TIME WARNER INC.
Form 10-Q
April 29, 2015
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
for the quarterly period ended March 31, 2015 or

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
for the transition period from ____________________ to ____________________

Commission file number 001-15062

TIME WARNER INC.

(Exact name of Registrant as specified in its charter)

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

One Time Warner Center

New York, NY 10019-8016

(Address of Principal Executive Offices) (Zip Code)

(212) 484-8000

(Registrant s Telephone Number, Including Area Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No ¨

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No þ

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.

Description of Class	Shares Outstanding as of April 20, 2015
Common Stock $.01 par value	824,602,394

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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, 2015. This analysis is presented on both a consolidated and a business segment basis. In addition, a brief description of transactions and other items that affect the comparability of the results being analyzed is included.

Financial condition and liquidity. This section provides an analysis of the Company s financial condition as of March 31, 2015 and cash flows for the three months ended March 31, 2015.

Caution concerning forward-looking statements. This section provides a description of the use of forward-looking information appearing in this report, including in MD&A and the consolidated financial statements.

OVERVIEW

Time Warner is a leading media and entertainment company whose major businesses encompass an array of the most respected and successful media brands. Among the Company s brands are TNT, TBS, Adult Swim, Cartoon Network, CNN, HBO, Cinemax, Warner Bros. and New Line Cinema. During the three months ended March 31, 2015, the Company generated Revenues of $7.127 billion (up 5% from $6.803 billion in 2014), Operating Income of $1.786 billion (down 13% from $2.048 billion in 2014), Income from continuing operations of $933 million (down 32% from $1.365 billion in 2014), Net Income of $970 million (down 25% from $1.292 billion in 2014) and Cash provided by operations from continuing operations of $1.009 billion (down 42% from $1.733 billion in 2014). The Company s results for the three months ended March 31, 2014 were significantly impacted by the sale and leaseback of the Company s space in Time Warner Center in January 2014. Refer to Transactions and Other Items Affecting Comparability for more information.

Time Warner Businesses

Time Warner classifies its operations into three reportable segments: Turner, Home Box Office and Warner Bros. For additional information regarding Time Warner s segments, refer to Note 12, Segment Information, to the accompanying consolidated financial statements.

Turner. The Turner segment consists of businesses managed by Turner Broadcasting System, Inc. (Turner). During the three months ended March 31, 2015, the Turner segment recorded Revenues of $2.710 billion (38% of the Company s total Revenues) and Operating Income of $1.108 billion.

Turner operates domestic and international television networks and related properties that offer entertainment, sports, kids and news programming on television and digital platforms for consumers around the world. The Turner networks and related properties include TNT, TBS, Adult Swim, truTV, Turner Classic Movies, Turner Sports, Cartoon Network, Boomerang, CNN and HLN. The Turner networks generate revenues principally from providing programming to affiliates that have contracted to receive and distribute this programming to subscribers, from the sale of advertising and from licensing its original programming, including to subscription-video-on-demand (SVOD) services, and its brands and characters for consumer products. Turner s programming is available to audiences for viewing live and on demand across television, mobile devices and other digital platforms through services provided by affiliates and on Turner s digital properties. Turner also owns and operates various digital media businesses, including *Bleacher Report*; the CNN digital properties, including *CNN Go*, *CNN.com* and *CNNMoney.com*; and other digital properties associated with its networks, all of which generate revenues principally from the sale of advertising and sponsorships. In addition, Turner manages and operates sports league digital properties in conjunction with associated television rights, such as *NBA Digital* and *NCAA.com*, which also generate revenues primarily from the sale of advertising and sponsorships.

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Home Box Office. The Home Box Office segment consists of businesses managed by Home Box Office, Inc. (Home Box Office). During the three months ended March 31, 2015, the Home Box Office segment recorded Revenues of $1.398 billion (19% of the Company s total Revenues) and Operating Income of $458 million.

