Time Inc.
Form 10-Q
November 04, 2014
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2014

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: 001-36218

TIME INC.
(Exact Name of Registrant as Specified in its Charter)

Delaware	13-3486363
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
1271 Avenue of the Americas, New York, NY	10020
(Address of Principal Executive Offices)	(Zip Code)

(212) 522-1212
(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 x 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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x 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.

Large accelerated filer ¨ Accelerated filer ¨ Non-accelerated filer x 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 x

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 October 31, 2014
Common Stock — $0.01 par value	109,026,550

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

Part I. FINANCIAL INFORMATION
Item 1. Consolidated and Combined Financial Statements
TIME INC.
CONSOLIDATED AND COMBINED BALANCE SHEETS
(Unaudited; millions, except share amounts)

	September 30, 2014	December 31, 2013
ASSETS		
Current assets		
Cash and cash equivalents	$325	$46
Receivables, less allowances of $271 and $281	407	489
Inventories, net of reserves	59	56
Deferred tax assets	99	75
Prepaid expenses and other current assets	129	97
Total current assets	1,019	763
Property, plant and equipment, net	442	534
Intangible assets subject to amortization, net	1,108	582
Intangible assets not subject to amortization	—	586
Goodwill	3,143	3,162
Other assets	88	47
Total assets	$5,800	$5,674
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	$596	$534
Deferred revenue	438	449
Current portion of long-term debt	7	—
Total current liabilities	1,041	983
Long-term debt	1,369	38
Deferred tax liabilities	291	313
Deferred revenue	118	135
Other noncurrent liabilities	188	163
Commitments and contingencies (Note 12)		
Shareholders' Equity		
Common stock, $0.01 par value, 400 million shares authorized; 108.98 million shares issued and outstanding at September 30, 2014	1	—
Preferred stock, $0.01 par value, 40 million shares authorized; none issued	—	—
Additional paid-in-capital	12,669	—
Time Warner investment	—	4,158
Accumulated deficit	(9,771)	—
Accumulated other comprehensive loss, net	(106)	(116)
Total shareholders' equity	2,793	4,042
Total liabilities and shareholders' equity	$5,800	$5,674

See accompanying notes.

TIME INC.
CONSOLIDATED AND COMBINED STATEMENTS OF OPERATIONS
(Unaudited; millions, except per share amounts)

	Three Months Ended September 30, 2014		Nine Months Ended September 30,	
	2014	2013	2014	2013
Revenues				
Advertising	$428	$430	$1,279	$1,267
Circulation	279	285	807	816
Other	114	103	300	305
Total revenues	821	818	2,386	2,388
Costs of revenues	324	326	967	952
Selling, general and administrative expenses	378	363	1,180	1,118
Amortization of intangible assets	19	10	58	30
Restructuring and severance costs	(6)	4	164	58
Asset impairments	—	—	26	—
Goodwill impairment	—	—	26	—
Operating income (loss)	106	115	(35)	230
Interest expense, net	19	1	31	2
Other (income) expense, net	3	—	(1)	3
Income (loss) before income taxes	84	114	(65)	225
Income tax provision (benefit)	36	46	(7)	90
Net income (loss)	$48	$68	$(58)	$135
Per share information attributable to Time Inc. common shareholders:				
Basic net income (loss) per common share	$0.44	$0.62	$(0.53)	$1.24
Weighted average basic common shares outstanding	109.15	108.94	109.03	108.94
Diluted net income (loss) per common share	$0.44	$0.62	$(0.53)	$1.24
Weighted average diluted common shares outstanding	109.74	108.94	109.03	108.94

See accompanying notes.

