacts of approximately \$195 million, \$135 million and \$10 million at the Warner Bros., Turner and Home Box Office segments, respectively. If the foreign exchange rates relative to the U.S. Dollar remain at the levels they were at as of December 31, 2016 or if the U.S. Dollar strengthens further in 2017 relative to the foreign currencies to which the Company is exposed, the Company's Revenues in 2017 will be negatively affected as compared to its Revenues in 2016.

For the year ended December 31, 2015, Revenues at the Turner segment increased primarily driven by higher Content and other and Advertising revenues, Revenues at the Home Box Office segment increased due to higher Subscription and Content and other revenues and Revenues at the Warner Bros. segment increased driven by higher Videogames and other revenues as well as higher Television product revenues, partly offset by lower Theatrical product revenues. The strengthening of the U.S. Dollar during 2015 relative to foreign currencies to which the Company is exposed negatively impacted the Company's Revenues by approximately \$1.1 billion for the year ended December 31, 2015, consisting of approximately \$685 million, \$340 million and \$30 million at the Warner Bros., Turner and Home Box Office segments, respectively.

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

**Costs of Revenues.** Costs of revenues were \$16.376 billion, \$16.154 billion and \$15.875 billion for the years ended December 31, 2016, 2015 and 2014, respectively. The increase for the year ended December 31, 2016 reflected increases at the Turner and HBO segments, partially offset by a decrease at the Warner Bros. segment. The increase for the year ended December 31, 2015 reflected increases at the Warner Bros. and Home Box Office segments, partially offset by a decrease at the Turner segment.

**Selling, General and Administrative Expenses.** Selling, general and administrative expenses were \$5.123 billion, \$4.824 billion and \$5.190 billion for the years ended December 31, 2016, 2015 and 2014, respectively. The increase for the year ended December 31, 2016 was primarily due to an increase at the Turner segment and at Corporate. The decrease for the year ended December 31, 2015 reflected decreases at Corporate and the Turner and Warner Bros. segments, partially offset by an increase at the Home Box Office segment.

Table of Contents

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

In addition, for the year ended December 31, 2016, Selling, general and administrative expenses included approximately \$40 million of costs related to the AT&T merger. For the year ended December 31, 2015, Selling, general and administrative expenses also included a \$22 million foreign currency charge related to the remeasurement of the Company's net monetary assets denominated in Venezuelan currency resulting from a change in the foreign exchange rate used by the Company from the SICAD 2 exchange rate to the Simadi exchange rate. For the year ended December 31, 2014, Selling, general and administrative expenses also included a \$173 million foreign currency charge related to the remeasurement of the Company's net monetary assets denominated in Venezuelan currency resulting from a change in the foreign currency exchange rate used by the Company from the official rate to the SICAD 2 exchange rate.

Included in Costs of revenues and Selling, general and administrative expenses was depreciation expense of \$479 million, \$492 million and \$531 million for the years ended December 31, 2016, 2015 and 2014, respectively.

**Amortization Expense.** Amortization expense was \$190 million, \$189 million and \$202 million for the years ended December 31, 2016, 2015 and 2014, respectively.

**Restructuring and Severance Costs.** For the years ended December 31, 2016, 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):

	Year Ended December 31,		
	2016	2015	2014
Turner	\$ 61	\$ 58	\$ 249
Home Box Office	49		63
Warner Bros.	4	1	169
Corporate	3	1	31
<b>Total restructuring and severance costs</b>	<b>\$ 117</b>	<b>\$ 60</b>	<b>\$ 512</b>

The total number of employees terminated across the segments for the years ended December 31, 2016, 2015 and 2014 was approximately 800, 700 and 4,000, respectively.

**Operating Income.** Operating Income was \$7.547 billion, \$6.865 billion and \$5.975 billion for the years ended December 31, 2016, 2015 and 2014, respectively. Excluding the items noted under Transactions and Other Items Affecting Comparability totaling \$54 million of expense, \$58 million of expense and \$142 million of income for the years ended December 31, 2016, 2015 and 2014, respectively, Operating Income increased \$678 million and \$1.090 billion in 2016 and 2015, respectively. Operating Income increased in 2016, despite the unfavorable impact of foreign



currency exchange rates of approximately \$140 million, primarily reflecting increases at all of the segments, partially offset by a decrease at Corporate. Operating Income increased in 2015, despite the unfavorable impact of foreign currency exchange rates of approximately \$480 million, reflecting increases at all of the segments and Corporate. The segment variations are discussed under Business Segment Results. If the foreign exchange rates relative to the U.S. Dollar remain at the levels they were at as of December 31, 2016 or if the U.S. Dollar strengthens further in 2017 relative to the foreign currencies to which the Company is exposed, the Company's Operating Income will be negatively affected.

**Interest Expense, Net.** Interest expense, net detail is shown in the table below (millions):

	<b>Year Ended December 31,</b>		
	<b>2016</b>	<b>2015</b>	<b>2014</b>
Interest expense	\$ (1,388)	\$ (1,382)	\$ (1,353)
Interest income	227	219	184
Total interest expense, net	\$ (1,161)	\$ (1,163)	\$ (1,169)

Table of Contents

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

The increase in interest expense for the year ended December 31, 2016 was primarily due to higher average debt balances, partially offset by lower average interest rates.

The increase in interest expense for the year ended December 31, 2015 was primarily due to higher average debt balances, partially offset by lower average interest rates. The increase in interest income for the year ended December 31, 2015 was primarily related to noncash interest income accretion related to the transactions with CME that were completed in 2014, partially offset by the recognition of interest income during the year ended December 31, 2014 on a note receivable that was collected in March 2014.

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

	Year Ended December 31,		
	2016	2015	2014
Investment gains (losses), net	\$ 148	\$ (31)	\$ 30
Amounts related to the separation or disposition of former Time Warner segments	(19)	(17)	(6)
Premiums paid and costs incurred on debt redemption	(1,008)	(72)	
Loss from equity method investees	(283)	(123)	(153)
Other, net	(29)	(13)	2
Other loss, net	\$ (1,191)	\$ (256)	\$ (127)

Investment gains (losses), net, amounts related to the separation or disposition of former Time Warner segments and premiums paid and costs incurred on debt redemption are discussed under Transactions and Other Items Affecting Comparability. For the year ended December 31, 2016, the increase in loss from equity method investees was mainly due to the Company's share of losses from CME of \$198 million primarily related to the CME financing transactions in 2016. For the year ended December 31, 2015, loss from equity method investees decreased despite the unfavorable impact of foreign exchange rates of approximately \$70 million for the year ended December 31, 2015.

**Income Tax Provision.** Income tax provision was \$1.281 billion, \$1.651 billion and \$785 million for the years ended December 31, 2016, 2015 and 2014, respectively. The Company's effective tax rate was 25%, 30% and 17% for the years ended December 31, 2016, 2015 and 2014, respectively. The decrease in the effective tax rate in 2016 as compared to 2015 was primarily due to a change in the Company's tax method of accounting for film and television cost amortization that was approved by the Internal Revenue Service during the third quarter of 2016. The change in method generated a tax benefit related to extra-territorial income exclusions for tax years dating back to 2001. The increase in the effective tax rate in 2015 as compared to 2014 was primarily due to the recognition of a tax benefit attributable to the reversal of tax reserves in connection with a Federal tax settlement in 2014. In addition, the 2015

effective tax rate benefited from a higher percentage of earnings from non-U.S. entities.

***Income from Continuing Operations.*** Income from continuing operations was \$3.914 billion, \$3.795 billion and \$3.894 billion for the years ended December 31, 2016, 2015 and 2014, respectively. Excluding the items noted under Transactions and Other Items Affecting Comparability totaling \$726 million of expense, \$148 million of expense and \$234 million of income for the years ended December 31, 2016, 2015 and 2014, respectively, Income from continuing operations increased \$697 million and \$283 million in 2016 and 2015, respectively. The increase in 2016 as compared to 2015 reflected higher Operating Income and lower income tax expense, partially offset by higher Other loss, net. The increase in 2015 as compared to 2014 reflected 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 \$5.00 and \$4.94, respectively, for the year ended December 31, 2016, \$4.64 and \$4.58, respectively, for the year ended December 31, 2015 and \$4.49 and \$4.41, respectively, for the year ended December 31, 2014.

Table of Contents

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

**Discontinued Operations, Net of Tax.** Discontinued operations, net of tax was \$11 million of income, \$37 million of income and \$67 million of loss for the years ended December 31, 2016, 2015 and 2014, respectively. Basic and diluted income per common share from discontinued operations attributable to Time Warner Inc. common shareholders were \$0.01 and \$0.02, respectively, for the year ended December 31, 2016. Basic and diluted income per common share from discontinued operations attributable to Time Warner Inc. common shareholders were \$0.05 and \$0.04, respectively, for the year ended December 31, 2015. Both basic and diluted loss per common share from discontinued operations attributable to Time Warner Inc. common shareholders were \$0.07 for the year ended December 31, 2014.

**Net Income Attributable to Time Warner Inc. Shareholders.** Net income attributable to Time Warner Inc. shareholders was \$3.926 billion, \$3.833 billion and \$3.827 billion for the years ended December 31, 2016, 2015 and 2014, respectively. Basic and Diluted net income per common share attributable to Time Warner Inc. common shareholders were \$5.01 and \$4.96, respectively, for the year ended December 31, 2016, \$4.69 and \$4.62, respectively, for the year ended December 31, 2015 and \$4.42 and \$4.34, respectively, for the year ended December 31, 2014.

**Business Segment Results**

**Turner.** Revenues and Operating Income of the Turner segment for the years ended December 31, 2016, 2015 and 2014 are as follows (millions):

	Year Ended December 31,			% Change	
	2016	2015	2014	2016 vs. 2015	2015 vs. 2014
Revenues:					
Subscription	\$ 5,936	\$ 5,306	\$ 5,263	12%	1%
Advertising	4,763	4,637	4,568	3%	2%
Content and other	665	653	565	2%	16%
Total revenues	11,364	10,596	10,396	7%	2%
Costs of revenues (a)	(4,860)	(4,608)	(5,102)	5%	(10)%
Selling, general and administrative (a)	(1,821)	(1,614)	(1,728)	13%	(7)%
Gain (loss) on operating assets	(14)		16	NM	NM
Asset impairments	(28)	(3)	(17)	NM	(82)%
Venezuelan foreign currency loss		(17)	(137)	NM	(88)%
Restructuring and severance costs	(61)	(58)	(249)	5%	(77)%
Depreciation	(191)	(193)	(209)	(1)%	(8)%

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

Amortization	(17)	(16)	(16)	6%	%
Operating Income	\$ 4,372	\$ 4,087	\$ 2,954	7%	38%

(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)**

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

	Year Ended December 31,			% Change	
	2016	2015	2014	2016 vs. 2015	2015 vs. 2014
<b>Programming costs:</b>					
Originals and sports	\$ 3,112	\$ 3,001	\$ 3,069	4%	(2)%
Acquired films and syndicated series	876	806	1,213	9%	(34)%
Total programming costs	3,988	3,807	4,282	5%	(11)%
Other direct operating costs	872	801	820	9%	(2)%
Costs of revenues (a)	\$ 4,860	\$ 4,608	\$ 5,102	5%	(10)%

(a) Costs of revenues exclude depreciation.

**2016 vs. 2015**

Domestic subscription revenues for the year ended December 31, 2016 increased \$627 million, primarily due to higher contractual rates, partially offset by a decrease in subscribers. For the year ended December 31, 2016, international subscription revenues increased \$3 million as growth, mainly in Latin America, was partially offset by the unfavorable impact of foreign exchange rates of approximately \$75 million.

For the year ended December 31, 2016, the increase in Advertising revenues reflected domestic growth of \$158 million primarily driven by Turner's news business, mainly due to the 2016 U.S. Presidential election coverage, and sports programming, including the 2016 NCAA Tournament, partially offset by lower audience delivery at certain entertainment networks. For the year ended December 31, 2016, international advertising revenues decreased \$32 million as growth, mainly in Latin America, was offset by the unfavorable impact of foreign exchange rates of approximately \$50 million.

For the year ended December 31, 2016, programming costs increased mainly due to higher costs for sports programming, the 2016 U.S. Presidential election coverage, syndicated series and acquired films, partially offset by lower costs for original series. Included in programming costs for the years ended December 31, 2016 and 2015 were programming impairment charges of \$136 million and \$131 million, respectively, related to Turner's decision to no longer air certain programming. The Company expects that the rate of growth for programming costs will be higher

for the first half of 2017 as compared with the same period in the prior year principally due to certain sports programming. The increase in other direct operating costs for the year ended December 31, 2016 primarily related to costs associated with Turner's and Warner Bros.' strategic partnership to grow their global kids businesses and digital initiatives.

For the year ended December 31, 2016, Selling, general and administrative expenses increased reflecting higher marketing expense of \$104 million primarily for new original series as well as higher costs related to employee compensation and benefits.

Refer to Transactions and Other Items Affecting Comparability for a discussion of Gain (loss) on operating assets, Asset impairments, Venezuelan foreign currency loss, costs related to the AT&T merger and external costs related to mergers, acquisitions and dispositions for the years ended December 31, 2016 and 2015, which affected the comparability of the Turner segment's results.

Operating Income for the year ended December 31, 2016 increased driven by higher Revenues, partially offset by higher Costs of revenues and Selling, general and administrative expenses.

---

**Table of Contents**

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

***2015 vs. 2014***

The increase in Subscription revenues for the year ended December 31, 2015 reflected higher domestic revenues of \$142 million primarily due to higher rates, partially offset by lower subscribers, and lower international revenues of \$99 million due to the unfavorable impact of foreign exchange rates of approximately \$185 million, partially offset by growth mainly in Latin America.

The increase in Advertising revenues for the year ended December 31, 2015 reflected domestic growth of \$116 million, mainly driven by Turner's domestic news business and the 2015 NCAA Tournament, partially offset by lower audience delivery at certain of its entertainment networks and the absence of Advertising revenues in 2015 associated with NASCAR television programming. International advertising revenues decreased \$47 million as growth was more than offset by the unfavorable impact of foreign exchange rates of approximately \$125 million.

The increase in Content and other revenues for the year ended December 31, 2015 was primarily due to higher license fees from SVOD services.

For the year ended December 31, 2015, Costs of revenues decreased primarily due to lower programming impairment charges. Programming impairment charges related to Turner's decision to no longer air certain programming were \$131 million and \$526 million for the years ended December 31, 2015 and 2014, respectively. Excluding the programming impairment charges, programming costs declined primarily due to lower acquired films and syndicated series costs as a result of the abandonment of certain programming in 2014 and the absence of costs in 2015 associated with NASCAR, partially offset by higher costs associated with airing the Major League Baseball playoffs.

For the year ended December 31, 2015, Selling, general and administrative expenses decreased primarily due to operational efficiency initiatives, including the 2014 restructuring activities described below and lower marketing expenses of \$50 million, 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 on operating assets, Venezuelan foreign currency loss and external costs related to mergers, acquisitions and dispositions for the year ended December 31, 2015 and 2014, which affected the comparability of the Turner segment's results.

The results for the years ended December 31, 2015 and 2014 included Restructuring and severance costs of \$58 million and \$249 million, respectively, primarily related to headcount reductions in connection with restructuring activities designed to position the Company for the current operating environment and reallocate resources to the Company's growth initiatives.

The increase in Operating Income for the year ended December 31, 2015 was primarily due to lower Costs of revenues, higher Revenues, lower Restructuring and severance costs, a decrease in Venezuela foreign currency losses and lower Selling, general and administrative expenses.





Table of Contents

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

**Home Box Office.** Revenues and Operating Income of the Home Box Office segment for the years ended December 31, 2016, 2015 and 2014 are as follows (millions):

	Year Ended December 31,			% Change	
	2016	2015	2014	2016 vs. 2015	2015 vs. 2014
<b>Revenues:</b>					
Subscription	\$ 5,003	\$ 4,748	\$ 4,578	5%	4%
Content and other	887	867	820	2%	6%
Total revenues	5,890	5,615	5,398	5%	4%
Costs of revenues (a)	(2,996)	(2,811)	(2,708)	7%	4%
Selling, general and administrative (a)	(840)	(831)	(746)	1%	11%
Asset impairments			(4)	NM	NM
Restructuring and severance costs	(49)		(63)	NM	NM
Depreciation	(74)	(81)	(77)	(9)%	5%
Amortization	(14)	(14)	(14)	%	%
Operating Income	\$ 1,917	\$ 1,878	\$ 1,786	2%	5%

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

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

	Year Ended December 31,			% Change	
	2016	2015	2014	2016 vs. 2015	2015 vs. 2014
<b>Programming costs:</b>					
Acquired films and syndicated series	\$ 1,071	\$ 1,003	\$ 1,007	7%	%

Originals and sports	1,104	1,032	960	7%	8%
Total programming costs	2,175	2,035	1,967	7%	3%
Other direct operating costs	821	776	741	6%	5%
Costs of revenues (a)	\$ 2,996	\$ 2,811	\$ 2,708	7%	4%

(a) Costs of revenues exclude depreciation.

### **2016 vs. 2015**

For the year ended December 31, 2016, the increase in Subscription revenues was primarily due to higher domestic contractual rates.

The increase in originals and sports programming costs for the year ended December 31, 2016 was primarily due to higher original programming expenses associated with new series, partially offset by the impact of the change in the estimate of the utilization period of the Home Box Office segment's original programming described below. The increase in acquired films and syndicated series programming costs for the year ended December 31, 2016 reflects increases for both HBO's domestic and international businesses. The increase in other direct operating costs for the year ended December 31, 2016 was mainly due to costs associated with HBO's OTT service.

During the second quarter of 2016, the Home Box Office segment revised its estimate of the period over which its original programming is utilized by its subscribers. The updated estimate gives consideration to Home Box Office's original programming history and was driven by consumer viewing patterns, which are influenced by the increased availability of and

Table of Contents

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

on-demand access to Home Box Office's content across a wide variety of devices and services, including HBO's OTT service, which launched in April 2015. As a result, in determining amortization under the film forecast computation method, the weighted average subscriber utilization period for the majority of Home Box Office's original programming was increased by approximately five months. This change resulted in a reduction of amortization expense, as compared to the amount determined using Home Box Office's previous estimate, of approximately \$150 million for the year ended December 31, 2016.

For the year ended December 31, 2016, Selling, general and administrative expenses increased primarily due to \$13 million of higher employee-related costs and \$9 million of expenses related to Home Box Office's withdrawal from a multiemployer benefit plan, partially offset by lower marketing expenses of \$15 million.

Refer to Transactions and Other Items Affecting Comparability for a discussion of costs related to the AT&T merger for the year ended December 31, 2016, which affected the comparability of the Home Box Office segment's results.

The results for the year ended December 31, 2016 included \$49 million of Restructuring and severance costs principally related to executive severance costs.

The increase in Operating Income for the year ended December 31, 2016 was primarily due to higher Revenues, partially offset by higher Costs of revenues and higher Restructuring and severance costs.

***2015 vs. 2014***

The increase in Subscription revenues for the year ended December 31, 2015 was primarily due to higher domestic subscription revenues of \$195 million driven mainly by higher contractual rates. International subscription revenues for the year ended December 31, 2015 decreased \$25 million mainly due to the transfer to Turner of the operation and certain contracts of an HBO-branded basic tier television service in India and the unfavorable impact of foreign exchange rates of approximately \$15 million, partially offset by growth from international subscribers.

The increase in Content and other revenues for the year ended December 31, 2015 was primarily due to higher television licensing revenues from original programming of \$91 million, which included the negative impact of foreign exchange rates of approximately \$15 million, partially offset by lower home entertainment revenues of \$62 million.

The increase in Costs of revenues for the year ended December 31, 2015 reflected higher originals and sports programming costs and higher other direct operating costs. The increase in originals and sports programming costs for the year ended December 31, 2015 was primarily due to higher programming impairments and higher costs for original series. The increase in other direct operating costs for the year ended December 31, 2015 was mainly due to costs associated with HBO's OTT service.

For the year ended December 31, 2015, Selling, general and administrative expenses increased primarily due to higher marketing expenses related to HBO's OTT service.

Refer to Transactions and Other Items Affecting Comparability for a discussion of Asset impairments for the year ended December 31, 2014, which affected the comparability of the Home Box Office segment's results.

The increase in Operating Income for the year ended December 31, 2015 was primarily due to higher revenues and lower Restructuring and severance costs, partially offset by higher Costs of revenues and Selling, general and administrative expenses.

Table of Contents

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

**Warner Bros.** Revenues and Operating Income of the Warner Bros. segment for the years ended December 31, 2016, 2015 and 2014 are as follows (millions):

	Year Ended December 31,			% Change	
	2016	2015	2014	2016 vs. 2015	2015 vs. 2014
<b>Revenues:</b>					
Theatrical product	\$ 5,612	\$ 5,143	\$ 5,839	9%	(12)%
Television product	5,819	5,635	5,099	3%	11%
Videogames and other	1,606	2,214	1,588	(27)%	39%
<b>Total revenues</b>	<b>13,037</b>	<b>12,992</b>	<b>12,526</b>	<b>%</b>	<b>4%</b>
Costs of revenues (a)	(9,266)	(9,419)	(8,906)	(2)%	6%
Selling, general and administrative (a)	(1,769)	(1,787)	(1,832)	(1)%	(2)%
Gain (loss) on operating assets	92	(1)	7	NM	(114)%
Asset impairments	(9)	(7)	(41)	29%	(83)%
Venezuelan foreign currency loss		(5)	(36)	NM	(86)%
Restructuring and severance costs	(4)	(1)	(169)	NM	(99)%
Depreciation	(188)	(197)	(218)	(5)%	(10)%
Amortization	(159)	(159)	(172)	%	(8)%
<b>Operating Income</b>	<b>\$ 1,734</b>	<b>\$ 1,416</b>	<b>\$ 1,159</b>	<b>22%</b>	<b>22%</b>

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

Revenues primarily relate to theatrical product (which is content made available for initial exhibition in theaters) and television product (which is content made available for initial airing on television or OTT services). The components of Revenues for the years ended December 31, 2016, 2015 and 2014 are as follows (millions):

	Year Ended December 31,			% Change	
	2016	2015	2014	2016 vs. 2015	2015 vs. 2014

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

Theatrical product:								
Film rentals	\$	2,180	\$	1,578	\$	1,969	38%	(20)%
Home video and electronic delivery		1,481		1,717		1,913	(14)%	(10)%
Television licensing		1,630		1,579		1,686	3%	(6)%
Consumer products and other		321		269		271	19%	(1)%
Total theatrical product	\$	5,612	\$	5,143	\$	5,839	9%	(12)%
Television product:								
Television licensing		4,880		4,650		4,121	5%	13%
Home video and electronic delivery		470		529		584	(11)%	(9)%
Consumer products and other		469		456		394	3%	16%
Total television product	\$	5,819	\$	5,635	\$	5,099	3%	11%

Table of Contents

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

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

	Year Ended December 31,			% Change	
	2016	2015	2014	2016 vs. 2015	2015 vs. 2014
Film and television production costs	\$ 6,341	\$ 6,152	\$ 5,924	3%	4%
Print and advertising costs	1,903	1,989	1,907	(4)%	4%
Other costs, including merchandise and related costs	1,022	1,278	1,075	(20)%	19%
Costs of revenues (a)	\$ 9,266	\$ 9,419	\$ 8,906	(2)%	6%

(a) Costs of revenues exclude depreciation.

**2016 vs. 2015**

The increase in Revenues for the year ended December 31, 2016 included the net unfavorable impact of foreign exchange rates of approximately \$195 million.

Theatrical product revenues from film rentals increased for the year ended December 31, 2016, reflecting higher revenues of \$935 million from theatrical films released during 2016 compared to 2015, partially offset by lower carryover revenues of \$333 million from prior period releases. The Company released 19 and 24 theatrical films in 2016 and 2015, respectively. Although there were fewer releases, the 2016 film slate, which included films such as *Batman v Superman: Dawn of Justice*, *Suicide Squad* and *Fantastic Beasts and Where to Find Them*, generated higher revenues than the 2015 film slate, which included films such as *San Andreas* and *Mad Max: Fury Road*.

For the year ended December 31, 2016, theatrical product revenues from home video and electronic delivery continued to decline primarily due to lower revenues from releases during 2016 compared to 2015. There were 22 and 24 home video and electronic delivery releases in 2016 and 2015, respectively.

The increase in theatrical product revenues from television licensing for the year ended December 31, 2016 was primarily due to higher international license fees.

The increase in theatrical product revenues from consumer products and other for the year ended December 31, 2016 was primarily due to higher consumer products licensing for theatrical films released in 2016.



The increase in television product revenues from television licensing for the year ended December 31, 2016 was primarily due to higher initial telecast revenues, reflecting an increase in the number of episodes delivered.

The decrease in television product revenues from home video and electronic delivery for the year ended December 31, 2016 was primarily due to continued declines in sales of home entertainment product in physical formats.

Videogames and other revenues decreased for the year ended December 31, 2016 primarily due to lower revenues from videogames released during 2016 compared to 2015. The Company released 12 and 14 videogames in 2016 and 2015, respectively.

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 for the year ended December 31, 2016 and 2015 were \$69 million and \$80 million, respectively. Videogame valuation adjustments for the year ended December 31, 2016 and 2015 were \$20 million and \$17 million, respectively. The increase in film and television production costs for the

**Table of Contents**

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

year ended December 31, 2016 was primarily due to higher costs for television and theatrical product, partially offset by lower costs for videogames. The decrease in print and advertising costs for the year ended December 31, 2016 was primarily due to the type and number of videogame releases. Other costs, including merchandise and related costs, decreased for the year ended December 31, 2016 primarily due to lower distribution-related costs of sales, largely as a result of lower revenues for videogames and home entertainment.

Selling, general and administrative expenses decreased for the year ended December 31, 2016 mainly due to lower bad debt expense.

Refer to Transactions and Other Items Affecting Comparability for a discussion of Gain (loss) on operating assets, Asset impairments, Venezuelan foreign currency loss, costs related to the AT&T merger and external costs related to mergers, acquisitions and dispositions for the year ended December 31, 2016 and 2015, which affected the comparability of the Warner Bros. segment's results.

The increase in Operating Income for the year ended December 31, 2016 was primarily due to lower Costs of revenues, a Gain on operating assets, higher Revenues and lower Selling, general and administrative expenses.

***2015 vs. 2014***

The increase in Revenues for the year ended December 31, 2015 included the net unfavorable impact of foreign exchange rates of approximately \$685 million.

Theatrical product revenues from film rentals decreased for the year ended December 31, 2015, reflecting lower revenues of \$560 million from theatrical films released during 2015 compared to 2014, partially offset by higher carryover revenues of \$169 million from prior period releases. The Company released 24 and 22 theatrical films in 2015 and 2014, respectively.

For the year ended December 31, 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 24 and 18 home video and electronic delivery releases in 2015 and 2014, respectively.

The decrease in theatrical product revenues from television licensing for the year ended December 31, 2015 was primarily due to the timing and mix of availabilities.

Television product revenues from television licensing for the year ended December 31, 2015 increased due to higher syndication revenues (including higher license fees from SVOD services), partially offset by lower initial telecast revenues.

The decrease in television product revenues from home video and electronic delivery for the year ended December 31, 2015 was primarily due to continued declines in sales of home entertainment product in physical formats, partially

offset by growth in EST.

Television product revenues from consumer products and other increased for the year ended December 31, 2015 primarily due to an increase in the production of television series by Warner Bros. on behalf of third parties.

Videogames and other revenues increased for the year ended December 31, 2015 primarily due to higher revenues of \$706 million from videogames released during 2015 compared to 2014, partially offset by lower carryover revenues of \$54 million from prior period releases. The Company released 14 and eight videogames in 2015 and 2014, respectively. In addition, the increase in videogames and other revenues for the year ended December 31, 2015 was partially offset by lower patent license revenues.

Table of Contents

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

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 for the year ended December 31, 2015 and 2014 were \$80 million and \$86 million, respectively. Videogame valuation adjustments for the year ended December 31, 2015 and 2014 were \$17 million and \$51 million, respectively. The increase in film and television production costs and print and advertising costs for the year ended December 31, 2015 was primarily due to the mix of product released. Other costs, including merchandise and related costs increased for the year ended December 31, 2015 primarily due to higher distribution costs associated with videogame sales.

Selling, general and administrative expenses decreased for the year ended December 31, 2015 primarily due to the favorable impact of foreign exchange rates of approximately \$80 million, lower distribution expenses of \$23 million and lower employee expenses of \$18 million, partially offset by higher bad debt expense of \$80 million primarily related to international television operations.

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 years ended December 31, 2015 and 2014, which affected the comparability of the Warner Bros. segment's results.

The increase in Operating Income for the year ended December 31, 2015 was primarily due to higher revenues, lower Restructuring and severance costs, lower Selling, general and administrative expenses, lower Asset impairments and lower Venezuelan foreign currency losses, partially offset by higher Costs of revenues.

**Corporate.** Operating Loss at Corporate for the years ended December 31, 2016, 2015 and 2014 was as follows (millions):

	Year Ended December 31,			% Change	
	2016	2015	2014	2016 vs. 2015	2015 vs. 2014
Selling, general and administrative (a)	\$ (463)	\$ (330)	\$ (449)	40%	(27)%
Gain on operating assets			441	NM	NM
Asset impairments	(6)	(15)	(7)	(60)%	114%
Restructuring and severance costs	(3)	(1)	(31)	200%	(97)%
Depreciation	(26)	(21)	(27)	24%	(22)%
Operating Loss	\$ (498)	\$ (367)	\$ (73)	36%	NM

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

***2016 vs. 2015***

Refer to *Transactions and Other Items Affecting Comparability* for a discussion of Asset impairments, pension settlements, costs related to the AT&T merger and external costs related to mergers, acquisitions and dispositions for the year ended December 31, 2016 and 2015, which affected the comparability of Corporate s results.

For the year ended December 31, 2016, Operating loss increased primarily due to higher equity-based compensation expense of \$69 million, which mainly reflected higher expenses for performance stock units due to an increase in the Company s stock price, \$28 million of costs related to the AT&T merger, \$24 million of pension settlement charges and higher costs of \$14 million primarily related to technology initiatives.

**Table of Contents**

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

***2015 vs. 2014***

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 years ended December 31, 2015 and 2014, which affected the comparability of Corporate's results.

Excluding the \$441 million Gain on Operating assets during the year ended December 31, 2014, Operating Loss for the year ended December 31, 2015 decreased primarily due to lower external costs related to mergers, acquisitions and dispositions of \$46 million, lower equity-based compensation expense of \$46 million, which mainly reflected lower expenses for performance stock units due to a decrease in the Company's stock price, lower Restructuring and severance costs as well as 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 \$27 million and \$43 million for the years ended December 31, 2015 and 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 and quarterly dividend payments. 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 December 31, 2016 was \$5.162 billion, which included \$1.539 billion of Cash and equivalents.

**Current Financial Condition**

At December 31, 2016, Time Warner had \$24.339 billion of debt and \$1.539 billion of Cash and equivalents, resulting in net debt of \$22.800 billion, compared to \$23.792 billion of debt and \$2.155 billion of Cash and equivalents, resulting in net debt of \$21.637 billion, at December 31, 2015. Total equity was \$24.337 billion and \$23.619 billion at December 31, 2016 and 2015, respectively.

The following table shows the significant items contributing to the increase in net debt from December 31, 2015 to December 31, 2016 (millions):

Balance at December 31, 2015	\$	21,637
Cash provided by operations from continuing operations		(4,683)

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

Capital expenditures	432
Premium paid and costs incurred on debt redemption	1,008
Repurchases of common stock	2,322
Dividends paid to common stockholders	1,269
Investments and acquisitions, net of cash acquired, including available-for-sale securities	1,237
Proceeds from the exercise of stock options	(172)
Other investment proceeds, including available-for-sale securities	(309)
All other, net	59
Balance at December 31, 2016	\$ 22,800

Table of Contents

**TIME WARNER INC.**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION - (Continued)**

In January 2016, Time Warner's Board of Directors authorized up to \$5.0 billion of share repurchases beginning January 1, 2016, including the amount remaining at December 31, 2015 under the prior authorization. Purchases under the stock repurchase program may be made on the open market or in privately negotiated transactions, with the size and timing of purchases based on a number of factors, including price and business and market conditions. From January 1, 2016 through December 31, 2016, the Company repurchased 31 million shares of common stock for \$2.307 billion pursuant to trading plans under Rule 10b5-1 of the Securities Exchange Act of 1934, as amended (the Exchange Act). In connection with entering into the Merger Agreement, the Company discontinued share repurchases under the stock repurchase program.

During 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 construction cost estimates and space projections as of December 31, 2016, the Company expects to invest an additional \$1.4 billion, excluding interest, in the Hudson Yards development project through 2019.

**Cash Flows**

Cash and equivalents decreased by \$616 million and \$463 million for the years ended December 31, 2016 and 2015, respectively. 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):

	<b>Year Ended December 31,</b>		
	<b>2016</b>	<b>2015</b>	<b>2014</b>
Operating Income	\$ 7,547	\$ 6,865	\$ 5,975
Depreciation and amortization	669	681	733
Venezuela foreign currency loss			173
Net interest payments (a)	(1,250)	(1,227)	(1,224)
Net income taxes paid (b)	(799)	(997)	(1,494)
All other, net, including working capital changes	(1,484)	(1,471)	(482)
Cash provided by operations from continuing operations	\$ 4,683	\$ 3,851	\$ 3,681



(a) Includes interest income received of \$141 million, \$35 million and \$50 million in 2016, 2015 and 2014, respectively.

(b) Includes income tax refunds received of \$136 million, \$142 million and \$108 million in 2016, 2015 and 2014, respectively, and income tax sharing payments to TWC of \$4 million in 2015.