Home Box Office operates the HBO and Cinemax multi-channel premium pay television services, with the HBO service ranking as the most widely distributed multi-channel premium pay television service. HBO- and Cinemax-branded premium pay and basic tier television services are distributed in over 60 countries in Latin America, Asia and Europe. In the U.S., Home Box Office generates revenues principally from providing programming to affiliates that have contracted to receive and distribute such programming to their customers who subscribe to the HBO or Cinemax services. HBO and Cinemax programming is available in the U.S. to subscribers of affiliates for viewing on its main HBO and Cinemax channels and its multiplex channels, through Home Box Office s on demand services, HBO On Demand and Cinemax On Demand, and through Home Box Office s streaming video-on-demand services, HBO GO and MAX GO. HBO GO and MAX GO are available on a variety of digital platforms, including mobile devices, gaming consoles and Internet connected streaming devices and televisions. Home Box Office s agreements with its domestic affiliates are typically long-term arrangements that provide for annual service fee increases and marketing support. While fees to Home Box Office under affiliate agreements are generally based on the number of subscribers served by the affiliates, the relationship between subscriber totals and the amount of revenues earned depends on the specific terms of the applicable agreement, which may include basic and/or pay television subscriber thresholds, volume discounts and other performance-based discounts. Marketing and promotional activities intended to retain existing subscribers and acquire new subscribers may also impact revenue earned. Home Box Office also derives subscription revenues from the distribution by international affiliates of country-specific HBO and Cinemax premium pay and basic tier television services to their local subscribers. HBO GO is available to HBO premium pay television subscribers in a number of countries outside the U.S. In April 2015, Home Box Office launched HBO NOW, a stand-alone premium streaming service available to consumers in the U.S. with a broadband connection for a monthly fee.

Additional sources of revenues for Home Box Office are (i) the home entertainment sales of its original programming, including *Game of Thrones*, *True Blood*, *Boardwalk Empire* and *True Detective*, on DVDs and Blu-ray Discs and via electronic sell-through (EST) and (ii) the licensing of its original programming to international television networks and SVOD services.

Warner Bros. The Warner Bros. segment consists of businesses managed by Warner Bros. Entertainment Inc. (Warner Bros.) that principally produce and distribute television shows, feature films and videogames. During the three months ended March 31, 2015, the Warner Bros. segment recorded Revenues of $3.199 billion (43% of the Company s total Revenues) and Operating Income of $324 million.

Warner Bros. is a leader in the television content industry. For the 2014/2015 season, Warner Bros. is producing over 65 series in the U.S., including (i) at least two series for each of the five broadcast networks (including *2 Broke Girls*, *Arrow*, *The Bachelor*, *The Big Bang Theory*, *The Flash*, *The Following*, *Gotham, The Middle*, *Mike & Molly*, *Mom*, *Person of Interest*, *Supernatural*, *Vampire Diaries* and *The Voice*), (ii) original series for basic cable networks (including *Major Crimes*, *Pretty Little Liars* and *Rizzoli & Isles*), (iii) series for premium pay television services (*The Leftovers* and *Shameless*), (iv) series for first-run syndication (including *The Ellen DeGeneres Show*, *Extra* and *TMZ*) and (v) animated series for Cartoon Network and Adult Swim. Warner Bros. also licenses many of its U.S. original television series in international territories. Outside the U.S., Warner Bros. has a global network of production companies in 16 countries (located across Europe and South America and in Australia and New Zealand), which allows Warner Bros. to develop programming specifically tailored for the audiences in these territories. These local production companies also focus on developing non-scripted programs and formats that can be adapted and sold internationally and in the U.S. Television product revenues are generated principally from the licensing of programs to broadcast and cable television networks and premium pay television and SVOD services.

Warner Bros. is also a leader in the feature film industry and produces feature films under its Warner Bros. and New Line Cinema banners. The Warner Bros. segment s theatrical product revenues are generated principally through rental fees from theatrical exhibition of feature films, including the following recently released films: *Annabelle*, *American*

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Sniper, Focus, *Get Hard*, *The Hobbit*: *The Battle of the Five Armies*, *Interstellar*, *Jupiter Ascending* and *Run All Night*, and subsequently through licensing fees received from the distribution of films on premium pay television, television broadcast and cable networks and SVOD services.

The segment also generates television and theatrical product revenues from the distribution of television and theatrical product in various digital formats (e.g., EST and video-on-demand) and on DVDs and Blu-ray Discs for home entertainment. In addition, the segment generates revenues through the development and distribution of videogames. Warner Bros. television, film and videogame businesses benefit from a shared infrastructure, including shared production, distribution, marketing and administrative functions and resources.