TIME INC.
CONSOLIDATED AND COMBINED STATEMENTS
OF COMPREHENSIVE INCOME (LOSS)
(Unaudited; millions)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Net income (loss)	$48	$68	$(58)	$135
Other comprehensive income (loss), net of tax:				
Foreign currency translation gains (losses)	(39)	22	6	(36)
Reclassification adjustment for (gains) losses on foreign currency realized in net income	4	—	4	—
Net foreign currency translation gains (losses)	(35)	22	10	(36)
Pension benefit obligations:				
Unrealized gains (losses) occurring during the period	7	(3)	(3)	5
Reclassification adjustment for (gains) losses realized in net income (loss)	—	1	3	2
Net pension benefit obligations	7	(2)	—	7
Other comprehensive income (loss)	(28)	20	10	(29)
Comprehensive income (loss)	$20	$88	$(48)	$106

See accompanying notes.

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TIME INC.
CONSOLIDATED AND COMBINED STATEMENTS OF CASH FLOWS
Nine Months Ended September 30,
(Unaudited; millions)

	2014	2013
OPERATING ACTIVITIES		
Net income (loss)	$(58)	$135
Adjustments to reconcile net income to cash provided by operations:		
Depreciation and amortization	135	94
Amortization of deferred financing costs and discounts on indebtedness	1	—
Asset impairments	26	—
Goodwill impairment	26	—
Gain on sale of operating assets	(2)	—
(Gains) losses on equity method of investee companies, net of cash distributions	4	3
Share-based compensation expense relating to equity classified awards	25	13
Deferred income taxes	(17)	13
Changes in operating assets and liabilities:		
Receivables	66	85
Inventories	(2)	14
Prepaid expenses and other current assets	(56)	(43)
Accounts payable and accrued liabilities[(1)]	(7)	(70)
Other, net	29	3
Cash provided by operations[(1)]	170	247
INVESTING ACTIVITIES		
Investments and acquisitions, net of cash acquired	(29)	(3)
Capital expenditures	(30)	(19)
Proceeds from sale of assets	41	—
Cash used in investing activities	(18)	(22)
FINANCING ACTIVITIES		
Proceeds from the issuance of debt	1,377	—
Financing costs	(13)	—
Principal payments on Term Loan	(2)	—
Excess tax benefits from share-based compensation arrangements	—	30
Transfer to Time Warner in connection with Spin-Off	(1,400)	—
Net transfers from (to) Time Warner	166	(273)
Cash provided by (used in) financing activities	128	(243)
Effect of exchange rate changes on Cash and cash equivalents	(1)	—
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	279	(18)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	46	81
CASH AND CASH EQUIVALENTS, END OF PERIOD	$325	$63

(1) The nine months ended September 30, 2014 includes a $50 million payment for settlement of a lease obligation.

See accompanying notes.

TIME INC.
CONSOLIDATED AND COMBINED STATEMENTS OF SHAREHOLDERS' EQUITY
Nine Months Ended September 30,
(Unaudited; millions)

2014

	Common Stock	Additional Paid-in Capital	Time Warner Investment	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
BALANCE, BEGINNING OF PERIOD	$—	$—	$4,158	$—	$(116)	$4,042
Net income (loss)	—	—	(69)	11	—	(58)
Other comprehensive income (loss)	—	—	—	—	10	10
Equity-based compensation and other	—	23	2	—	—	25
Net transactions with Time Warner	—	—	(1,226)	—	—	(1,226)
Conversion of Time Warner Investment	1	12,646	(2,865)	(9,782)	—	—
BALANCE, END OF PERIOD	$1	$12,669	$—	$(9,771)	$(106)	$2,793

2013

	Common Stock	Additional Paid-in Capital	Time Warner Investment	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
BALANCE, BEGINNING OF PERIOD	$—	$—	$4,429	$—	$(145)	$4,284
Net income (loss)	—	—	135	—	—	135
Other comprehensive income (loss)	—	—	—	—	(29)	(29)
Net transactions with Time Warner	—	—	(232)	—	—	(232)
BALANCE, END OF PERIOD	$—	$—	$4,332	$—	$(174)	$4,158

See accompanying notes.

