TIME WARNER INC.
Form 10-Q
May 04, 2011

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

Form 10-Q

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

for the quarterly period ended March 31, 2011 or

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

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

TIME WARNER INC.
(Exact name of Registrant as specified in its charter)

Delaware	**13-4099534**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*

One Time Warner Center
New York, NY 10019-8016
(Address of Principal Executive Offices) (Zip Code)
(212) 484-8000
(Registrant s Telephone Number, Including Area Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes **o** No **þ**
Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.

Description of Class	Shares Outstanding as of April 26, 2011
Common Stock $.01 par value	1,070,820,677

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

Table of Contents

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

INTRODUCTION

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

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

Results of operations. This section provides an analysis of the Company s results of operations for the three months ended March 31, 2011. This analysis is presented on both a consolidated and a business segment basis. In addition, a brief description of significant transactions and events that affect the comparability of the results being analyzed is included.

Financial condition and liquidity. This section provides an analysis of the Company s financial condition as of March 31, 2011 and cash flows for the three months ended March 31, 2011.

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.

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

OVERVIEW

Time Warner is a leading media and entertainment company whose major businesses encompass an array of the most respected and successful media brands. Among the Company s brands are TNT, TBS, CNN, HBO, Cinemax, Warner Bros., New Line Cinema, *People*, *Sports Illustrated* and *Time*. During the three months ended March 31, 2011, the Company generated revenues of $6.683 billion (up 6% from $6.322 billion in 2010), Operating Income of $1.270 billion (down 13% from $1.463 billion in 2010), Net Income attributable to Time Warner shareholders of $653 million (down 10% from $725 million in 2010) and Cash Provided by Operations from Continuing Operations of $825 million (down 39% from $1.356 billion in 2010).

Time Warner Businesses

Time Warner classifies its operations into three reportable segments: Networks, Filmed Entertainment and Publishing. For additional information regarding Time Warner s business segments, refer to Note 11, Segment Information, in the accompanying consolidated financial statements.

Networks. Time Warner s Networks segment consists of Turner Broadcasting System, Inc. (Turner) and Home Box Office, Inc. (Home Box Office). During the three months ended March 31, 2011, the Networks segment generated revenues of $3.496 billion (52% of the Company s overall revenues) and $1.162 billion in Operating Income.

Turner operates domestic and international networks, including such recognized brands as TNT, TBS, and CNN, which are among the leaders in advertising-supported cable television networks. The Turner networks generate revenues principally from providing programming to affiliates that have contracted to receive and distribute this programming and from the sale of advertising. Turner also operates various websites, including *CartoonNetwork.com*, *CNN.com*, *Golf.com NASCAR.com*, *NCAA.com* and *SI.com* that generate revenues principally from the sale of advertising. During the first quarter of 2011, as part of a 14-year arrangement with CBS Broadcasting, Inc. (CBS) and The National Collegiate Athletic Association, Turner and CBS began jointly producing and distributing the NCAA Division I Men s Basketball Championship events (the NCAA Tournament) and related programming across television, Internet and wireless platforms. The events were televised on Turner s TNT, TBS and truTV networks and on the CBS network.

Home Box Office operates the HBO and Cinemax multi-channel premium pay television services, with the HBO service ranking as the most widely distributed domestic premium pay television service. Home Box Office generates revenues principally from providing programming to affiliates that have contracted to receive and distribute such programming to their customers who choose to subscribe to the HBO or Cinemax services. An additional source of revenues for Home Box Office is the sale and licensing of its original programming, including *The Pacific*, *Sex and the City*, *True Blood* and *Boardwalk Empire.* On May 2, 2011, Home Box Office launched HBO GO, its authenticated online video service, on mobile devices including the iPad, iPhone and Android smart phones. HBO GO was available to approximately 80% of HBO s domestic subscriber base as of May 2, 2011.