Cash provided by operations from continuing operations for the year ended December 31, 2016 increased primarily due to higher Operating Income and lower net income taxes paid. Cash used by working capital increased slightly as higher theatrical and home entertainment accounts receivable were largely offset by the timing of payments for content and restructuring and severance and CME's repayment of the Senior Secured Notes and the TW Term Loan of approximately \$280 million. Cash provided by operations from continuing operations for the year ended December 31, 2015 increased primarily due to higher Operating Income and lower net income taxes paid due to the enactment of federal tax legislation, partially offset by higher cash used by working capital. Cash used by working capital increased primarily due to higher content investments and higher payments related to restructuring initiatives undertaken in 2014.

Table of Contents

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

*Investing Activities from Continuing Operations*

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

	<b>Year Ended December 31,</b>		
	<b>2016</b>	<b>2015</b>	<b>2014</b>
Investments in available-for-sale securities	\$ (9)	\$ (41)	\$ (30)
Investments and acquisitions, net of cash acquired:			
Hulu	(590)		
Hudson Yards	(293)	(304)	(102)
iStreamPlanet		(148)	
CME			(396)
Eyeworks			(267)
All other	(345)	(220)	(185)
Capital expenditures	(432)	(423)	(474)
Proceeds from Time Inc. in the Time Separation			1,400
Proceeds from the sale of Time Warner Center			1,264
Other investment proceeds, including available-for-sale securities	309	143	173
Cash provided (used) by investing activities from continuing operations	\$ (1,360)	\$ (993)	\$ 1,383

The change in Cash provided (used) by investing activities from continuing operations for the year ended December 31, 2016 was primarily due to the Company's investment in Hulu. Other investment proceeds, including available-for-sale securities for the year ended December 31, 2016 primarily related to CME's repayment of the Senior Secured Notes and the TW Term Loan. The change in Cash provided (used) by investing activities from continuing operations for the year ended December 31, 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. The remaining change in Cash provided (used) by investing activities from continuing operations for the year ended December 31, 2015 was primarily due to the change in investment and acquisition spending.

*Financing Activities from Continuing Operations*

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

	Year Ended December 31,		
	2016	2015	2014
Borrowings	\$ 3,830	\$ 3,768	\$ 2,409
Debt repayments	(3,304)	(2,344)	(72)
Proceeds from the exercise of stock options	172	165	338
Excess tax benefit from equity instruments	88	151	179
Principal payments on capital leases	(14)	(11)	(11)
Repurchases of common stock	(2,322)	(3,632)	(5,504)
Dividends paid	(1,269)	(1,150)	(1,109)
Other financing activities	(1,103)	(260)	(173)
Cash used by financing activities from continuing operations	\$ (3,922)	\$ (3,313)	\$ (3,943)

Cash used by financing activities from continuing operations for the year ended December 31, 2016 increased, reflecting increases in Debt repayments and cash used for other financing activities, partially offset by a decrease in

Table of Contents

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

Repurchases of common stock as a result of discontinuing share repurchases under the stock repurchase program when the Company entered into the Merger Agreement. The increase in cash used for other financing activities for the year ended December 31, 2016 was due to premiums and costs paid in connection with the Debt Tender Offers of \$968 million. Cash used by financing activities from continuing operations for the year ended December 31, 2015 decreased primarily due to a decrease in Repurchases of common stock and an increase in Borrowings, partially offset by an increase in Debt repayments. During the year ended December 31, 2015, the Company issued approximately 5 million shares of common stock and received \$165 million in connection with the exercise of stock options.

***Cash Flows from Discontinued Operations***

Cash flows from discontinued operations principally related to the Company's former Time Inc. segment. Details of Cash used by discontinued operations are as follows (millions):

	<b>Year Ended December 31,</b>		
	<b>2016</b>	<b>2015</b>	<b>2014</b>
Cash used by operations from discontinued operations	\$ (17)	\$ (8)	\$ (16)
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	\$ (17)	\$ (8)	\$ (190)

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

At December 31, 2016, Time Warner had total committed capacity, defined as maximum available borrowings under various existing debt arrangements and cash and short-term investments, of \$29.528 billion. Of this committed capacity, \$5.162 billion was unused and \$24.339 billion was outstanding as debt. At December 31, 2016, total committed capacity, outstanding letters of credit, outstanding debt and total unused committed capacity were as follows (millions):

	<b>Committed Capacity (a)</b>	<b>Letters of Credit (b)</b>	<b>Unamortized Discount on Commercial Paper</b>	<b>Outstanding Debt (c)</b>	<b>Unused Committed Capacity</b>
Cash and equivalents	\$ 1,539	\$	\$	\$	\$ 1,539
Revolving credit facilities and commercial paper program (d)	5,000		1	1,394	3,605
Fixed-rate public debt	22,715			22,715	
Other obligations (e)	274	26		230	18
<b>Total</b>	<b>\$ 29,528</b>	<b>\$ 26</b>	<b>\$ 1</b>	<b>\$ 24,339</b>	<b>\$ 5,162</b>

- (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 11.4 years as of December 31, 2016.
- (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 and \$104 million of unamortized debt issuance costs. At December 31, 2016, the principal amounts of the Company's publicly issued debt mature as follows: \$500 million in 2017, \$600 million in 2018, \$650 million in 2019, \$1.400 billion in 2020, \$2.000 billion in 2021 and \$17.767 billion thereafter. In the period after 2021, 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 that mature in December 2021. The Company may issue unsecured commercial paper notes up to the amount of the unused committed capacity under the revolving credit facilities. Unsecured commercial paper notes issued by the Company typically mature in less than 90 days.
- (e) Unused committed capacity includes committed financings of subsidiaries under local bank credit agreements. Other debt obligations totaling \$53 million are due within the next twelve months.

**Table of Contents**

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

***Debt Offerings***

On May 10, 2016, Time Warner issued \$800 million aggregate principal amount of 2.95% Notes due 2026 under a shelf registration statement. On December 8, 2016, Time Warner issued \$1.5 billion aggregate principal amount of 3.80% Notes due 2027 under a shelf registration statement. The net proceeds to the Company from these debt offerings were \$2.272 billion, after deducting underwriting discounts and offering expenses. All of the notes issued 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 notes.

***Debt Tender Offers***

On December 14, 2016, Time Warner purchased through cash tender offers \$3.0 billion aggregate principal amount of its outstanding debt from the following series: 7.700% Debentures due 2032, 7.625% Debentures due 2031, 6.500% Debentures due 2036 and 6.625% Debentures due 2029, each of which continues to have amounts outstanding. The premiums paid and costs incurred in connection with this purchase were \$1.008 billion for the year ended December 31, 2016 and were recorded in Other loss, net in the accompanying Consolidated Statement of Operations.

***Revolving Credit Facilities***

On December 16, 2016, Time Warner amended its Revolving Credit Facilities, which consist of two \$2.5 billion revolving credit facilities, to extend the maturity dates of both facilities from December 18, 2020 to December 18, 2021 and eliminate the swingline loan subfacility included in one of its facilities.

The funding commitments under the Revolving Credit Facilities are provided by a geographically diverse group of 18 major financial institutions based in countries including Canada, France, Germany, Japan, Spain, Switzerland, the United Kingdom and the U.S. In addition, 17 of these financial institutions have been identified by international regulators as among the 30 financial institutions that they deem to be systemically important. None of the financial institutions in the Revolving Credit Facilities account for more than 8% of the aggregate undrawn loan commitments.

***Commercial Paper Program***

The Company has a commercial paper program, which was established on February 16, 2011 on a private placement basis, under which Time Warner may issue unsecured commercial paper notes up to a maximum aggregate amount not to exceed the unused committed capacity under the Revolving Credit Facilities, which support the commercial paper program. At December 31, 2016, the Company had \$1.394 billion of commercial paper outstanding, which is supported by the Revolving Credit Facilities.

***Additional Information***

The obligations of each of the borrowers under the Revolving Credit Facilities and the obligations of Time Warner under the commercial paper program and the Company's outstanding publicly issued debt are directly or indirectly guaranteed on an unsecured basis by Historic TW, Home Box Office and Turner (other than \$528 million of outstanding debt publicly issued by Time Warner in 2006, which is not guaranteed by Home Box Office). See Note 9, Long-Term Debt and Other Financing Arrangements, to the accompanying consolidated financial statements for additional information regarding the Company's outstanding debt and other financing arrangements, including certain information about maturities, interest rates, covenants, rating triggers and bank credit agreement leverage ratios relating to such debt and financing arrangements.

Table of Contents

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

**Contractual and Other Obligations***Contractual Obligations*

In addition to the financing arrangements discussed above, the Company has obligations under certain contractual arrangements to make future payments for goods and services. These contractual obligations secure the future rights to various assets and services to be used in the normal course of operations. For example, the Company is contractually committed to make certain minimum lease payments for the use of property under operating lease agreements. In accordance with applicable accounting rules, the future rights and obligations pertaining to certain firm commitments, such as operating lease obligations and certain purchase obligations under contracts, are not reflected as assets or liabilities in the accompanying Consolidated Balance Sheet.

The following table summarizes the Company's aggregate contractual obligations at December 31, 2016, and the estimated timing and effect that such obligations are expected to have on the Company's liquidity and cash flows in future periods (millions):

**Contractual Obligations** (a)

	<b>Total</b>	<b>2017</b>	<b>2018-2019</b>	<b>2020-2021</b>	<b>Thereafter</b>
<b>Purchase obligations:</b>					
Network programming obligations (b)	\$ 31,515	\$ 3,933	\$ 5,923	\$ 5,432	\$ 16,227
Creative talent and employment agreements (c)	2,514	1,433	844	174	63
Other purchase obligations (d)	1,415	633	402	161	219
<b>Total purchase obligations</b>	<b>35,444</b>	<b>5,999</b>	<b>7,169</b>	<b>5,767</b>	<b>16,509</b>
<b>Outstanding debt obligations</b>					
(Note 9)	24,481	1,934	1,375	3,400	17,772
Interest (Note 9)	15,812	1,194	2,247	2,056	10,315
Capital lease obligations (Note 9)	68	16	30	16	6
Operating lease obligations (Note 17)	1,154	310	431	154	259
<b>Total contractual obligations</b>	<b>\$ 76,959</b>	<b>\$ 9,453</b>	<b>\$ 11,252</b>	<b>\$ 11,393</b>	<b>\$ 44,861</b>



- (a) The table does not include the effects of arrangements that are contingent in nature such as guarantees and other contingent commitments (Note 17). The table does not include the Company's reserve for uncertain tax positions and related accrued interest and penalties, which at December 31, 2016 totaled \$1.732 billion, as the specific timing of any cash payments relating to this obligation cannot be projected with reasonable certainty. The references to Note 9 and Note 17 refer to the notes to the accompanying consolidated financial statements.
- (b) The Turner segment enters into contracts to license sports programming to carry on its television networks. The amounts in the table include minimum payment obligations to sports leagues and organizations (e.g., NCAA, NBA, MLB) to air the programming over the contract period. Included in the table is \$15.3 billion payable to the NCAA over the 16 years remaining on the agreement, which does not include amounts recoupable from CBS, \$10.0 billion payable to the NBA over the 8 years remaining on the agreements, and \$1.6 billion payable to MLB over the 5 years remaining on the agreement. The Turner and Home Box Office segments also enter into licensing agreements with production studios to acquire the rights to air motion pictures and television series. The pricing structures in these contracts vary. Some agreements require a fixed amount per film or television series and others are based on a percentage of the film's box office receipts (with license fees generally capped at specified amounts), or a combination of both. The amounts included in the table represent obligations for television series and films that had been released theatrically as of December 31, 2016 and are calculated using the actual or estimated box office performance or fixed amounts, based on the applicable agreement.
- (c) The Company's commitments under creative talent and employment agreements include obligations to executives, actors, producers, writers, and other talent under contractual arrangements, including union contracts and contracts with other organizations that represent such creative talent.
- (d) Other purchase obligations principally include: (1) advertising, marketing, distribution and sponsorship obligations, including minimum guaranteed royalty and marketing payments to vendors and content providers; (2) obligations related to the Company's postretirement and unfunded defined benefit pension plans; (3) obligations to purchase information technology licenses and services; (4) obligations related to payments to the NCAA for Basketball Fan Festival rights at the Turner segment; (5) purchases of DVD and Blu-ray Discs pursuant to a duplication and replication agreement; (6) obligations related to funding commitments for certain investees; and (7) obligations to purchase general and administrative items and services.

**Table of Contents**

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

The Company's material contractual obligations at December 31, 2016 include:

Purchase obligations represents an agreement to purchase goods or services that is enforceable and legally binding on the Company and that specifies all significant terms, including: fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transaction. The purchase obligation amounts do not represent all anticipated purchases, but represent only those purchases the Company is contractually obligated to make. The Company also purchases products and services as needed, with no firm commitment. For this reason, the amounts presented in the table alone do not provide a reliable indication of all of the Company's expected future cash outflows. For purposes of identifying and accumulating purchase obligations, all material contracts meeting the definition of a purchase obligation have been included. For those contracts involving a fixed or minimum quantity, but with variable pricing terms, the Company has estimated the contractual obligation based on its best estimate of the pricing that will be in effect at the time the obligation is incurred. Additionally, the Company has included only the obligations under the contracts as they existed at December 31, 2016, and has not assumed that the contracts will be renewed or replaced at the end of their respective terms. If a contract includes a penalty for non-renewal, the Company has included that penalty, assuming it will be paid in the period after the contract expires. If Time Warner can unilaterally terminate an agreement simply by providing a certain number of days notice or by paying a termination fee, the Company has included the amount of the termination fee or the amount that would be paid over the notice period. Contracts that can be unilaterally terminated without incurring a penalty have not been included. In addition, as of December 31, 2016, the Company expects to invest an additional \$1.4 billion, excluding interest, in costs related to the construction of its new headquarters building at Hudson Yards through 2019. Because substantially all of this amount is based on actual costs incurred for the Company's portion of the project and there are neither fixed nor minimum cost provisions in the project agreements, such projected spending amounts have not been included.

Outstanding debt obligations represents the principal amounts due on outstanding debt obligations as of December 31, 2016. Amounts do not include any fair value adjustments, bond premiums, discounts, interest payments or dividends.

Interest represents amounts due based on the outstanding debt balances, interest rates and maturity schedules of the respective instruments as of December 31, 2016. The amount of interest ultimately paid on these instruments may differ based on changes in interest rates.

Capital lease obligations represents the minimum lease payments under noncancelable capital leases, primarily for certain transponder leases at the Home Box Office and Turner segments.

Operating lease obligations represents the minimum lease payments under noncancelable operating leases, primarily for the Company's real estate and operating equipment.

Most of the Company's other long-term liabilities reflected in the accompanying Consolidated Balance Sheet have been included in Network programming obligations in the contractual obligations table above, the most significant of which is an approximate \$827 million liability for film licensing obligations. However, certain long-term liabilities and deferred credits have been excluded from the table because there are no cash outflows associated with them (e.g., deferred revenue) or because the cash outflows associated with them are uncertain or do not meet the definition of a purchase obligation (e.g., deferred taxes and tax reserves, participations and royalties, deferred compensation and other miscellaneous items).

### ***Contingent Commitments***

The Company has certain contractual arrangements that require it to make payments or provide funding if certain circumstances occur. See Note 17, Commitments and Contingencies, to the accompanying consolidated financial statements for further discussion.

**Table of Contents**

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

**Customer Credit Risk**

Customer credit risk represents the potential for financial loss if a customer is unwilling or unable to meet its agreed upon contractual payment obligations. Credit risk in the Company's businesses originates from sales of various products or services and is dispersed among many different counterparties. At December 31, 2016, no single customer had a receivable balance greater than 8% of total Receivables. At December 31, 2016, the Company's exposure to customer credit risk is largely concentrated in the following categories (amounts presented below are net of reserves and allowances):

Various television network and SVOD operators for licensed TV and film product of approximately \$4.9 billion, of which approximately \$3.1 billion related to international television network and SVOD operators;

Various affiliates and digital distributors for the distribution of television programming and/or OTT services of approximately \$1.8 billion;

Various advertisers and advertising agencies related to advertising services of approximately \$1.0 billion; and

Various retailers for home entertainment product of approximately \$0.7 billion.

For additional information regarding Time Warner's accounting policies relating to customer credit risk, refer to Note 1, Description of Business, Basis of Presentation and Summary of Significant Accounting Policies, to the accompanying consolidated financial statements.

**MARKET RISK MANAGEMENT**

Market risk is the potential gain/loss arising from the impact of changes in market rates and prices, such as interest rates, foreign currency exchange rates, or equity prices, on the value of financial instruments.

**Interest Rate Risk**

Time Warner has issued fixed-rate debt that at December 31, 2016 and 2015 had an outstanding balance of \$22.715 billion and \$23.572 billion, respectively, and an estimated fair value of \$24.953 billion and \$26.062 billion, respectively. Based on Time Warner's fixed-rate debt obligations outstanding at December 31, 2016, a 25 basis point increase or decrease in the level of interest rates would decrease or increase, respectively, the fair value of the

fixed-rate debt by approximately \$510 million. Such potential increases or decreases are based on certain simplifying assumptions, including a constant level of fixed-rate debt and an immediate, across-the-board increase or decrease in the level of interest rates with no other subsequent changes for the remainder of the period.

At December 31, 2016 and 2015, the Company had a cash balance of \$1.539 billion and \$2.155 billion, respectively, which is primarily invested in short-term variable-rate interest-earning assets. Based on Time Warner's short-term variable-rate interest-earning assets outstanding at December 31, 2016, a 25 basis point increase or decrease in the level of interest rates would have an insignificant impact on pretax income.

### **Foreign Currency Risk**

Time Warner principally uses foreign exchange contracts to hedge the risk related to unremitted or forecasted royalties and license fees owed to Time Warner domestic companies for the sale or anticipated sale of U.S. copyrighted products abroad because such amounts may be adversely affected by changes in foreign currency exchange rates. Similarly, the Company enters into foreign exchange contracts to hedge certain film production costs denominated in foreign currencies as well as other transactions, assets and liabilities denominated in foreign currencies. As part of its overall strategy to manage

**Table of Contents**

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

the level of exposure to the risk of foreign currency exchange rate fluctuations, Time Warner generally hedges a portion of its foreign currency exposures anticipated over a rolling twelve-month period. The hedging period for royalties and license fees generally covers revenues expected to be recognized during the calendar year; however, there is often a lag between the time that revenue is recognized and the transfer of foreign-denominated cash to U.S. dollars. To hedge this exposure, Time Warner uses foreign exchange contracts that generally have maturities of three months to eighteen months and provide continuing coverage throughout the hedging period. At December 31, 2016 and 2015, Time Warner had contracts for the sale and the purchase of foreign currencies at fixed rates as summarized below by currency (millions):

	<b>December 31, 2016</b>		<b>December 31, 2015</b>	
	<b>Sales</b>	<b>Purchases</b>	<b>Sales</b>	<b>Purchases</b>
British pound	\$ 1,512	\$ 1,356	\$ 1,246	\$ 1,248
Euro	1,165	648	721	524
Canadian dollar	1,362	810	939	475
Australian dollar	552	339	394	238
Other	887	335	556	275
<b>Total</b>	<b>\$ 5,478</b>	<b>\$ 3,488</b>	<b>\$ 3,856</b>	<b>\$ 2,760</b>

Based on the foreign exchange contracts outstanding at December 31, 2016, a 10% devaluation of the U.S. dollar as compared to the level of foreign exchange rates for currencies under contract at December 31, 2016 would result in a decrease of approximately \$199 million in the value of such contracts. Conversely, a 10% appreciation of the U.S. dollar would result in an increase of approximately \$199 million in the value of such contracts. For a hedge of forecasted royalty or license fees denominated in a foreign currency, consistent with the nature of the economic hedge provided by such foreign exchange contracts, unrealized gains or losses largely would be offset by corresponding decreases or increases, respectively, in the dollar value of future foreign currency royalty and license fee payments. See Note 8, Derivative Instruments and Hedging Activities, to the accompanying consolidated financial statements for additional information.

On July 28, 2015, Time Warner issued 700 million aggregate principal amount of 1.95% Notes due 2023. At December 31, 2016, the carrying amount of the Company's 700 million aggregate principal amount of debt is designated as a hedge of the variability in the Company's Euro-denominated net investments. The gain or loss on the debt that is designated as, and is effective as, an economic hedge of the net investment in a foreign operation is recorded as a currency translation adjustment within Accumulated other comprehensive loss, net in the accompanying Consolidated Balance Sheet. For the year ended December 31, 2016 and 2015, such amounts totaled \$39 million of gains and \$1 million of gains, respectively.

**Equity Risk**

The Company is exposed to market risk as it relates to changes in the market value of its investments. The Company invests in equity instruments of public and private companies for operational and strategic business purposes. These securities are subject to significant fluctuations in fair market value due to the volatility of the stock markets and the industries in which the companies operate. At December 31, 2016 and 2015, these securities, which are classified in Investments, including available-for-sale securities in the accompanying Consolidated Balance Sheet, included \$2.347 billion and \$1.363 billion, respectively, of investments accounted for using the equity method of accounting, \$217 million and \$160 million, respectively, of cost-method investments, \$560 million and \$562 million, respectively, of investments related to the Company's deferred compensation program, \$54 million and \$85 million, respectively, of investments in available-for-sale securities and \$159 million and \$179 million, respectively, of investments in warrants to purchase common stock of CME.

The potential loss in fair value resulting from a 10% adverse change in the prices of the Company's equity-method investments, cost-method investments, available-for-sale securities and investments in warrants would be approximately \$280 million. The potential loss in fair value resulting from a 10% adverse change in the prices of certain of the Company's

**Table of Contents**

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

deferred compensation investments accounted for as trading securities would be approximately \$20 million. While Time Warner has recognized all declines that are believed to be other-than-temporary, it is reasonably possible that individual investments in the Company's portfolio may experience an other-than-temporary decline in value in the future if the underlying investee company experiences poor operating results or the U.S. or certain foreign equity markets experience declines in value.

**CRITICAL ACCOUNTING POLICIES**

The Company's consolidated financial statements are prepared in accordance with U.S. GAAP, which requires management to make estimates, judgments and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Management considers an accounting policy to be critical if it is important to the Company's financial condition and results of operations and if it requires significant judgment and estimates on the part of management in its application. The development and selection of these critical accounting policies have been determined by the management of Time Warner, and the related disclosures have been reviewed with the Audit and Finance Committee of the Board of Directors of the Company. The Company considers policies relating to the following matters to be critical accounting policies:

Impairment of Goodwill and Intangible Assets;

Film and Television Production Cost Recognition, Participations and Residuals and Impairments;

Licensed Programming Inventory Cost Recognition and Impairment;

Gross versus Net Revenue Recognition;

Sales Returns and Pricing Rebates; and

Income Taxes.

For a discussion of each of the Company's critical accounting policies, including information and analysis of estimates and assumptions involved in their application, and other significant accounting policies, see Note 1, Description of Business, Basis of Presentation and Summary of Significant Accounting Policies, to the accompanying consolidated financial statements.



## **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 the forward-looking statements in this report include, but are not limited to, the statements regarding (i) expected further modest declines in the number of subscribers to multichannel video services provided by traditional affiliates in the U.S.; (ii) the expected timing of the completion of the AT&T merger; (iii) the Company's expectations regarding the impact of the AT&T merger on the Company's efforts to spur innovation in the media industry and improve the consumer experience and its impact on the Company's strategy; and (iv) the expected higher growth rate for programming costs at the Turner segment during the first half of 2017.

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

**Table of Contents**

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

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:

- the occurrence of any event, change or other circumstances that could give rise to the termination of the Merger Agreement;
- the risk that the necessary regulatory approvals for the proposed merger may not be obtained or may be obtained subject to conditions that are not anticipated;
- risks that any of the closing conditions to the merger may not be satisfied in a timely manner;
- risks related to disruption of management time from ongoing business operations due to the merger;
- failure to realize the benefits expected from the merger;
- the effect of the announcement of the merger on the ability of Time Warner to retain customers and retain and hire key personnel;
- the effect of the announcement of the merger on the ability of Time Warner to maintain relationships with its suppliers;
- the effect of the announcement of the merger on Time Warner's operating results and businesses generally;
- any litigation in connection with the merger;
- recent and future changes in technology, services and standards, including 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 viewing patterns;
- 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;
- the popularity of the Company's content;
- the Company's ability to enter into or renew affiliate agreements on favorable terms;
- competitive pressures, including as a result of audience fragmentation and changes in technology and consumer viewing patterns;
- changes in advertising market conditions or advertising expenditures due to various factors, including decreasing numbers of subscribers to multichannel video services provided by traditional affiliates, changes in consumer viewing patterns, economic conditions, 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, including impacts on the economies of the United Kingdom and European Economic Area resulting from the United Kingdom's vote to exit the European Union ( Brexit );
- changes in foreign exchange rates, including as a result of Brexit;
- 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 effects of any other 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;  
the adequacy of the Company's risk management framework;  
changes in U.S. GAAP or other applicable accounting standards and policies;

**Table of Contents**

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

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 this report.

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

**Table of Contents**

**TIME WARNER INC.**  
**CONSOLIDATED BALANCE SHEET**

(millions, except share amounts)

	December 31,	
	2016	2015
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and equivalents	\$ 1,539	\$ 2,155
Receivables, less allowances of \$981 and \$1,055	8,699	7,411
Inventories	2,062	1,753
Prepaid expenses and other current assets	1,185	1,194
<b>Total current assets</b>	<b>13,485</b>	<b>12,513</b>
Noncurrent inventories and theatrical film and television production costs	7,916	7,600
Investments, including available-for-sale securities	3,337	2,617
Property, plant and equipment, net	2,510	2,596
Intangible assets subject to amortization, net	783	949
Intangible assets not subject to amortization	7,005	7,029
Goodwill	27,752	27,689
Other assets	3,178	2,855
<b>Total assets</b>	<b>\$ 65,966</b>	<b>\$ 63,848</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	\$ 7,192	\$ 7,188
Deferred revenue	564	616
Debt due within one year	1,947	198
<b>Total current liabilities</b>	<b>9,703</b>	<b>8,002</b>
Long-term debt	22,392	23,594
Deferred income taxes	2,678	2,454
Deferred revenue	486	352
Other noncurrent liabilities	6,341	5,798
Redeemable noncontrolling interest	29	29
Commitments and Contingencies (Note 17)		
<b>Equity</b>		
Common stock, \$0.01 par value, 1.652 billion and 1.652 billion shares issued and 772 million and 795 million shares outstanding	17	17
Additional paid-in capital	146,780	148,041
Treasury stock, at cost (880 million and 857 million shares)	(47,497)	(45,612)
Accumulated other comprehensive loss, net	(1,510)	(1,446)
Accumulated deficit	(73,455)	(77,381)

Total Time Warner Inc. shareholders' equity	24,335	23,619
Noncontrolling interests	2	
Total equity	24,337	23,619
Total liabilities and equity	\$ 65,966	\$ 63,848

See accompanying notes.

Table of Contents

**TIME WARNER INC.**  
**CONSOLIDATED STATEMENT OF OPERATIONS**

**Year Ended December 31,**

**(millions, except per share amounts)**

	<b>2016</b>	<b>2015</b>	<b>2014</b>
Revenues	\$ 29,318	\$ 28,118	\$ 27,359
Costs of revenues	(16,376)	(16,154)	(15,875)
Selling, general and administrative	(5,123)	(4,824)	(5,190)
Amortization of intangible assets	(190)	(189)	(202)
Restructuring and severance costs	(117)	(60)	(512)
Asset impairments	(43)	(25)	(69)
Gain (loss) on operating assets, net	78	(1)	464
Operating income	7,547	6,865	5,975
Interest expense, net	(1,161)	(1,163)	(1,169)
Other loss, net	(1,191)	(256)	(127)
Income from continuing operations before income taxes	5,195	5,446	4,679
Income tax provision	(1,281)	(1,651)	(785)
Income from continuing operations	3,914	3,795	3,894
Discontinued operations, net of tax	11	37	(67)
Net income	3,925	3,832	3,827
Less Net loss attributable to noncontrolling interests	1	1	
Net income attributable to Time Warner Inc. shareholders	\$ 3,926	\$ 3,833	\$ 3,827
<b>Amounts attributable to Time Warner Inc. shareholders:</b>			
Income from continuing operations	\$ 3,915	\$ 3,796	\$ 3,894
Discontinued operations, net of tax	11	37	(67)
Net income	\$ 3,926	\$ 3,833	\$ 3,827
<b>Per share information attributable to Time Warner Inc. common shareholders:</b>			
Basic income per common share from continuing operations	\$ 5.00	\$ 4.64	\$ 4.49
Discontinued operations	0.01	0.05	(0.07)
Basic net income per common share	\$ 5.01	\$ 4.69	\$ 4.42

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

Average basic common shares outstanding		780.8		814.9		863.3
Diluted income per common share from continuing operations	\$	4.94	\$	4.58	\$	4.41
Discontinued operations		0.02		0.04		(0.07)
Diluted net income per common share	\$	4.96	\$	4.62	\$	4.34
Average diluted common shares outstanding		792.3		829.5		882.6
Cash dividends declared per share of common stock	\$	1.61	\$	1.40	\$	1.27

See accompanying notes.



Table of Contents

**TIME WARNER INC.**  
**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

**Year Ended December 31,**

**(millions)**

	<b>2016</b>	<b>2015</b>	<b>2014</b>
Net income	\$ 3,925	\$ 3,832	\$ 3,827
Other comprehensive income, net of tax:			
Foreign currency translation:			
Unrealized losses occurring during the period	(121)	(289)	(228)
Reclassification adjustment for losses realized in net income		5	
Change in foreign currency translation	(121)	(284)	(228)
Securities:			
Unrealized gains (losses) occurring during the period		1	(4)
Reclassification adjustment for gains realized in net income			(10)
Change in securities		1	(14)
Benefit obligations:			
Unrealized losses occurring during the period	(21)	(26)	(187)
Reclassification adjustment for losses realized in net income	67	22	19
Change in benefit obligations	46	(4)	(168)
Derivative financial instruments:			
Unrealized gains occurring during the period	58	88	8
Reclassification adjustment for gains realized in net income	(47)	(83)	(14)
Change in derivative financial instruments	11	5	(6)
Other comprehensive loss	(64)	(282)	(416)
Comprehensive income	3,861	3,550	3,411
Less Comprehensive loss attributable to noncontrolling interests	1	1	
Comprehensive income attributable to Time Warner Inc. shareholders	\$ 3,862	\$ 3,551	\$ 3,411

See accompanying notes.



**Table of Contents**

**TIME WARNER INC.**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**

**Year Ended December 31,**

(millions)

	2016	2015	2014
<b>OPERATIONS</b>			
Net income	\$ 3,925	\$ 3,832	\$ 3,827
Less Discontinued operations, net of tax	(11)	(37)	67
Net income from continuing operations	3,914	3,795	3,894
Adjustments for noncash and nonoperating items:			
Depreciation and amortization	669	681	733
Amortization of film and television costs	8,324	8,030	8,040
Asset impairments	43	25	69
Venezuelan foreign currency loss			173
(Gain) loss on investments and other assets, net	(131)	31	(493)
Equity in losses of investee companies, net of cash distributions	324	161	232
Equity-based compensation	277	182	219
Deferred income taxes	236	328	166
Premiums paid and costs incurred on debt redemption	1,008	72	
Changes in operating assets and liabilities, net of acquisitions:			
Receivables	(1,201)	(112)	(403)
Inventories and film costs	(8,774)	(8,526)	(7,789)
Accounts payable and other liabilities	631	(200)	592
Other changes	(637)	(616)	(1,752)
Cash provided by operations from continuing operations	4,683	3,851	3,681
<b>INVESTING ACTIVITIES</b>			
Investments in available-for-sale securities	(9)	(41)	(30)
Investments and acquisitions, net of cash acquired	(1,228)	(672)	(950)
Capital expenditures	(432)	(423)	(474)
Proceeds from Time Inc. in the Time Separation			1,400
Proceeds from the sale of Time Warner Center			1,264
Other investment proceeds	309	143	173
Cash provided (used) by investing activities from continuing operations	(1,360)	(993)	1,383
<b>FINANCING ACTIVITIES</b>			
Borrowings	3,830	3,768	2,409

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

Debt repayments	(3,304)	(2,344)	(72)
Proceeds from exercise of stock options	172	165	338
Excess tax benefit from equity instruments	88	151	179
Principal payments on capital leases	(14)	(11)	(11)
Repurchases of common stock	(2,322)	(3,632)	(5,504)
Dividends paid	(1,269)	(1,150)	(1,109)
Other financing activities	(1,103)	(260)	(173)
Cash used by financing activities from continuing operations	(3,922)	(3,313)	(3,943)
Cash provided (used) by continuing operations	(599)	(455)	1,121
Cash used by operations from discontinued operations	(17)	(8)	(16)
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	(17)	(8)	(190)
Effect of Venezuelan exchange rate changes on cash and equivalents			(129)
<b>INCREASE (DECREASE) IN CASH AND EQUIVALENTS</b>	(616)	(463)	802
<b>CASH AND EQUIVALENTS AT BEGINNING OF PERIOD</b>	2,155	2,618	1,816
<b>CASH AND EQUIVALENTS AT END OF PERIOD</b>	\$ 1,539	\$ 2,155	\$ 2,618

See accompanying notes.