TIME INC.
NOTES TO THE CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION
Description of Business
Time Inc. together with its subsidiaries (collectively, the "Company", "we", "us" or "our") is one of the world's leading media companies reaching more than 130 million consumers each month across multiple platforms. Our influential brands include People, Sports Illustrated, InStyle, Time, Real Simple, Southern Living, Entertainment Weekly, Travel + Leisure, Food & Wine and Fortune, as well as more than 50 diverse titles at Time Inc. UK such as Decanter and Horse & Hound. Time Inc. is home to celebrated events and franchises including the Fortune 500, Time 100, People's Sexiest Man Alive, Sports Illustrated's Sportsman of the Year, the Food & Wine Classic in Aspen and the Essence Festival. As of September 30, 2014, we operated approximately 40 websites that collectively have over 100 million average monthly unique visitors around the world.[1] We also operate integrated publishing businesses that provide content marketing, targeted local print and digital advertising programs, branded book publishing and marketing and support services, including magazine subscription sales services, retail distribution and marketing services and customer service and fulfillment services, to us and third-party clients, including other magazine publishers.
The Spin-Off
On June 6, 2014 (the "Distribution Date"), we completed the complete legal and structural separation of our business (the "Spin-Off") from Time Warner Inc. ("Time Warner"). The Spin-Off was completed by way of a pro rata dividend on the Distribution Date of Time Inc. shares held by Time Warner to its stockholders as of May 23, 2014 (the "Record Date") based on a distribution ratio of one share of Time Inc. common stock for every eight shares of Time Warner common stock held. Following the Spin-Off, Time Warner stockholders became the owners of 100% of the outstanding shares of common stock of Time Inc. and Time Inc. began operating as an independent, publicly-traded company with its common stock trading on The New York Stock Exchange ("NYSE") under the symbol "TIME". In connection with the Spin-Off, we and Time Warner entered into the Separation and Distribution Agreement dated June 4, 2014 (the "Separation and Distribution Agreement") and certain other related agreements which govern our relationship with Time Warner following the Spin-Off. (See Note 13 – Relationship Between Time Inc. and Time Warner After the Spin-Off).
Basis of Presentation
The accompanying unaudited consolidated and combined interim financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") and Article 10 of Regulation S-X of the U.S. Securities and Exchange Commission ("SEC") for interim financial information. Accordingly, these unaudited consolidated and combined interim financial statements do not include all of the information and notes required for complete annual financial statements. The accompanying unaudited consolidated and combined interim financial statements should be read in conjunction with our audited combined financial statements and notes thereto for the year ended December 31, 2013 contained in Amendment No. 4 to our Registration Statement on Form 10 filed with the SEC on May 8, 2014. Operating results for the interim periods presented are not necessarily indicative of the results that may be expected for the current year ending December 31, 2014. The financial information prior to the Spin-Off may not necessarily reflect our financial position, results of operations and cash flows in the future or what our financial position, results of operations and cash flows would have been had we been an independent, publicly-traded company.
The consolidated and combined interim financial statements presented in this Form 10-Q are unaudited; however, in the opinion of management, such unaudited consolidated and combined interim financial statements include all adjustments, consisting solely of normal recurring adjustments, necessary to present fairly the financial position, results of operations and cash flows for the periods presented in conformity with GAAP applicable to interim periods. All intercompany transactions have been eliminated.

(1) As reported by comScore as of September 30, 2014.

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TIME INC.
NOTES TO THE CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

Prior to the Spin-Off, our combined financial statements were prepared on a stand-alone basis derived from the consolidated financial statements and accounting records of Time Warner. Our financial statements as of December 31, 2013 and for the three and nine months ended September 30, 2013 are on a combined basis and presented as carve-out financial statements as we were not a separate consolidated entity prior to the Distribution Date. These statements reflect the combined historical results of operations, financial position and cash flows of Time Warner’s publishing segment, which consisted principally of its magazine publishing business and related websites and operations managed by Time Inc. (the "TW Publishing Segment"). Subsequent to the Distribution Date, the financial statements as of September 30, 2014 and for the three and nine months ended September 30, 2014 are presented on a consolidated basis as we became a separate consolidated entity.