The Company s Networks segment has been pursuing international expansion in select areas for the past several years. During the first quarter of 2011, Home Box Office purchased an additional 8% equity interest in HBO Latin America Group, consisting of HBO Brazil, HBO Olé and HBO Latin America Production Services (collectively, HBO LAG), resulting in Home Box Office owning 88% of the equity interests in HBO LAG. The investment in HBO LAG is accounted for under the equity method of accounting, because control of the entity is shared with the remaining minority partner. The Company anticipates that international expansion will continue to be an area of focus at the Networks segment for the foreseeable future.

Filmed Entertainment. Time Warner s Filmed Entertainment segment consists of businesses managed by the Warner Bros. Entertainment Group (Warner Bros.) that principally produce and distribute theatrical motion pictures, including the *Harry Potter* franchise, *Inception* and *Clash of the Titans*, as well as television shows and videogames. During the three months ended March 31, 2011, the Filmed Entertainment segment generated revenues of $2.604 billion (36% of the Company s overall revenues) and $158 million in Operating Income.

The Filmed Entertainment segment s theatrical product revenues are generated principally through rentals from theatrical exhibition and subsequently through licensing fees received for the distribution of films on television networks

2

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

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

Warner Bros. continues to be an industry leader in the television content business. At the beginning of the 2010-2011 broadcast season, Warner Bros. produced more than 30 scripted primetime series, with at least two series for each of the five broadcast networks (including *Two and a Half Men*, *The Mentalist*, *The Big Bang Theory*, *Mike & Molly*, *Gossip Girl, Fringe, The Middle* and *Chuck*) and original series for several cable networks (including *The Closer*, *Rizzoli & Isles* and *Pretty Little Liars*). Internationally, Warner Bros. is forming a group of local television production companies in major territories with a focus on non-scripted programs and formats that can be sold internationally and adapted for sale in the U.S. Warner Bros. is also creating locally produced versions of programs owned by the studio and is developing original local television programming.

The distribution of DVDs has been one of the largest drivers of the segment s revenues and profits over the last several years. However, in recent years, home video revenues have declined as a result of several factors, including consumers shifting to subscription rental services and discount rental kiosks, which generate significantly less revenue per transaction for the Company than DVD sales, the general economic downturn in the U.S. and many regions around the world, increasing competition for consumer discretionary time and spending, piracy, and the maturation of the standard definition DVD format. Partially offsetting the softening consumer demand for standard definition DVDs and the shift to subscription services and kiosks are growing sales of high definition Blu-ray Discs and increased sales through electronic delivery (particularly video-on-demand), which have higher gross margins than standard definition DVDs.

Publishing. Time Warner s Publishing segment consists principally of magazine publishing and related websites as well as marketing services and direct-marketing businesses that are all primarily conducted by Time Inc. During the three months ended March 31, 2011, the Publishing segment generated revenues of $798 million (12% of the Company s overall revenues) and $63 million in Operating Income.

As of March 31, 2011, Time Inc. published 22 magazines in the U.S., including *People*, *Sports Illustrated* and *Time*, and over 70 magazines outside the U.S. The Publishing segment generates revenues primarily from the sale of print advertising, magazine subscriptions and newsstand sales. For the three months ended March 31, 2011, digital Advertising revenues were 13% of Time Inc. s total Advertising revenues.

In its ongoing effort to improve efficiency and reduce its cost structure, the Publishing segment executed restructuring initiatives, primarily relating to headcount reductions, in the fourth quarter of 2010, which benefitted the segment s performance during the three months ended March 31, 2011 and are expected to benefit the segment s performance during the remainder of 2011.

Recent Developments

2011 Debt Offering

On April 1, 2011, Time Warner issued $2.0 billion aggregate principal amount of debt securities from its shelf registration statement. The net proceeds of the offering will be used for general corporate purposes. See Financial Condition and Liquidity Outstanding Debt and Other Financing Arrangements for more information.