Table of Contents

**TIME WARNER INC.**  
**CONSOLIDATED STATEMENT OF EQUITY**

(millions)

	<b>Time Warner Shareholders</b>								
	<b>Common Stock</b>	<b>Additional Paid-In Capital</b>	<b>Treasury Stock</b>	<b>Retained Earnings (Accumulated Deficit) (a)</b>	<b>Total</b>	<b>Noncontrolling Interests</b>			
<b>Balance AT DECEMBER 31, 2013</b>	\$ 17	\$ 153,410	\$ (37,630)	\$ (85,893)	\$ 29,904	\$	\$		
Net income				3,827	3,827				
Other comprehensive income									
Attributable to Continuing Operations				(438)	(438)				
Other comprehensive income									
Attributable to Discontinued Operations				22	22				
Transactions related to the Time Separation		(2,918)		104	(2,814)				
Dividends		(1,109)			(1,109)				
Share repurchases			(5,500)		(5,500)				
Transactions related primarily to stock and restricted stock		(101)	685		584				
<b>Balance AT DECEMBER 31, 2014</b>	\$ 17	\$ 149,282	\$ (42,445)	\$ (82,378)	\$ 24,476	\$	\$		
Net income (b)				3,833	3,833				
Other comprehensive loss				(282)	(282)				
Dividends		(1,150)			(1,150)				
Share repurchases			(3,600)		(3,600)				
Transactions related primarily to stock and restricted stock		(91)	433		342				
<b>Balance AT DECEMBER 31, 2015</b>	\$ 17	\$ 148,041	\$ (45,612)	\$ (78,827)	\$ 23,619	\$	\$		
Net income (b)				3,926	3,926		1		
Other comprehensive loss				(64)	(64)				
Dividends		(1,269)			(1,269)				
Share repurchases			(2,307)		(2,307)				
Noncontrolling interests of acquired entities								1	
Transactions related primarily to stock and restricted stock		8	422		430				
<b>Balance AT DECEMBER 31, 2016</b>	\$ 17	\$ 146,780	\$ (47,497)	\$ (74,965)	\$ 24,335	\$	\$ 2	\$	

- (a) Includes Accumulated other comprehensive loss, net.
- (b) Excludes losses of \$2 million and \$1 million for the years ended December 31, 2016 and December 31, 2015, respectively, relating to a Redeemable noncontrolling interest classified as a liability outside of shareholders equity in the Consolidated Balance Sheet.

See accompanying notes.

**Table of Contents**

**TIME WARNER INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. DESCRIPTION OF BUSINESS, BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Description of Business**

Time Warner Inc. ( Time Warner or the Company ) is a leading media and entertainment company, whose businesses include television networks, and film and TV entertainment. Time Warner classifies its operations into three reportable segments: *Turner*: consisting principally of cable networks and digital media properties; *Home Box Office*: consisting principally of premium pay television services and a service that delivers video content to consumers over the internet ( OTT service ) domestically and premium pay, basic tier television and OTT services internationally; and *Warner Bros.*: consisting principally of television, feature film, home video and videogame production and distribution.

**Basis of Presentation**

***Basis of Consolidation***

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

***Reclassifications***

Certain reclassifications have been made to the prior year financial information to conform to the December 31, 2016 presentation.

***Use of Estimates***

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

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

**Venezuela Currency**

Certain of the Company's divisions conduct business with third parties located in Venezuela and, as a result, the Company holds net monetary assets denominated in Venezuelan Bolivares Fuertes ( VEF ) that primarily consist of

cash and accounts receivable. 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 exchange systems. As of December 31, 2014, there were three legal foreign currency exchange systems administered by the Venezuelan government, each with a different exchange rate: (i) the fixed official government rate as published by the Central Bank of Venezuela, (ii) the variable, auction-based SICAD 1 rate, and (iii) the variable, transaction-based SICAD 2 rate.

Prior to December 31, 2014, the Company used the official government exchange rate to remeasure its VEF-denominated transactions and balances. During the fourth quarter of 2014, the Company considered information about the



---

**Table of Contents**

**TIME WARNER INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)**

companies that were able to access the three exchange systems during 2014 and the fact that the SICAD 1 and SICAD 2 exchanges continued to operate, as well as the state of the Venezuelan economy, which had entered a recession. Based on these factors, as of December 31, 2014, the Company concluded that the SICAD 2 exchange rate was the most appropriate legal exchange rate for the Company's business activities conducted in VEF. Accordingly, beginning on December 31, 2014, the Company began using the SICAD 2 rate to remeasure its VEF-denominated transactions and balances and, for the three months and year ended December 31, 2014, recognized a pretax foreign exchange loss of \$173 million in the Consolidated Statement of Operations.

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 free market foreign currency exchange. On their initial date of activity, the exchange rates published by the Central Bank of Venezuela were 12 VEF to each U.S. Dollar for the SICAD exchange and 170 VEF to each U.S. Dollar for the Simadi exchange. Given the restrictions associated with the official government rate and the SICAD exchange, starting on February 10, 2015, the Company began to use the Simadi exchange rate to remeasure its VEF-denominated transactions and balances and recognized a pretax foreign exchange loss of \$22 million in the Consolidated Statement of Operations during the quarter ended March 31, 2015. Approximately \$15 million of such loss related to cash balances.

**Accounting Guidance Adopted in 2016**

***Equity Method of Accounting***

In March 2016, guidance was issued that changes the requirements for equity method accounting when an investment qualifies for use of the equity method. The guidance (i) eliminates the need to retroactively apply the equity method of accounting upon qualifying for such treatment, (ii) requires that the cost of acquiring an additional interest in an investee be added to the basis of the previously held interest and (iii) requires that unrealized holding gains or losses for available-for-sale equity securities that qualify for the equity method of accounting be recognized in earnings at the date the investment becomes qualified for use of the equity method of accounting. The Company adopted this guidance on January 1, 2016 on a prospective basis and it did not impact the Company's consolidated financial statements.

**Accounting Guidance Not Yet Adopted**

***Simplifying the Accounting for Goodwill Impairment***

In January 2017, guidance was issued to simplify the accounting for goodwill impairment. The guidance removes the second step of the goodwill impairment test, which requires that a hypothetical purchase price allocation be performed to determine the amount of impairment, if any. Under this new guidance, a goodwill impairment charge will be based on the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. The guidance will become effective on a prospective basis for the Company on January 1, 2020 and is not expected to have a material impact on the Company's consolidated financial statements.

***Definition of a Business***

In January 2017, guidance was issued that changes the definition of a business for accounting purposes. Under the new guidance, an entity first determines whether substantially all of the fair value of a set of assets acquired is concentrated in a single identifiable asset or a group of similar identifiable assets. If this threshold is met, the set of assets is not deemed to be a business. If the threshold is not met, the entity then evaluates whether the set of assets meets the requirement to be deemed a business, which at a minimum, requires there to be an input and a substantive process that together significantly contribute to the ability to create outputs. The guidance will become effective on a prospective basis for the Company on January 1, 2018 and is not expected to have a material impact on the Company's consolidated financial statements.

---

**Table of Contents**

**TIME WARNER INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)**

***Restricted Cash***

In November 2016, guidance was issued that requires that a statement of cash flows present the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total cash amounts shown on the statement of cash flows. The guidance will become effective on a retrospective basis for the Company on January 1, 2018 and is not expected to have a material impact on the Company's consolidated financial statements.

***Intra-Entity Transfers of Assets Other than Inventory***

In October 2016, guidance was issued that requires entities to recognize the income tax consequences of an intercompany transfer of an asset other than inventory when the transfer occurs, rather than deferring the income tax consequences of the intercompany transfer of assets until the asset has been sold to a third party. The guidance will become effective on a modified retrospective basis for the Company on January 1, 2018 and is not expected to have a material impact on the Company's consolidated financial statements.

***Classification of Certain Cash Receipts and Cash Payments***

In August 2016, guidance was issued that clarifies the presentation of certain cash receipts and payments in a company's statement of cash flows. The guidance primarily relates to the classification of cash flows associated with certain (i) debt transactions, (ii) contingent consideration arrangements related to business combinations, (iii) insurance claims and policies, (iv) distributions received from equity method investees and (v) securitization transactions. The guidance will become effective on a retrospective basis for the Company on January 1, 2018 and is not expected to have a material impact on the Company's consolidated financial statements.

***Share-Based Payments***

In March 2016, guidance was issued that changes the reporting for certain aspects of share-based payments. One aspect of the guidance, which became effective on a prospective basis on January 1, 2017, requires that the income tax effects of share-based awards be recognized in the income statement when the awards vest or are settled. Under the previous guidance, excess tax benefits and deficiencies were recognized in Additional paid-in capital in the Consolidated Balance Sheet. For the years ended December 31, 2016 and 2015, the amount of excess tax benefits, net of deficiencies, recognized in Additional paid-in capital was \$82 million and \$150 million, respectively. In addition, because excess tax benefits are no longer recognized in Additional paid-in capital, such amounts are no longer included in the determination of assumed proceeds in applying the treasury stock method when computing earnings per share. Another aspect of the new guidance, which the Company adopted on a prospective basis on January 1, 2017, requires that excess tax benefits be classified as a cash flow from operating activities in the Consolidated Statement of Cash Flows. Under the previous guidance, excess tax benefits were classified as a cash flow from financing activities. Excess tax benefits presented as a cash flow from financing activities were \$88 million, \$151 million, and \$179 million for the years ended December 31, 2016, 2015, and 2014, respectively. The other aspects of

this new guidance are not expected to have a material effect on the Company's consolidated financial statements.

***Accounting for Leases***

In February 2016, guidance was issued regarding accounting for leases. The main difference between the current guidance and the new guidance is the recognition by the lessee of lease assets and liabilities for those leases it classified as operating leases under the current guidance. Under the new guidance, the recognition, measurement and presentation of expenses and cash flows arising from a lease as well as the lessor accounting model have not significantly changed from current guidance. This guidance also requires qualitative and quantitative disclosures of key information about leasing arrangements. The new guidance will become effective on a modified retrospective basis for the Company on January 1,

---

**Table of Contents**

**TIME WARNER INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)**

2019. The Company is still evaluating the impact of the new guidance on its consolidated financial statements. Because the Company is a party to more than 2,000 operating leases with future minimum rental commitments of \$1.154 billion, it expects that the impact of recognizing lease assets and liabilities for these operating leases will be significant to the Company's Consolidated Balance Sheet.

***Recognition and Measurement of Financial Assets and Liabilities***

In January 2016, guidance was issued that makes limited changes to the accounting for financial instruments. The changes primarily relate to (i) the requirement to measure equity investments in unconsolidated subsidiaries, other than those accounted for under the equity method of accounting, at fair value, with changes in the fair value recognized in earnings, (ii) an alternative approach for the measurement of equity investments that do not have a readily determinable fair value, (iii) the elimination of the other-than-temporary impairment model and its replacement with a requirement to perform a qualitative assessment to identify the impairment of equity investments, and a requirement to recognize impairment losses in earnings based on the difference between the fair value and the carrying value of the equity investment, (iv) the elimination of the requirement to disclose the methods and significant assumptions used to estimate the fair value of financial instruments measured at amortized cost, (v) the addition of a requirement to use the exit price concept when measuring the fair value of financial instruments for disclosure purposes and (vi) the addition of a requirement to present financial assets and financial liabilities separately in the notes to the financial statements, grouped by measurement category (e.g., fair value, amortized cost, lower of cost or market) and by form of financial asset (e.g., loans, securities). This guidance will become effective for the Company on January 1, 2018. The Company does not expect the new guidance to have a material impact on its consolidated financial statements.

***Revenue Recognition***

In May 2014, guidance was issued that establishes a new revenue recognition framework in GAAP for all companies and industries. The core principle of the new guidance is that an entity should recognize revenue from the transfer of promised goods or services to customers in an amount that reflects the consideration the entity expects to receive for those goods or services. The guidance includes a five-step framework to determine the timing and amount of revenue to recognize related to contracts with customers. In addition, this guidance requires new or expanded disclosures related to the judgments made by companies when following this framework. Based on the current guidance, the new framework will become effective on either a full or modified retrospective basis for the Company on January 1, 2018.

Subsequent to the issuance of the May 2014 guidance, several clarifications and updates have been issued by the FASB on this topic, the most recent of which was issued in December 2016. Many of these clarifications and updates to the guidance, as well as a number of interpretive issues, apply to companies in the media and entertainment industry.

The Company has made significant progress toward completing its assessment of the impact of adopting this new guidance, and the Company is finalizing its implementation plan. The Company currently does not believe that the adoption of the new guidance will have a material impact on the Company's financial statements, principally because the Company does not expect significant changes in the way it will record subscription revenue, advertising revenue,

and a significant portion of its content revenue. However, it is possible that the Company's evaluation of the expected impact of the new guidance on certain transactions could change if there are additional interpretations of the new revenue guidance that are different from the Company's preliminary conclusions. Although the Company currently does not expect the impact of adopting the new guidance to be material, there are several areas where the Company's revenue recognition is expected to change as compared with historical GAAP. The more significant of these areas are as follows:

- i. ***Renewals of Licenses of Intellectual Property*** Under guidance currently in effect, when the term of an existing license agreement is extended, without any other changes to the provisions of the license, revenue for the renewal period is recognized on the date the renewal is agreed to contractually. Under the new guidance, revenue for the renewed license term will not be recognized until the date the renewal term begins. This change will result in delayed revenue recognition as compared with current revenue recognition

---

**Table of Contents**

**TIME WARNER INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)**

guidance. The Company expects that this change will primarily impact the Warner Bros. segment, but it will also, to a lesser degree, impact the Home Box Office and Turner segments.

- ii. ***License of Content Library*** Under guidance currently in effect, when a company licenses a completed library of content and agrees to refresh the library with new content as it becomes available, and the licensee is not entitled to a refund if no further library titles are delivered, revenue is recognized once access to the library is granted to the licensee. Under the new guidance, because there is an implicit obligation for the company to refresh the library with additional content in the future, the company will need to estimate the additional content it will deliver in the future and allocate a portion of the transaction price to that content. As compared with current guidance, this results in a deferral of a portion of the transaction price until delivery of future library content. The Company expects this change will primarily impact the Home Box Office segment.
  
- iii. ***Licenses of Symbolic Intellectual Property*** Certain intellectual property, such as brands, tradenames and logos, is categorized in the new guidance as symbolic. An assumption inherent in the new guidance is that a licensee's ability to derive benefit from a license of symbolic intellectual property depends on the licensor continuing to support or maintain the intellectual property throughout the license term. Accordingly, under the new guidance, revenue from licenses of symbolic intellectual property is recognized over the corresponding license term. In certain arrangements where the Company has no remaining performance obligations, under the guidance currently in effect, revenue from licenses of symbolic intellectual property is recognized at the inception of the license term. Therefore, the new guidance will result in a deferral of revenue recognition as compared to current guidance. This change will primarily impact the Warner Bros. segment.

The evaluation of the impact of the new guidance on certain other transactions is still in process; however, the Company does not expect the completion of that evaluation to impact the Company's conclusion that the adoption will not have a material impact on the Company's financial statements.

The Company currently expects to adopt the standard in 2018 using the modified retrospective method of adoption. However, the transition method ultimately selected could be affected by the Company's pending merger with AT&T Inc. ( AT&T ) if the merger closes prior to the adoption of the new guidance. For more information regarding the AT&T merger, see Note 2.

**Summary of Critical and Significant Accounting Policies**

The following is a discussion of each of the Company's critical accounting policies, including information and analysis of estimates and assumptions involved in their application, and other significant accounting policies.

The Securities and Exchange Commission ( SEC ) considers an accounting policy to be critical if it is important to the Company's financial condition and results of operations and if it requires significant judgment and estimates on the part of management in its application. The development and selection of these critical accounting policies have been

determined by Time Warner's management and the related disclosures have been reviewed with the Audit and Finance Committee of the Board of Directors of the Company. Due to the significant judgment involved in selecting certain of the assumptions used in these areas, it is possible that different parties could choose different assumptions and reach different conclusions. The Company considers the policies relating to the following matters to be critical accounting policies:

Impairment of Goodwill and Intangible Assets (see pages 89 to 90);

Film and Television Production Cost Recognition, Participations and Residuals and Impairments (see pages 93 to 94);

Licensed Programming Inventory Cost Recognition and Impairment (see pages 94 to 95);



---

**Table of Contents**

**TIME WARNER INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)**

Gross versus Net Revenue Recognition (see page 93);

Sales Returns and Pricing Rebates (see page 93); and

Income Taxes (see page 97).

***Cash and Equivalents***

Cash equivalents consist of investments that are readily convertible into cash and have original maturities of three months or less. Cash equivalents are carried at cost, which approximates fair value. The Company monitors concentrations of credit risk with respect to Cash and equivalents by placing such balances with higher quality financial institutions or investing such amounts in liquid, short-term, highly-rated instruments or investment funds holding similar instruments. As of December 31, 2016, the majority of the Company's Cash and equivalents were invested with banks with a credit rating of at least A and in Rule 2a-7 money market mutual funds. At December 31, 2016, the Company did not have more than \$500 million invested in any single bank or money market mutual fund.

***Allowance for Doubtful Accounts***

The Company monitors customer credit risk related to accounts receivable, including unbilled trade receivables primarily related to the distribution of television product. Significant judgments and estimates are involved in evaluating if such amounts will ultimately be fully collected. Each of the Company's businesses maintains a comprehensive approval process prior to issuing credit to third-party customers. Counterparties that are determined to be of a higher risk are evaluated to assess whether the credit terms previously granted to them should be modified. The Company monitors customers' accounts receivable aging, and a provision for estimated uncollectible amounts is maintained based on customer payment levels, historical experience and management's views on trends in the overall receivable agings. In addition, for larger accounts, the Company performs analyses of risks on a customer-specific basis. At December 31, 2016 and 2015, total reserves for doubtful accounts were approximately \$193 million and \$180 million, respectively. For the years ended December 31, 2016 and 2015, the Company recognized \$38 million and \$63 million of bad debt expense, respectively. For the year ended December 31, 2014, the Company recognized \$20 million of income related to bad debt primarily due to the reversal of a reserve related to a Warner Bros. receivable.

***Consolidation***

Time Warner consolidates all entities in which it has a controlling voting interest and all variable interest entities ( VIEs ) in which the Company is deemed to be the primary beneficiary. Entities determined to be VIEs primarily consist of HBO Latin America Group ( HBO LAG ) and Hudson Yards North Tower Holdings LLC ( HYNTH ), the limited liability company involved in the construction and development of the Company's new headquarters building at Hudson Yards.

HBO LAG is a VIE because the Company's ownership interest (88%) and voting rights (50%) in this entity are disproportionate. The Company has determined that it is not the primary beneficiary of this VIE because voting control is shared equally with the other investor and therefore the Company does not have the power to direct the activities that most significantly impact the entity's economic performance. As of December 31, 2016 and December 31, 2015, the Company's aggregate investment in HBO LAG was \$535 million and \$558 million, respectively. The investment in HBO LAG is intended to enable the Company to more broadly leverage its programming and digital strategy in the territories served and to capitalize on growing opportunities in such territories. The Company provides programming as well as certain services, including distribution, licensing and technological and administrative support, to HBO LAG. HBO LAG is financed through cash flows from its operations, and the Company is not obligated to provide HBO LAG with any additional financial support. In addition, the assets of HBO LAG are not available to settle the Company's obligations.

During 2015, the Company finalized agreements related 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

---

**Table of Contents**

**TIME WARNER INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)**

City-based employees to the new space. The Company will fund its proportionate share of the costs for the construction and development through HYNTH, a limited liability company that is controlled by the developer of the Hudson Yards development project and managed by an affiliate of the developer. HYNTH is a VIE because the equity investment at risk is not sufficient to permit HYNTH to carry on its activities without additional subordinated financial support. The Company is not the primary beneficiary of HYNTH because it does not have the power to direct the activities that most significantly impact the entity's economic performance. As of December 31, 2016 and 2015, the Company's investment in HYNTH, which is accounted for under the equity method of accounting, was approximately \$729 million and \$438 million, respectively. Based on construction cost estimates and space projections as of December 31, 2016, the Company expects to invest an additional \$1.4 billion, excluding interest, in the Hudson Yards development project through 2019.

***Investments***

Investments in common stock in companies in which Time Warner has significant influence, but less than a controlling voting interest, are accounted for using the equity method. Significant influence is generally presumed to exist when Time Warner owns between 20% and 50% of the voting interests in the investee, holds substantial management rights or holds an interest of less than 20% in an investee that is a limited liability partnership or limited liability corporation that is treated as a flow-through entity.

Under the equity method of accounting, only Time Warner's investment in and amounts due to and from the equity investee are included in the Consolidated Balance Sheet; only Time Warner's share of the investee's earnings (losses) is included in the Consolidated Statement of Operations; and only the dividends, cash distributions, loans or other cash received from the investee, additional cash investments, loan repayments or other cash paid to the investee are included in the Consolidated Statement of Cash Flows. If previous equity method losses have reduced the carrying value of the Company's equity method investment to zero, the Company continues to record its share of equity method losses to the extent it has (i) other investments in the investee, (ii) guaranteed obligations of the investee or (iii) committed to provide further financial support for the investee.

Investments in companies in which Time Warner does not have a controlling voting interest or over which it is unable to exert significant influence are generally accounted for at fair value if the investments are publicly traded. If the investment or security is not publicly traded, the investment is accounted for at cost. Unrealized gains and losses on investments accounted for at fair value are reported, net of tax, in Accumulated other comprehensive loss, net. Dividends and other distributions of earnings from investments in companies in which Time Warner does not have a controlling voting interest or over which it is unable to exert significant influence are included in Other loss, net, when declared. For more information, see Notes 4 and 5.

The company regularly reviews its investments for impairment. See **Asset Impairments** below for additional information.

***Foreign Currency Translation***

Financial statements of subsidiaries operating outside the United States whose functional currency is not the U.S. Dollar are translated at the rates of exchange on the balance sheet date for assets and liabilities and at average rates of exchange for revenues and expenses during the period. Translation gains or losses on assets and liabilities are included as a component of Accumulated other comprehensive loss, net.

***Derivative Instruments***

The Company uses derivative instruments principally to manage the risk associated with movements in foreign currency exchange rates, and recognizes all derivative instruments on the Consolidated Balance Sheet at fair value. Changes in fair value of derivative instruments that qualify for hedge accounting will either be offset against the change in fair value of the hedged assets or liabilities through earnings or recognized in shareholders' equity as a component of Accumulated

Table of Contents

## TIME WARNER INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

other comprehensive loss, net, until the hedged item is recognized in earnings, depending on whether the derivative instrument is being used to hedge changes in fair value or cash flows. For qualifying hedge relationships, the Company excludes the impact of forward points or option premiums from its assessment of hedge effectiveness and recognizes changes in the fair value of a derivative instrument due to forward points or option premiums in Other income (loss), net each quarter. The ineffective portion of a derivative instrument's change in fair value is immediately recognized in earnings. For those derivative instruments that do not qualify for hedge accounting, changes in fair value are recognized immediately in earnings. See Note 8 for additional information regarding derivative instruments held by the Company and risk management strategies.

***Property, Plant and Equipment***

Property, plant and equipment are stated at cost. Additions to property, plant and equipment generally include material, labor and overhead. Time Warner also capitalizes certain costs associated with coding, software configuration, upgrades and enhancements incurred for the development of internal use software. Depreciation is recorded on a straight-line basis over estimated useful lives. Leasehold improvements are depreciated over the lesser of the estimated useful life of the improvement or the term of the applicable lease. Time Warner periodically evaluates the depreciation periods of property, plant and equipment to determine whether a revision to its estimates of useful lives is warranted. Property, plant and equipment, including capital leases, consist of (millions):

	<b>December 31,</b>		<b>Estimated</b>
	<b>2016</b>	<b>2015</b>	<b>Useful Lives</b>
Land (a)	\$ 268	\$ 273	n/a
Buildings and improvements	1,641	1,619	7 to 30 years
Capitalized software costs	2,029	1,958	3 to 7 years
Furniture, fixtures and other equipment (b)	3,017	3,069	3 to 10 years
	6,955	6,919	
Accumulated depreciation	(4,445)	(4,323)	
<b>Total</b>	<b>\$ 2,510</b>	<b>\$ 2,596</b>	

(a) Land is not depreciated.

(b) Includes \$183 million and \$174 million of construction in progress as of December 31, 2016 and 2015, respectively.

***Intangible Assets***

Time Warner has a significant number of intangible assets, including acquired film and television libraries and other copyrighted products and tradenames. Time Warner does not recognize the fair value of internally generated

intangible assets. Intangible assets acquired in business combinations are recorded at the acquisition date fair value in the Company's Consolidated Balance Sheet. Acquired film libraries are amortized using the film forecast computation model. For more information, see Film and Television Production Cost Recognition, Participations and Residuals and Impairments and Note 3.

### ***Asset Impairments***

#### *Investments*

The Company's investments consist of (i) investments carried at fair value, including available-for-sale securities and certain deferred compensation-related investments, (ii) investments accounted for using the cost method of accounting and (iii) investments accounted for using the equity method of accounting. The Company regularly reviews its investments for impairment, including when the carrying value of an investment exceeds its market value. If the Company determines that an investment has sustained an other-than-temporary decline in its value, the investment is written down to its fair value by a charge to earnings that is included in Other loss, net. Factors that are considered by the Company in determining whether an other-than-temporary decline in value has occurred include (i) the market value of the security in relation to its cost basis, (ii) the financial condition of the investee and (iii) the Company's intent and ability to retain the investment for a sufficient period of time to allow for recovery in the market value of the investment.

---

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

In evaluating the factors described above for available-for-sale securities, the Company presumes a decline in value to be other-than-temporary if the quoted market price of the security is 20% or more below the investment's cost basis for a period of six months or more (the 20% criterion) or the quoted market price of the security is 50% or more below the security's cost basis at any quarter end (the 50% criterion). However, the presumption of an other-than-temporary decline in these instances may be overcome if there is persuasive evidence indicating that the decline is temporary in nature (e.g., the investee's operating performance is strong, the market price of the investee's security is historically volatile, etc.). Additionally, there may be instances in which impairment losses are recognized even if the 20% and 50% criteria are not satisfied (e.g., if there is a plan to sell the security in the near term and the fair value is below the Company's cost basis).

For investments accounted for using the cost or equity method of accounting, the Company evaluates information available (e.g., budgets, business plans, financial statements, etc.) in addition to quoted market prices, if any, in determining whether an other-than-temporary decline in value exists. Factors indicative of an other-than-temporary decline include recurring operating losses, credit defaults and subsequent rounds of financing at an amount below the cost basis of the Company's investment. For more information, see Note 5.

*Goodwill and Indefinite-Lived Intangible Assets*

Goodwill and indefinite-lived intangible assets, primarily tradenames, are tested annually for impairment as of December 31 or earlier upon the occurrence of certain events or substantive changes in circumstances. Goodwill is tested for impairment at the reporting unit level. A reporting unit is either the operating segment level, such as Warner Bros. Entertainment Inc. (Warner Bros.), Home Box Office, Inc. (Home Box Office) and Turner Broadcasting System, Inc. (Turner), or one level below, which is referred to as a component (e.g., Warner Bros. Theatrical, Warner Bros. Television). The level at which the impairment test is performed requires judgment as to whether the components constitute a self-sustaining business and, if so, whether their operations are similar such that they should be aggregated for purposes of the impairment test. For purposes of the goodwill impairment test, management has concluded that the operations below the operating segment level met the criteria to be aggregated and therefore has determined its reporting units are the same as its operating segments.

In assessing Goodwill for impairment, the Company has the option to first perform a qualitative assessment to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If the Company determines that it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, the Company is not required to perform any additional tests in assessing Goodwill for impairment. However, if the Company concludes otherwise or elects not to perform the qualitative assessment, then it is required to perform the first step of a two-step impairment review process. The first step of the two-step process involves a comparison of the estimated fair value of a reporting unit to its carrying amount. In performing the first step, the Company generally determines the fair value of a reporting unit using a discounted cash flow (DCF) analysis and, in certain cases, a combination of a DCF analysis and a market-based approach. Determining fair value requires the exercise of significant judgment, including judgments about appropriate discount rates, perpetual growth rates, the amount and timing of expected future cash flows, as well as relevant comparable public company earnings multiples. The cash flows employed in the DCF analyses are based on the Company's most recent budgets and long range plans and perpetual growth rates are assumed for years beyond

the current long range plan period. Discount rate assumptions are based on an assessment of market rates, capital structures and the risk inherent in the future cash flows included in the budgets and long range plans.

For 2016, the Company elected to perform a qualitative assessment of impairment of Goodwill and concluded that it was more likely than not that the fair value of each reporting unit was in excess of its respective carrying value. Accordingly, the 2016 assessment did not result in any impairments of the Company's Goodwill. In reaching this conclusion, the Company considered the results of prior year's quantitative assessment and underlying trends and assumptions used in determining fair value, including the value proposed by AT&T in connection with the pending AT&T merger.

In assessing other intangible assets not subject to amortization for impairment, the Company also has the option to perform a qualitative assessment to determine whether the existence of events or circumstances leads to a determination that



---

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

it is more likely than not that the fair value of such an intangible asset is less than its carrying amount. If the Company determines that it is not more likely than not that the fair value of such an intangible asset is less than its carrying amount, then the Company is not required to perform any additional tests for assessing those intangible assets for impairment. However, if the Company concludes otherwise or elects not to perform the qualitative assessment, then it is required to perform a quantitative impairment test that involves a comparison of the estimated fair value of the intangible asset with its carrying value. When performing the quantitative impairment test on other intangible assets not subject to amortization, the Company determines fair value using a DCF valuation analysis, which is based on the relief from royalty methodology. Discount rate assumptions are based on an assessment of the risk inherent in the projected future cash flows generated by the respective intangible assets. Also subject to judgment are assumptions about royalty rates, which are based on the estimated rates at which similar tradenames are being licensed in the marketplace. If the carrying value of the intangible asset exceeds its fair value, an impairment loss is recognized in an amount equal to that excess.

In 2016, the Company elected to perform a qualitative assessment for substantially all of its intangible assets not subject to amortization and concluded that it was more likely than not the fair value of each of the Company's intangible assets not subject to amortization was in excess of its respective carrying value.

*Long-Lived Assets*

Long-lived assets such as property, plant and equipment and finite-lived intangible assets (e.g., tradenames, customer lists and film libraries, do not require that an annual impairment test be performed; instead, long-lived assets are tested for impairment upon the occurrence of a triggering event. Triggering events include the more likely than not disposal of a portion of such assets or the occurrence of an adverse change in the market involving the business employing the related assets. Once a triggering event has occurred, the impairment test is based on whether the intent is to hold the asset for continued use or to hold the asset for sale. The impairment test for assets held for continued use requires a comparison of cash flows expected to be generated over the useful life of an asset or group of assets (asset group) against the carrying value of the asset group. An asset group is established by identifying the lowest level of cash flows generated by the asset or group of assets that are largely independent of the cash flows of other assets. If the intent is to hold the asset group for continued use, the impairment test first requires a comparison of estimated undiscounted future cash flows generated by the asset group against its carrying value. If the carrying value exceeds the estimated undiscounted future cash flows, an impairment would be measured as the difference between the estimated fair value of the asset group and its carrying value. Fair value is generally determined by discounting the future cash flows associated with that asset group. If the intent is to hold the asset group for sale and certain other criteria are met (e.g., the asset can be disposed of currently, appropriate levels of authority have approved the sale, and there is an active program to locate a buyer), the impairment test involves comparing the asset group's carrying value to its estimated fair value. To the extent the carrying value is greater than the estimated fair value, an impairment loss is recognized for the difference. Significant judgments in this area involve determining the appropriate asset group level at which to test, determining whether a triggering event has occurred, determining the future cash flows for the assets involved and selecting the appropriate discount rate to be applied in determining estimated fair value. For more information, see Note 3.

*Accounting for Pension Plans*

The Company and certain of its subsidiaries have both funded and unfunded defined benefit pension plans, the substantial majority of which are noncontributory, covering a majority of domestic employees and, to a lesser extent, have various defined benefit plans, primarily noncontributory, covering certain international employees. Pension benefits are based on formulas that reflect the participating employees' qualifying years of service and compensation. Time Warner's largest defined benefit pension plan is closed for new employees and frozen to future benefit accruals. Time Warner uses a December 31 measurement date for its plans. The pension expense recognized by the Company is determined using certain assumptions, including the expected long-term rate of return on plan assets, the interest factor implied by the discount rate and the rate of compensation increases. For more information, see Note 14.

---

**Table of Contents**

**TIME WARNER INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)**

***Equity-Based Compensation***

The Company measures the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. That cost is recognized in Costs of revenues or Selling, general and administrative expenses depending on the job function of the grantee on a straight-line basis (net of estimated forfeitures) from the date of grant over the period during which an employee is required to provide services in exchange for the award. The total grant-date fair value of an equity award granted to an employee who has reached a specified age and years of service as of the grant date is recognized as compensation expense immediately upon grant as there is no required service period.

The grant-date fair value of a restricted stock unit ( RSU ) is determined based on the closing sale price of the Company's common stock on the NYSE Composite Tape on the date of grant.

Performance stock units ( PSUs ) are subject to a performance condition such that the number of PSUs that ultimately vest generally depends on the adjusted earnings per share ( Adjusted EPS ) achieved by the Company during a three-year performance period compared to targets established at the beginning of the period. The PSUs are also subject to a market condition and the number of PSUs that vest can be increased or decreased based on the Company's cumulative total shareholder return ( TSR ) relative to the TSR of the other companies in the S&P 500 Index for the performance period. Because the terms of the PSUs provide discretion to make certain adjustments to the performance calculation, the service inception date of these awards precedes the grant date. Accordingly, the Company recognizes compensation expense beginning on the service inception date and remeasures the fair value of the PSU until a grant date occurs, which is typically after the completion of the required service period. PSUs, as well as RSUs granted to certain senior executives, also are subject to a performance condition based on an adjusted net income target for a one-year period that, if not achieved, will result in the forfeiture of the awards.

The grant-date fair value of a stock option is estimated using the Black-Scholes option-pricing model. Because the Black-Scholes option-pricing model requires the use of subjective assumptions, changes in these assumptions can materially affect the fair value of the stock options. The Company determines the volatility assumption for these stock options using implied volatilities data from its traded options. The expected term, which represents the period of time that stock options granted are expected to be outstanding, is estimated based on the historical exercise behavior of Time Warner employees. Groups of employees that have similar historical exercise behavior are considered separately for valuation purposes. The risk-free rate assumed in valuing the options is based on the U.S. Treasury yield curve in effect at the time of grant for the expected term of the option. The Company determines the expected dividend yield percentage by dividing the expected annual dividend by the market price of Time Warner common stock at the date of grant. For more information, see Note 13.