The distribution and sale of physical discs is one of the largest contributors to the segment s revenues and profits. For the past several years, sales of physical discs have declined as the home entertainment industry has been undergoing significant changes as it transitions from the physical distribution of film and television content via DVDs and Blu-ray Discs to the electronic delivery of such content. Several factors have contributed to this decline, including consumers shifting to SVOD services and discount rental kiosks, which generate significantly less revenue per transaction for the Company than physical disc sales; changing retailer initiatives and strategies (e.g., reduction of floor space devoted to physical discs); retail store closures; increasing competition for consumer discretionary time and spending; and piracy. The electronic delivery of film and television content is growing and becoming more important to the Warner Bros. segment, which has helped to offset some of the decline in sales of physical discs. During the first quarter of 2015, across the home entertainment industry, consumer spending on physical discs continued to decline and consumer spending on electronic delivery continued to increase.

Recent Developments

Venezuela Currency

Certain of the Company s divisions conduct business with third parties located in Venezuela and, as a result, the Company holds net monetary assets denominated in Venezuelan Bolivares Fuertes (VEF) that primarily consist of cash and accounts receivable. As of December 31, 2014, the Company used the SICAD 2 exchange rate to remeasure its VEF-denominated monetary assets. Because of Venezuelan government-imposed restrictions on the exchange of VEF into foreign currency in Venezuela, the Company has not been able to convert VEF earned in Venezuela into U.S. Dollars through the Venezuelan government s foreign currency exchanges.

On February 10, 2015, Venezuelan government officials announced changes to Venezuela s foreign currency exchange system. Those changes included the elimination of the SICAD 2 exchange due to the merger of the SICAD 1 and SICAD 2 exchanges into a single SICAD exchange as well as the creation of the Simadi exchange, which is a new free market foreign currency exchange. On their initial date of activity, the exchange rates published by the Central Bank of Venezuela were 12 VEF to each U.S. Dollar for the 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.

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.

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Transactions and Other Items Affecting Comparability

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

	Three Months Ended March 31, 2015	2014
Asset impairments	$ (1)	$ (12)
Gain (loss) on operating assets, net	(3)	454
Venezuelan foreign currency loss	(22)	-
Other	(2)	(20)
Impact on Operating Income	(28)	422
Investment losses, net	(59)	(5)
Amounts related to the separation of Time Warner Cable Inc.	(4)	(1)
Amounts related to the disposition of Warner Music Group	-	(1)
Amounts related to the separation of Time Inc.	(2)	-
Items affecting comparability relating to equity method investments	(2)	-
Pretax impact	(95)	415
Income tax impact of above items	18	65
Impact of items affecting comparability on income from continuing operations	$ (77)	$ 480

In addition to the items affecting comparability described above, the Company incurred Restructuring and severance costs of $12 million and $26 million for the three months ended March 31, 2015 and 2014, respectively. For further discussion of Restructuring and severance costs, see Overview, Consolidated Results and Business Segment Results.

Asset Impairments

During the three months ended March 31, 2015, the Company recognized a miscellaneous asset impairment of $1 million at Corporate. During the three months ended March 31, 2014, the Company recognized asset impairments of $1 million at the Turner segment related to miscellaneous assets and $5 million and $6 million at the Warner Bros.

segment and Corporate, respectively, related to certain internally developed software.

Gain (Loss) on Operating Assets, Net

For the three months ended March 31, 2015, the Company recognized a $3 million loss at the Turner segment related to the remeasurement of its previously held investment in Esporte Interativo (EI), a Brazilian television network that airs sports programming, upon the Turner segment s acquisition of a controlling interest in EI. For the three months ended March 31, 2014, the Company recognized a $13 million gain at the Turner segment related to the sale of Zite, Inc., a news content aggregation and recommendation platform, and a $441 million gain at Corporate in connection with the sale and leaseback of the Company s space in Time Warner Center.

Venezuelan Foreign Currency Loss

For the three months ended March 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. See Recent Developments for more information.