Table of Contents

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

RESULTS OF OPERATIONS

Significant Transactions and Other Items Affecting Comparability

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

	Three Months Ended March 31, 2011	2010
Gain on operating assets	$ 3	$ 59
Other	(8)	(11)
Impact on Operating Income	(5)	48
Investment gains (losses), net	4	(3)
Amounts related to the separation of Time Warner Cable Inc.	4	(3)
Premiums paid and transaction costs incurred in connection with debt redemptions	-	(55)
Pretax impact[a]	3	(13)
Income tax impact of above items	3	23
Impact of items on net income attributable to Time Warner Inc. shareholders	$ 6	$ 10

[a] For the three months ended March 31, 2010, pretax impact amount does not include $3 million of external costs related to mergers, acquisitions or dispositions.

In addition to the items affecting comparability described above, the Company incurred restructuring and severance costs of $30 million and $9 million for the three months ended March 31, 2011 and 2010, respectively. For further discussion of restructuring and severance costs, refer to Consolidated Results and Business Segment Results.

Gain on Operating Assets

For the three months ended March 31, 2011, the Company recognized a $3 million gain related to contingent consideration at the Filmed Entertainment segment.

For the three months ended March 31, 2010, the Company recognized a $59 million gain at the Networks segment upon the acquisition of its controlling interest in HBO Central Europe (HBO CE), reflecting the recognition of the excess of the fair value over the Company s carrying costs of its original investment in HBO CE.

Other

Other reflects legal and other professional fees related to the defense of securities litigation matters by former employees totaling $2 million and $11 million for the three months ended March 31, 2011 and 2010, respectively. Other also reflects external costs related to mergers, acquisitions or dispositions of $6 million for the three months ended March 31, 2011 at the Networks segment.

Investment Gains (Losses), Net

For the three months ended March 31, 2011 and 2010, the Company recognized $4 million of miscellaneous investment gains and $3 million of miscellaneous investment losses, respectively.

Amounts Related to the Separation of Time Warner Cable Inc.

For the three months ended March 31, 2011 and 2010, the Company recognized $4 million of other income and $3 million of other loss, respectively, related to the expiration, exercise and net change in the estimated fair value of Time

Table of Contents

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

Warner equity awards held by Time Warner Cable Inc. employees, which has been reflected in other loss, net in the accompanying consolidated statement of operations.

Premiums Paid and Transaction Costs Incurred in Connection with Debt Redemptions

For the three months ended March 31, 2010, the Company recognized $55 million of premiums paid and transaction costs incurred on the repurchase of $773 million of the Company s outstanding 6.75% Notes due 2011, which was recorded 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. Such estimated tax provisions or tax benefits vary based on certain factors, including the taxability or deductibility of the items and foreign tax on certain transactions.

Consolidated Results

The following discussion provides an analysis of the Company s results of operations and should be read in conjunction with the accompanying consolidated statement of operations.

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

	Three Months Ended March 31,		
	2011	**2010**	**% Change**
Subscription	$ 2,368	$ 2,212	7%
Advertising	1,431	1,192	20%
Content	2,733	2,793	(2%)
Other	151	125	21%
Total revenues	$ 6,683	$ 6,322	6%

The increase in Subscription revenues for the three months ended March 31, 2011 was primarily related to an increase at the Networks segment. Advertising revenues increased for the three months ended March 31, 2011 primarily reflecting growth at the Networks segment. The decrease in Content revenues for the three months ended March 31, 2011 was due primarily to a decrease at the Filmed Entertainment segment and higher intercompany eliminations, partially offset by an increase at the Networks segment.

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

Costs of Revenues. For the three months ended March 31, 2011 and 2010, costs of revenues totaled $3.727 billion and $3.353 billion, respectively, and, as a percentage of revenues, were 56% and 53%, respectively. The segment variations are discussed in Business Segment Results.

Selling, General and Administrative Expenses. For the three months ended March 31, 2011, selling, general and administrative expenses increased 7% to $1.591 billion from $1.488 billion for the three months ended March 31, 2010 primarily due to an increase at the Networks segment. The segment variations are discussed in Business Segment Results.

Included in costs of revenues and selling, general and administrative expenses is depreciation expense of $163 million and $164 million for the three months ended March 31, 2011 and 2010, respectively.

Amortization Expense. Amortization expense was $68 million for both the three months ended March 31, 2011 and 2010.