***Revenue***

The Company generates revenue primarily from content production and distribution (i.e., Content Revenue), providing programming to cable system operators, satellite service distributors, telephone companies and virtual multichannel video programming distributors (collectively, affiliates ) and digital distributors that have contracted to receive and distribute this programming to their subscribers (i.e., Subscription Revenue) and the sale of advertising on

the Company's television networks and digital properties and the digital properties it manages and/or operates for others (i.e., Advertising Revenue).

*Content Revenue*

Feature films typically are produced or acquired for initial exhibition in theaters, followed by distribution, generally commencing within three years of such initial exhibition, through sales of feature films in physical format, electronic sell-through, video-on-demand, OTT services, premium cable, basic cable and broadcast networks. Revenues from film rentals by theaters are recognized as the films are exhibited. Revenues from sales of feature films in physical format are recognized at the later of the delivery date or the date that the DVDs or Blu-ray Discs are made widely available for sale or rental by retailers based on gross sales less a provision for estimated returns, rebates and pricing allowances. Revenues from the licensing of feature films for electronic sell-through or video-on-demand are recognized when the product has been

---

**Table of Contents**

**TIME WARNER INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)**

purchased by and made available to the consumer to either download or stream. Revenues from the distribution of theatrical product through OTT services, premium cable, basic cable and broadcast networks are recognized when the films are available to the licensee.

Television programs and series are initially produced for broadcast networks, cable networks, first-run television syndication or OTT services and may be subsequently licensed for international or domestic cable, syndicated television and OTT services, as well as sold on home video and via electronic delivery. Revenues from the distribution of television programming through broadcast networks, cable networks, first-run syndication and OTT services are recognized when the programs or series are available to the licensee, except for consideration to be received from the exhibition of advertising, where the revenue is valued and recognized when the related advertisements are exhibited. In certain circumstances, pursuant to the terms of the applicable contractual arrangements, the availability dates granted to customers may precede the date the Company may bill the customers for these sales. Unbilled accounts receivable, which primarily relate to the distribution of television product at Warner Bros., totaled \$4.573 billion and \$4.057 billion at December 31, 2016 and December 31, 2015, respectively. Included in the unbilled accounts receivable at December 31, 2016 was \$2.687 billion that is to be billed in the next twelve months. Similar to theatrical home video sales, revenues from sales of television programming in physical format are recognized at the later of the delivery date or the date that the DVDs or Blu-ray Discs are made widely available for sale or rental by retailers based on gross sales less a provision for estimated returns, rebates and pricing allowances. Revenues from the licensing of television programs and series for electronic sell-through or video-on-demand are recognized when the product has been purchased by and made available to the consumer to either download or stream. Revenues from the distribution of television programming through OTT services are recognized when the television programs or series are available to the licensee.

Upfront or guaranteed payments for the licensing of intellectual property are recognized as revenue when (i) an arrangement has been signed with a customer, (ii) the customer's right to use or otherwise exploit the intellectual property has commenced and there is no requirement for significant continued performance by the Company, (iii) licensing fees are either fixed or determinable and (iv) collectability of the fees is reasonably assured. In the event any significant continued performance is required in these arrangements, revenue is allocated to each applicable element and recognized when the related services are performed.

Revenues from the sales of console videogames are recognized at the later of the delivery date or the date that the product is made widely available for sale or rental by retailers based on gross sales less a provision for estimated returns, rebates and pricing allowances.

*Subscription Revenue*

Subscription revenues from the Company's cable networks and premium pay and basic tier television services are recognized over the license period as programming is provided to affiliates based on negotiated contractual programming rates. When a distribution contract with an affiliate has expired and a new distribution contract has not been executed, revenues are based on estimated rates, giving consideration to factors including the previous contractual rates, inflation, current payments by the affiliate and the status of the negotiations on a new contract. When the new distribution contract terms are finalized, an adjustment to Subscription revenues is recorded, if

necessary, to reflect the new terms. Such adjustments historically have not been significant.

Subscription revenues from OTT services (e.g., HBO NOW) are recognized as programming services are provided to customers.

*Advertising Revenue*

Advertising revenues are recognized, net of agency commissions, in the period that the advertisements are aired. If there is a targeted audience guarantee, revenues are recognized for the actual audience delivery and revenues are deferred for any shortfall until the guaranteed audience delivery is met, typically by providing additional advertisements. Advertising revenues from digital properties are recognized as impressions are delivered or the services are performed.

---

**Table of Contents****TIME WARNER INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)***Sales Returns and Pricing Rebates*

Management's estimate of product sales that will be returned and pricing rebates to grant is an area of judgment affecting Revenues and Net income. In estimating product sales that will be returned, management analyzes vendor sales of the Company's product, historical return trends, current economic conditions, and changes in customer demand. Based on this information, management reserves a percentage of any product sales that provide the customer with the right of return. The provision for such sales returns is reflected as a reduction in the revenues from the related sale. In estimating the reserve for pricing rebates, management considers the terms of the Company's agreements with its customers that contain targets which, if met, would entitle the customer to a rebate. In those instances, management evaluates the customer's actual and forecasted purchases to determine the appropriate reserve. At December 31, 2016 and 2015, total reserves for sales returns (which also reflects reserves for certain pricing allowances provided to customers) primarily related to home entertainment products (e.g., DVDs, Blu-ray Discs and videogames) and were \$788 million and \$875 million, respectively. An incremental change of 1% in the Company's estimated sales returns rate (i.e., provisions for returns divided by gross sales of related product) would have resulted in an approximate \$32 million impact on the Company's total Revenues for the year ended December 31, 2016. This revenue impact would have been partially offset by a corresponding impact on related expenses depending on the margin associated with a specific film or videogame and other factors.

*Gross versus Net Revenue Recognition*

In the normal course of business, the Company may act as an intermediary or an agent with respect to the sale of third-party products or services (e.g., arrangements where Warner Bros. distributes a film owned by a third party). In addition, the Company may use an intermediary to sell its own products or services (e.g., arrangements involving the distribution of HBO NOW). In connection with these arrangements, the Company must determine whether to report revenue based on the gross amount billed to the ultimate customer or on the net amount received from the customer after commissions and other payments to third parties. To the extent revenues are recorded on a gross basis, any commissions or other payments to third parties are recorded as expense so that the net amount (gross revenues less expense) is reflected in Operating Income. Accordingly, the impact on Operating Income is the same whether the Company records revenue on a gross or net basis.

The determination of whether revenue should be reported on a gross or net basis is based on an assessment of whether the Company is acting as the principal or an agent in the transaction. If the Company is acting as a principal in a transaction, the Company reports revenue on a gross basis. If the Company is acting as an agent in a transaction, the Company reports revenue on a net basis. The determination of whether the Company is acting as a principal or an agent in a transaction involves judgment and is based on an evaluation of the terms of an arrangement. The Company serves as the principal in transactions in which it has substantial risks and rewards of ownership.

For example, Warner Bros. acts as an intermediary when it provides distribution services for independent third-party companies for the worldwide distribution of theatrical films, home video, television programs and/or videogames. The independent third-party company may retain final approval over the distribution, marketing, advertising and publicity for each film or videogame in all media, including the timing and extent of the releases, the pricing and packaging of packaged goods units and approval of all television licenses. Warner Bros. records revenue generated in these

distribution arrangements on a gross basis when it (i) is the merchant of record for the licensing arrangements, (ii) is the licensor/contracting party, (iii) provides the materials to licensees, (iv) handles the billing and collection of all amounts due under such arrangements and (v) bears the risk of loss related to distribution advances and/or the packaged goods inventory. If Warner Bros. does not bear the risk of loss as described in the previous sentence, the arrangements are accounted for on a net basis.

*Film and Television Production Cost Recognition, Participations and Residuals and Impairments*

Film and television production costs include the unamortized cost of completed theatrical films and television episodes, theatrical films and television series in production and undeveloped film and television rights. Film and television production costs are stated at the lower of cost, less accumulated amortization, or fair value. The amount of capitalized film and



---

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

television production costs recognized as Costs of revenues for a given period is determined using the film forecast computation method. Under this method, the amortization of capitalized costs and the accrual of participations and residuals is based on the proportion of the film's revenues recognized for such period to the film's estimated remaining ultimate revenues (i.e., the total revenue to be received throughout a film's life cycle).

The process of estimating a film's ultimate revenues requires the Company to make a series of significant judgments relating to future revenue generating activities associated with a particular film and is important for two reasons. First, while a film or television series is being produced and the related costs are being capitalized, as well as at the time the film or television series is released, it is necessary for management to estimate the ultimate revenues, less additional costs to be incurred (including exploitation and participation costs), in order to determine whether the value of a film or television series is impaired and requires an immediate write-off of unrecoverable film and television production costs down to fair value. Second, it is necessary for management to determine, using the film forecast computation method, the amount of capitalized film and television production costs and the amount of participations and residuals to be recognized as Costs of revenues for a given film or television series in a particular period. To the extent that the ultimate revenues are adjusted, the resulting gross margin reported on the exploitation of that film or television series in a period is also adjusted.

Prior to the theatrical release of a film, management bases its estimates of ultimate revenues for each film on factors such as the historical performance of similar films, the star power of the lead actors, the rating and genre of the film, pre-release market research (including test market screenings) and the expected number of theaters in which the film will be released. In the absence of revenues directly related to the exhibition of a film or television program that is owned by the Company on the Company's television networks or premium pay television or OTT services, management estimates a portion of the unamortized costs that are representative of the utilization of that film or television program in that exhibition and expenses such costs as the film or television program is exhibited. The period over which ultimate revenues are estimated is generally not to exceed ten years from the initial release of a motion picture or from the date of delivery of the first episode of an episodic television series. For an episodic television series still in production, the period over which ultimate revenues are estimated cannot exceed five years from the date of delivery of the most recent episode. Management updates such estimates based on information available during the film's production and, upon release, the actual results of each film. Changes in estimates of ultimate revenues from period to period affect the amount of production costs amortized in a given period and, therefore, could have an impact on the segment's financial results for that period. For example, prior to a film's release, the Company often will test market the film to the film's targeted demographic. If the film is not received favorably, the Company may (i) reduce the film's estimated ultimate revenues, (ii) revise the film, which could cause the production costs to increase, or (iii) perform a combination of both. Similarly, a film that generates lower-than-expected theatrical revenues in its initial weeks of release would have its theatrical, home video and television distribution ultimate revenues adjusted downward. A failure to adjust for a downward change in estimates of ultimate revenues would result in the understatement of production costs amortization for the period. The Company recorded production cost amortization of \$4.745 billion, \$4.384 billion and \$4.229 billion in 2016, 2015 and 2014, respectively. Included in production cost amortization are theatrical film impairments, primarily related to pre-release films, of \$69 million, \$80 million and \$86 million in 2016, 2015 and 2014, respectively.

*Licensed Programming Inventory Cost Recognition and Impairment*

In the normal course of business, the Company's Turner and Home Box Office segments enter into agreements to license programming exhibition rights from licensors. A programming inventory asset related to these rights and a corresponding liability payable to the licensor are recorded (on a discounted basis if the license agreements are long-term) when (i) the cost of the programming is reasonably determined, (ii) the programming material has been accepted in accordance with the terms of the agreement, (iii) the programming is available for its first showing or telecast, and (iv) the license period has commenced. There are variations in the amortization methods of these rights, depending on whether the network is advertising-supported (e.g., TNT and TBS) or not advertising-supported (e.g., HBO and Turner Classic Movies).

For the Company's advertising-supported networks, the Company's general policy is to amortize each program's costs on a straight-line basis (or per-play basis, if greater) over its license period. However, for certain types of programming, the

---

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

initial airing has more value than subsequent airings. In these circumstances, the Company uses an accelerated method of amortization. For example, if the Company is licensing the right to air a movie multiple times over a certain period, the movie is being shown for the first time on a Company network (a Network Movie Premiere) and the Network Movie Premiere advertising is sold at a premium rate, a larger portion of the movie's programming inventory cost is amortized upon the initial airing of the movie, with the remaining cost amortized on a straight-line basis (or per-play basis, if greater) over the remaining license period. The accelerated amortization upon the first airing versus subsequent airings is determined based on a study of historical and estimated future advertising sales for similar programming. For rights fees paid for sports programming arrangements (e.g., National Basketball Association, The National Collegiate Athletic Association (NCAA) Men's Division I Basketball championship events (the NCAA Tournament) and Major League Baseball), such rights fees are amortized using a revenue-forecast model, in which the rights fees are amortized using the ratio of current period advertising revenue to total estimated remaining advertising revenue over the term of the arrangement.

For premium pay television and OTT services that are not advertising-supported, each licensed program's costs are amortized on a straight-line basis over its license period or estimated period of use, beginning with the month of initial exhibition. When the Company has the right to exhibit feature theatrical programming in multiple windows over a number of years, the Company uses historical audience viewership as its basis for determining the amount of programming amortization attributable to each window.

For programming licensed in exchange, in part, for advertising services, the Company recognizes programming inventory and deferred advertising revenue at the estimated fair value when the programming is available for telecast. Such programming inventory is amortized in the same manner as the non-advertising component of the licensed programming.

The Company carries its licensed programming inventory at the lower of unamortized cost or estimated net realizable value. For networks that generate both Advertising and Subscription revenues (e.g., TBS and TNT), the Company generally evaluates the net realizable value of unamortized programming costs based on the network's programming taken as a whole. In assessing whether the programming inventory for a particular advertising-supported network is impaired, the Company determines the net realizable value for all of the network's programming inventory based on a projection of the network's profitability. Similarly, for premium pay television and OTT services that are not advertising-supported, the Company performs its evaluation of the net realizable value of unamortized programming costs based on the premium pay television and OTT services' licensed programming taken as a whole. Specifically, the Company determines the net realizable value for all of its premium pay television and OTT service licensed programming based on projections of estimated Subscription revenues less certain costs of delivering and distributing the licensed programming. However, changes in management's intended usage of a specific program, such as a decision to no longer exhibit that program and forego the use of the rights associated with the program license, would result in a reassessment of that program's net realizable value, which could result in an impairment.

*Other Inventory*

Inventories other than film and television production costs and licensed programming inventory consist primarily of DVDs, Blu-ray Discs and videogame development costs and are stated at the lower of cost or net realizable value.

Cost is determined using the average cost method. Returned goods included in Inventory are valued at estimated realizable value, but not in excess of cost. For more information, see Note 7.

Videogame development costs are expensed as incurred before the applicable videogames reach technological feasibility. Upon release, the capitalized videogame development costs are amortized based on the greater of the amount computed using (i) the proportion of the videogame's revenues recognized for such period to the videogame's total current and anticipated revenues or (ii) the straight-line method over the remaining economic life of the videogame. Unamortized capitalized videogame production and development costs are stated at the lower of cost, less accumulated amortization, or net realizable value and reported in Other assets on the Consolidated Balance Sheet. At December 31, 2016 and 2015, there were \$247 million and \$201 million, respectively, of unamortized computer software costs related to videogames. Amortization of such costs was \$101 million, \$214 million and \$115 million for the years ended December 31, 2016, 2015 and 2014,

---

**Table of Contents**

**TIME WARNER INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)**

respectively. Included in such amortization are writedowns to net realizable value of certain videogame production costs of \$20 million, \$17 million and \$51 million in 2016, 2015 and 2014, respectively.

*Multiple-Element Transactions*

In the normal course of business, the Company enters into multiple-element transactions that involve making judgments about allocating the consideration to the various elements of the transactions. While the more common type of multiple-element transactions encountered by the Company involve the sale or purchase of multiple products or services (e.g., licensing multiple film titles in a single arrangement), multiple-element transactions can also involve contemporaneous purchase and sales transactions, the settlement of an outstanding dispute contemporaneous with the purchase of a product or service, as well as investing in an investee while at the same time entering into an operating agreement. In accounting for multiple-element transactions, judgment must be exercised in identifying the separate elements in a bundled transaction as well as determining the values of these elements. These judgments can impact the amount of revenues, expenses and net income recognized over the term of the contract, as well as the period in which they are recognized.

In determining the value of the respective elements, the Company refers to quoted market prices (where available), independent appraisals (where available), historical and comparable cash transactions or its best estimate of selling price. Other indicators of value include the existence of price protection in the form of most-favored-nation clauses or similar contractual provisions and individual elements whose values are dependent on future performance (and based on independent factors). Further, in such transactions, evidence of value for one element of a transaction may provide support that value was not transferred from one element in a transaction to another element in a transaction.

*Accounting for Collaborative Arrangements*

The Company's collaborative arrangements primarily relate to co-financing arrangements to jointly finance and distribute theatrical productions and an arrangement entered into with CBS Broadcasting, Inc. ( CBS ) and the NCAA that provides Turner and CBS with exclusive television, Internet and wireless rights to the NCAA Tournament in the U.S. and its territories and possessions from 2011 through 2032.

In most cases, the form of the co-financing arrangement is the sale of an interest in a film to an investor. Warner Bros. generally records the amounts received for the sale of an interest as a reduction of the costs of the film, as the investor assumes full risk for that share of the film asset acquired in these transactions. The substance of these arrangements is that the third-party investors own an interest in the film and, therefore, in each period the Company reflects in the Consolidated Statement of Operations either a charge or benefit to Costs of revenues to reflect the estimate of the third-party investor's interest in the profits or losses incurred on the film. The estimate of the third-party investor's interest in profits or losses incurred on the film is determined using the film forecast computation method. For the years ended December 31, 2016, 2015 and 2014, net participation costs related to third party investors of \$249 million, \$406 million and \$580 million, respectively, were recorded in Costs of revenues.

The aggregate programming rights fee, production costs, advertising revenues and sponsorship revenues related to the NCAA Tournament and related programming are equally shared by Turner and CBS. However, if the amount paid for

the programming rights fee and production costs in any given year exceeds advertising and sponsorship revenues for that year, CBS' share of such shortfall is limited to specified annual amounts (the "loss cap"), ranging from approximately \$30 million to \$45 million. The amounts incurred by the Company pursuant to the loss cap during the years ended December 31, 2016 and 2015 were not significant. In accounting for this arrangement, the Company records Advertising revenues for the advertisements aired on Turner's networks and amortizes Turner's share of the programming rights fee based on the ratio of current period advertising revenues to its estimate of total advertising revenues over the term of the arrangement.

***Advertising Costs***

Time Warner expenses advertising costs as they are incurred, which generally is when the advertising is exhibited or aired. Advertising expense to third parties was \$2.386 billion in 2016, \$2.586 billion in 2015 and \$2.430 billion in 2014.

---

**Table of Contents**

**TIME WARNER INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)**

***Income Taxes***

Income taxes are provided using the asset and liability method, such that income taxes (i.e., deferred tax assets, deferred tax liabilities, taxes currently payable/refunds receivable and tax expense) are recorded based on amounts refundable or payable in the current year and include the results of any difference between GAAP and tax reporting. Deferred income taxes reflect the tax effect of net operating losses, capital losses and tax credit carryforwards and the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial statement and income tax purposes, as determined under tax laws and rates. Valuation allowances are established when management determines that it is more likely than not that some portion or all of the deferred tax asset will not be realized. The financial effect of changes in tax laws or rates is accounted for in the period of enactment. The subsequent realization of net operating loss and general business credit carryforwards acquired in acquisitions accounted for using the purchase method of accounting is recognized in the Consolidated Statement of Operations. Tax credits received for the production of a film or program are offset against the cost of inventory capitalized. Deferred tax assets are included in Other assets in the Consolidated Balance Sheet.

From time to time, the Company engages in transactions in which the tax consequences may be subject to uncertainty. Examples of such transactions include business acquisitions and dispositions, including dispositions designed to be tax free, and certain financing transactions. Significant judgment is required in assessing and estimating the tax consequences of these transactions. The Company prepares and files tax returns based on its interpretation of tax laws and regulations. In the normal course of business, the Company's tax returns are subject to examination by various taxing authorities. Such examinations may result in future tax and interest assessments by these taxing authorities. In determining the Company's tax provision for financial reporting purposes, the Company establishes a reserve for uncertain tax positions unless such positions are determined to be more likely than not of being sustained upon examination based on their technical merits. There is considerable judgment involved in determining whether positions taken on the Company's tax returns are more likely than not of being sustained.

The Company adjusts its tax reserve estimates periodically because of ongoing examinations by, and settlements with, the various taxing authorities, as well as changes in tax laws, regulations and interpretations. The Company's policy is to recognize, when applicable, interest and penalties on uncertain tax positions as part of income tax expense. For further information, see Note 10.

***Discontinued Operations***

In determining whether a group of assets disposed (or to be disposed) of should be presented as a discontinued operation, the Company assesses whether the disposal (or planned disposal) represents a strategic shift that has had or will have a major effect on the Company's operations and financial results.

On June 6, 2014 (the Distribution Date), the Company completed the legal and structural separation of the Company's Time Inc. segment from the Company (the Time Separation). The Company has presented the financial position and results of operations of its former Time Inc. segment as discontinued operations in the accompanying consolidated financial statements for all periods presented. For more information on the Time Separation, see Note 4.

## **2. MERGER AGREEMENT WITH AT&T**

On October 22, 2016, Time Warner entered into an Agreement and Plan of Merger (the Merger Agreement ) with AT&T. The Merger Agreement provides for the merger of a newly formed wholly owned subsidiary of AT&T with and into Time Warner, with Time Warner continuing as the surviving company in the merger. Immediately thereafter, Time Warner will merge with and into a limited liability company formed by AT&T, which will continue as the surviving entity and a wholly owned subsidiary of AT&T. The Merger Agreement was unanimously approved by all members of Time Warner s and AT&T s board of directors. Time Warner shareholders adopted the Merger Agreement at a special meeting of shareholders on February 15, 2017. Subject to the satisfaction of the remaining conditions set forth in the Merger Agreement, upon consummation of the merger, each share of the Company s common stock will be converted into the right to receive



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

\$53.75 in cash and a specified number of shares of AT&T stock, as set forth in the Merger Agreement and determined by reference to the average of the volume weighted averages of the trading price of AT&T common stock on the New York Stock Exchange ( NYSE ) on each of the 15 consecutive NYSE trading days ending on and including the trading day that is three trading days prior to the closing of the merger (the Average Stock Price ). The stock portion of the per share consideration will be subject to a collar such that if the Average Stock Price is between \$37.411 and \$41.349, Time Warner shareholders will receive shares of AT&T stock equal to \$53.75 in value for each share of Time Warner common stock. If the Average Stock Price is below \$37.411, Time Warner shareholders will receive 1.437 AT&T shares for each share of Time Warner common stock. If the Average Stock Price is an amount greater than \$41.349, Time Warner shareholders will receive 1.300 AT&T shares for each share of Time Warner common stock. The merger is conditioned on the receipt of certain antitrust and other required regulatory consents. The merger is expected to close before year-end 2017. Should Time Warner terminate the Merger Agreement in specified circumstances, Time Warner may be required to pay AT&T a termination fee equal to \$1.725 billion if Time Warner enters into or consummates an alternative transaction with a third party following such termination of the Merger Agreement.

**3. GOODWILL AND INTANGIBLE ASSETS**

Time Warner has a significant number of intangible assets, including acquired film and television libraries and other copyrighted products and tradenames. Certain intangible assets are deemed to have finite lives and, accordingly, are amortized over their estimated useful lives, while others are deemed to be indefinite-lived and therefore are not amortized. Goodwill and indefinite-lived intangible assets, primarily certain tradenames, are tested annually for impairment during the fourth quarter, or earlier upon the occurrence of certain events or substantive changes in circumstances.

**Goodwill**

The following summary of changes in the Company's Goodwill during the years ended December 31, 2016 and 2015, by reportable segment and in total, is as follows (millions):

	<b>Turner</b>	<b>Home Box Office</b>	<b>Warner Bros.</b>	<b>Total</b>
Balance at December 31, 2014	\$ 13,956	\$ 7,433	\$ 6,176	\$ 27,565
Acquisitions, dispositions and adjustments, net	176		8	184
Translation adjustments	(24)		(36)	(60)
Balance at December 31, 2015	\$ 14,108	\$ 7,433	\$ 6,148	\$ 27,689
Acquisitions, dispositions and adjustments, net	16		85	101
Translation adjustments	1		(39)	(38)

Balance at December 31, 2016	\$	14,125	\$	7,433	\$	6,194	\$	27,752
------------------------------	----	--------	----	-------	----	-------	----	--------

The carrying amount of goodwill for all periods presented was net of accumulated impairments of \$13.338 billion and \$4.091 billion at the Turner segment and the Warner Bros. segment, respectively.

The performance of the Company's annual impairment analysis did not result in any impairments of Goodwill for any of the years in the three-year period ended December 31, 2016. Refer to Note 1 for a discussion of the 2016 annual impairment test.

The increase in Goodwill at the Warner Bros. segment for the year ended December 31, 2016 was primarily related to several insignificant acquisitions made during 2016, offset in part by the sale of its Flixster business. The increase in Goodwill at the Turner segment for the year ended December 31, 2015 was primarily related to the acquisition of iStreamPlanet Co., LLC ( iStreamPlanet ). See Note 4 for additional information.

Table of Contents

## TIME WARNER INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

**Intangible Assets**

The Company recorded noncash impairments of intangible assets during the years ended December 31, 2016, 2015 and 2014, by reportable segment, as follows (millions):

	Year Ended December 31,		
	2016	2015	2014
Turner	\$ 25	\$ 1	\$ 1
Home Box Office			4
Warner Bros.			13
Time Warner	\$ 25	\$ 1	\$ 18

The Company's intangible assets subject to amortization and related accumulated amortization consisted of the following (millions):

	December 31, 2016			December 31, 2015		
	Gross	Accumulated Amortization(a)	Net	Gross	Accumulated Amortization(a)	Net
Film library	\$ 3,432	\$ (2,914)	\$ 518	\$ 3,432	\$ (2,776)	\$ 656
Brands, tradenames and other intangible assets	702	(437)	265	716	(423)	293
Total	\$ 4,134	\$ (3,351)	\$ 783	\$ 4,148	\$ (3,199)	\$ 949

(a) The film library has a weighted-average remaining life of approximately 4 years and is amortized using a film forecast computation methodology. Amortization of brands, tradenames and other intangible assets subject to amortization is provided generally on a straight-line basis over their respective useful lives.

The Company recorded amortization expense of \$190 million in 2016 compared to \$189 million in 2015 and \$202 million in 2014. Amortization expense may vary in the future as acquisitions, dispositions and impairments, if any, occur and as purchase price allocations are finalized. The Company's estimated amortization expense for the succeeding five years ended December 31 is as follows (millions):

	2017	2018	2019	2020	2021
Estimated amortization expense \$	181	\$ 172	\$ 161	\$ 145	\$ 40

#### 4. DISPOSITIONS AND ACQUISITIONS

##### Dispositions

###### *Separation of Time Inc.*

As discussed in Note 1, the Time Separation was completed on June 6, 2014. The Time Separation was effected as a pro rata dividend of all shares of Time Inc. common stock held by Time Warner in a spin-off to Time Warner stockholders. With the completion of the Time Separation, the Company disposed of the Time Inc. segment in its entirety and ceased to consolidate its assets, liabilities and results of operations in the Company's consolidated financial statements. Accordingly, the Company has presented the financial position and results of operations of its former Time Inc. segment as discontinued operations in the consolidated financial statements for all periods presented.

In connection with the Time Separation, the Company received \$1.4 billion from Time Inc., consisting of proceeds relating to Time Inc.'s acquisition of the IPC publishing business in the U.K. from a wholly-owned subsidiary of Time Warner and a special dividend.

**Table of Contents**

**TIME WARNER INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)**

**Acquisitions**

***Hulu***

On August 2, 2016, Time Warner purchased a 10% ownership interest in Hulu, LLC ( *Hulu* ), a company that provides OTT services, for \$590 million in cash, including transaction costs. Time Warner accounts for this investment under the equity method of accounting.

***Fandango***

In April 2016, Warner Bros. sold its Flixster business to Fandango Media, LLC ( *Fandango* ), a subsidiary of NBCUniversal Media LLC, in exchange for a 25% interest in Fandango. For the year ended December 31, 2016, Warner Bros. recorded a pre-tax gain of approximately \$90 million in connection with this transaction. Time Warner accounts for its investment in Fandango under the equity method of accounting.

***iStreamPlanet***

In August 2015, Turner acquired a majority ownership interest in iStreamPlanet, a provider of streaming and cloud-based video and technology services, for \$148 million, net of cash acquired. As a result of Turner's acquisition of the additional interests in iStreamPlanet, Turner recorded a \$3 million gain on a previously held investment accounted for under the cost method and began consolidating iStreamPlanet in the third quarter of 2015. In connection with the acquisition, \$29 million of Redeemable noncontrolling interest was recorded in the Consolidated Balance Sheet.

***Eyeworks***

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

**Summary of Discontinued Operations**

Discontinued operations, net of tax, for the year ended December 31, 2016 was income of \$11 million (\$0.02 of diluted income per common share). Of this amount, a loss of \$29 million, net of tax (\$0.03 of diluted loss from discontinued operations per common share) related to pension settlement charges related to businesses the Company previously disposed of. Discontinued operations, net of tax, also included income of \$40 million (\$0.05 of diluted income from discontinued operations per common share), related to additional tax benefits associated with certain foreign tax attributes of Warner Music Group ( *WMG* ), which the Company disposed of in 2004.

Discontinued operations, net of tax, for the year ended December 31, 2015 was income of \$37 million (\$0.04 of diluted net income per common share), primarily related to the final resolution of a tax indemnification obligation associated with the disposition of *WMG*.



Table of Contents

## TIME WARNER INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Discontinued operations, net of tax, for the year ended December 31, 2014, reflect the results of the Company's former Time Inc. segment. Financial data for the discontinued operations is as follows (millions, except per share amounts):

	<b>Year Ended December 31, 2014</b>
Total revenues	\$ 1,415
Pretax loss	(98)
Income tax benefit	31
Net loss	\$ (67)
Net loss attributable to Time Warner Inc. shareholders	\$ (67)
<b>Per share information attributable to Time Warner Inc. common shareholders:</b>	
Basic net loss per common share	\$ (0.07)
Average common shares outstanding - basic	863.3
Diluted net loss per common share	\$ (0.07)
Average common shares outstanding - diluted	882.6

**5. INVESTMENTS**

Time Warner's investments, by category, consist of (millions):

	<b>December 31,</b>	
	<b>2016</b>	<b>2015</b>
Equity-method investments	\$ 2,347	\$ 1,363
Fair-value and other investments:		
Deferred compensation investments, recorded at fair value	150	160
Deferred compensation insurance-related investments, recorded at cash surrender value	410	402
Available-for-sale securities	54	85
Equity warrants	159	179
Total fair-value and other investments	773	826

Held-to-maturity securities				268
Cost-method investments		217		160
Total		\$ 3,337	\$	2,617

Available-for-sale securities are recorded at fair value in the Consolidated Balance Sheet, and the realized gains and losses are included as a component of Other loss, net in the Consolidated Statement of Operations. The cost basis, unrealized gains and fair market value of available-for-sale securities are set forth below (millions):

	<b>December 31,</b>	
	<b>2016</b>	<b>2015</b>
Cost basis	\$ 32	\$ 63
Gross unrealized gain	23	22
Gross unrealized loss	(1)	
Fair value	\$ 54	\$ 85

Gains and losses reclassified from Accumulated other comprehensive loss, net to Other loss, net in the Consolidated Statement of Operations are determined based on the specific identification method.



**Table of Contents**

**TIME WARNER INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)**

**CME**

Central European Media Enterprises Ltd. ( CME ) is a publicly-traded broadcasting company operating leading networks in six Central and Eastern European countries. As of December 31, 2016, the Company had an approximate 47% voting interest in CME s common stock and an approximate 76% economic interest in CME on a diluted basis.

As of December 31, 2016, the Company owned 61.4 million shares of CME s Class A common stock and 1 share of Series A convertible preferred stock, which is convertible into 11.2 million shares of CME s Class A common stock and votes with the Class A common stock on an as-converted basis. The Company accounts for its investment in CME s Class A common stock and Series A convertible preferred stock under the equity method of accounting. Although the book value of the Company s equity method investment in CME has been reduced to zero through the recognition of equity method losses, the Company has continued to record equity method losses because it has guaranteed an aggregate amount of 955 million of CME s obligations (as described below). The amount of such equity method losses at December 31, 2016 was \$123 million and is presented in Other noncurrent liabilities on the Consolidated Balance Sheet. In addition, in connection with these guarantees, the Company recognized a liability at the inception of each respective arrangement based on the estimated fair value of the applicable guarantee. At December 31, 2016, the carrying value of liabilities associated with such guarantees was \$183 million, which is also included in Other noncurrent liabilities on the Consolidated Balance Sheet.

As of December 31, 2016, the Company owned all of the outstanding shares of CME s Series B convertible redeemable preferred shares, which are non-voting and may be converted into 105.2 million shares of CME s Class A common stock at the Company s option. The Series B convertible redeemable preferred shares accrete in value until June 24, 2018 at an annual rate of 3.75% compounded quarterly. The Company accounts for its investment in CME s Series B convertible redeemable preferred shares under the cost method of accounting.

As of December 31, 2016, the Company held 101 million warrants each to purchase one share of CME Class A common stock. The warrants, which became exercisable in May 2016, have a four-year term that expires in May 2018, an exercise price of \$1.00 per share and do not contain any voting rights. The warrants are carried at fair value in the Consolidated Balance Sheet, which at December 31, 2016, was \$159 million.