Other

Other reflects external costs related to mergers, acquisitions or dispositions of $2 million and $20 million for the three months ended March 31, 2015 and 2014, respectively. External costs related to mergers, acquisitions or dispositions for the

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three months ended March 31, 2015 consisted of $1 million at the Warner Bros. segment and $1 million at Corporate. External costs related to mergers, acquisitions or dispositions for the three months ended March 31, 2014 consisted of $7 million at the Turner segment primarily related to exit costs in connection with the shutdown of CNN Latino, a Spanish-language news broadcast programming block, $6 million at the Warner Bros. segment primarily related to the acquisition of the operations outside the U.S. of Eyeworks Group and $7 million at Corporate related to the legal and structural separation of Time Inc. from the Company (the Time Separation). External costs related to mergers, acquisitions or dispositions are included in Selling, general and administrative expenses in the accompanying Consolidated Statement of Operations.

Investment Losses, Net

For the three months ended March 31, 2015, the Company recognized $59 million of investment losses, net consisting of $56 million of fair value adjustments relating to warrants to purchase common stock of Central European Media Enterprises Ltd. (CME) held by the Company and $3 million of miscellaneous investment losses. For the three months ended March 31, 2014, the Company recognized $5 million of investment losses, net.

Amounts Related to the Separation of Time Warner Cable Inc.

For the three months ended March 31, 2015, the Company recognized $4 million of other loss related to changes in the value of a Time Warner Cable Inc. (TWC) tax indemnification receivable, which has been reflected in Other loss, net in the accompanying Consolidated Statement of Operations. For the three months ended March 31, 2014, the Company recognized $1 million of other expense related to the expiration, exercise and net change in the estimated fair value of Time Warner equity awards held by TWC employees, which has been reflected in Other loss, net in the accompanying Consolidated Statement of Operations.

Amounts Related to the Disposition of Warner Music Group

For the three months ended March 31, 2014, the Company recognized a loss of $1 million, primarily related to a tax indemnification obligation associated with the disposition of Warner Music Group (WMG) in 2004. This amount has been reflected in Other loss, net in the accompanying Consolidated Statement of Operations.

Amounts Related to the Separation of Time Inc.

For the three months ended March 31, 2015, the Company recognized $2 million of other loss reflecting pension and other retirement benefits related to employees and former employees of Time Inc.

Items Affecting Comparability Relating to Equity Method Investments

For the three months ended March 31, 2015, the Company recognized $2 million of losses as its share of discontinued operations recorded by an equity method investee.

Income Tax Impact

The income tax impact reflects the estimated tax provision or tax benefit associated with each item affecting comparability. The estimated tax provision or tax benefit can vary based on certain factors, including the taxability or deductibility of the items and foreign tax on certain items.

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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,		
	2015	**2014**	**% Change**
Turner	$ 2,710	$ 2,593	5%
Home Box Office	1,398	1,339	4%
Warner Bros.	3,199	3,066	4%
Intersegment eliminations	(180)	(195)	(8%)
Total revenues	$ 7,127	$ 6,803	5%

For the three months ended March 31, 2015, Revenues at the Turner segment increased driven by higher Advertising, Subscription and Content and other revenues. Revenues at the Home Box Office segment increased for the three months ended March 31, 2015 mainly due to higher Subscription revenues. For the three months ended March 31, 2015, Revenues at the Warner Bros. segment increased driven by higher Theatrical product and Videogames and other revenues. The strengthening of the U.S. Dollar relative to foreign currencies to which the Company is exposed resulted in a decline in the Company s Revenues of approximately $235 million. 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, 2015, Costs of revenues increased to $4.088 billion from $3.851 billion for the three months ended March 31, 2014 reflecting increases at the Warner Bros. and Home Box Office segments, partially offset by a decrease at the Turner segment. The segment variations are discussed in Business Segment Results.

Selling, General and Administrative Expenses. For the three months ended March 31, 2015, Selling, general and administrative expenses decreased 6% to $1.189 billion from $1.270 billion for the three months ended March 31, 2014, primarily reflecting decreases at the Turner segment and Corporate. For the three months ended March 31, 2015, Selling, general and administrative expenses included a $22 million foreign currency charge related to a change in the foreign currency exchange rate used by the Company for remeasuring its Venezuelan net monetary assets from the SICAD 2 rate to the Simadi rate. The segment variations are discussed in Business Segment Results.

Included in Costs of revenues and Selling, general and administrative expenses is depreciation expense of $122 million for the three months ended March 31, 2015 and $133 million for the three months ended March 31, 2014.