Restructuring and Severance Costs. For the three months ended March 31, 2011, the Company incurred restructuring and severance costs of $30 million primarily related to employee terminations and other exit activities, consisting of $12

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

million at the Networks segment, $6 million at the Filmed Entertainment segment and $12 million at the Publishing segment.

For the three months ended March 31, 2010, the Company incurred restructuring and severance costs of $9 million primarily related to employee terminations and other exit activities, consisting of $4 million at the Filmed Entertainment segment and $5 million at the Publishing segment.

Operating Income. Operating Income decreased to $1.270 billion for the three months ended March 31, 2011 from $1.463 billion for the three months ended March 31, 2010. Excluding the items previously noted under Significant Transactions and Other Items Affecting Comparability totaling $5 million of expense and $48 million of income for the three months ended March 31, 2011 and 2010, respectively, Operating Income decreased $140 million, primarily reflecting a decrease at the Filmed Entertainment segment, partially offset by increases at the Networks and Publishing segments. The segment variations are discussed under Business Segment Results.

Interest Expense, Net. For the three months ended March 31, 2011, interest expense, net, decreased to $274 million from $296 million for the three months ended March 31, 2010 primarily due to lower rates on fixed rate debt and to interest income recognized on amounts held in escrow in connection with a dispute that has been resolved.

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

	Three Months Ended March 31, 2011	2010
Investment gains (losses), net	$ 4	$ (3)
Amounts related to the separation of TWC	4	(3)
Premiums paid and transaction costs incurred in connection with debt redemption	-	(55)
Loss from equity method investees	(18)	-
Other	(4)	8
Other loss, net	$ (14)	$ (53)

The changes in other loss, net related to investment gains (losses), net, amounts related to the separation of TWC and premiums paid and transaction costs incurred in connection with debt redemptions are discussed under Significant Transactions and Other Items Affecting Comparability. The remaining change was due primarily to losses from equity method investees for the three months ended March 31, 2011.

Income Tax Provision. Income tax expense decreased to $331 million for the three months ended March 31, 2011 from $389 million for the three months ended March 31, 2010. The Company s effective tax rate for continuing operations was 34% for the three months ended March 31, 2011 compared to 35% for three months ended March 31, 2010. This decrease was primarily due to lower state taxes.

Net Income. Net income decreased to $651 million for the three months ended March 31, 2011 from $725 million for the three months ended March 31, 2010. Excluding the items previously noted under Significant Transactions and Other Items Affecting Comparability totaling $6 million and $10 million of income, net for the three months ended March 31, 2011 and 2010, respectively, net income decreased by $70 million, primarily reflecting lower Operating Income, partially offset by decreases in income tax and interest expense.

Net Loss Attributable to Noncontrolling Interests. For the three months ended March 31, 2011 net loss attributable to noncontrolling interests was $2 million.

Net Income Attributable to Time Warner Inc. Shareholders. Net income attributable to Time Warner Inc. shareholders was $653 million and $725 million for the three months ended March 31, 2011 and 2010, respectively. Basic and diluted net income per common share attributable to Time Warner Inc. common shareholders were both

$0.59 for the three months ended March 31, 2011 compared to $0.63 and $0.62, respectively, for the three months ended March 31, 2010.

Table of Contents

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

Business Segment Results

Networks. Revenues and Operating Income of the Networks segment for the three months ended March 31, 2011 and 2010 are as follows (millions):

	Three Months Ended March 31,		
	2011	**2010**	**% Change**
Revenues:			
Subscription	$ 2,055	$ 1,888	9%
Advertising	1,032	790	31%
Content	372	252	48%
Other	37	28	32%
Total revenues	3,496	2,958	18%
Costs of revenues[(a)]	(1,647)	(1,234)	33%
Selling, general and administrative[(a)]	(582)	(491)	19%
Gain on operating assets	-	59	NM
Restructuring and severance costs	(12)	-	NM
Depreciation	(83)	(84)	(1%)
Amortization	(10)	(7)	43%
Operating Income	$ 1,162	$ 1,201	(3%)

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

The increase in Subscription revenues consisted of an increase in domestic subscription revenues of $121 million, mainly due to higher domestic subscription rates, and an increase in international subscription revenues of $46 million due to international expansion and growth.