*CME Rights Offering and Related Transactions*

On May 2, 2014, pursuant to a rights offering by CME, Time Warner acquired approximately 2.8 million units, each consisting of \$100 principal amount of CME s 15% senior secured notes due 2017 (the Senior Secured Notes ) and 21 unit warrants, with each unit warrant entitling the Company to purchase one share of CME Class A common stock. In addition, Time Warner acquired 581,533 units in a private offering, and CME issued warrants to Time Warner to purchase an additional 30 million shares of Class A common stock. The Senior Secured Notes were repaid in April 2016 as more fully described below.

*CME Revolving Credit Facility and Term Loan Provided by Time Warner*

On May 2, 2014, Time Warner provided CME a \$115 million revolving credit facility (the CME Revolving Credit Facility ) and a \$30 million term loan (the TW Term Loan ), each with a maturity date of December 1, 2017. The TW Term Loan bore interest at a rate of 15.0% per annum, paid semi-annually either fully in cash or by adding such amount to the principal amount of the loan. The TW Term Loan was repaid in April 2016 as more fully described below.

On February 19, 2016, Time Warner and CME agreed to amend and restate the CME Revolving Credit Facility to reduce the size of the facility to \$50 million as of January 1, 2018 and to extend its term from December 2017 to February 2021. Amounts outstanding under the CME Revolving Credit Facility bear interest at a rate based on CME's net leverage. Beginning in April 2016, CME must pay a portion of the interest for each applicable quarterly interest period in cash and may, at CME's option, pay the remainder in kind by adding such amount to the outstanding principal amount of the CME Revolving Credit Facility. The CME Revolving Credit Facility also contains a commitment fee on the average daily unused amount under the facility of 0.50% per annum. As of December 31, 2016, there were no amounts outstanding under the CME Revolving Credit Facility.

---

**Table of Contents****TIME WARNER INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)***Time Warner Guarantees of CME Debt*

On November 14, 2014, Time Warner and CME entered into an agreement pursuant to which Time Warner agreed to assist CME in refinancing \$261 million aggregate principal amount of its Senior Convertible Notes due 2015 ( 2015 Notes ) and 240 million aggregate principal amount of its Senior Notes due 2017 ( 2017 Notes ). In connection with this agreement, CME entered into a credit agreement (the 2014 Credit Agreement ) with third-party financial institutions the same day for a 251 million senior unsecured term loan (the 2014 Term Loan ) that was funded in December 2014 and had a maturity date of November 1, 2017. Time Warner has guaranteed CME's obligations under the 2014 Credit Agreement for a fee equal to 8.5% less the interest rate on the term loan. The fee is payable to Time Warner semi-annually in cash or in kind at CME's option. CME used the proceeds of the term loan to redeem the 2017 Notes. CME also entered into unsecured interest rate hedge arrangements to protect against changes in the interest rate on the term loan during its term. Time Warner has also guaranteed CME's obligations under the hedge arrangements. On February 19, 2016, CME entered into an amendment to extend the maturity of the 2014 Term Loan from November 1, 2017 to November 1, 2018.

On September 30, 2015, CME entered into a credit agreement (the 2015 Credit Agreement ) with third-party financial institutions for a 235 million senior unsecured term loan that was funded in November 2015 and matures on November 1, 2019. Time Warner has guaranteed CME's obligations under the 2015 Credit Agreement for an annual fee equal to 8.5% less the interest rate on the term loan, to be paid to Time Warner semi-annually in cash or in kind at CME's option. CME used the proceeds of the term loan to repay the \$261 million aggregate principal amount of the 2015 Notes at maturity on November 15, 2015. As consideration for assisting CME in refinancing the 2015 Notes, Time Warner also earned a commitment fee of \$9 million, which accrues interest at a rate of 8.5%. In November 2015, CME entered into unsecured interest rate hedge arrangements to protect against changes in the interest rate on the term loan during its term. Time Warner has guaranteed CME's obligations under the hedge arrangements.

On February 19, 2016, CME Media Enterprises B.V. ( CME BV ), a subsidiary of CME, entered into a credit agreement (the 2016 Credit Agreement ) with third-party financial institutions for a 469 million senior unsecured term loan (the 2016 Term Loan ) that was funded in April 2016 and matures on February 19, 2021. Time Warner has guaranteed CME BV's obligations under the 2016 Credit Agreement for a fee equal to a rate based on CME's net leverage, which was 9% as of December 31, 2016, less the interest rate on the 2016 Term Loan, which was 1.78% as of December 31, 2016, to be paid to Time Warner semi-annually. CME BV must pay a portion of the fee in cash and may, at CME BV's option, pay the remainder in cash or in kind. In April 2016, CME used cash on hand and the proceeds of the 2016 Term Loan to repay in their entirety both its Senior Secured Notes and the TW Term Loan. Time Warner received approximately \$485 million in connection with CME's repayment of the Senior Secured Notes and the TW Term Loan. As consideration for assisting CME in refinancing its debt due in 2017, Time Warner earned a fee equal to 1% of the aggregate principal amount of the 2016 Term Loan borrowed at funding. Prior to the funding, CME BV entered into unsecured interest rate hedge arrangements to protect against changes in the interest rate on the 2016 Term Loan during its term, and Time Warner has guaranteed CME BV's obligations under such arrangements.

In connection with the transactions entered into on February 19, 2016, the Company recorded a pretax gain of \$95 million in Investment gains (losses), net in the Consolidated Statement of Operations in the second quarter of 2016. Additionally, when recognizing CME's results in the second quarter of 2016 under the equity method of

accounting, the Company recorded a pretax charge of \$150 million in Other loss, net in the Consolidated Statement of Operations related to the transactions entered into on February 19, 2016.

Pursuant to the terms of all of CME's outstanding senior debt, a change of control of Time Warner provides the administrative agent and/or lenders of this debt the right to declare the debt immediately due and payable. If that were to occur, Time Warner would be obligated under the terms of its guarantees to pay the full amount of the debt, subject to reimbursement from CME on the scheduled maturity dates for the debt in 2018, 2019 and 2021.

### **Equity-Method Investments**

At December 31, 2016, investments accounted for using the equity method included the Company's investments in the Class A common stock and Series A convertible preferred stock of CME, HBO LAG (88% owned), Hulu, HYNTH and certain other ventures that are generally 20% to 50% owned.

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

The Company's cost-method investments include its investment in the Series B convertible redeemable preferred shares of CME as well as its investments in other early- to mid-stage non-public entities that are of strategic relevance to Time Warner's businesses. The Company uses available qualitative and quantitative information to evaluate all cost-method investments for impairment at least quarterly.

**Gain on Sale of Investments, Net**

For the years ended December 31, 2016, 2015 and 2014, the Company recognized net gains of \$86 million, \$59 million, and \$36 million, respectively. These gains related to miscellaneous investments sold during the year and have been reflected in Other loss, net in the Consolidated Statement of Operations.

**Investment Writedowns**

For the years ended December 31, 2016, 2015 and 2014, the Company incurred writedowns to reduce the carrying value of certain investments that experienced other-than-temporary impairments, as set forth below (millions):

	<b>December 31,</b>		
	<b>2016</b>	<b>2015</b>	<b>2014</b>
Equity-method investments	\$ 2	\$ 2	\$ 21
Cost-method investments	11	6	8
Available-for-sale securities		19	6
Total	\$ 13	\$ 27	\$ 35

These amounts have been reflected in Other loss, net in the Consolidated Statement of Operations.

While Time Warner has recognized all declines that are believed to be other-than-temporary as of December 31, 2016, it is reasonably possible that individual investments in the Company's portfolio may experience other-than-temporary declines in value in the future if the underlying investees experience adverse changes in their financial condition or poor operating results or if there is a significant decline in the market value of a debt or equity security held by the Company in relation to its cost basis.

Table of Contents

## TIME WARNER INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

**6. FAIR VALUE MEASUREMENTS**

A fair value measurement is determined based on the assumptions that a market participant would use in pricing an asset or liability. A three-tiered hierarchy draws distinctions between market participant assumptions based on (i) observable inputs such as quoted prices in active markets (Level 1), (ii) inputs other than quoted prices in active markets that are observable either directly or indirectly (Level 2) and (iii) unobservable inputs that require the Company to use present value and other valuation techniques in the determination of fair value (Level 3). The following table presents information about assets and liabilities required to be carried at fair value on a recurring basis as of December 31, 2016 and December 31, 2015, respectively (millions):

	December 31, 2016				December 31, 2015			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
<b>Assets:</b>								
Trading securities:								
Diversified equity securities (a)	\$ 163	\$	\$	\$ 163	\$ 179	\$	\$	\$ 179
Available-for-sale securities:								
Equity securities	17			17	15			15
Debt securities		37		37		70		70
Derivatives:								
Foreign exchange contracts								
Other		153	161	161		79	180	180
Liabilities:								
Derivatives:								
Foreign exchange contracts								
Other		(9)		(9)		(2)	(7)	(7)
Total	\$ 180	\$ 181	\$ 161	\$ 522	\$ 194	\$ 147	\$ 173	\$ 514

(a) Consists of investments related to deferred compensation.

The Company primarily applies the market approach for valuing recurring fair value measurements. As of December 31, 2016 and 2015, assets valued using significant unobservable inputs (Level 3) primarily related to warrants to purchase shares of Class A common stock of CME valued at \$159 million and \$179 million, respectively. The Company estimates the fair value of these warrants using a Monte Carlo Simulation model. Significant

unobservable inputs used in the fair value measurement at December 31, 2016 are an expected term of 0.82 years and an expected volatility of approximately 54%. As of December 31, 2016 and 2015, the other Level 3 assets consisted of equity instruments held by employees of a former subsidiary of the Company. As of December 31, 2015, Level 3 liabilities consisted of liabilities for contingent consideration and options to redeem securities.

Table of Contents

## TIME WARNER INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

The following table reconciles the beginning and ending balances of net derivative assets and liabilities classified as Level 3 and identifies the total gains (losses) the Company recognized during the year ended December 31, 2016 and 2015 on such assets and liabilities that were included in the Consolidated Balance Sheet as of December 31, 2016 and 2015 (millions):

	<b>December 31,</b>	
	<b>2016</b>	<b>2015</b>
Balance as of the beginning of the period	\$ 173	\$ 241
Total gains (losses), net:		
Included in operating income	2	(1)
Included in other loss, net	(19)	(65)
Included in other comprehensive income (loss)		
Purchases		
Settlements	5	(2)
Issuances		
Transfers in and/or out of Level 3		
Balance as of the end of the period	\$ 161	\$ 173
Net loss for the period included in net income related to assets and liabilities still held as of the end of the period	\$ (19)	\$ (66)

**Other Financial Instruments**

The Company's other financial instruments, including debt, are not required to be carried at fair value. Based on the interest rates prevailing at December 31, 2016, the fair value of Time Warner's public debt exceeded its carrying value by approximately \$2.238 billion and, based on interest rates prevailing at December 31, 2015, the fair value of Time Warner's public debt exceeded its carrying value by approximately \$2.490 billion. The fair value of Time Warner's public debt is considered a Level 2 measurement as it is based on observable market inputs such as current interest rates and, where available, actual sales transactions. Unrealized gains or losses on debt do not result in the realization or expenditure of cash and generally are not recognized in the consolidated financial statements unless the debt is retired prior to its maturity. See Note 9 for a discussion of the Company's debt tender offers.

Information as of December 31, 2016 about the Company's investments in CME that are not required to be carried at fair value on a recurring basis is as follows (millions):

	<b>Carrying Value</b>	<b>Fair Value</b>	<b>Fair Value Hierarchy</b>
Class A common stock (a)	\$	\$ 185	Level 1



Series B convertible redeemable preferred shares

268

Level 2

(a) Includes 1 share of Series A convertible preferred stock.

The fair values of the Company's investments in CME's Class A common stock (including Series A convertible preferred stock) and Series B convertible redeemable preferred shares are primarily determined by reference to the December 31, 2016 closing price of CME's common stock.

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

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

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

During the year ended December 31, 2016, the Company performed an impairment review of a broadcast license at an international subsidiary of Turner. As a result, the Company recorded a noncash impairment of \$25 million to write down the value of the asset to \$10 million. During the year ended December 31, 2015 the Company performed an impairment review of certain intangible assets at an international subsidiary of Turner. As a result, the Company recorded a noncash impairment of \$1 million to completely write off the value of these assets. The resulting fair value measurements were considered to be Level 3 measurements and were determined using a DCF methodology with assumptions for cash flows associated with the use and eventual disposition of the assets.

During the years ended December 31, 2016 and December 31, 2015, the Company also performed fair value measurements related to certain theatrical films and television programs. In determining the fair value of its theatrical films, the Company employs a DCF methodology that includes cash flow estimates of a film's ultimate revenue and costs as well as a discount rate. The discount rate utilized in the DCF analysis is based on the weighted average cost of capital of the respective business (e.g., Warner Bros.) plus a risk premium representing the risk associated with producing a particular theatrical film. The fair value of any theatrical films and television programs that management plans to abandon is zero. Because the primary determination of fair value is made using a DCF model, the resulting fair value is considered a Level 3 measurement. The following table presents certain theatrical film and television production costs, which were recorded as inventory in the Consolidated Balance Sheet, that were written down to fair value (millions):

	<b>Carrying value before write down</b>	<b>Carrying value after write down</b>
Fair value measurements made during the year ended December 31,:		
2016	\$ 285	\$ 128
2015	419	215

Table of Contents

## TIME WARNER INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

## 7. INVENTORIES AND THEATRICAL FILM AND TELEVISION PRODUCTION COSTS

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

	December 31,	
	2016	2015
Inventories:		
Programming costs, less amortization (a)	\$ 3,625	\$ 3,067
Other inventory, primarily DVDs and Blu-ray Discs	184	263
Total inventories	3,809	3,330
Less current portion of inventory	(2,062)	(1,753)
Total noncurrent inventories	1,747	1,577
Theatrical film production costs: (b)		
Released, less amortization	818	570
Completed and not released	460	374
In production	1,286	1,612
Development and pre-production	133	123
Television production costs: (b)		
Released, less amortization	1,618	1,301
Completed and not released	841	872
In production	995	1,158
Development and pre-production	18	13
Total theatrical film and television production costs	6,169	6,023
Total noncurrent inventories and theatrical film and television production costs	\$ 7,916	\$ 7,600

(a) Includes the costs of certain programming rights, primarily sports, for which payments have been made prior to the related rights being received.

(b) Does not include \$518 million and \$656 million of acquired film library intangible assets as of December 31, 2016 and December 31, 2015, respectively, which are included in Intangible assets subject to amortization, net in the Consolidated Balance Sheet.

Approximately 93% of unamortized film costs for released theatrical and television content are expected to be amortized within three years from December 31, 2016. In addition, approximately \$2.5 billion or 67% of the film costs of released and completed and not released theatrical and television product are expected to be amortized during the twelve-month period ending December 31, 2017.

## **8. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES**

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

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

Table of Contents

## TIME WARNER INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

The translation of revenues and expenses denominated in the functional currency of a foreign subsidiary may result in fluctuations in the U.S. Dollar-equivalent value of such revenues and expenses as compared to prior periods. Such transactions are not eligible for qualifying hedge accounting treatment, and the Company does not economically hedge this exposure.

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

	Year Ended December 31,		
	2016	2015	2014
<b>Gains (losses) recognized in:</b>			
Cost of revenues	\$ 81	\$ 127	\$ 54
Selling, general and administrative	14	21	5
Other loss, net	(34)	(26)	

Amounts included in Other loss, net include the impact of forward points and option premiums, which are excluded from the assessment of hedge effectiveness. Other amounts included in Other loss, net relate to hedge of foreign-currency-denominated debt and hedge ineffectiveness, which are not material.

The Company monitors its positions with, and the credit quality of, the financial institutions that are party to its financial transactions and has entered into collateral agreements with these counterparties to further protect the Company in the event of deterioration of the credit quality of such counterparties on outstanding transactions. Additionally, netting provisions are included in agreements in situations where the Company executes multiple contracts with the same counterparty. For such foreign exchange contracts, the Company offsets the fair values of the amounts owed to or due from the same counterparty and classifies the net amount as a net asset or net liability within Prepaid expenses and other current assets or Accounts payable and accrued liabilities, respectively, in the Consolidated Balance Sheet. The following is a summary of amounts recorded in the Consolidated Balance Sheet pertaining to Time Warner's use of foreign currency derivatives at December 31, 2016 and December 31, 2015 (millions):

	December 31,	
	2016 (a)	2015 (b)
Prepaid expenses and other current assets	\$ 153	\$ 79
Accounts payable and accrued liabilities	(9)	(2)

(a)

Includes \$297 million (\$272 million of qualifying hedges and \$25 million of economic hedges) and \$153 million (\$141 million of qualifying hedges and \$12 million of economic hedges) of foreign exchange derivative contracts in asset and liability positions, respectively.

- (b) Includes \$198 million (\$194 million of qualifying hedges and \$4 million of economic hedges) and \$121 million (\$116 million of qualifying hedges and \$5 million of economic hedges) of foreign exchange derivative contracts in asset and liability positions, respectively.

At December 31, 2016 and December 31, 2015, \$46 million and \$29 million of gains, respectively, related to cash flow hedges are recorded in Accumulated other comprehensive loss, net and are expected to be recognized in earnings at the same time the hedged items affect earnings. Included in Accumulated other comprehensive loss, net at December 31, 2016 and December 31, 2015 are net losses of \$3 million and \$9 million, respectively, related to hedges of cash flows associated with films that are not expected to be released within the next twelve months.

At December 31, 2016, the carrying amount of the Company's 700 million aggregate principal amount of debt due 2023 is designated as a hedge of the variability in the Company's Euro-denominated net investments. The gain or loss on the debt that is designated as, and is effective as, an economic hedge of the net investment in a foreign operation is recorded as a currency translation adjustment within Accumulated other comprehensive loss, net in the Consolidated Balance Sheet. For the years ended December 31, 2016 and 2015, such amounts totaled \$39 million of gains and \$1 million of gains, respectively. See Note 9 for more information.

Table of Contents

## TIME WARNER INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

**9. LONG-TERM DEBT AND OTHER FINANCING ARRANGEMENTS**

The Company's long-term debt and other financing arrangements consist of revolving bank credit facilities, a commercial paper program, fixed-rate public debt and other obligations. The principal amounts of long-term debt adjusted for premiums, discounts and issuance costs consist of (millions):

	December 31,	
	2016	2015
Fixed-rate public debt	\$ 22,715	\$ 23,572
Revolving credit facilities and commercial paper program	1,394	
Other obligations	230	220
Subtotal	24,339	23,792
Debt due within one year	(1,947)	(198)
Total long-term debt	\$ 22,392	\$ 23,594

The Company's unused committed capacity as of December 31, 2016 was \$5.162 billion, including \$1.539 billion of Cash and equivalents. At December 31, 2016, there were no borrowings outstanding under the Revolving Credit Facilities, as defined below, and \$1.394 billion of commercial paper was outstanding under the commercial paper program. 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 interest rate on Time Warner's total debt was 4.97% and 5.65% at December 31, 2016 and 2015, respectively.

**Revolving Credit Facilities and Commercial Paper Program***Revolving Credit Facilities*

On December 16, 2016, Time Warner amended its \$5.0 billion of senior unsecured credit facilities (the "Revolving Credit Facilities"), which consist of two \$2.5 billion revolving credit facilities, to extend the maturity dates of both facilities from December 18, 2020 to December 18, 2021 and eliminate the swingline loan subfacility included in one of its facilities.

The permitted borrowers under the Revolving Credit Facilities are Time Warner and Time Warner International Finance Limited ("TWIFL") and, together with Time Warner, the "Borrowers"). The interest rate on borrowings and facility fees under the Revolving Credit Facilities are the same for both revolving credit facilities and are based on the credit rating for Time Warner's senior unsecured long-term debt. Based on the credit rating as of December 31, 2016, the interest rate on borrowings under the Revolving Credit Facilities would be LIBOR plus 1.10% per annum and the facility fee was 0.15% per annum.

The Revolving Credit Facilities provide same-day funding and multi-currency capability, and a portion of the commitment, not to exceed \$500 million at any time, may be used for the issuance of letters of credit. The covenants in the Revolving Credit Facilities include a maximum consolidated leverage ratio covenant of 4.5 times the consolidated EBITDA, as defined in the Revolving Credit Facilities, of Time Warner, but exclude any credit ratings-based defaults or covenants or any ongoing covenant or representations specifically relating to a material adverse change in Time Warner's financial condition or results of operations. The terms and related financial metrics associated with the leverage ratio are defined in the Revolving Credit Facilities. At December 31, 2016, the Company was in compliance with the leverage covenant, with a consolidated leverage ratio of approximately 2.85 times. Borrowings under the Revolving Credit Facilities may be used for general corporate purposes, and unused credit is available to support borrowings by Time Warner under its commercial paper program. The Revolving Credit Facilities also contain certain events of default customary for credit facilities of this type (with customary grace periods, as applicable). The Borrowers may from time to time, so long as no default or event of default has occurred and is continuing, increase the commitments under either or both of the Revolving Credit Facilities by up to \$500 million per facility by adding new commitments or increasing the commitments of willing lenders. The



---

**Table of Contents**

**TIME WARNER INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)**

obligations of each of the Borrowers under the Revolving Credit Facilities are directly or indirectly guaranteed, on an unsecured basis, by Historic TW Inc. ( Historic TW ), Home Box Office and Turner. The obligations of TWIFL under the Revolving Credit Facilities are also guaranteed by Time Warner.

***Commercial Paper Program***

The Company has a commercial paper program, which was established on February 16, 2011 on a private placement basis, under which Time Warner may issue unsecured commercial paper notes up to a maximum aggregate amount not to exceed the unused committed capacity under the \$5.0 billion Revolving Credit Facilities, which support the commercial paper program. Unsecured commercial paper notes issued by the Company typically mature in less than 90 days. Proceeds from the commercial paper program may be used for general corporate purposes. The obligations of the Company under the commercial paper program are directly or indirectly guaranteed, on an unsecured basis, by Historic TW, Home Box Office and Turner. As of December 31, 2016, the Company had \$1.394 billion of commercial paper outstanding, which is supported by the Revolving Credit Facilities.

**Public Debt**

Time Warner and one of its subsidiaries have various public debt issuances outstanding. At issuance, the maturities of these outstanding series of debt ranged from five to 40 years and the interest rates on debt with fixed interest rates ranged from 1.95% to 9.15%. At December 31, 2016 and 2015, the weighted average interest rate on the Company's outstanding fixed-rate public debt was 5.23% and 5.67%, respectively. At December 31, 2016, the Company's fixed-rate public debt had maturities ranging from 2017 to 2045.

***Debt Offerings***

On May 10, 2016, Time Warner issued \$800 million aggregate principal amount of 2.95% Notes due 2026 under a shelf registration statement. The net proceeds to the Company from the debt offering were \$785 million, after deducting underwriting discounts and offering expenses. On December 8, 2016, Time Warner issued \$1.5 billion aggregate principal amount of 3.80% Notes due 2027 under a shelf registration statement. The net proceeds to the Company from the debt offering were \$1.487 billion, after deducting underwriting discounts and offering expenses. All of the notes issued 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.

***Debt Tender Offers***

On December 14, 2016, Time Warner purchased through cash tender offers \$3.0 billion aggregate principal amount of its outstanding debt from the following series: 7.700% Debentures due 2032, 7.625% Debentures due 2031, 6.500% Debentures due 2036 and 6.625% Debentures due 2029, each of which continues to have amounts outstanding. The premiums paid and costs incurred in connection with this purchase were \$1.008 billion for the year ended December 31, 2016 and were recorded in Other loss, net in the Consolidated Statement of Operations.

***Maturities of Public Debt***

The Company's public debt matures as follows (millions):

	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>Thereafter</b>
Debt \$	500 \$	600 \$	650 \$	1,400 \$	2,000 \$	17,767 \$

**Table of Contents****TIME WARNER INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)****Covenants and Credit Rating Triggers**

Each of the credit agreements for the Revolving Credit Facilities (the Credit Agreement ) and the Company's public debt indentures contain customary covenants. A breach of the covenants in the Credit Agreement that continues beyond any grace period constitutes a default, which can limit the Company's ability to borrow and can give rise to a right of the lenders to terminate the Revolving Credit Facilities and/or require immediate payment of any outstanding debt. A breach of the covenants in the public debt indentures beyond any grace period constitutes a default, which can require immediate payment of the outstanding debt. There are no credit ratings-based defaults or covenants in the Credit Agreement or public debt indentures.

The interest rate on borrowings under the Revolving Credit Facilities and the facility fee are based in part on the Company's credit ratings. Therefore, if the Company's credit ratings are lowered, the cost of maintaining the Revolving Credit Facilities and the cost of borrowing increase and, conversely, if the ratings improve, such costs decrease. As of December 31, 2016, the Company's investment grade debt ratings were as follows: Fitch BBB+, Moody's Baa2, and S&P BBB.

As of December 31, 2016, the Company was in compliance with all covenants in the Credit Agreement and its public debt indentures. The Company does not anticipate that it will have any difficulty in the foreseeable future complying with the covenants in its Credit Agreement or public debt indentures.

**Other Obligations**

Other long-term debt obligations consist of capital lease and other obligations, including committed financings by subsidiaries under local bank credit agreements. At December 31, 2016 and 2015, the weighted average interest rate for other long-term debt obligations was 3.18% and 3.32%, respectively. Other long-term debt obligations of \$125 million mature in 2018.

***Capital Leases***

The Company has entered into various leases primarily related to network equipment that qualify as capital lease obligations. As a result, the present value of the remaining future minimum lease payments is recorded as a capitalized lease asset and related capital lease obligation in the Consolidated Balance Sheet. Assets recorded under capital lease obligations totaled \$118 million and \$125 million as of December 31, 2016 and 2015, respectively. Related accumulated amortization totaled \$64 million and \$81 million as of December 31, 2016 and 2015, respectively.

Future minimum capital lease payments at December 31, 2016 are as follows (millions):

2017	\$	16
2018		16
2019		14

2020	11
2021	5
Thereafter	6
<b>Total</b>	<b>68</b>
Amount representing interest	(7)
<b>Present value of minimum lease payments</b>	<b>61</b>
Current portion	(14)
<b>Total long-term portion</b>	<b>\$ 47</b>

Table of Contents

## TIME WARNER INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

**10. INCOME TAXES**

Domestic and foreign income before income taxes and discontinued operations are as follows (millions):

	Year Ended December 31,		
	2016	2015	2014
Domestic	\$ 4,356	\$ 4,733	\$ 4,296
Foreign	839	713	383
Total	\$ 5,195	\$ 5,446	\$ 4,679

Current and Deferred income taxes (tax benefits) provided on Income from continuing operations are as follows (millions):

	Year Ended December 31,		
	2016	2015	2014
Federal:			
Current	\$ 693	\$ 844	\$ 128
Deferred	216	349	152
Foreign:			
Current (a)	342	337	466
Deferred	(2)	(29)	
State and Local:			
Current	10	142	25
Deferred	22	8	14
Total (b)	\$ 1,281	\$ 1,651	\$ 785

(a) Includes foreign withholding taxes of \$264 million in 2016, \$236 million in 2015 and \$279 million in 2014.

(b) Excludes excess tax benefits from equity awards allocated directly to contributed capital of \$88 million in 2016, \$151 million in 2015, and \$179 million in 2014.

The differences between income taxes expected at the U.S. federal statutory income tax rate of 35% and income taxes provided are as set forth below (millions):

	<b>Year Ended December 31,</b>		
	<b>2016</b>	<b>2015</b>	<b>2014</b>
Taxes on income at U.S. federal statutory rate	\$ 1,818	\$ 1,906	\$ 1,638
State and local taxes, net of federal tax effects	56	68	64
Domestic production activities deduction	(141)	(101)	(114)
Foreign rate differential	(176)	(129)	(20)
Federal tax settlement			(687)
Valuation allowances	33	(29)	(226)
Change in tax method of accounting for film and TV cost amortization	(224)		
Other	(85)	(64)	130
<b>Total</b>	<b>1,281</b>	<b>1,651</b>	<b>785</b>

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

Significant components of Time Warner's net deferred tax liabilities are as follows (millions):

	<b>December 31,</b>	
	<b>2016</b>	<b>2015</b>
<b>Deferred tax assets:</b>		
Tax attribute carryforwards (a)	\$ 435	\$ 299
Receivable allowances and return reserves	164	158
Royalties, participations and residuals	344	457
Equity-based compensation	188	188
Other	1,473	1,358
Valuation allowances (a)	(463)	(233)
<b>Total deferred tax assets</b>	<b>\$ 2,141</b>	<b>\$ 2,227</b>
<b>Deferred tax liabilities:</b>		
Assets acquired in business combinations	\$ 2,752	\$ 2,817
Unbilled television receivables	1,086	1,117
Depreciation	216	235
Other	640	378
<b>Total deferred tax liabilities</b>	<b>4,694</b>	<b>4,547</b>
<b>Net deferred tax liability</b>	<b>\$ 2,553</b>	<b>\$ 2,320</b>

(a) The Company has recorded valuation allowances for certain tax attribute carryforwards and other deferred tax assets due to uncertainty that exists regarding future realizability. The tax attribute carryforwards consist of \$97 million of tax credits, \$74 million of capital losses and \$264 million of net operating losses that expire in varying amounts from 2017 through 2036. If, in the future, the Company believes that it is more likely than not that these deferred tax benefits will be realized, the valuation allowances will be recognized in the Consolidated Statement of Operations.

U.S. income and foreign withholding taxes have not been recorded on permanently reinvested earnings of certain foreign subsidiaries aggregating approximately \$1.6 billion at December 31, 2016. Determination of the amount of unrecognized deferred U.S. income tax liability with respect to such earnings is not practicable.

For accounting purposes, the Company records equity-based compensation expense and a related deferred tax asset for the future tax deductions it may receive. For income tax purposes, the Company receives a tax deduction equal to the

stock price on the date that an RSU (or PSU) vests or the excess of the stock price over the exercise price of an option upon exercise. The deferred tax asset consists of amounts relating to individual unvested and/or unexercised equity-based compensation awards; accordingly, deferred tax assets related to certain equity awards may currently be in excess of the tax benefit ultimately received. The applicable accounting rules require that the deferred tax asset related to an equity-based compensation award be reduced only at the time the award vests (in the case of an RSU or PSU), is exercised (in the case of a stock option) or otherwise expires or is canceled. This reduction is recorded as an adjustment to Additional paid-in capital ( APIC ), to the extent that the realization of excess tax deductions on prior equity-based compensation awards were recorded directly to APIC. The cumulative amount of such excess tax deductions is referred to as the Company s APIC Pool. Any shortfall balance recognized in excess of the Company s APIC Pool is charged to Income tax provision in the Consolidated Statement of Operations. The Company s APIC Pool was sufficient to absorb any shortfalls such that no shortfalls were charged to the Income tax provision during the years ended December 31, 2016, 2015 and 2014. See Note 1 for a discussion of accounting guidance for share-based payments that became effective January 1, 2017.



**Table of Contents****TIME WARNER INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)*****Accounting for Uncertainty in Income Taxes***

The Company recognizes income tax benefits for tax positions determined more likely than not to be sustained upon examination, based on the technical merits of the positions.

Changes in the Company's uncertain income tax positions, excluding the related accrual for interest and penalties, from January 1 through December 31 are set forth below (millions):

	<b>Year Ended December 31,</b>		
	<b>2016</b>	<b>2015</b>	<b>2014</b>
Beginning balance	\$ 1,330	\$ 1,327	\$ 2,169
Additions for prior year tax positions	154	61	87
Additions for current year tax positions	81	62	69
Reductions for prior year tax positions	(203)	(75)	(968)
Settlements	(29)	(40)	(8)
Lapses in statute of limitations	(8)	(5)	(22)
Ending balance	\$ 1,325	\$ 1,330	\$ 1,327

Should the Company's position with respect to these uncertain tax positions be upheld, the significant majority of the effect would be recorded in the Consolidated Statement of Operations as part of the Income tax provision.

During the year ended December 31, 2016, the Company recorded an increase to interest reserves in the Consolidated Statement of Operations of approximately \$58 million and made interest payments in connection with settlements reached during 2016 of approximately \$17 million. During the year ended December 31, 2015, the Company recorded an increase to interest reserves in the Consolidated Statement of Operations of approximately \$55 million and made interest payments in connection with settlements reached during 2015 of approximately \$19 million. The amount accrued for interest and penalties as of December 31, 2016 and 2015 was \$423 million and \$382 million, respectively. The Company's policy is to recognize interest and penalties accrued on uncertain tax positions as part of income tax expense.

In the Company's judgment, uncertainties related to certain tax matters are reasonably possible of being resolved during the next twelve months. The effect of the resolutions of these matters, a portion of which could vary based on the final terms and timing of actual settlements with taxing authorities, is estimated to be a reduction of recorded unrecognized tax benefits ranging from \$0 to \$270 million, which would lower the Company's effective tax rate. The Company does not otherwise currently anticipate that its reserves related to uncertain income tax positions as of December 31, 2016 will significantly increase or decrease during the twelve-month period ended December 31, 2017; however, various events could cause the Company's current expectations to change in the future.

During the year ended December 31, 2014, the Company recognized a tax benefit of \$687 million primarily related to the reversal of certain tax reserves, including related interest accruals, in connection with a Federal tax settlement on the examination of the Company's 2005-2007 tax returns. Certain matters involving the Company's capital loss carryforward and research and development tax credits were not resolved as part of the settlement and, accordingly, the Company is pursuing resolution of such matters through the Internal Revenue Service's (IRS) administrative appeals process.

The Company and its subsidiaries file income tax returns in the U.S. and various state and local and foreign jurisdictions. The IRS is currently conducting an examination of the Company's U.S. income tax returns for the 2008 through 2014 period.