Amortization Expense. Amortization expense was $48 million for the three months ended March 31, 2015 and $50 million for the three months ended March 31, 2014.

Restructuring and Severance Costs. For the three months ended March 31, 2015 and 2014, the Company incurred Restructuring and severance costs primarily related to employee terminations and other exit activities. Restructuring and severance costs are as follows (millions):

	Three Months Ended March 31, 2015	Three Months Ended March 31, 2014
Turner	$ 8	$ 12
Home Box Office	1	8
Warner Bros.	3	2
Corporate	-	4
Total restructuring and severance costs	$ 12	$ 26

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Operating Income. Operating Income decreased to $1.786 billion for the three months ended March 31, 2015 from $2.048 billion for the three months ended March 31, 2014. Excluding the items noted under Transactions and Other Items Affecting Comparability totaling $28 million of expense and $422 million of income for the three months ended March 31, 2015 and 2014, respectively, Operating Income increased $188 million despite the unfavorable impact of foreign currency exchange rates of approximately $130 million, primarily reflecting an increase at the Turner segment, partially offset by a decrease at the Warner Bros. segment. The segment variations are discussed under Business Segment Results.

Interest Expense, Net. For the three months ended March 31, 2015, Interest expense, net increased to $294 million from $265 million for the three months ended March 31, 2014 reflecting higher average debt balances and lower interest income of $11 million, partially offset by lower average interest rates. The decrease in interest income was mainly due to the recognition of interest income during the three months ended March 31, 2014 on a note receivable that was collected in March 2014, partially offset by noncash interest income accretion related to the CME transactions completed in 2014.

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

	Three Months Ended March 31, 2015	2014
Investment losses, net	$ (59)	$ (5)
Amounts related to the separation of TWC	(4)	(1)
Amounts related to the disposition of WMG	-	(1)
Amounts related to the separation of Time Inc.	(2)	-
Items affecting comparability related to equity method investments	(2)	-
Income (loss) from equity method investees	(47)	1
Other	(3)	(5)
Other loss, net	$ (117)	$ (11)

Investment losses, net, items affecting comparability relating to equity method investments and amounts related to the separation of TWC, the disposition of WMG and the separation of Time Inc. are discussed under Transactions and Other Items Affecting Comparability. The remaining change in Other loss, net for the three months ended March 31, 2015 was primarily related to losses from equity method investees, which included the unfavorable impact of foreign exchange rates of approximately $20 million.

Income Tax Provision. Income tax provision increased to $442 million for the three months ended March 31, 2015 from $407 million for the three months ended March 31, 2014. The Company s effective tax rate was 32% for the three months ended March 31, 2015 compared to 23% for the three months ended March 31, 2014. The increase in the effective tax rate for the three months ended March 31, 2015 was primarily due to the recognition of tax attribute carryforwards during the three months ended March 31, 2014.

Income from Continuing Operations. Income from continuing operations was $933 million and $1.365 billion for the three months ended March 31, 2015 and 2014, respectively. Excluding the items noted under Transactions and Other Items Affecting Comparability totaling $77 million of expense and $480 million of income for the three months ended March 31, 2015 and 2014, respectively, Income from continuing operations increased $125 million, primarily reflecting higher operating income, partly offset by higher income taxes. Basic and Diluted income from continuing operations per common share were $1.12 and $1.10, respectively, for the three months ended March 31, 2015 and were $1.53 and $1.50, respectively, for the three months ended March 31, 2014.

Discontinued Operations, Net of Tax. Discontinued operations, net of tax was income of $37 million for the three months ended March 31, 2015 primarily related to the final resolution of a tax indemnification obligation associated with the disposition of WMG and a loss of $73 million for the three months ended March 31, 2014 primarily related to the Time Separation. For the three months ended March 31, 2015, Basic and Diluted income from discontinued operations per common share were both $0.05 as compared to a Basic and Diluted loss from discontinued operations per common share for both of $0.08 for the three months ended March 31, 2014.

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Net Income. Net income was $970 million and $1.292 billion for the three months ended March 31, 2015 and 2014, respectively. Basic and Diluted net income per common share were $1.17 and $1.15, respectively, for the three months ended March 31, 2015 and were $1.45 and $1.42, respectively, for the three months ended March 31, 2014.