The increase in Advertising revenues reflected domestic growth of $191 million mainly as a result of Turner airing the NCAA Tournament as well as higher pricing. International advertising revenues increased $51 million primarily due to international expansion.

The increase in Content revenues was due primarily to higher sales of Home Box Office s original programming of $92 million, which included licensing and home video sales of *The Pacific*, *Sex and the City* and *Boardwalk Empire*, partially offset by the prior year domestic basic cable television sale of *Entourage*.

Costs of revenues increased 33% and, as a percentage of revenues, were 47% for the three months ended March 31, 2011 compared to 42% for the three months ended March 31, 2010. Programming costs increased 37% to $1.282 billion for the three months ended March 31, 2011 from $933 million for the three months ended March 31, 2010, primarily due to higher sports programming costs related to the NCAA Tournament and, to a lesser extent, higher original programming and licensed programming costs. The increases in Costs of revenues also reflected higher operating costs of $64 million primarily related to both higher distribution costs associated with the increase in sales of Home Box Office s original programming and higher costs related to international expansion and growth.

Selling, general and administrative expenses increased due primarily to higher marketing expenses and higher costs associated with international expansion and growth.

As previously noted under Significant Transactions and Other Items Affecting Comparability, the 2010 results included a $59 million gain that was recognized upon the Company s acquisition of the controlling interest in HBO

CE, reflecting the excess of the fair value over the Company s carrying costs of its original investment in HBO CE.

Operating Income decreased primarily due to higher costs of revenues and selling, general and administrative expenses as well as the absence in 2011 of the $59 million gain relating to HBO CE, partially offset by higher revenues.

Table of Contents

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

Filmed Entertainment. Revenues and Operating Income of the Filmed Entertainment segment for the three months ended March 31, 2011 and 2010 are as follows (millions):

	Three Months Ended March 31, 2011	2010	% Change
Revenues:			
Subscription	$ 18	$ 12	50%
Advertising	11	13	(15%)
Content	2,535	2,641	(4%)
Other	40	28	43%
Total revenues	2,604	2,694	(3%)
Costs of revenues[a]	(1,880)	(1,869)	1%
Selling, general and administrative[a]	(468)	(423)	11%
Gain (loss) on operating assets	3	-	NM
Restructuring and severance costs	(6)	(4)	50%
Depreciation	(48)	(42)	14%
Amortization	(47)	(49)	(4%)
Operating Income	$ 158	$ 307	(49%)

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

Content revenues primarily relate to theatrical product (which is content made available for initial exhibition in theaters) and television product (which is content made available for initial airing on television). The components of Content revenues for the three months ended March 31, 2011 and 2010 are as follows (millions):

	Three Months Ended March 31, 2011	2010	% Change
Theatrical product:			
Theatrical film	$ 335	$ 497	(33%)
Home video and electronic delivery	541	696	(22%)
Television licensing	394	410	(4%)
Consumer products and other	31	17	82%
Total theatrical product	1,301	1,620	(20%)
Television product:			
Television licensing	878	676	30%
Home video and electronic delivery	135	156	(13%)
Consumer products and other	58	56	4%
Total television product	1,071	888	21%
Other	163	133	23%

Total Content revenues	$	2,535	$	2,641	(4%)

Theatrical film revenues for the three months ended March 31, 2011, which included the releases of *Unknown, The Rite* and *Hall Pass* and carryover revenues from *Yogi Bear, Harry Potter and the Deathly Hallows: Part I* and *Hereafter*, decreased compared to revenues for the three months ended March 31, 2010, which included the releases of *Valentine s Day* and *The Book of Eli* and carryover revenues from *Sherlock Holmes* and *The Blind Side*.