The Company filed a petition with the United States Tax Court on a matter relating to the appropriate tax characterization of stock warrants received from Google Inc. in 2002. In December 2014, the Company reached a preliminary agreement with the IRS, subject to agreement regarding certain necessary computations and the preparation and execution of definitive documentation. In February 2016, the parties reached a final agreement to resolve this matter.

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

As of December 31, 2016, the tax years that remain subject to examination by significant jurisdiction are as follows:

U.S. federal	2005 through 2016
California	2010 through 2016
New York State	2012 through 2016
New York City	2012 through 2016

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

For the years ended December 31, 2016, 2015 and 2014, the number of shares repurchased pursuant to trading plans under Rule 10b5-1 of the Securities Exchange Act of 1934, as amended, and their cost are as follows (millions):

	<b>Shares Repurchased</b>	<b>Cost of Shares</b>
2016	31	\$ 2,307
2015	45	\$ 3,600
2014	77	\$ 5,500

In January 2016, Time Warner's Board of Directors authorized up to \$5.0 billion of share repurchases beginning January 1, 2016, including amounts available under the Company's prior stock repurchase program at December 31, 2015. Purchases under the stock repurchase program may be made on the open market or in privately negotiated transactions, with the size and timing of these purchases based on a number of factors, including price and business and market conditions. In connection with entering into the Merger Agreement, the Company discontinued share repurchases under the stock repurchase program.

**Shares Authorized and Outstanding**

At December 31, 2016, shareholders' equity of Time Warner included 772 million shares of common stock (net of 880 million shares of common stock held in treasury). As of December 31, 2016, Time Warner is authorized to issue up to 750 million shares of preferred stock, up to 8.33 billion shares of common stock and up to 600 million shares of additional series of common stock. At December 31, 2015, shareholders' equity of Time Warner included 795 million shares of common stock (net of 857 million shares of common stock held in treasury).

**Comprehensive Income (Loss)**

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

losses on certain derivative financial instruments and equity securities, and changes in benefit plan obligations.

Table of Contents

## TIME WARNER INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

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

	Pretax	Tax (provision) benefit	Net of tax
<b>Year ended December 31, 2014</b>			
Unrealized losses on foreign currency translation	\$ (243)	\$ 15	\$ (228)
Unrealized losses on securities	(6)	2	(4)
Reclassification adjustment for gains on securities realized in net income (a)	(16)	6	(10)
Unrealized losses on benefit obligation	(282)	95	(187)
Reclassification adjustment for losses on benefit obligation realized in net income (b)	30	(11)	19
Unrealized gains on derivative financial instruments	13	(5)	8
Reclassification adjustment for derivative financial instrument gains realized in net income (d)	(22)	8	(14)
Other comprehensive loss	\$ (526)	\$ 110	\$ (416)
<b>Year ended December 31, 2015</b>			
Unrealized losses on foreign currency translation	\$ (319)	\$ 30	\$ (289)
Reclassification adjustment for losses on foreign currency translation realized in net income (c)	5		5
Unrealized gains on securities	1		1
Unrealized losses on benefit obligation	(37)	11	(26)
Reclassification adjustment for losses on benefit obligation realized in net income (b)	33	(11)	22
Unrealized gains on derivative financial instruments	137	(49)	88
Reclassification adjustment for derivative financial instrument gains realized in net income (d)	(130)	47	(83)
Other comprehensive loss	\$ (310)	\$ 28	\$ (282)
<b>Year ended December 31, 2016</b>			
Unrealized losses on foreign currency translation	\$ (122)	\$ 1	\$ (121)

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

Unrealized losses on benefit obligation	(39)	18	(21)
Reclassification adjustment for losses on benefit obligation realized in net income (b)	104	(37)	67
Unrealized gains on derivative financial instruments	91	(33)	58
Reclassification adjustment for derivative financial instrument gains realized in net income (d)	(74)	27	(47)
Other comprehensive loss	\$ (40)	\$ (24)	\$ (64)

- (a) Pretax (gains) losses are included in Other loss, net.
- (b) Pretax (gains) losses are included in Selling, general and administrative expenses, with the exception of a \$46 million loss that is included in Discontinued operations, net of tax for the year ended December 31, 2016.
- (c) Pretax (gains) losses are included in Gain (loss) on operating assets, net.
- (d) Pretax (gains) losses are included in Selling, general and administrative expenses, Costs of revenues and Other loss, net are as follows (millions):

	Year Ended December 31,		
	2016	2015	2014
Selling, general and administrative expenses	\$ 2	\$ (21)	\$ (5)
Costs of revenues	(64)	(104)	(18)
Other loss, net	(12)	(5)	1

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

The following summary sets forth the components of Accumulated other comprehensive loss, net of tax (millions):

	<b>December 31,</b>	
	<b>2016</b>	<b>2015</b>
Foreign currency translation losses	\$ (704)	\$ (583)
Net unrealized gains on securities	13	13
Net derivative financial instruments gains	28	17
Net unfunded/underfunded benefit obligation	(847)	(893)
Accumulated other comprehensive loss, net	\$ (1,510)	\$ (1,446)

**12. INCOME PER COMMON SHARE**

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

	<b>Year Ended December 31,</b>		
	<b>2016</b>	<b>2015</b>	<b>2014</b>
Income from continuing operations attributable to Time Warner Inc. shareholders	\$ 3,915	\$ 3,796	\$ 3,894
Income allocated to participating securities	(11)	(11)	(14)
Income from continuing operations attributable to Time Warner Inc. common shareholders basic	\$ 3,904	\$ 3,785	\$ 3,880
Average basic common shares outstanding	780.8	814.9	863.3
Dilutive effect of equity awards	11.5	14.6	19.3
Average diluted common shares outstanding	792.3	829.5	882.6
Antidilutive common share equivalents excluded from computation	5.0	5.0	1.0
Income per common share from continuing operations attributable to Time Warner Inc. common shareholders:			
Basic	\$ 5.00	\$ 4.64	\$ 4.49
Diluted	\$ 4.94	\$ 4.58	\$ 4.41

### **13. EQUITY-BASED COMPENSATION**

#### **Equity Plans**

The Company has one active equity plan, the Time Warner Inc. 2013 Stock Incentive Plan (the 2013 Stock Incentive Plan ), which was approved by the Company's stockholders on May 23, 2013. Under the 2013 Stock Incentive Plan, the Company is authorized to grant equity awards to employees and non-employee directors covering an aggregate of approximately 36 million shares of the Company's common stock. Stock options and RSUs have been granted to employees and non-employee directors of the Company. Generally, stock options are granted with exercise prices equal to the fair market value on the date of grant, vest in four equal annual installments, and expire ten years from the date of grant. RSUs granted under the 2013 Stock Incentive Plan generally vest in four equal annual installments, while RSUs granted under the Company's prior stock incentive plans generally vest 50% on each of the third and fourth anniversaries of the date of grant. The Company also has a PSU program for executive officers who are awarded a target number of PSUs that represent the contingent (unfunded) right to receive shares of Company common stock at the end of a three-year performance period based on the performance level achieved by the Company. Stock options and RSUs generally provide for accelerated vesting upon an election to retire after reaching a specified age and years of service, as well as in certain additional circumstances for non-employee directors.



---

**Table of Contents**

**TIME WARNER INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)**

In connection with entering into the Merger Agreement, the Company has granted special retention restricted stock units ( Special Retention RSUs ) to certain employees of Time Warner and its divisions, including all executive officers of Time Warner. Half of the Special Retention RSUs will vest 25% per year on each of the first four anniversaries of February 15, 2017, and the remaining half will vest 25% per year on each of the first four anniversaries of February 15, 2018. Pursuant to the Special Retention RSU agreements, vesting as a result of retirement is not permitted unless the employee retires after the merger has closed. In addition, the awards do not accelerate automatically following the closing of the merger. Instead, the employee must remain employed following the closing, and the awards will vest only upon the scheduled vesting date or upon termination of employment under certain circumstances, such as termination without cause, for good reason or due to retirement.

Holders of RSUs are generally entitled to receive cash dividend equivalents based on the regular quarterly cash dividends declared and paid by the Company during the period that the RSUs are outstanding. Beginning with RSU grants made in 2013, the dividend equivalent payment for holders of RSUs subject to a performance condition is made in cash following the satisfaction of the performance condition. Holders of PSUs also are entitled to receive dividend equivalents based on the regular quarterly cash dividends declared and paid by the Company during the period that the PSUs are outstanding. The dividend equivalent payment is made in cash following the vesting of the PSUs (generally following the end of the applicable performance period) and is based on the number of shares that vest and are paid out. Holders of stock options do not receive dividends or dividend equivalent payments.

Upon the (i) exercise of a stock option, (ii) vesting of an RSU or (iii) vesting of a PSU, shares of Time Warner common stock may be issued either from authorized but unissued shares or from treasury stock.

In connection with the Time Separation and in accordance with existing antidilution provisions in the Company's equity plans, the number of stock options, RSUs and target PSUs outstanding at the Distribution Date and the exercise prices of such stock options were prospectively adjusted to maintain the value of those awards subsequent to the Time Separation (the Adjustment ). The changes in the number of shares subject to outstanding equity awards and the exercise prices were determined by comparing the value of such awards immediately prior to the Time Separation to the value of such awards immediately after the Time Separation. Accordingly, the number of shares subject to each equity award outstanding as of the Distribution Date was increased by multiplying such number of shares by a factor of approximately 1.04, while the per share exercise price of each stock option was decreased by dividing such exercise price by a factor of approximately 1.04. The adjustments resulted in an increase of approximately 2 million shares subject to outstanding equity awards following the Time Separation. The adjustments to the outstanding equity awards did not result in any additional compensation expense.

Other information pertaining to each category of equity-based compensation appears below.

***Stock Options***

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

	Year Ended December 31,		
	2016	2015	2014
Expected volatility	26.0%	25.0%	26.6%
Expected term to exercise from grant date	6.20 years	5.80 years	5.85 years
Risk-free rate	1.5%	1.8%	1.9%
Expected dividend yield	2.6%	1.7%	1.7%
Weighted average grant date fair value per option	\$ 12.26	\$ 18.16	\$ 16.94

Table of Contents

## TIME WARNER INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

The following table summarizes information about stock options outstanding as of December 31, 2016:

	Number of Options (thousands)	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value (thousands)
Outstanding as of December 31, 2015	27,742	\$ 42.98		
Granted	2,263	62.45		
Exercised	(5,317)	32.38		
Forfeited or expired	(121)	41.81		
Outstanding as of December 31, 2016	24,567	47.07	4.87	\$ 1,216,194
Exercisable as of December 31, 2016	18,042	37.63	3.64	\$ 1,063,245

As of December 31, 2016, the number, weighted-average exercise price, aggregate intrinsic value and weighted-average remaining contractual term of the aggregate Time Warner stock options that either had vested or are expected to vest approximate the corresponding amounts for options outstanding. As of December 31, 2016, approximately 14 million shares of Time Warner common stock were available for future grants of stock options under the Company's equity plan.

The following table summarizes information about stock options exercised (millions):

	Year Ended December 31,		
	2016	2015	2014
Total intrinsic value	\$ 237	\$ 270	\$ 402
Cash received	172	165	338
Tax benefits realized	83	96	143

***Restricted Stock Units and Target Performance Stock Units***

The following table sets forth the weighted-average grant date fair value of RSUs and target PSUs. For PSUs, the service inception date precedes the grant date and requires the Company to apply mark-to-market accounting that is reflected in the grant date fair values presented:

	Year Ended December 31,		
	2016	2015	2014
RSUs	\$ 78.63	\$ 83.52	\$ 65.56
PSUs	112.55	107.63	96.53

The following table summarizes information about unvested RSUs and target PSUs as of December 31, 2016:

	Number of Shares/Units (thousands)	Weighted- Average Grant Date Fair Value	Aggregate Intrinsic Value (thousands)
Unvested as of December 31, 2015	8,020	\$ 59.58	
Granted (a)	8,547	79.20	
Vested	(4,354)	53.92	
Forfeited	(164)	67.90	
Unvested as of December 31, 2016	12,049	76.56	\$ 1,163,090

- (a) Includes 8.2 million RSUs and 0.2 million target PSUs granted during 2016 and a payout adjustment of 0.2 million PSUs due to the actual performance level achieved for PSUs that vested during 2016.

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

The following table sets forth the total intrinsic value of RSUs and target PSUs that vested during the following years (millions):

	Year Ended December 31,		
	2016	2015	2014
RSUs	\$ 247	\$ 384	\$ 366
PSUs	28	30	17
<b>Equity-Based Compensation Expense</b>			

The impact on Operating income for equity-based compensation awards is as follows (millions):

	Year Ended December 31,		
	2016	2015	2014
Stock options	\$ 42	\$ 39	\$ 26
RSUs and PSUs	235	143	193
<b>Total impact on operating income</b>	<b>\$ 277</b>	<b>\$ 182</b>	<b>\$ 219</b>
Tax benefit recognized	\$ 97	\$ 64	\$ 76

Total unrecognized compensation cost related to unvested Time Warner stock option awards as of December 31, 2016, without taking into account expected forfeitures, is \$53 million and is expected to be recognized over a weighted-average period between 1 and 2 years. Total unrecognized compensation cost related to unvested RSUs and target PSUs as of December 31, 2016, without taking into account expected forfeitures, is \$621 million and is expected to be recognized over a weighted-average period between 1 and 2 years.

**14. BENEFIT PLANS****Time Warner Pension Plan Amendment**

On August 1, 2016, the Time Warner Pension Plan was amended to provide a window for a one-time lump sum payment for eligible vested participants who (i) had terminated employment as of May 31, 2016, (ii) had not yet commenced payment of their benefits as of May 31, 2016, (iii) are not otherwise eligible for an immediate lump sum payment of their benefits and (iv) have benefits with a present value of less than \$50,000. Eligible participants had the opportunity to elect, during the period beginning on August 16, 2016 and ending on October 7, 2016, to receive their benefits in the form of an immediate lump sum payment. Certain annuity options were also available. Payments to those eligible participants who elected to receive their benefit under the window program were made or commenced in

December 2016.

Table of Contents

## TIME WARNER INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

**Defined Benefit Pension Plans**

A summary of activity for substantially all of Time Warner's domestic and international defined benefit pension plans is as follows:

*Benefit Obligation (millions)*

	December 31,	
	2016	2015
<b>Change in benefit obligation:</b>		
Projected benefit obligation, beginning of year	\$ 3,439	\$ 3,694
Service cost	4	4
Interest cost	145	147
Actuarial gain	(169)	(204)
Benefits paid	(274)	(177)
Curtailments		(1)
Remeasurement	407	
Foreign currency exchange rates	(87)	(24)
Projected benefit obligation, end of year	\$ 3,465	\$ 3,439
Accumulated benefit obligation, end of year	\$ 3,433	\$ 3,405

*Plan Assets (millions)*

	December 31,	
	2016	2015
<b>Change in plan assets:</b>		
Fair value of plan assets, beginning of year	\$ 2,698	\$ 2,932
Actual return on plan assets	345	(84)
Employer contributions	74	49
Benefits paid	(274)	(177)
Foreign currency exchange rates	(105)	(22)
Fair value of plan assets, end of year	\$ 2,738	\$ 2,698

As of December 31, 2016 and December 31, 2015, the funded status for substantially all of Time Warner's domestic and international defined benefit pension plans recognized in the Consolidated Balance Sheet reflected a net liability

position of \$727 million and \$741 million, respectively, primarily consisting of noncurrent liabilities of \$837 million and \$798 million, respectively. As of December 31, 2016 and December 31, 2015, amounts included in Accumulated other comprehensive loss, net were \$1.335 billion and \$1.402 billion, respectively, primarily consisting of net actuarial losses.

Certain defined benefit pension plans have projected benefit obligations and accumulated benefit obligations in excess of their plan assets. These plans are primarily unfunded. As of December 31, 2016 and December 31, 2015, the projected benefit obligations for unfunded plans were \$414 million and \$417 million, respectively, and the accumulated benefit obligations for unfunded plans were \$407 million and \$410 million, respectively. In addition, as of December 31, 2016, the projected benefit obligation and accumulated benefit obligation for certain funded plans exceeded the fair value of their assets by \$457 million and \$455 million, respectively.



Table of Contents

## TIME WARNER INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

*Components of Net Periodic Benefit Costs from Continuing Operations (millions)*

	December 31,		
	2016	2015	2014
Service cost (a)	\$ 4	\$ 4	\$ 3
Interest cost	66	83	91
Expected return on plan assets	(64)	(90)	(95)
Amortization of prior service cost	1	1	1
Amortization of net loss	14	17	14
Settlements	24		
Net periodic benefit costs (b)	\$ 45	\$ 15	\$ 14

(a) Amounts relate to various international benefit plans.

(b) Excludes net periodic benefit costs related to discontinued operations of \$12 million, \$5 million and \$3 million during the years ended December 31, 2016, 2015 and 2014, respectively, primarily related to employees and former employees of Time Inc. These amounts have been reflected in Other loss, net in the Consolidated Statement of Operations. In addition, net periodic benefit costs for the year ended December 31, 2016 also excludes \$46 million of pension settlement charges related to businesses the Company previously disposed of. These amounts have been reflected in Discontinued Operations, net of tax, in the Consolidated Statement of Operations.

**Assumptions**

Weighted-average assumptions used to determine benefit obligations and net periodic benefit costs for the years ended December 31:

	Benefit Obligations			Net Periodic Benefit Costs		
	2016	2015	2014	2016	2015	2014
Discount rate	3.96%	4.59%	4.10%	4.30%	4.10%	4.89%
Rate of compensation increase	5.62%	5.45%	5.34%	5.45%	5.35%	5.59%
Expected long-term return on plan assets	n/a	n/a	n/a	5.91%	5.84%	6.01%

The discount rates were determined by matching the plan's liability cash flows to rates derived from high-quality corporate bonds available at the measurement date.

In developing the expected long-term rate of return on plan assets, the Company considered long-term historical rates of return, the Company's plan asset allocations as well as the opinions and outlooks of investment professionals and consulting firms.

Table of Contents

## TIME WARNER INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

*Fair Value of Plan Assets*

The following table sets forth by level, within the fair value hierarchy described in Note 6, the assets and liabilities held by the Company's defined benefit pension plans, including those assets related to The CW sub-plan, which were approximately \$20 million and \$18 million, respectively, as of December 31, 2016 and December 31, 2015 (millions):

	December 31, 2016				December 31, 2015			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
<b>Assets:</b>								
Cash and cash equivalents								
(a)	\$ 142	\$	\$	\$ 142	\$ 81	\$	\$	\$ 81
Insurance contracts		15		15		15		15
Common stocks	165			165	148			148
<b>Fixed income securities:</b>								
U.S. government and agency securities (a)	200	62		262	191	67		258
Non-U.S. government and agency securities	250			250	106			106
Other fixed income securities (b)		952		952		1,147		1,147
Other investments (c)	156	68		224	138	20		158
<b>Liabilities:</b>								
Derivatives		(19)		(19)		(41)		(41)
Total (d)	\$ 913	\$ 1,078	\$	\$ 1,991	\$ 664	\$ 1,208	\$	\$ 1,872

(a) As of December 31, 2016, cash and cash equivalents include \$17 million of cash collateral for securities on loan, and U.S. government and agency securities include \$66 million of securities collateral for securities on loan. As of December 31, 2015, cash and cash equivalents include \$10 million of cash collateral for securities on loan, and U.S. government and agency securities include \$59 million of securities collateral for securities on loan.

(b) Other fixed income securities primarily include investment grade corporate bonds.

(c) Other investments primarily include derivative contracts, exchange-traded funds and mutual funds.

(d) At December 31, 2016 and December 31, 2015, total assets include \$81 million and \$67 million, respectively, of securities on loan. Certain investments that are measured at fair value using the net asset value ( NAV ) per share as a practical expedient have not been categorized in the fair value table above and are as follows (millions):

<b>Asset Category</b>	<b>December 31,</b>	
	<b>2016</b>	<b>2015</b>
Pooled investments (e)	231	357
Commingled trust funds	610	469
Other investments (f)	56	67
Total	\$ 897	\$ 893

(e) Pooled investments primarily consist of interests in unitized investment pools which consist of equity and fixed income securities and investments in hedge funds.

(f) Other investments include limited partnerships, 103-12 investments and hedge funds.

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

The table below sets forth a summary of changes in the fair value of the defined benefit pension plans' Level 3 assets for the year ended December 31, 2015 (millions):

Balance at beginning of period	\$	32
Actual return on plan assets and liabilities:		
Relating to securities still held at end of period		(6)
Relating to securities disposed of during the period		(5)
Purchases		
Sales		
Settlements		(53)
Transfers in and/or out of Level 3		32
Balance at end of period	\$	

The Company primarily utilizes the market approach for determining recurring fair value measurements.

The Company's defined benefit pension plans' investment policy is to minimize the volatility of the plans' funded status and to achieve and maintain fully funded status in order to pay current and future participant benefits from plan assets. The Company periodically reviews asset allocation policies consistent with its investment policy. In addition, the Company continuously monitors the performance of its pension assets, the performance of its investment advisers, sub-advisers and asset managers thereof, and makes adjustments and changes as required. The Company does not manage any pension assets internally. The investment guidelines set by the Company for the investment advisers, sub-advisers and asset managers permit the use of index funds, derivative contracts and other hedging strategies as components of portfolio management strategies.

Under the Company's investment policy, the asset allocation target for the funded domestic defined benefit pension plan is approximately 40% equity investments and 60% fixed income investments. As and when funded status and market conditions permit, the Company intends to move 5% of the fixed income investments to equity investments comprised of growth assets for each 5% decline in the funding level until the fixed income investment allocation reaches a minimum of 50% of the plan's assets. In addition, should funding improve over time, 5% of the growth assets would be moved to fixed income investments for every 5% increase in funding level toward a target of approximately 20% equity investments and 80% fixed income investments to further minimize funded status volatility. The plan's growth assets will be further diversified over time to include real estate funds that invest in high quality properties with a small degree of leverage. Target asset allocations for the international defined benefit pension plans as of December 31, 2016 are approximately 30% equity investments, 50% fixed income investments and 20% other investments.

At both December 31, 2016 and December 31, 2015, the defined benefit pension plans' assets did not include any securities issued by Time Warner.

***Expected cash flows***

After considering the funded status of the Company's defined benefit pension plans, movements in the discount rate, investment performance and related tax consequences, the Company may choose to make contributions to its pension plans in any given year. The Company made discretionary cash contributions totaling approximately \$40 million to one of its funded international defined benefit pension plans during the year ended December 31, 2016. For the Company's unfunded plans, contributions will continue to be made to the extent benefits are paid.

Information about the expected benefit payments for the Company's defined benefit plans is as follows (millions):

	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022-2026</b>
Expected benefit payments	\$ 171	\$ 176	\$ 174	\$ 185	\$ 186	\$ 993

---

**Table of Contents**

**TIME WARNER INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)**

**Defined Contribution Plans**

Time Warner has certain domestic and international defined contribution plans, including savings and profit sharing plans, for which the expense amounted to \$149 million in 2016, \$153 million in 2015 and \$160 million in 2014. The Company's contributions to the savings plans are primarily based on a percentage of the employees' elected contributions and are subject to plan provisions.

**Other Postretirement Benefit Plans**

In July 2013, the Company discontinued subsidized medical benefits provided to all future retirees who were employed on December 31, 2013 and who would not have met the eligibility criteria by December 31, 2015 and effective January 1, 2014, post-65 retiree medical coverage was discontinued and eligible retirees were moved to coverage provided in the individual health insurance market.

Time Warner also sponsors several unfunded domestic postretirement benefit plans covering certain retirees and their dependents. For substantially all of Time Warner's domestic postretirement benefit plans, the unfunded benefit obligation as of December 31, 2016 and December 31, 2015 was \$88 million and \$93 million, respectively, and the amount recognized in Accumulated other comprehensive income, net was a gain of \$19 million and \$19 million, respectively. For the years ended December 31, 2016, 2015 and 2014, the net periodic benefit costs were \$1 million, \$2 million and \$2 million, respectively.

**Multiemployer Benefit Plans**

The Company contributes to various multiemployer defined benefit pension plans under the terms of collective-bargaining agreements that cover certain of its union-represented employees, primarily at the Warner Bros. segment. The risks of participating in these multiemployer pension plans are different from single-employer pension plans in that (i) contributions made by the Company to the multiemployer pension plans may be used to provide benefits to employees of other participating employers; (ii) if the Company chooses to stop participating in certain of these multiemployer pension plans, it may be required to pay those plans an amount based on the underfunded status of the plan, which is referred to as a withdrawal liability; and (iii) actions taken by a participating employer that lead to a deterioration of the financial health of a multiemployer pension plan may result in the unfunded obligations of the multiemployer pension plan being borne by its remaining participating employers. While no multiemployer pension plan contributed to by the Company is individually significant, the Pension Protection Act of 2006 zone status as of December 31, 2016 (i.e., for the multiemployer pension plan's 2015 plan year) of all of the largest multiemployer pension plans in which the Company participates was green, which implies that such plans are funded at a level of 80 percent or greater. Total contributions made by the Company to multiemployer pension plans for the years ended December 31, 2016, 2015 and 2014 were \$128 million, \$139 million and \$124 million, respectively. Included in the amounts for 2015 and 2014 are contributions of less than \$1 million in each year that Home Box Office made to the Radio, Television and Recording Arts Pension Fund ( RT&RA Plan ) under a collective bargaining agreement that expired in October 2015. In February 2016, Home Box Office completed the negotiation of a new collective bargaining agreement under which it is no longer be required to make contributions to the RT&RA Plan. As a result, Home Box Office has withdrawn from the RT&RA Plan and recorded a \$9 million charge in Selling, general and

administrative expenses during the year ended December 31, 2016 for its withdrawal liability.

The Company also contributes to various other multiemployer benefit plans that provide health and welfare benefits to active and retired participants, primarily at the Warner Bros. segment. Total contributions made by the Company to these other multiemployer benefit plans for the years ended December 31, 2016, 2015 and 2014 were \$194 million, \$220 million and \$205 million, respectively.



Table of Contents

## TIME WARNER INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

**15. RESTRUCTURING AND SEVERANCE COSTS**

The Company's Restructuring and severance costs primarily related to employee termination costs, ranging from senior executives to line personnel, and other exit costs, including lease terminations and real estate consolidations. Restructuring and severance costs expensed as incurred for the years ended December 31, 2016, 2015 and 2014 are as follows (millions):

	Year Ended December 31,		
	2016	2015	2014
Turner	\$ 61	\$ 58	\$ 249
Home Box Office	49		63
Warner Bros.	4	1	169
Corporate	3	1	31
Total restructuring and severance costs	\$ 117	\$ 60	\$ 512

	Year Ended December 31,		
	2016	2015	2014
2016 initiatives	\$ 114	\$	\$
2015 initiatives	1	76	
2014 and prior initiatives	2	(16)	512
Total restructuring and severance costs	\$ 117	\$ 60	\$ 512

For the year ended December 31, 2016, the Company incurred costs in connection with the 2016 initiatives of \$61 million at the Turner segment, \$47 million at the Home Box Office segment, \$2 million at the Warner Bros. segment and \$4 million at Corporate. In addition, in connection with the 2015 initiatives, the Company incurred costs of \$1 million at the Home Box Office segment. For the year ended December 31, 2016, the Company also incurred costs of \$1 million at the Home Box Office segment and \$2 million at the Warner Bros. segment, and reversed \$1 million at Corporate related to 2014 and prior initiatives. The amount recorded by the Company in 2016 for both the 2015 initiatives and the 2014 and prior initiatives consisted of changes to estimates of previously established accruals as well as new charges related to those initiatives.

For the year ended December 31, 2015, the Company incurred costs in connection with the 2015 initiatives of \$58 million at the Turner segment, \$15 million at the Home Box Office segment and \$3 million at Corporate. In addition, in connection with the 2014 and prior initiatives, the Company incurred costs of \$1 million at the Warner Bros. segment and reversed \$15 million at the Home Box Office segment and \$2 million at Corporate.



Table of Contents

## TIME WARNER INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

*Selected Information*

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

	<b>Employee Terminations</b>	<b>Other Exit Costs</b>	<b>Total</b>
Remaining liability as of December 31, 2013	\$ 180	\$ 6	\$ 186
Net accruals	499	13	512
Noncash reductions (a)	(3)		(3)
Cash paid	(151)	(10)	(161)
Remaining liability as of December 31, 2014	525	9	534
Net accruals	43	17	60
Foreign currency translation adjustment	(3)		(3)
Noncash reductions (a)	(1)		(1)
Cash paid	(325)	(12)	(337)
Remaining liability as of December 31, 2015	239	14	253
Net accruals	114	3	117
Cash paid	(191)	(8)	(199)
Remaining liability as of December 31, 2016	\$ 162	\$ 9	\$ 171

(a) Noncash reductions relate to the settlement of certain employee-related liabilities with equity instruments. As of December 31, 2016, of the remaining \$171 million liability, \$114 million was classified as a current liability in the Consolidated Balance Sheet, with the remaining \$57 million classified as a long-term liability. Amounts classified as long-term are expected to be paid through 2019.

**16. SEGMENT INFORMATION**

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

In the ordinary course of business, Time Warner's reportable segments enter into transactions with one another. The most common types of intersegment transactions include the Warner Bros. segment generating revenues by licensing television and theatrical programming to the Turner and Home Box Office segments. While intersegment transactions are treated like third-party transactions to determine segment performance, the revenues (and corresponding expenses or assets recognized by the segment that is the counterparty to the transaction) are eliminated in consolidation and, therefore, do not affect consolidated results.

Table of Contents

## TIME WARNER INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Information as to the Revenues, intersegment revenues, depreciation of property, plant, and equipment, Amortization of intangible assets, Operating Income (Loss), Assets and Capital expenditures for each of Time Warner's reportable segments is set forth below (millions):

	Year Ended December 31,		
	2016	2015	2014
<b>Revenues</b>			
Turner	\$ 11,364	\$ 10,596	\$ 10,396
Home Box Office	5,890	5,615	5,398
Warner Bros.	13,037	12,992	12,526
Intersegment eliminations	(973)	(1,085)	(961)
Total revenues	\$ 29,318	\$ 28,118	\$ 27,359

	Year Ended December 31,		
	2016	2015	2014
<b>Intersegment Revenues</b>			
Turner	\$ 108	\$ 105	\$ 101
Home Box Office	(9)	40	36
Warner Bros.	874	940	824
Total intersegment revenues	\$ 973	\$ 1,085	\$ 961

	Year Ended December 31,		
	2016	2015	2014
<b>Supplemental Revenue Data</b>			
Subscription	\$ 11,014	\$ 10,153	\$ 9,945
Advertising	4,696	4,569	4,502
Content	12,935	12,771	12,350
Other	673	625	562
Total revenues	\$ 29,318	\$ 28,118	\$ 27,359

	Year Ended December 31,		
	2016	2015	2014
<b>Depreciation of Property, Plant and Equipment</b>			
Turner	\$ (191)	\$ (193)	\$ (209)

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

Home Box Office	(74)	(81)	(77)
Warner Bros.	(188)	(197)	(218)
Corporate	(26)	(21)	(27)
Total depreciation of property, plant and equipment	\$ (479)	\$ (492)	\$ (531)

	Year Ended December 31,		
	2016	2015	2014
<b>Amortization of Intangible Assets</b>			
Turner	\$ (17)	\$ (16)	\$ (16)
Home Box Office	(14)	(14)	(14)
Warner Bros.	(159)	(159)	(172)
Total amortization of intangible assets	\$ (190)	\$ (189)	\$ (202)

Table of Contents

## TIME WARNER INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

	Year Ended December 31,		
	2016	2015	2014
<b>Operating Income (Loss)</b>			
Turner	\$ 4,372	\$ 4,087	\$ 2,954
Home Box Office	1,917	1,878	1,786
Warner Bros.	1,734	1,416	1,159
Corporate	(498)	(367)	(73)
Intersegment eliminations	22	(149)	149
Total operating income	\$ 7,547	\$ 6,865	\$ 5,975

	December 31,	
	2016	2015
<b>Assets</b>		
Turner	\$ 26,317	\$ 25,559
Home Box Office	14,636	14,314
Warner Bros.	21,550	20,699
Corporate	3,463	3,276
Total assets	\$ 65,966	\$ 63,848

	Year Ended December 31,		
	2016	2015	2014
<b>Capital Expenditures</b>			
Turner	\$ 196	\$ 157	\$ 173
Home Box Office	98	68	58
Warner Bros.	86	122	206
Corporate	52	76	37
Total capital expenditures	\$ 432	\$ 423	\$ 474

Long-lived hard assets located outside the United States, which represent less than 2% of total assets at December 31, 2016, are not material. Revenues in different geographical areas are as follows (millions):

	Year Ended December 31,		
	2016	2015	2014
<b>Revenues (a)</b>			
United States and Canada	\$ 20,970	\$ 20,426	\$ 19,102
Europe (b)	4,557	4,485	4,684
Asia/Pacific Rim	1,992	1,619	1,711
Latin America	1,413	1,284	1,575
All Other	386	304	287
<b>Total revenues</b>	<b>\$ 29,318</b>	<b>\$ 28,118</b>	<b>\$ 27,359</b>

- (a) Revenues are attributed to region based on location of customer.
- (b) Revenues in EuroZone countries comprise approximately 51%, 49% and 48% of Revenues in Europe for the years ended 2016, 2015 and 2014, respectively.



Table of Contents

## TIME WARNER INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

## 17. COMMITMENTS AND CONTINGENCIES

**Commitments**

Time Warner has commitments under certain network programming, film licensing, creative talent, employment and other agreements aggregating \$39.973 billion at December 31, 2016.

The Company also has commitments for office space, studio facilities and operating equipment. Time Warner's net rent expense was \$324 million in 2016, \$333 million in 2015 and \$358 million in 2014. Included in such amounts was sublease income of \$10 million for 2016, \$15 million for 2015 and \$33 million for 2014.