Business Segment Results

Turner. Revenues and Operating Income of the Turner segment for the three months ended March 31, 2015 and 2014 are as follows (millions):

	Three Months Ended March 31,		
	2015	2014	% Change
Revenues:			
Subscription	$ 1,347	$ 1,309	3%
Advertising	1,179	1,137	4%
Content and other	184	147	25%
Total revenues	2,710	2,593	5%
Costs of revenues[a]	(1,169)	(1,204)	(3%)
Selling, general and administrative[a]	(353)	(431)	(18%)
Gain (loss) on operating assets	(3)	13	(123%)
Asset impairments	-	(1)	(100%)
Venezuelan foreign currency loss	(17)	-	NM
Restructuring and severance costs	(8)	(12)	(33%)
Depreciation	(48)	(54)	(11%)
Amortization	(4)	(4)	-
Operating Income	$ 1,108	$ 900	23%

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

The increase in Subscription revenues for the three months ended March 31, 2015 reflected higher domestic revenues of $40 million primarily due to higher contractual rates, partially offset by lower subscribers. International subscription revenue growth was more than offset by the unfavorable impact of foreign exchange rates of approximately $35 million.

The increase in Advertising revenues for the three months ended March 31, 2015 reflected domestic growth of $43 million, mainly driven by the 2015 National Collegiate Athletic Association Division I Men s Basketball Championship tournament (the NCAA Tournament) and Turner s news businesses, partially offset by lower audience delivery at certain of its domestic entertainment networks. International advertising revenue growth was more than offset by the unfavorable impact of foreign exchange rates of approximately $18 million.

The increase in Content revenues for the three months ended March 31, 2015 was primarily due to higher license fees from SVOD services.

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

	Three Months Ended March 31, 2015	2014	% Change
Programming costs:			
Originals and sports	$ 785	$ 777	1%
Acquired films and syndicated series	194	231	(16%)
Total programming costs	979	1,008	(3%)
Other direct operating costs	190	196	(3%)
Costs of revenues[(a)]	$ 1,169	$ 1,204	(3%)

(a) Costs of revenues exclude depreciation.

For the three months ended March 31, 2015, programming costs decreased primarily due to lower acquired films and syndicated series costs, which was due to the timing and mix of programming as a result of the abandonment of certain programming during 2014. Originals and sports programming costs increased primarily due to higher costs related to the NCAA Tournament and NBA games, partly offset by lower costs for originals primarily due to timing.

The decrease in Selling, general and administrative expense for the three months ended March 31, 2015 was primarily due to lower marketing expenses of $48 million due to timing as well as operational efficiency initiatives, including the 2014 restructuring.

Refer to Transactions and Other Items Affecting Comparability for a discussion of Asset impairments, Gain (loss) on operating assets, Venezuelan foreign currency loss and external costs related to mergers, acquisitions and dispositions for the three months ended March 31, 2015 and 2014, which affected the comparability of the Turner segment s results.

The increase in Operating Income for the three months ended March 31, 2015 was primarily due to higher Revenues, lower Selling, general and administrative expenses and lower Costs of revenues.

Home Box Office. Revenues and Operating Income of the Home Box Office segment for the three months ended March 31, 2015 and 2014 are as follows (millions):

	Three Months Ended March 31,				
		2015		2014	% Change
Revenues:					
Subscription	$	1,179	$	1,130	4%
Content and other		219		209	5%
Total revenues		1,398		1,339	4%
Costs of revenues[a]		(722)		(656)	10%
Selling, general and administrative[a]		(192)		(186)	3%
Restructuring and severance costs		(1)		(8)	(88%)
Depreciation		(21)		(21)	-
Amortization		(4)		(4)	-
Operating Income	$	458	$	464	(1%)

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

The increase in Subscription revenues for the three months ended March 31, 2015 was driven primarily by higher domestic contractual rates. International subscription revenues were essentially flat mainly due to the transfer to Turner of the operation and certain contracts of an HBO-branded basic tier television service in India, offset by growth from international subscribers.

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OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION (Continued)

The increase in Content and other revenues for the three months ended March 31, 2015 was primarily due to higher home entertainment revenues.

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

	Three Months Ended March 31,