In connection with the Spin-Off, we entered into agreements with Time Warner that either did not exist historically or that have different terms than the terms of arrangements or agreements that existed prior to the Spin-Off. In addition, our historical financial information does not reflect changes that we are experiencing as a result of the separation from Time Warner, including changes in the financing, operations, cost structure and personnel needs of our business. Further, the historical financial statements include allocations of certain Time Warner corporate expenses. We believe the assumptions and methodologies underlying the allocation of these expenses are reasonable. However, such expenses may not be indicative of the actual level of expense that would have been incurred by us if we had operated as an independent, publicly-traded company or of our costs expected to be incurred in the future. These allocated expenses relate to various services that have historically been provided to us by Time Warner, including cash management and other treasury services, administrative services (such as tax, human resources and employee benefit administration) and certain global marketing and IT services. During the three months ended September 30, 2014 and 2013, we incurred nil and $3 million, respectively, of expenses related to charges for services performed by Time Warner. During the nine months ended September 30, 2014 and 2013, we incurred $6 million and $13 million, respectively, of expenses related to charges for services performed by Time Warner.

The unaudited consolidated and combined interim financial statements will be referred to as the "Financial Statements" herein. The unaudited consolidated and combined statements of operations will be referred to as the "Statements of Operations" herein. The unaudited consolidated and combined balance sheets will be referred to as the "Balance Sheets" herein.

Our Balance Sheet as of September 30, 2014 consists of our consolidated balances subsequent to the Spin-Off. The balances reflect the assets and liabilities that were historically included in the TW Publishing Segment. All assets and liabilities included in our Balance Sheet as of September 30, 2014 are recorded on a historical cost basis. Our Balance Sheet as of December 31, 2013 consists of the combined balances of the TW Publishing Segment.

For purposes of our Financial Statements for periods prior to the Spin-Off, income tax expense has been recorded as if we filed tax returns on a stand-alone basis separate from Time Warner. This separate return methodology applies the accounting guidance for income taxes to the stand-alone financial statements as if we were a stand-alone enterprise for the periods prior to the Distribution Date. Therefore, cash tax payments and items of current and deferred taxes may not be reflective of our actual tax balances prior to or subsequent to the Spin-Off. Prior to the Spin-Off, our operating results were included in Time Warner’s consolidated U.S. federal and state income tax returns. Pursuant to rules promulgated by the Internal Revenue Service and various state taxing authorities, we expect to file our initial U.S. income tax return for the period from June 7, 2014 through December 31, 2014 in 2015. The income tax accounts reflected in the Balance Sheet as of September 30, 2014 include income taxes payable and deferred taxes allocated to us at the time of the Spin-Off and taxes associated with our post-Spin-Off operations. The calculation of our income taxes involves considerable judgment and the use of both estimates and allocations.

The financial position and operating results of most of our foreign operations are combined or consolidated using the local currency as the functional currency. Local currency assets and liabilities are translated at the rates of exchange as of the balance sheet date, and local currency revenues and expenses are translated at average rates of exchange during the period. Translation gains or losses on assets and liabilities are included as a component of Accumulated other comprehensive income (loss), net.

Use of Estimates

The preparation of our Financial Statements in conformity with GAAP requires management to make estimates, judgments and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the Financial Statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

Significant estimates and judgments inherent in the preparation of the Financial Statements include accounting for asset impairments, allowances for doubtful accounts, depreciation and amortization, magazine and product returns, pension and other post-retirement benefits, equity-based compensation, income taxes, contingencies, and litigation matters.

Accounting Guidance Adopted in 2014

Presentation of Unrecognized Tax Benefits

On January 1, 2014, we adopted, on a prospective basis, guidance that requires a liability related to an unrecognized tax benefit to be offset against a deferred tax asset for a net operating loss carryforward, a similar tax loss or a tax credit carryforward if such settlement is required or expected in the event the uncertain tax position is disallowed. In situations in which a net operating loss carryforward, a similar tax loss or a tax credit carryforward is not available at the reporting date under the tax law of a jurisdiction or the tax law of a jurisdiction does not require it, and we do not intend to use the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. The adoption of this guidance has had no impact on our Financial Statements.