Theatrical product revenues from home video and electronic delivery decreased due primarily to a significant decrease in the quantity and mix of new releases in 2011. There were five releases in the first quarter of 2011 and eleven in the first quarter of 2010. Significant titles for the first quarter of 2011 included *Due Date, Life As We Know It* and *Yogi Bear*, while titles for the first quarter of 2010 included *The Blind Side, Sherlock Holmes, Where the Wild Things Are, The Final Destination* and *The Time Traveler s Wife*.

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

Theatrical product revenues from television licensing decreased due primarily to the quantity and mix of availabilities in the first quarter of 2011 compared to the first quarter of 2010, which included *Harry Potter and the Order of the Phoenix*.

The increase in television product licensing fees for the three months ended March 31, 2011 was due primarily to higher revenues from network deliveries of new series, the domestic off-network syndication sale of *Two and a Half Men* and the timing and number of international availabilities.

Television product revenues from home video and electronic delivery decreased due to the timing and mix of product.

Other content revenues for the three months ended March 31, 2011 increased primarily due to the interactive videogame release of *LEGO Star Wars III: The Clone Wars*, partially offset by lower interactive videogame carryover revenues.

The increase in costs of revenues resulted primarily from higher film costs due mainly to the quantity and mix of product released. Film costs increased to $1.147 billion for the three months ended March 31, 2011 from $1.133 billion for the three months ended March 31, 2010. Costs of revenues as a percentage of revenues were 72% for the three months ended March 31, 2011 compared to 69% for the three months ended March 31, 2010. This percentage varies from period to period based on the quantity, mix and timing of theatrical and television product.

The increase in selling, general and administrative expenses was primarily due to merit-based increases in compensation and higher employee-related costs as a result of international expansion.

The Filmed Entertainment segment incurred $6 million of restructuring and severance costs for the three months ended March 31, 2011 and expects to incur additional restructuring and severance costs of approximately $50 million in the remainder of the year, the majority of which is expected to be incurred in the second and third quarters of 2011.

The decrease in Operating Income was primarily due to lower revenues and higher selling, general and administrative expenses and costs of revenues.

Publishing. Revenues and Operating Income of the Publishing segment for the three months ended March 31, 2011 and 2010 are as follows (millions):

	Three Months Ended March 31,		
	2011	**2010**	**% Change**
Revenues:			
Subscription	$ 295	$ 312	(5%)
Advertising	402	401	-
Content	16	14	14%
Other	85	72	18%
Total revenues	798	799	-
Costs of revenues[a]	(312)	(307)	2%
Selling, general and administrative[a]	(375)	(396)	(5%)
Restructuring and severance costs	(12)	(5)	140%
Depreciation	(25)	(29)	(14%)
Amortization	(11)	(12)	(8%)
Operating Income	$ 63	$ 50	26%

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

For the three months ended March 31, 2011, subscription revenues decreased primarily due to lower international revenues of $9 million due in part to the disposal by sale of certain magazines at IPC in the fourth quarter of 2010 (the IPC Sales) and lower domestic subscription and newsstand revenues.

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

Advertising revenues for the three months ended March 31, 2011 were essentially flat primarily due to a $10 million increase in domestic print advertising revenues offset by the negative impact on digital advertising revenues related to the transfer of management of *SI.com* and *Golf.com* to Turner in the fourth quarter of 2010 and the IPC Sales. Excluding the impact of the transfer of *SI.com* and *Golf.com*, digital advertising revenues at the Publishing segment increased compared to the prior year quarter. This transfer had a commensurate increase in digital advertising revenues at the Networks segment.

The increase in Other revenues was due primarily to a license fee for *SI.com* and *Golf.com* received from Turner following the transfer of the websites management to Turner.

Costs of revenues increased 2% and, as a percentage of revenues, were 39% for the three months ended March 31, 2011 compared to 38% for the three months ended March 31, 2010. Costs of revenues for the magazine and digital businesses include manufacturing costs (paper, printing and distribution) and editorial-related costs, which together were $275 million for the three months ended March 31, 2011 and $274 million for the three months ended March 31, 2010.

Selling, general and administrative expenses for the three months ended March 31, 2011 decreased due primarily to lower pension expenses and lower costs due to the restructuring initiatives in the fourth quarter of 2010.