The commitments under certain programming, film licensing, talent and other agreements ( Programming and Other ) and minimum rental commitments under noncancelable long-term operating leases ( Operating Leases ) payable during the next five years and thereafter are as follows (millions):

	Programming and Other	Operating Leases
2017	\$ 6,577	\$ 310
2018	4,713	285
2019	3,918	146
2020	3,674	91
2021	3,458	63
Thereafter	17,633	259
<b>Total</b>	<b>\$ 39,973</b>	<b>\$ 1,154</b>

Additionally, as of December 31, 2016, the Company has future sublease income arrangements of \$16 million, which are not included in Operating Leases in the table above.

**Contingent Commitments**

The Company also has certain contractual arrangements that would require it to make payments or provide funding if certain circumstances occur ( contingent commitments ). Contingent commitments principally include amounts that could be paid in connection with guarantees provided by the Company and post-production term advance obligations on certain co-financing arrangements.

The following table summarizes the Company's contingent commitments at December 31, 2016. For post-production term advances where payment obligations are outside the Company's control, the timing of amounts presented in the table represents the earliest period in which the payment could be requested. For other contingent commitments, the

timing of amounts presented in the table represents when the maximum contingent commitment will expire, but does not mean that the Company expects to incur an obligation to make any payments within that time period. In addition, amounts presented do not reflect the effects of any indemnification rights the Company might possess (millions).

<b>Nature of Contingent Commitments</b>	<b>Total</b>	<b>2017</b>	<b>2018-2019</b>	<b>2020-2021</b>	<b>Thereafter</b>
Guarantees	\$ 2,113	\$ 136	\$ 614	\$ 612	\$ 751
Post-production term advance obligations and other contingent commitments	1,021	46	430	545	
<b>Total contingent commitments</b>	<b>\$ 3,134</b>	<b>\$ 182</b>	<b>\$ 1,044</b>	<b>\$ 1,157</b>	<b>\$ 751</b>

---

**Table of Contents**

**TIME WARNER INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)**

The following is a description of the Company's contingent commitments at December 31, 2016:

Guarantees consist of the guarantee of certain debt issued by CME, an equity method investee, the Six Flags arrangement described below, and guarantees the Company has provided on operating lease commitments.

*Six Flags*

In connection with the Company's former investment in the Six Flags theme parks located in Georgia and Texas (collectively, the Parks), in 1997, certain subsidiaries of the Company (including Historic TW and, in connection with the separation of Time Warner Cable Inc. in 2009, Warner Bros. Entertainment Inc.) agreed to guarantee (the Six Flags Guarantee) certain obligations of the partnerships that hold the Parks (the Partnerships) for the benefit of the limited partners in such Partnerships, including: annual payments made at the Parks or to the limited partners and additional obligations at the end of the respective terms for the Partnerships in 2027 and 2028 (the Guaranteed Obligations). The aggregate undiscounted estimated future cash flow requirements covered by the Six Flags Guarantee over the remaining term (through 2028) are \$891 million (for a net present value of \$433 million). To date, no payments have been made by the Company pursuant to the Six Flags Guarantee.

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

Because the Six Flags Guarantee existed prior to December 31, 2002 and no modifications to the arrangements have been made since the date the guarantee came into existence, the Company is required to continue to account for the Guaranteed Obligations as a contingent liability. Based on its evaluation of the current facts and circumstances surrounding the Guaranteed Obligations and the Subordinated Indemnity Agreement, the Company is unable to predict the loss, if any, that may be incurred under the Guaranteed Obligations, and no liability for the arrangements has been recognized at December 31, 2016. Because of the specific circumstances surrounding the arrangements and the fact that no active or observable market exists for this type of financial guarantee, the Company is unable to determine a current fair value for the Guaranteed Obligations and related Subordinated Indemnity Agreement.

Post-production term advance obligations and other contingent commitments primarily include contingent payments for post-production term advance obligations on certain co-financing arrangements, as well as letters of credit, bank guarantees and surety bonds, which generally support performance and payments for a wide range of global contingent and firm obligations, including insurance, litigation appeals, real estate leases and other operational needs.

***Programming Licensing Backlog***

Programming licensing backlog represents the amount of future revenues not yet recorded from cash contracts for the licensing of theatrical and television product for pay cable, basic cable, network and syndicated television and OTT exhibition. Because backlog generally relates to contracts for the licensing of theatrical and television product that have already been produced, the recognition of revenue for such completed product is principally dependent on the commencement of the availability period for telecast under the terms of the related licensing agreement. Cash licensing fees are collected periodically over the term of the related licensing agreements. Backlog was approximately \$6.8 billion and \$6.3 billion at December 31, 2016 and 2015, respectively. Included in these amounts is licensing of film product from the Warner Bros. segment to the Turner segment in the amount of \$942 million and \$619 million at December 31, 2016 and 2015, respectively and to the Home Box Office segment in the amount of \$689 million and \$737 million at December 31, 2016 and 2015, respectively. Certain filmed entertainment licensing contracts provide for additional revenues to be earned, and cash collected, based on the delivery of advertising spots to third parties. Backlog excludes estimates of such amounts.

---

**Table of Contents**

**TIME WARNER INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)**

**Contingencies**

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

On April 4, 2007, the National Labor Relations Board ( NLRB ) issued a complaint against CNN America Inc. ( CNN America ) and Team Video Services, LLC ( Team Video ) related to CNN America 's December 2003 and January 2004 terminations of its contractual relationships with Team Video, under which Team Video had provided electronic news gathering services in Washington, D.C. and New York, NY. The National Association of Broadcast Employees and Technicians, under which Team Video 's employees were unionized, initially filed charges of unfair labor practices with the NLRB in February 2004, alleging that CNN America and Team Video were joint employers, that CNN America was a successor employer to Team Video, and/or that CNN America discriminated in its hiring practices to avoid becoming a successor employer or due to specific individuals ' union affiliation or activities. In the complaint, the NLRB sought, among other things, the reinstatement of certain union members and monetary damages. On November 19, 2008, the presiding NLRB Administrative Law Judge ( ALJ ) issued a non-binding recommended decision and order finding CNN America liable. On September 15, 2014, a three-member panel of the NLRB affirmed the ALJ 's decision and adopted the ALJ 's order with certain modifications. On November 12, 2014, both CNN America and the NLRB General Counsel filed motions with the NLRB for reconsideration of the panel 's decision. On March 20, 2015, the NLRB granted the NLRB General Counsel 's motion for reconsideration to correct certain inadvertent errors in the panel 's decision, and it denied CNN America 's motion for reconsideration. On July 9, 2015, CNN America filed a notice of appeal with the U.S. Court of Appeals for the D.C. Circuit regarding the panel 's decision and the denial of CNN America 's motion for reconsideration.

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

The Company has estimated a range of possible loss for legal claims for which the Company has determined a loss is probable or reasonably possible, including the matter disclosed above. The Company believes the estimate of the aggregate range of possible loss for such matters in excess of accrued liabilities is between \$0 and \$100 million at December 31, 2016. The estimated aggregate range of possible loss is subject to significant judgment and a variety of assumptions. The matters represented in the estimated aggregate range of possible loss will change from time to time and actual results may vary significantly from the current estimate.

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



Table of Contents

## TIME WARNER INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

**18. RELATED PARTY TRANSACTIONS**

The Company has entered into certain transactions in the ordinary course of business with unconsolidated investees accounted for under the equity method of accounting. The transactions that generate revenue and expenses primarily relate to the licensing by the Warner Bros. segment of content to The CW broadcast network, Hulu and certain international networks, including networks owned by CME. Transactions that generate interest income and other income primarily relate to financing transactions with CME. Receivables due from related parties were \$265 million and \$157 million at December 31, 2016 and 2015, respectively. Payables due to related parties were immaterial at December 31, 2016 and 2015, respectively. Amounts included in the consolidated financial statements resulting from transactions with related parties consist of (millions):

	Year Ended December 31,		
	2016	2015	2014
Revenues	\$ 569	\$ 390	\$ 404
Expenses	(3)	(5)	(8)
Interest income	120	126	62
Other income	14	17	16

**19. ADDITIONAL FINANCIAL INFORMATION**

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

	Year Ended December 31,		
	2016	2015	2014
<b>Cash Flows</b>			
Cash payments made for interest	\$ (1,391)	\$ (1,262)	\$ (1,274)
Interest income received	141	35	50
Cash interest payments, net	\$ (1,250)	\$ (1,227)	\$ (1,224)
Cash payments made for income taxes	\$ (935)	\$ (1,135)	\$ (1,602)
Income tax refunds received	136	142	108
TWC tax sharing payments (a)		(4)	
Cash tax payments, net	\$ (799)	\$ (997)	\$ (1,494)

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



Table of Contents

## TIME WARNER INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

	Year Ended December 31,		
	2016	2015	2014
<b>Interest Expense, Net</b>			
Interest income	\$ 227	\$ 219	\$ 184
Interest expense	(1,388)	(1,382)	(1,353)
Total interest expense, net	\$ (1,161)	\$ (1,163)	\$ (1,169)

	Year Ended December 31,		
	2016	2015	2014
<b>Other Loss, Net</b>			
Investment gains (losses), net	\$ 148	\$ (31)	\$ 30
Loss on equity method investees	(283)	(123)	(153)
Premiums paid and costs incurred on debt redemption	(1,008)	(72)	
Other	(48)	(30)	(4)
Total other loss, net	\$ (1,191)	\$ (256)	\$ (127)

	December 31,	
	2016	2015
<b>Accounts Payable and Accrued Liabilities</b>		
Accounts payable	\$ 527	\$ 653
Other accrued expenses	1,878	1,946
Participations payable	2,525	2,455
Programming costs payable	776	679
Accrued compensation	1,004	957
Accrued interest	320	341
Accrued income taxes	162	157
Total accounts payable and accrued liabilities	\$ 7,192	\$ 7,188

	December 31,	
	2016	2015
<b>Other Noncurrent Liabilities</b>		
Noncurrent tax and interest reserves	\$ 1,567	\$ 1,535
Participations payable	1,780	1,512
Programming costs payable	827	816
Noncurrent pension and post-retirement liabilities	954	908

Deferred compensation		491		471
Other noncurrent liabilities		722		556
Total other noncurrent liabilities		\$ 6,341	\$	5,798

---

**Table of Contents**

**TIME WARNER INC.**

**MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting (as such term is defined in Rule 13a-15(f) under the Exchange Act). The Company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Internal control over financial reporting is designed to provide reasonable assurance to the Company's management and board of directors regarding the preparation of reliable financial statements for external purposes in accordance with generally accepted accounting principles. Internal control over financial reporting includes self-monitoring mechanisms and actions taken to correct deficiencies as they are identified. Because of the inherent limitations in any internal control, no matter how well designed, misstatements may occur and not be prevented or detected. Accordingly, even effective internal control over financial reporting can provide only reasonable assurance with respect to financial statement preparation. Further, the evaluation of the effectiveness of internal control over financial reporting was made as of a specific date, and continued effectiveness in future periods is subject to the risks that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies and procedures may decline.

Management conducted an evaluation of the effectiveness of the Company's system of internal control over financial reporting as of December 31, 2016 based on the framework set forth in "Internal Control - Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework). Based on its evaluation, management concluded that, as of December 31, 2016, the Company's internal control over financial reporting is effective based on the specified criteria.

The effectiveness of the Company's internal control over financial reporting has been audited by the Company's independent auditor, Ernst & Young LLP, a registered public accounting firm, as stated in their report at page 138 herein.

**Table of Contents**

**TIME WARNER INC.**

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Shareholders of Time Warner Inc.

We have audited the accompanying consolidated balance sheet of Time Warner Inc. ( Time Warner ) as of December 31, 2016 and 2015, and the related consolidated statements of operations, comprehensive income, cash flows and equity for each of the three years in the period ended December 31, 2016. Our audits also included the Supplementary Information and Financial Statement Schedule II listed in the Index at Item 15(a). These financial statements, supplementary information and schedule are the responsibility of Time Warner s management. Our responsibility is to express an opinion on these financial statements, supplementary information and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Time Warner at December 31, 2016 and 2015, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2016, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related Supplementary Information and Financial Statement Schedule, when considered in relation to the basic financial statements taken as a whole, present fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Time Warner s internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 23, 2017 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

New York, New York

February 23, 2017

---

**Table of Contents**

**TIME WARNER INC.**

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Shareholders of Time Warner Inc.

We have audited Time Warner Inc.'s (Time Warner) internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). Time Warner's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on Time Warner's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Time Warner maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Time Warner as of December 31, 2016 and 2015, and the related consolidated statements of operations, comprehensive income, cash flows and equity for each of the three years in the period ended December 31, 2016 of Time Warner and our report dated February 23, 2017 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

New York, New York

February 23, 2017

Table of Contents

## TIME WARNER INC.

## SELECTED FINANCIAL INFORMATION

The selected financial information set forth below for each of the three years in the period ended December 31, 2016 has been derived from and should be read in conjunction with the audited financial statements and other financial information presented elsewhere herein. The selected financial information set forth below for the years ended December 31, 2013 and December 31, 2012 has been derived from audited financial statements not included herein. Capitalized terms are as defined and described in the consolidated financial statements or elsewhere herein.

	Year Ended December 31,					
	2016	2015	2014	2013	2012	
(millions, except per share amounts)						
<b>Selected Operating Statement Information:</b>						
Total revenues	\$ 29,318	\$ 28,118	\$ 27,359	\$ 26,461	\$ 25,325	
Operating income	7,547	6,865	5,975	6,268	5,498	
Net income	3,925	3,832	3,827	3,691	2,922	
<b>Amounts attributable to Time Warner Inc. shareholders:</b>						
Income from continuing operations	\$ 3,915	\$ 3,796	\$ 3,894	\$ 3,354	\$ 2,666	
Discontinued operations, net of tax	11	37	(67)	337	259	
Net income	\$ 3,926	\$ 3,833	\$ 3,827	\$ 3,691	\$ 2,925	
<b>Per share information attributable to Time Warner Inc. common shareholders:</b>						
Basic income per common share						
from continuing operations	\$ 5.00	\$ 4.64	\$ 4.49	3.63	2.77	
Discontinued operations	0.01	0.05	(0.07)	0.36	0.28	
Basic net income per common share	\$ 5.01	\$ 4.69	\$ 4.42	3.99	3.05	
Diluted income per common share						
from continuing operations	\$ 4.94	\$ 4.58	\$ 4.41	\$ 3.56	\$ 2.73	
Discontinued operations	0.02	0.04	(0.07)	0.36	0.27	
Diluted net income per common share	\$ 4.96	\$ 4.62	\$ 4.34	\$ 3.92	\$ 3.00	
Average common shares:						
Basic	780.8	814.9	863.3	920.0	954.4	

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

Diluted		792.3		829.5		882.6		942.6		976.3
<b>Selected Balance Sheet Information:</b>										
Cash and equivalents	\$	1,539	\$	2,155	\$	2,618	\$	1,816	\$	2,760
Total assets		65,966		63,848		63,146		67,890		67,984
Debt due within one year		1,947		198		1,118		66		749
Long-term debt		22,392		23,594		21,263		19,952		18,975
Time Warner Inc. shareholders equity		24,335		23,619		24,476		29,904		29,796
Total capitalization at book value		48,674		47,411		46,857		49,922		49,520
Cash dividends declared per share of common stock		1.61		1.40		1.27		1.15		1.04



Table of Contents

**TIME WARNER INC.**  
**QUARTERLY FINANCIAL INFORMATION**  
**(Unaudited)**

The following table sets forth the quarterly information for Time Warner:

	Quarter Ended			
	March 31,	June 30,	September 30,	December 31,
	(millions, except per share amounts)			
<b>2016</b>				
Total revenues	\$ 7,308	\$ 6,952	\$ 7,167	\$ 7,891
Operating income	1,996	1,846	2,014	1,691
Income from continuing operations	1,174	951	1,472	317
Discontinued operations, net of tax	40		(5)	(24)
Net income	1,214	951	1,467	293
Net income attributable to Time Warner Inc. shareholders	1,214	952	1,467	293
<b>Per share information attributable to Time Warner Inc. common shareholders:</b>				
Basic income per common share from continuing operations	1.48	1.21	1.89	0.41
Diluted income per common share from continuing operations	1.46	1.20	1.87	0.40
Basic net income per common share	1.53	1.21	1.89	0.37
Diluted net income per common share	1.51	1.20	1.86	0.37
Cash provided by operations from continuing operations	757	1,216	1,571	1,139
Common stock high	72.82	77.02	81.05	96.74
Common stock low	60.07	69.21	73.85	78.57
Cash dividends declared per share of common stock	0.4025	0.4025	0.4025	0.4025

Table of Contents

**TIME WARNER INC.**  
**QUARTERLY FINANCIAL INFORMATION**  
**(Unaudited)**

	<b>Quarter Ended</b>			
	<b>March 31,</b>	<b>June 30,</b>	<b>September 30,</b>	<b>December 31,</b>
	<b>(millions, except per share amounts)</b>			
<b>2015</b>				
Total revenues	\$ 7,127	\$ 7,348	\$ 6,564	\$ 7,079
Operating income	1,786	1,859	1,834	1,386
Income from continuing operations	933	971	1,034	857
Discontinued operations, net of tax	37			
Net income	970	971	1,034	857
Net income attributable to Time Warner Inc. shareholders	970	971	1,035	857
<b>Per share information attributable to Time Warner Inc. common shareholders:</b>				
Basic income per common share from continuing operations	1.12	1.18	1.27	1.07
Diluted income per common share from continuing operations	1.10	1.16	1.26	1.06
Basic net income per common share	1.17	1.18	1.27	1.07
Diluted net income per common share	1.15	1.16	1.26	1.06
Cash provided by operations from continuing operations	1,009	791	1,201	850
Common stock high	87.89	88.31	91.01	77.30
Common stock low	77.93	82.80	66.46	63.41
Cash dividends declared per share of common stock	0.3500	0.3500	0.3500	0.3500

---

**Table of Contents**

**TIME WARNER INC.**  
**SUPPLEMENTARY INFORMATION**  
**CONDENSED CONSOLIDATING FINANCIAL STATEMENTS**

**Overview**

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

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

**Basis of Presentation**

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

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

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

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

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

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

Table of Contents

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

**Consolidating Balance Sheet**

December 31, 2016

(millions)

	Parent Company	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Time Warner Consolidated
<b>ASSETS</b>					
<b>Current assets</b>					
Cash and equivalents	\$ 617	\$ 91	\$ 831	\$	\$ 1,539
Receivables, net	118	1,294	7,329	(42)	8,699
Inventories		528	1,564	(30)	2,062
Prepaid expenses and other current assets	639	91	455		1,185
<b>Total current assets</b>	<b>1,374</b>	<b>2,004</b>	<b>10,179</b>	<b>(72)</b>	<b>13,485</b>
Noncurrent inventories and theatrical film and television production costs		1,929	6,028	(41)	7,916
Investments in amounts due to and from consolidated subsidiaries	48,212	11,319	13,155	(72,686)	
Investments, including available-for-sale securities	274	441	2,628	(6)	3,337
Property, plant and equipment, net	48	423	2,039		2,510
Intangible assets subject to amortization, net			783		783
Intangible assets not subject to amortization		2,007	4,998		7,005
Goodwill		9,880	17,872		27,752
Other assets	520	385	2,522	(249)	3,178
<b>Total assets</b>	<b>\$ 50,428</b>	<b>\$ 28,388</b>	<b>\$ 60,204</b>	<b>\$ (73,054)</b>	<b>\$ 65,966</b>

**LIABILITIES AND EQUITY****Current liabilities**

Accounts payable and accrued liabilities	\$	687	\$	854	\$	5,760	\$	(109)	\$	7,192
Deferred revenue				67		511		(14)		564
Debt due within one year		1,434		511		2				1,947
Total current liabilities		2,121		1,432		6,273		(123)		9,703
Long-term debt		19,318		3,065		9				22,392
Deferred income taxes		2,678		3,011		2,133		(5,144)		2,678
Deferred revenue				26		460				486
Other noncurrent liabilities		1,976		1,886		3,815		(1,336)		6,341
Redeemable noncontrolling interest						29				29

**Equity**

Due to (from) Time Warner Inc. and subsidiaries				(52,869)		(366)		53,235		
Other shareholders equity		24,335		71,837		47,849		(119,686)		24,335
Total Time Warner Inc. shareholders equity		24,335		18,968		47,483		(66,451)		24,335
Noncontrolling interests						2				2
Total equity		24,335		18,968		47,485		(66,451)		24,337
Total liabilities and equity	\$	50,428	\$	28,388	\$	60,204	\$	(73,054)	\$	65,966

**Table of Contents**

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

**Consolidating Balance Sheet**

December 31, 2015

(millions)

	Parent Company	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Time Warner Consolidated
<b>ASSETS</b>					
<b>Current assets</b>					
Cash and equivalents	\$ 976	\$ 288	\$ 891	\$	\$ 2,155
Receivables, net	100	983	6,340	(12)	7,411
Inventories		496	1,263	(6)	1,753
Prepaid expenses and other current assets	494	94	606		1,194
<b>Total current assets</b>	<b>1,570</b>	<b>1,861</b>	<b>9,100</b>	<b>(18)</b>	<b>12,513</b>
Noncurrent inventories and theatrical film and television production costs		1,807	5,891	(98)	7,600
Investments in amounts due to and from consolidated subsidiaries	46,025	11,146	12,538	(69,709)	
Investments, including available-for-sale securities	281	389	1,951	(4)	2,617
Property, plant and equipment, net	93	372	2,131		2,596
Intangible assets subject to amortization, net			949		949
Intangible assets not subject to amortization		2,007	5,022		7,029
Goodwill		9,880	17,809		27,689
Other assets	406	306	2,396	(253)	2,855
<b>Total assets</b>	<b>\$ 48,375</b>	<b>\$ 27,768</b>	<b>\$ 57,787</b>	<b>\$ (70,082)</b>	<b>\$ 63,848</b>
<b>LIABILITIES AND EQUITY</b>					
<b>Current liabilities</b>					
Accounts payable and accrued liabilities	\$ 752	\$ 982	\$ 5,553	\$ (99)	\$ 7,188
Deferred revenue		89	587	(60)	616
Debt due within one year	34	159	5		198

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

Total current liabilities	786	1,230	6,145	(159)	8,002
Long-term debt	19,719	3,866	9		23,594
Deferred income taxes	2,454	2,786	2,069	(4,855)	2,454
Deferred revenue			358	(6)	352
Other noncurrent liabilities	1,797	1,731	3,390	(1,120)	5,798
Redeemable noncontrolling interest			29		29
<b>Equity</b>					
Due to (from) Time Warner Inc. and subsidiaries		(48,141)	3,779	44,362	
Other shareholders' equity	23,619	66,296	42,008	(108,304)	23,619
<b>Total equity</b>	<b>23,619</b>	<b>18,155</b>	<b>45,787</b>	<b>(63,942)</b>	<b>23,619</b>
<b>Total liabilities and equity</b>	<b>\$ 48,375</b>	<b>\$ 27,768</b>	<b>\$ 57,787</b>	<b>\$ (70,082)</b>	<b>\$ 63,848</b>



Table of Contents

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

**Consolidating Statement of Operations****For The Year Ended December 31, 2016****(millions)**

	<b>Parent Company</b>	<b>Guarantor Subsidiaries</b>	<b>Non- Guarantor Subsidiaries</b>	<b>Eliminations</b>	<b>Time Warner Consolidated</b>
Revenues	\$	\$ 7,527	\$ 22,803	\$ (1,012)	\$ 29,318
Costs of revenues		(3,658)	(13,541)	823	(16,376)
Selling, general and administrative	(416)	(1,178)	(3,688)	159	(5,123)
Amortization of intangible assets			(190)		(190)
Restructuring and severance costs	(1)	(80)	(36)		(117)
Asset impairments	(6)	(2)	(35)		(43)
Gain (loss) on operating assets, net			78		78
Operating income	(423)	2,609	5,391	(30)	7,547
Equity in pretax income (loss) of consolidated subsidiaries	7,633	5,392	1,873	(14,898)	
Interest expense, net	(959)	(302)	93	7	(1,161)
Other loss, net	(1,056)	(90)	(43)	(2)	(1,191)
Income from continuing operations before income taxes	5,195	7,609	7,314	(14,923)	5,195
Income tax provision	(1,281)	(2,142)	(2,119)	4,261	(1,281)
Income from continuing operations	3,914	5,467	5,195	(10,662)	3,914
	11	34	34	(68)	11

Discontinued operations, net of tax					
Net income	3,925	5,501	5,229	(10,730)	3,925
Less Net loss attributable to noncontrolling interests	1	1	1	(2)	1
Net income attributable to Time Warner Inc. shareholders	\$ 3,926	\$ 5,502	\$ 5,230	\$ (10,732)	\$ 3,926
Comprehensive income					
Comprehensive income	3,861	5,410	5,109	(10,519)	3,861
Less Comprehensive loss attributable to noncontrolling interests	1	1	1	(2)	1
Comprehensive income attributable to Time Warner Inc. shareholders	\$ 3,862	\$ 5,411	\$ 5,110	\$ (10,521)	\$ 3,862

Table of Contents

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

**Consolidating Statement of Operations****For The Year Ended December 31, 2015****(millions)**

	<b>Parent Company</b>	<b>Guarantor Subsidiaries</b>	<b>Non- Guarantor Subsidiaries</b>	<b>Eliminations</b>	<b>Time Warner Consolidated</b>
Revenues	\$	\$ 7,188	\$ 21,805	\$ (875)	\$ 28,118
Costs of revenues		(3,488)	(13,309)	643	(16,154)
Selling, general and administrative	(321)	(1,100)	(3,626)	223	(4,824)
Amortization of intangible assets			(189)		(189)
Restructuring and severance costs	(4)	(40)	(16)		(60)
Asset impairments	(15)	(1)	(9)		(25)
Gain (loss) on operating assets, net		2	(3)		(1)
Operating income	(340)	2,561	4,653	(9)	6,865
Equity in pretax income (loss) of consolidated subsidiaries	6,894	4,687	1,912	(13,493)	
Interest expense, net	(990)	(312)	132	7	(1,163)
Other loss, net	(118)	20	(156)	(2)	(256)
Income from continuing operations before income taxes	5,446	6,956	6,541	(13,497)	5,446
Income tax provision	(1,651)	(2,121)	(2,046)	4,167	(1,651)
Income from continuing operations	3,795	4,835	4,495	(9,330)	3,795
	37	37	37	(74)	37

Discontinued operations, net of tax										
Net income		3,832		4,872		4,532		(9,404)		3,832
Less Net loss attributable to noncontrolling interests		1		1		1		(2)		1
Net income attributable to Time Warner Inc. shareholders	\$	3,833	\$	4,873	\$	4,533	\$	(9,406)	\$	3,833
Comprehensive income										
Comprehensive income	\$	3,550	\$	4,685	\$	4,251	\$	(8,936)	\$	3,550
Less Comprehensive loss attributable to noncontrolling interests		1		1		1		(2)		1
Comprehensive income attributable to Time Warner Inc. shareholders	\$	3,551	\$	4,686	\$	4,252	\$	(8,938)	\$	3,551

Table of Contents

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

**Consolidating Statement of Operations**

**For The Year Ended December 31, 2014**

(millions)

	<b>Parent Company</b>	<b>Guarantor Subsidiaries</b>	<b>Non-Guarantor Subsidiaries</b>	<b>Eliminations</b>	<b>Time Warner Consolidated</b>
Revenues	\$	\$ 6,820	\$ 21,273	\$ (734)	\$ 27,359
Costs of revenues		(3,471)	(13,047)	643	(15,875)
Selling, general and administrative	(442)	(982)	(3,856)	90	(5,190)
Amortization of intangible assets			(202)		(202)
Restructuring and severance costs	(21)	(173)	(318)		(512)
Asset impairments	(7)	(1)	(61)		(69)
Gain (loss) on operating assets, net			464		464
Operating income	(470)	2,193	4,253	(1)	5,975
Equity in pretax income (loss) of consolidated subsidiaries	6,131	3,831	1,759	(11,721)	
Interest expense, net	(961)	(274)	57	9	(1,169)
Other loss, net	(21)	15	(119)	(2)	(127)
Income from continuing operations before income taxes	4,679	5,765	5,950	(11,715)	4,679
Income tax provision	(785)	(1,793)	(1,736)	3,529	(785)
Income from continuing operations	3,894	3,972	4,214	(8,186)	3,894
Discontinued operations, net of tax	(67)	(42)	(61)	103	(67)

Net income attributable to Time Warner Inc. shareholders	\$	3,827	\$	3,930	\$	4,153	\$	(8,083)	\$	3,827
Comprehensive income	\$	3,411	\$	3,612	\$	3,890	\$	(7,502)	\$	3,411

Table of Contents

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

**Consolidating Statement of Cash Flows**

**For The Year Ended December 31, 2016**

(millions)

	Parent Company	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Time Warner Consolidated
<b>OPERATIONS</b>					
Net income	\$ 3,925	\$ 5,501	\$ 5,229	\$ (10,730)	\$ 3,925
Less Discontinued operations, net of tax	(11)	(34)	(34)	68	(11)
Net income from continuing operations	3,914	5,467	5,195	(10,662)	3,914
Adjustments for noncash and nonoperating items:					
Depreciation and amortization	10	104	555		669
Amortization of film and television costs		2,906	5,455	(37)	8,324
Asset impairments	6	2	35		43
(Gain) loss on investments and other assets, net	(30)	1	(101)	(1)	(131)
Excess (deficiency) of distributions over equity in pretax income of consolidated subsidiaries, net of cash distributions	(7,633)	(5,392)	(1,873)	14,898	
Equity in losses of investee companies, net of cash distributions	2		320	2	324
	103	81	93		277

Equity-based compensation					
Deferred income taxes	236	315	306	(621)	236
Premiums paid and costs incurred on debt redemption	917	91			1,008
Changes in operating assets and liabilities, net of acquisitions	58	(1,649)	(4,811)	(3,579)	(9,981)
Intercompany		3,001	(3,001)		
Cash provided by operations from continuing operations	(2,417)	4,927	2,173		4,683
<b>INVESTING ACTIVITIES</b>					
Investments in available-for-sale securities	(3)		(6)		(9)
Investments and acquisitions, net of cash acquired	(34)	(54)	(1,140)		(1,228)
Capital expenditures	(9)	(104)	(319)		(432)
Advances to (from) parent and consolidated subsidiaries	5,157	348	1	(5,506)	
Other investment proceeds	71	19	219		309
Cash provided (used) by investing activities from continuing operations	5,182	209	(1,245)	(5,506)	(1,360)
<b>FINANCING ACTIVITIES</b>					
Borrowings	3,828		2		3,830
Debt repayments	(2,820)	(480)	(4)		(3,304)
Proceeds from exercise of stock options	172				172
Excess tax benefit from equity instruments	88				88
Principal payments on capital leases		(12)	(2)		(14)
Repurchases of common stock	(2,322)				(2,322)
Dividends paid	(1,269)				(1,269)
Other financing activities	(797)	(113)	(196)	3	(1,103)
		(4,728)	(775)	5,503	



Change in due to/from  
parent and investment  
in segment

Cash used by financing activities from continuing operations	(3,120)	(5,333)	(975)	5,506	(3,922)
Cash provided (used) by continuing operations	(355)	(197)	(47)		(599)
Cash used by operations from discontinued operations	(4)		(13)		(17)
Cash used by discontinued operations	(4)		(13)		(17)
<b>INCREASE (DECREASE) IN CASH AND EQUIVALENTS</b>	<b>(359)</b>	<b>(197)</b>	<b>(60)</b>		<b>(616)</b>
<b>CASH AND EQUIVALENTS AT BEGINNING OF PERIOD</b>	<b>976</b>	<b>288</b>	<b>891</b>		<b>2,155</b>
<b>CASH AND EQUIVALENTS AT END OF PERIOD</b>	<b>\$ 617</b>	<b>\$ 91</b>	<b>\$ 831</b>	<b>\$</b>	<b>\$ 1,539</b>

Table of Contents

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

**Consolidating Statement of Cash Flows**

**For The Year Ended December 31, 2015**

(millions)

	Parent Company	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Time Warner Consolidated
<b>OPERATIONS</b>					
Net income	\$ 3,832	\$ 4,872	\$ 4,532	\$ (9,404)	\$ 3,832
Less Discontinued operations, net of tax	(37)	(37)	(37)	74	(37)
Net income from continuing operations	3,795	4,835	4,495	(9,330)	3,795
Adjustments for noncash and nonoperating items:					
Depreciation and amortization	12	111	558		681
Amortization of film and television costs		2,779	5,280	(29)	8,030
Asset impairments	15	1	9		25
(Gain) loss on investments and other assets, net	12	(20)	39		31
Excess (deficiency) of distributions over equity in pretax income of consolidated subsidiaries, net of cash distributions	(6,894)	(4,687)	(1,912)	13,493	
Equity in losses of investee companies, net of cash distributions	(2)		158	5	161
	35	65	82		182

Equity-based compensation					
Deferred income taxes	328	330	143	(473)	328
Premiums paid and costs incurred on debt redemption	72				72
Changes in operating assets and liabilities, net of acquisitions	144	(1,111)	(4,823)	(3,664)	(9,454)
Intercompany		2,335	(2,335)		
Cash provided by operations from continuing operations	(2,483)	4,638	1,694	2	3,851
<b>INVESTING ACTIVITIES</b>					
Investments in available-for-sale securities	(22)		(19)		(41)
Investments and acquisitions, net of cash acquired	(43)	(3)	(626)		(672)
Capital expenditures	(47)	(78)	(298)		(423)
Advances to (from) parent and consolidated subsidiaries	4,788	515	(1)	(5,302)	
Other investment proceeds	43	73	27		143
Cash provided (used) by investing activities from continuing operations	4,719	507	(917)	(5,302)	(993)
<b>FINANCING ACTIVITIES</b>					
Borrowings	3,755		13		3,768
Debt repayments	(2,100)		(244)		(2,344)
Proceeds from exercise of stock options	165				165
Excess tax benefit from equity instruments	151				151
Principal payments on capital leases		(9)	(2)		(11)
Repurchases of common stock	(3,632)				(3,632)
Dividends paid	(1,150)				(1,150)
Other financing activities	(78)	(22)	(160)		(260)
		(5,116)	(184)	5,300	