Operating Income increased due primarily to the decrease in selling, general and administrative expenses, partially offset by higher restructuring and severance costs.

Corporate. Operating Loss of the Corporate segment for the three months ended March 31, 2011 and 2010 was as follows (millions):

	Three Months Ended March 31,		
	2011	**2010**	**% Change**
Selling, general and administrative[a]	$ (86)	$ (99)	(13%)
Depreciation	(7)	(9)	(22%)
Operating Loss	$ (93)	$ (108)	(14%)

[a] Selling, general and administrative expenses exclude depreciation.

Operating Loss decreased compared to the prior year due primarily to lower legal and other professional fees related to the defense of former employees in various lawsuits and the absence of prior year severance charges.

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 quarterly dividend payments, the purchase of common stock under the Company s repurchase program and scheduled debt repayments. 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 March 31, 2011 was $8.080 billion, which included $3.029 billion of cash and equivalents. The Company anticipates its consolidated leverage ratio will move closer to its stated target during 2011.

Current Financial Condition

At March 31, 2011, Time Warner had $16.563 billion of debt, $3.029 billion of cash and equivalents (net debt, defined as total debt less cash and equivalents, of $13.534 billion) and $32.237 billion of shareholders equity, compared to $16.549 billion of debt, $3.663 billion of cash and equivalents (net debt of $12.886 billion) and $32.940 billion of shareholders equity at December 31, 2010.

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

The following table shows the significant items contributing to the increase in net debt from December 31, 2010 to March 31, 2011 (millions):

Balance at December 31, 2010	$ 12,886
Cash provided by operations from continuing operations	(825)
Capital expenditures	152
Dividends paid to common stockholders	261
Investments and acquisitions, net	160
Proceeds from the sale of investments	(5)
Repurchases of common stock	959
All other, net	(54)
Balance at March 31, 2011	$ 13,534

On January 25, 2011, Time Warner s Board of Directors increased the amount remaining on the Company s common stock repurchase program to $5.0 billion for share repurchases beginning January 1, 2011. Purchases under the stock repurchase program may be made from time to time on the open market and in privately negotiated transactions. The size and timing of these purchases are based on a number of factors, including price and business and market conditions. From January 1, 2011 through April 29, 2011, the Company repurchased approximately 37 million shares of common stock for approximately $1.317 billion pursuant to trading programs under Rule 10b5-1 of the Securities Exchange Act of 1934, as amended (the Exchange Act).

Cash Flows

Cash and equivalents decreased by $634 million for the three months ended March 31, 2011 and increased by $434 million, including $23 million of cash used by discontinued operations, for the three months ended March 31, 2010. 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):

	Three Months Ended	
	3/31/11	3/31/10
Operating Income	$ 1,270	$ 1,463
Depreciation and amortization	231	232
Gain on operating assets	(3)	(59)
Net interest payments[(a)]	(213)	(148)
Net income taxes paid[(b)]	(137)	(80)
Noncash equity-based compensation	102	90
Restructuring and severance payments, net of accruals	(7)	(52)
All other, net, including working capital changes	(418)	(90)
Cash provided by operations from continuing operations	$ 825	$ 1,356

(a) Includes cash interest received of $5 million for both the three months ended March 31, 2011 and 2010.

(b)

Includes income tax refunds received of $4 million and $8 million for the three months ended March 31, 2011 and 2010, respectively.

Cash provided by operations from continuing operations decreased to $825 million for the three months ended March 31, 2011 from $1.356 billion for the three months ended March 31, 2010. The decrease in cash provided by operations from continuing operations was related primarily to cash used by working capital, lower Operating Income, higher net interest payments and higher net income taxes paid. Working capital is subject to wide fluctuations based on the timing of cash transactions related to production schedules, the acquisition of programming, collection of accounts receivable and similar items. The Company anticipates that cash used by working capital in 2011 will increase over 2010 primarily due to higher investments in television programming and film production.

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 used by investing activities from continuing operations are as follows (millions):