Change in due to/from  
parent and investment  
in segment

Cash used by financing activities from continuing operations	(2,889)	(5,147)	(577)	5,300	(3,313)
Cash provided (used) by continuing operations	(653)	(2)	200		(455)
Cash used by operations from discontinued operations	6		(14)		(8)
Cash used by discontinued operations	6		(14)		(8)
<b>INCREASE (DECREASE) IN CASH AND EQUIVALENTS</b>	(647)	(2)	186		(463)
<b>CASH AND EQUIVALENTS AT BEGINNING OF PERIOD</b>	1,623	290	705		2,618
<b>CASH AND EQUIVALENTS AT END OF PERIOD</b>	\$ 976	\$ 288	\$ 891	\$	\$ 2,155

Table of Contents

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

**Consolidating Statement of Cash Flows**

**For The Year Ended December 31, 2014**

(millions)

	Parent Company	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Time Warner Consolidated
<b>OPERATIONS</b>					
Net income	\$ 3,827	\$ 3,930	\$ 4,153	\$ (8,083)	\$ 3,827
Less Discontinued operations, net of tax	67	42	61	(103)	67
Net income from continuing operations	3,894	3,972	4,214	(8,186)	3,894
Adjustments for noncash and nonoperating items:					
Depreciation and amortization	17	116	600		733
Amortization of film and television costs		2,747	5,336	(43)	8,040
Asset impairments	7	1	61		69
Venezuelan foreign currency loss			173		173
(Gain) loss on investments and other assets, net	(21)	(6)	(466)		(493)
Excess (deficiency) of distributions over equity in pretax income of consolidated subsidiaries, net of cash distributions	(6,131)	(3,831)	(1,759)	11,721	
Equity in losses of investee companies, net	3	(7)	236		232

of cash distributions					
Equity-based compensation	81	63	75		219
Deferred income taxes	166	(105)	(154)	259	166
Changes in operating assets and liabilities, net of acquisitions	(732)	(1,016)	(3,836)	(3,768)	(9,352)
Intercompany		2,871	(2,871)		
Cash provided by operations from continuing operations	(2,716)	4,805	1,609	(17)	3,681
<b>INVESTING ACTIVITIES</b>					
Investments in available-for-sale securities	(5)		(25)		(30)
Investments and acquisitions, net of cash acquired	(64)	(2)	(884)		(950)
Capital expenditures	(22)	(73)	(379)		(474)
Proceeds from Time Inc. in the Time Separation	590		810		1,400
Proceeds from the sale of Time Warner Center			1,264		1,264
Advances to (from) parent and consolidated subsidiaries	6,365	4,464		(10,829)	
Other investment proceeds	57	94	39	(17)	173
Cash provided (used) by investing activities from continuing operations	6,921	4,483	825	(10,846)	1,383
<b>FINANCING ACTIVITIES</b>					
Borrowings	2,118		291		2,409
Debt repayments	(48)		(24)		(72)
Proceeds from exercise of stock options	338				338
Excess tax benefit from equity instruments	179				179
Principal payments on capital leases		(10)	(1)		(11)
Repurchases of common stock	(5,504)				(5,504)
Dividends paid	(1,109)				(1,109)

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

Other financing activities	88	(45)	(251)	35	(173)
Change in due to/from parent and investment in segment		(9,109)	(1,719)	10,828	
Cash used by financing activities from continuing operations	(3,938)	(9,164)	(1,704)	10,863	(3,943)
Cash provided (used) by continuing operations	267	124	730		1,121
Cash used by operations from discontinued operations	(1)		(15)		(16)
Cash used by investing activities from discontinued operations	318	18	(51)	(336)	(51)
Cash used by financing activities from discontinued operations			(372)	336	(36)
Effect of change in cash and equivalents of discontinued operations			(87)		(87)
Cash used by discontinued operations	317	18	(525)		(190)
Effect of Venezuelan exchange rate changes on cash and equivalents			(129)		(129)
<b>INCREASE (DECREASE) IN CASH AND EQUIVALENTS</b>	<b>584</b>	<b>142</b>	<b>76</b>		<b>802</b>
<b>CASH AND EQUIVALENTS AT BEGINNING OF PERIOD</b>	<b>1,039</b>	<b>148</b>	<b>629</b>		<b>1,816</b>
<b>CASH AND EQUIVALENTS AT END OF PERIOD</b>	<b>\$ 1,623</b>	<b>\$ 290</b>	<b>\$ 705</b>	<b>\$</b>	<b>\$ 2,618</b>

Table of Contents

## TIME WARNER INC.

## SCHEDULE II VALUATION AND QUALIFYING ACCOUNTS

Years Ended December 31, 2016, 2015 and 2014

(millions)

Description	Balance at Beginning of Period	Additions Charged (Credited) to Costs and Expenses	Deductions	Balance at End of Period
<b>2016</b>				
Reserves deducted from accounts receivable:				
Allowance for doubtful accounts	\$ 180	\$ 38	\$ (25)	\$ 193
Reserves for sales returns and allowances	875	1,329	(1,416)	788
<b>Total</b>	<b>\$ 1,055</b>	<b>\$ 1,367</b>	<b>\$ (1,441)</b>	<b>\$ 981</b>
<b>2015</b>				
Reserves deducted from accounts receivable:				
Allowance for doubtful accounts	\$ 152	\$ 63	\$ (35)	\$ 180
Reserves for sales returns and allowances	1,000	1,671	(1,796)	875
<b>Total</b>	<b>\$ 1,152</b>	<b>\$ 1,734</b>	<b>\$ (1,831)</b>	<b>\$ 1,055</b>
<b>2014</b>				
Reserves deducted from accounts receivable:				
Allowance for doubtful accounts	\$ 191	\$ (20)	\$ (19)	\$ 152
Reserves for sales returns and allowances	1,192	1,867	(2,059)	1,000
<b>Total</b>	<b>\$ 1,383</b>	<b>\$ 1,847</b>	<b>\$ (2,078)</b>	<b>\$ 1,152</b>



**Table of Contents****EXHIBIT INDEX**

<b>Exhibit Number</b>	<b>Description</b>	<b>Sequential Page Number</b>
2.1	Agreement and Plan of Merger, dated as of October 22, 2016, among Time Warner Inc., AT&T Inc., West Merger Sub, Inc. and West Merger Sub II, LLC (incorporated herein by reference to Exhibit 2.1 to the Registrant's Current Report on Form 8-K dated October 22, 2016).	*
3.1	Restated Certificate of Incorporation of the Registrant as filed with the Secretary of State of the State of Delaware on July 27, 2007 (incorporated herein by reference to Exhibit 3.4 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007).	*
3.2	Certificate of Amendment, dated June 4, 2008, to the Restated Certificate of Incorporation of the Registrant as filed with the Secretary of State of the State of Delaware on June 4, 2008 (incorporated herein by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K dated June 4, 2008).	*
3.3	Certificate of Amendment, dated March 27, 2009, to the Restated Certificate of Incorporation of the Registrant as filed with the Secretary of State of the State of Delaware on March 27, 2009 (incorporated herein by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K dated March 27, 2009).	*
3.4	Certificate of Amendment, dated May 24, 2011, to the Restated Certificate of Incorporation of the Registrant as filed with the Secretary of State of the State of Delaware on May 24, 2011 (incorporated herein by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K dated May 20, 2011).	*
3.5	By-laws of the Registrant, as amended through October 22, 2016 (incorporated herein by reference to Exhibit 3.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2016 (the September 2016 Form 10-Q)).	*
4.1	Indenture dated as of June 1, 1998 among Historic TW (including in its capacity as successor to Time Warner Companies, Inc. ( TWCI )), Turner Broadcasting System, Inc. ( TBS ) and The Bank of New York Mellon (as successor trustee to JPMorgan Chase Bank) ( BNY Mellon ), as Trustee (incorporated herein by reference to Exhibit 4 to Historic TW's Quarterly Report on Form 10-Q for the quarter ended June 30, 1998 (File No. 1-12259)).	*
4.2	First Supplemental Indenture dated as of January 11, 2001 among the Registrant, Historic TW (including in its capacity as successor to TWCI), Historic AOL LLC ( Historic AOL ), TBS, BNY Mellon, as Trustee (incorporated herein by reference to Exhibit 4.2 to the Registrant's Transition	*

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

Report on Form 10-K for the period July 1, 2000 to December 31, 2000 (the 2000 Form 10-K ).

- 4.3 Second Supplemental Indenture, dated as of April 16, 2009, among Historic TW (including in its capacity as successor to TWCI), the Registrant, Historic AOL, TBS and BNY Mellon, as Trustee (incorporated herein by reference to Exhibit 99.2 to the Registrant's Current Report on Form 8-K dated April 16, 2009 (the April 2009 Form 8-K )). \*
- 4.4 Third Supplemental Indenture, dated as of December 3, 2009, among Historic TW (including in its capacity as successor to TWCI), the Registrant, Historic AOL, TBS, Home Box Office, Inc. ( HBO ) and BNY Mellon, as Trustee (incorporated herein by reference to Exhibit 99.2 to the Registrant's Current Report on Form 8-K dated December 3, 2009 (the December 2009 Form 8-K )). \*
- 4.5 Indenture dated as of January 15, 1993 between Historic TW (in its capacity as successor to TWCI) and BNY Mellon, as Trustee (incorporated herein by reference to Exhibit 4.11 to TWCI's Annual Report on Form 10-K for the year ended December 31, 1992). \*

**Table of Contents**

4.6	First Supplemental Indenture dated as of June 15, 1993 between Historic TW (in its capacity as successor to TWCI) and BNY Mellon, as Trustee (incorporated herein by reference to Exhibit 4 to TWCI's Quarterly Report on Form 10-Q for the quarter ended June 30, 1993 (File No. 1-8637)).	*
4.7	Second Supplemental Indenture dated as of October 10, 1996 among Historic TW (including in its capacity as successor to TWCI) and BNY Mellon, as Trustee (incorporated herein by reference to Exhibit 4.1 to TWCI's Quarterly Report on Form 10-Q for the quarter ended September 30, 1996).	*
4.8	Third Supplemental Indenture dated as of December 31, 1996 among Historic TW (including in its capacity as successor to TWCI) and BNY Mellon, as Trustee (incorporated herein by reference to Exhibit 4.10 to Historic TW's Annual Report on Form 10-K for the year ended December 31, 1996 (File No. 1-12259)).	*
4.9	Fourth Supplemental Indenture dated as of December 17, 1997 among Historic TW (including in its capacity as successor to TWCI), TBS and BNY Mellon, as Trustee (incorporated herein by reference to Exhibit 4.4 to Historic TW's, TWCI's and TBS Registration Statement on Form S-4 (Registration Nos. 333-45703, 333-45703-02 and 333-45703-01) filed with the Commission on February 5, 1998 (the 1998 Form S-4)).	*
4.10	Fifth Supplemental Indenture dated as of January 12, 1998 among Historic TW (including in its capacity as successor to TWCI), TBS and BNY Mellon, as Trustee (incorporated herein by reference to Exhibit 4.5 to the 1998 Form S-4).	*
4.11	Sixth Supplemental Indenture dated as of March 17, 1998 among Historic TW (including in its capacity as successor to TWCI), TBS and BNY Mellon, as Trustee (incorporated herein by reference to Exhibit 4.15 to Historic TW's Annual Report on Form 10-K for the year ended December 31, 1997 (File No. 1-12259) (the Historic TW 1997 Form 10-K)).	*
4.12	Seventh Supplemental Indenture dated as of January 11, 2001 among the Registrant, Historic TW (including in its capacity as successor to TWCI), Historic AOL, TBS and BNY Mellon, as Trustee (incorporated herein by reference to Exhibit 4.17 to the 2000 Form 10-K).	*
4.13	Eighth Supplemental Indenture dated as of February 23, 2009, among Historic TW (including in its capacity as successor to TWCI), the Registrant, Historic AOL, TBS and BNY Mellon, as Trustee (incorporated herein by reference to Exhibit 99.2 to the Registrant's Current Report on Form 8-K dated February 23, 2009).	*
4.14	Ninth Supplemental Indenture, dated as of April 16, 2009, among Historic TW (including in its capacity as successor to TWCI), the Registrant, Historic AOL, TBS and BNY Mellon, as Trustee (incorporated herein by reference to Exhibit 99.3 to the April 2009 Form 8-K).	*
4.15	Tenth Supplemental Indenture, dated as of December 3, 2009, among Historic TW (including in its capacity as successor to TWCI), the Registrant, Historic AOL, TBS, HBO and BNY Mellon, as Trustee (incorporated herein by reference to Exhibit 99.3 to the December 2009 Form 8-K).	*
4.16	Eleventh Supplemental Indenture, dated as of November 17, 2016, among Historic TW (including in its capacity as successor to TWCI), the Registrant, Historic AOL, TBS, HBO and BNY Mellon, as Trustee.	*

- 4.17 Trust Agreement dated as of April 1, 1998 (the Historic TW Trust Agreement ) among Historic TW, as Grantor, and U.S. Trust Company of California, N.A., as Trustee ( US Trust Company ) (incorporated herein by reference to Exhibit 4.16 to the Historic TW 1997 Form 10-K). (WCI, as grantor, has entered into a Trust Agreement dated March 31, 2003 with US Trust Company that is substantially identical in all material respects to the Historic TW Trust Agreement.)

\*

**Table of Contents**

4.18	Indenture dated as of April 19, 2001 among the Registrant, Historic AOL, Historic TW (including in its capacity as successor to TWCI), TBS and BNY Mellon, as Trustee (incorporated herein by reference to Exhibit 4 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2001).	*
4.19	First Supplemental Indenture, dated as of April 16, 2009, among the Registrant, Historic AOL, Historic TW (including in its capacity as successor to TWCI), TBS, and BNY Mellon, as Trustee (incorporated herein by reference to Exhibit 99.1 to the April 2009 Form 8-K).	*
4.20	Second Supplemental Indenture, dated as of December 3, 2009, among the Registrant, Historic TW (including in its capacity as successor to TWCI), Historic AOL, TBS, HBO, and BNY Mellon, as Trustee (incorporated herein by reference to Exhibit 99.1 to the December 2009 Form 8-K).	*
4.21	Indenture dated as of November 13, 2006 among the Registrant, TW AOL Holdings LLC (in its capacity as successor to TW AOL Holdings Inc.), Historic TW (including in its capacity as successor to TWCI), TBS and BNY Mellon, as Trustee (incorporated herein by reference to Exhibit 4.27 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2006).	*
4.22	Indenture dated as of March 11, 2010 among the Registrant, Historic TW, HBO, TBS and BNY Mellon, as Trustee (incorporated herein by reference to Exhibit 4.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2010).	*
10.1	Time Warner Inc. 1999 Stock Plan, as amended through March 27, 2009 (the 1999 Stock Plan) (incorporated herein by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2009).	* +
10.2	Form of Non-Qualified Stock Option Agreement, Directors Version 5 (for awards of stock options to non-employee directors under the 1999 Stock Plan) (incorporated herein by reference to Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2006).	* +
10.3	Time Warner Inc. 2003 Stock Incentive Plan, as amended through October 25, 2007 (the 2003 Stock Incentive Plan) (incorporated herein by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2007 (the September 2007 Form 10-Q)).	* +
10.4	Amendment to the 2003 Stock Incentive Plan, dated September 10, 2008 and effective October 1, 2008 (incorporated herein by reference to Exhibit 10.6 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2008).	* +
10.5	Form of Notice of Grant of Stock Options (for awards of stock options under the 2003 Stock Incentive Plan and the 1999 Stock Plan) (incorporated herein by reference to Exhibit 10.12 to the Registrant's Current Report on Form 8-K dated January 21, 2005 (the January 2005 Form 8-K)).	* +
10.6	Form of Non-Qualified Stock Option Agreement, Share Retention, Version 2 (for awards of stock options to executive officers of the Registrant under the 2003 Stock Incentive Plan and the Time Warner Inc. 2006 Stock Incentive Plan (the 2006 Stock Incentive Plan) (incorporated herein by reference to Exhibit 10.13 to the January 2005 Form 8-K)).	* +
10.7		* +

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

Form of Non-Qualified Stock Option Agreement, Share Retention, Version 3 (for award of 950,000 stock options to Jeffrey Bewkes under the 2003 Stock Incentive Plan on December 17, 2007) (incorporated herein by reference to Exhibit 10.14 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2007).

**Table of Contents**

10.8	2006 Stock Incentive Plan, as amended through December 16, 2009 (incorporated herein by reference to Exhibit 10.22 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2009).	* +
10.9	Form of Non-Qualified Stock Option Agreement, Directors Version 8 (for awards of stock options to non-employee directors under the 2006 Stock Incentive Plan (incorporated herein by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2009 (the September 2009 Form 10-Q))).	* +
10.10	Form of Notice of Grant of Stock Options to Non-Employee Director (for awards of stock options to non-employee directors under the 2006 Stock Incentive Plan (incorporated herein by reference to Exhibit 10.2 to the September 2009 Form 10-Q)).	* +
10.11	Time Warner Inc. 2010 Stock Incentive Plan (the 2010 Stock Incentive Plan) (incorporated herein by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K dated May 21, 2010).	* +
10.12	Form of Restricted Stock Units Agreement, RSU Executive Agreement, Version 2 (for awards to executive officers under the 2010 Stock Incentive Plan) (incorporated herein by reference to Exhibit 10.21 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2012 (the 2012 Form 10-K))).	* +
10.13	Form of Non-Qualified Stock Option Agreement, Share Retention, Version 1 (for awards of stock options to executive officers under the 2010 Stock Incentive Plan) (incorporated herein by reference to Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2010 (the September 2010 Form 10-Q))).	* +
10.14	Form of Non-Qualified Stock Option Agreement, Directors Version 1 (for awards of stock options to non-employee directors under the 2010 Stock Incentive Plan) (incorporated herein by reference to Exhibit 10.6 to the September 2010 Form 10-Q).	* +
10.15	Form of Notice of Grant of Stock Options to Non-Employee Director (for awards of stock options to non-employee directors under the 2010 Stock Incentive Plan) (incorporated herein by reference to Exhibit 10.7 to the September 2010 Form 10-Q).	* +
10.16	Form of Non-Qualified Stock Option Agreement, Share Retention, Version Bewkes 1 (for awards of stock options to Jeffrey Bewkes under the 2010 Stock Incentive Plan) (incorporated herein by reference to Exhibit 10.31 to the 2012 Form 10-K).	* +
10.17	Time Warner Inc. 2013 Stock Incentive Plan as amended through June 11, 2014 (the 2013 Stock Incentive Plan) (incorporated herein by reference to Exhibit 10.22 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2014 (the 2014 Form 10-K))).	* +
10.18	Form of Restricted Stock Units Agreement, RSU Executive Agreement, Version 1 (for use from August 2013 for awards to executive officers under the 2013 Stock Incentive Plan) (incorporated herein by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2013 (the June 2013 Form 10-Q))).	* +
10.19	Form of Restricted Stock Units Agreement, RSU Executive Agreement, Version 2 (for use from February 2015 for awards to executive officers under the 2013 Stock Incentive Plan) (incorporated herein by reference to Exhibit 10.24 to the 2014 Form 10-K).	* +
10.20		* +

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

Form of Restricted Stock Units Agreement, RSU Director Agreement, Version 1 (for awards of restricted stock units to non-employee directors under the 2013 Stock Incentive Plan) (incorporated herein by reference to Exhibit 10.3 to the June 2013 Form 10-Q).



**Table of Contents**

10.21	Form of Notice of Grant of Restricted Stock Units to Non-Employee Director (for awards of restricted stock units to non-employee directors under the 2013 Stock Incentive Plan) (incorporated herein by reference to Exhibit 10.4 to the June 2013 Form 10-Q).	* +
10.22	Form of Special Retention Restricted Stock Units Agreement 2017 (for use from October 22, 2016 for special retention awards to executive officers under the 2013 Stock Incentive Plan) (incorporated herein by reference to Exhibit 10.1 to the September 2016 Form 10-Q).	* +
10.23	Form of Special Retention Restricted Stock Units Agreement 2018 (for use from October 22, 2016 for special retention awards to executive officers under the 2013 Stock Incentive Plan) (incorporated herein by reference to Exhibit 10.2 to the September 2016 Form 10-Q).	* +
10.24	Form of Retention Bonus Letter Agreement (for use from October 22, 2016 for special cash retention bonus for executive officers).	+
10.25	Form of Special Retention Restricted Stock Units Agreement 2017 (for use in February 2017 for special retention awards to Jeffrey Bewkes under the 2013 Stock Incentive Plan).	+
10.26	Form of Special Retention Restricted Stock Units Agreement 2018 (for use in February 2017 for special retention awards to Jeffrey Bewkes under the 2013 Stock Incentive Plan).	+
10.27	Form of Performance Stock Units Agreement, PSU Agreement, Version 2 (for use from February 2015 for awards of performance stock units under the 2013 Stock Incentive Plan) (incorporated herein by reference to Exhibit 10.28 to the 2014 Form 10-K).	* +
10.28	Form of Performance Stock Units Agreement, PSU Agreement, Version Bewkes 2 (for use from February 2015 for awards of performance stock units to Jeffrey Bewkes under the 2013 Stock Incentive Plan) (incorporated herein by reference to Exhibit 10.30 to the 2014 Form 10-K).	* +
10.29	Form of Non-Qualified Stock Option Agreement, Directors Version 1 (for awards of stock options to non-employee directors under the 2013 Stock Incentive Plan) (incorporated herein by reference to Exhibit 10.7 to the June 2013 Form 10-Q).	* +
10.30	Form of Notice of Grant of Stock Options to Non-Employee Director (for awards of stock options to non-employee directors under the 2013 Stock Incentive Plan) (incorporated herein by reference to Exhibit 10.8 to the June 2013 Form 10-Q).	* +
10.31	Form of Non-Qualified Stock Option Agreement, Share Retention Version 1 (for use from August 2013 for awards of stock options to executive officers under the 2013 Stock Incentive Plan) (incorporated herein by reference to Exhibit 10.9 to the June 2013 Form 10-Q).	* +
10.32	Form of Non-Qualified Stock Option Agreement, Share Retention Version 2 (for use from February 2015 for awards of stock options to executive officers under the 2013 Stock Incentive Plan) (incorporated herein by reference to Exhibit 10.34 to the 2014 Form 10-K).	* +
10.33	Form of Non-Qualified Stock Option Agreement, Share Retention Incentive Version 2 (for use from February 2015 for awards of stock options with special vesting provisions to executive officers under the 2013 Stock Incentive Plan) (incorporated herein by reference to Exhibit 10.35 to the 2014 Form 10-K).	* +

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

- |       |   |     |
|-------|---|-----|
| 10.34 | Form of Non-Qualified Stock Option Agreement, Share Retention Version Bewkes 1 (for use from August 2013 for awards of stock options to Jeffrey Bewkes under the 2013 Stock Incentive Plan) (incorporated herein by reference to Exhibit 10.10 to the June 2013 Form 10-Q). | * + |
| 10.35 | Form of Non-Qualified Stock Option Agreement, Share Retention Version Bewkes 2 (for use from February 2015 for awards of stock options to Jeffrey Bewkes under the 2013 Stock Incentive Plan) (incorporated herein by reference to Exhibit 10.37 to the 2014 Form 10-K).    | * + |

**Table of Contents**

10.36	Time Warner Inc. Non-Employee Directors Deferred Compensation Plan, as amended October 25, 2007, effective as of January 1, 2005 (incorporated herein by reference to Exhibit 10.8 to the September 2007 Form 10-Q).	* +
10.37	Description of Director Compensation (incorporated herein by reference to the section titled Director Compensation in the Registrant s Proxy Statement for the 2016 Annual Meeting of Stockholders).	* +
10.38	Time Warner Inc. Annual Incentive Plan for Executive Officers (incorporated herein by reference to Exhibit 10.1 to the Registrant s Current Report on Form 8-K dated May 28, 2009).	* +
10.39	Time Warner Inc. Deferred Compensation Plan (amended and restated as of August 1, 2001) (incorporated herein by reference to Exhibit 10.1 to the Registrant s Quarterly Report on Form 10-Q for the quarter ended June 30, 2001).	* +
10.40	Amendment No. 1 to the Time Warner Inc. Deferred Compensation Plan (amended and restated as of August 1, 2001) effective October 15, 2001 (incorporated herein by reference to Exhibit 10.14 to the Registrant s Annual Report on Form 10-K for the year ended December 31, 2001).	* +
10.41	Amendment No. 2 to the Time Warner Inc. Deferred Compensation Plan (amended and restated as of August 1, 2001) effective August 1, 2002 (incorporated herein by reference to Exhibit 10.1 to the Registrant s Quarterly Report on Form 10-Q for the quarter ended September 30, 2002).	* +
10.42	Amendment No. 3 to the Time Warner Inc. Deferred Compensation Plan (amended and restated as of August 1, 2001) effective January 1, 2004 (incorporated herein by reference to Exhibit 10.19 to the Registrant s Annual Report on Form 10-K for the year ended December 31, 2003).	* +
10.43	Amendment No. 4 to the Time Warner Inc. Deferred Compensation Plan (amended and restated as of August 1, 2001) effective January 1, 2005 (incorporated herein by reference to Exhibit 10.35 to the Registrant s Annual Report on Form 10-K for the year ended December 31, 2005).	* +
10.44	Time Warner Inc. Deferred Compensation Plan (amended and restated as of January 1, 2005) (incorporated herein by reference to Exhibit 10.7 to the September 2007 Form 10-Q).	* +
10.45	Amendment No. 1 to the Time Warner Inc. Deferred Compensation Plan (amended and restated as of January 1, 2005) effective January 1, 2005 (incorporated herein by reference to Exhibit 10.47 to the Registrant s Annual Report on Form 10-K for the year ended December 31, 2008).	* +
10.46	Time Warner Supplemental Savings Plan (incorporated herein by reference to Exhibit 10.43 to the Registrant s Annual Report on Form 10-K for the year ended December 31, 2010 (the 2010 Form 10-K )).	* +
10.47	Amendment No. 1 to the Time Warner Supplemental Savings Plan effective June 1, 2012 (incorporated herein by reference to Exhibit 10.1 to the Registrant s Quarterly Report on Form 10-Q for the quarter ended June 30, 2012).	* +
10.48		* +

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

Amendment No. 2 to the Time Warner Supplemental Savings Plan effective December 1, 2013 (incorporated herein by reference to Exhibit 10.48 to the 2013 Form 10-K).

10.49

Time Warner Excess Benefit Pension Plan (as amended through July 28, 2010) (incorporated herein by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2010).

\* +

**Table of Contents**

10.50	Amendment No. 2 to the Time Warner Excess Benefit Pension Plan (as amended through July 28, 2010) effective as of June 7, 2014 following the separation of Time Inc. from the Registrant (incorporated herein by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2014).	* +
10.51	Amendment No. 3 to the Time Warner Excess Benefit Pension Plan (Amended and Restated as of May 1, 2008) effective as of August 27, 2015 (incorporated herein by reference to Exhibit 10 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2015).	* +
10.52	Amended and Restated Employment Agreement made January 22, 2016, effective as of January 1, 2016, between the Registrant and Jeffrey Bewkes (incorporated herein by reference to Exhibit 10.52 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2015).	* +
10.53	Amended and Restated Employment Agreement made February 24, 2015, effective as of January 1, 2015, between the Registrant and Howard M. Averill (incorporated herein by reference to Exhibit 10.55 to the 2014 Form 10-K).	* +
10.54	Letter Agreement made October 22, 2016 between the Registrant and Howard Averill amending the Amended and Restated Employment Agreement made February 24, 2015, effective as of January 1, 2015, between the Registrant and Howard M. Averill (incorporated herein by reference to Exhibit 10.3 to the September 2016 Form 10-Q).	* +
10.55	Amended and Restated Employment Agreement made November 3, 2014, effective as of January 1, 2014, between the Registrant and Paul T. Cappuccio (incorporated herein by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2014 (the September 2014 Form 10-Q)).	* +
10.56	Letter Agreement made October 22, 2016 between the Registrant and Paul T. Cappuccio amending the Amended and Restated Employment Agreement made November 3, 2014, effective as of January 1, 2014, between the Registrant and Paul T. Cappuccio (incorporated herein by reference to Exhibit 10.4 to the September 2016 Form 10-Q).	* +
10.57	Amended and Restated Employment Agreement made October 31, 2014, effective as of August 1, 2014, between the Registrant and Olaf Olafsson (incorporated herein by reference to Exhibit 10.2 to the September 2014 Form 10-Q).	* +
10.58	Letter Agreement made October 22, 2016 between the Registrant and Olaf Olafsson amending the Amended and Restated Employment Agreement made October 31, 2014, effective as of August 1, 2014, between the Registrant and Olaf Olafsson (incorporated herein by reference to Exhibit 10.5 to the September 2016 Form 10-Q).	* +
10.59	Amended and Restated Employment Agreement made October 22, 2016, effective as of January 1, 2017, between the Registrant and Gary Ginsberg (incorporated herein by reference to Exhibit 10.6 to the September 2016 Form 10-Q).	* +
10.60	Amendment and Restatement Agreement, dated as of December 18, 2013, relating to the Credit Agreement, dated as of January 19, 2011, as amended and restated as of December 14, 2012, among the Registrant, Time Warner International Finance Limited, the Lenders from time to time party thereto, and Citibank, N.A., as administrative agent (incorporated herein by reference to Exhibit 10.1 to Registrant's Current Report on Form 8-K dated December 18, 2013 (the December 2013 Form 8-K)).	*

- 10.61 Amended and Restated Credit Agreement, dated as of January 19, 2011, as amended and restated as of December 18, 2013, among the Registrant, Time Warner International Finance Limited, the Lenders from time to time party thereto, and Citibank, N.A., as administrative agent (incorporated herein by reference to Exhibit 10.2 to the December 2013 Form 8-K).

\*

**Table of Contents**

10.62	First Amendment, dated as of December 18, 2014, to the Amended and Restated Credit Agreement, dated as of January 19, 2011, as amended and restated as of December 18, 2013, among the Registrant and Time Warner International Finance Limited, as borrowers, the Lenders from time to time party thereto and Citibank, N.A., as administrative agent (incorporated herein by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K dated December 18, 2014).	*
10.63	Second Amendment, dated as of December 18, 2015, to the Amended and Restated Credit Agreement, dated as of January 19, 2011, as amended and restated as of December 18, 2013 and as further amended by the First Amendment, dated as of December 18, 2014, among the Registrant and Time Warner International Finance Limited, as borrowers, the lenders from time to time party thereto and Citibank, N.A., as administrative agent (incorporated herein by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K dated December 18, 2015).	*
10.64	Third Amendment, dated as of December 16, 2016, to the Amended and Restated Credit Agreement, dated as of January 19, 2011, as amended and restated as of December 18, 2013, as further amended by the First Amendment, dated as of December 18, 2014, and the Second Amendment, dated as of December 18, 2015, among Time Warner Inc. and Time Warner International Finance Limited, as borrowers, the lenders from time to time party thereto and Citibank, N.A., as administrative agent (incorporated herein by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K dated December 16, 2016).	*
10.65	Form of Commercial Paper Dealer Agreement 4(2) Program (the Commercial Paper Dealer Agreement ) among the Registrant, as Issuer, Historic TW, as Note Guarantor, HBO and TBS, as Supplemental Guarantors, and Dealer (incorporated herein by reference to Exhibit 10.53 to the 2010 Form 10-K).	*
10.66	Form of Letter Agreement among the Registrant, as Issuer, Historic TW, as Note Guarantor, HBO and TBS, as Supplemental Guarantors, and Dealer, amending the Commercial Paper Dealer Agreement (incorporated herein by reference to Exhibit 10.63 to the 2014 Form 10-K).	*
10.67	Second Amended and Restated Tax Matters Agreement, dated as of May 20, 2008, between the Registrant and Time Warner Cable (incorporated herein by reference to Exhibit 99.2 to the May 2008 Form 8-K).	*
10.68	Second Tax Matters Agreement, dated as of November 16, 2009, by and between the Registrant and AOL Inc. (incorporated herein by reference to Exhibit 99.2 to the November 2009 Form 8-K).	*
21	Subsidiaries of the Registrant.	
23	Consent of Ernst & Young LLP, Independent Registered Public Accounting Firm.	
31.1	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, with respect to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2016.	
31.2	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, with respect to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2016.	

- 32 Certification of Principal Executive Officer and Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, with respect to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2016.



**Table of Contents**

101 The following financial information from the Registrant's Annual Report on Form 10-K for the year ended December 31, 2016, formatted in extensible Business Reporting Language:

(i) Consolidated Balance Sheet at December 31, 2016 and 2015, (ii) Consolidated Statement of Operations for the years ended December 31, 2016, 2015 and 2014, (iii) Consolidated Statement of Comprehensive Income for the years ended December 31, 2016, 2015 and 2014, (iv) Consolidated Statement of Cash Flows for the years ended December 31, 2016, 2015 and 2014, (v) Consolidated Statement of Equity for the years ended December 31, 2016, 2015 and 2014, (vi) Notes to Consolidated Financial Statements (tagged as a block of text) and (vii) Supplementary Information - Condensed Consolidating Financial Statements (tagged as a block of text).

\* Incorporated by reference.

+ This exhibit is a management contract or compensation plan or arrangement.

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

The Registrant hereby agrees to furnish to the Securities and Exchange Commission at its request copies of long-term debt instruments defining the rights of holders of outstanding long-term debt that are not required to be filed herewith.