Accounting Guidance Not Yet Adopted

In August 2014, guidance was issued that establishes management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and setting rules for how this information should be disclosed in the financial statements. This guidance is effective for fiscal years, and interim periods within those years, beginning on or after December 15, 2016, with early adoption permitted. We do not expect our adoption of this guidance to have an impact on our consolidated financial condition and results of operations.

In June 2014, guidance was issued impacting the accounting for share-based performance awards. This guidance requires that a performance target that affects vesting that could be achieved after the requisite service period be treated as a performance condition. As such, the performance target should not be reflected in estimating the grant-date fair value of the award. This guidance is effective for annual and interim periods within the annual period beginning after December 15, 2015. We do not currently have share-based payment awards that fall within the scope of this guidance and therefore do not anticipate an impact on our Financial Statements upon adoption.

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 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. The guidance will become effective on either a full or modified retrospective basis for the Company on January 1, 2017. We have not yet selected a transition method and we are currently evaluating the effect that the updated standard will have on our Financial Statements and related disclosures.

In April 2014, guidance was issued that raises the threshold for disposals to qualify as discontinued operations. Under this new guidance, a discontinued operation is (1) a component of an entity or group of components that has been disposed of or is classified as held for sale that represents a strategic shift that has or will have a major effect on an entity's operations and financial results or (2) an acquired business that is classified as held for sale on the acquisition date. This guidance also requires expanded or new disclosures for discontinued operations, individually material disposals that do not meet the definition of a discontinued operation, an entity's continuing involvement with a discontinued operation following disposal, and retained equity method investments in a discontinued operation. This

TIME INC.
NOTES TO THE CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

guidance will become effective on a prospective basis for us on January 1, 2015 and is not expected to have a material impact on our Financial Statements.

2. DISPOSITIONS

In August 2014, the sale of our Mexico-based operations, Grupo Editorial Expansión ("GEX"), was consummated for approximately $41 million, of which $2 million was received in the form of a promissory note payable to us in the fourth quarter of 2014. During the second quarter of 2014, we recorded an allocated Goodwill impairment charge of $26 million in connection with the impending sale. During the third quarter of 2014, we recorded a gain on sale of our GEX operations of $1 million. This gain is included within Selling, general, and administrative expenses on the accompanying Statements of Operations for the three and nine months ended September 30, 2014. Our GEX operations published 11 magazines in print in Mexico and operated 10 websites. GEX revenues for the three and nine months ended September 30, 2014 and 2013 represented 2% or less of our overall revenues during those periods. We have no significant continuing involvement in the operations of GEX following the consummation of the sale. The sale is not expected to have a significant impact on our continuing operations or financial results. However, we will continue our licensing arrangements with GEX which allow GEX to publish InStyle and Travel + Leisure magazines in Mexico. Revenues for these licensing arrangements are not significant to our overall results of operations.

3. 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 distinguishes 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 us to use present value and other valuation techniques in the determination of fair value (Level 3).

In connection with the Tax Matters Agreement with Time Warner, we are required to indemnify Time Warner for international tax recharges in connection with our employees' exercises of stock compensation awards granted by Time Warner. The fair value of this obligation, as included within Other noncurrent liabilities on the accompanying Balance Sheet as of September 30, 2014, was estimated at $5 million. This fair value was derived using a Black-Scholes model and is considered a Level 3 measurement. Adjustments to fair value of this obligation are included as a component of Other expense, net in the Statements of Operations.

As of September 30, 2014 and December 31, 2013, other assets and liabilities required to be carried at fair value on a recurring basis were not significant.

The following table reconciles the beginning and ending balances of net liabilities classified as Level 3 (in millions):

Balance at January 1, 2014	$—	
Additions	16	
Fair value adjustment	2	
Payments	(13	)
Balance as of September 30, 2014	$5	

TIME INC.
NOTES TO THE CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

Financial Instruments

Our financial instruments, including our term loan (the "Term Loan") and our 5.75% senior notes (the "Senior Notes"), are not required to be carried on our Balance Sheets at fair value. However, the following table summarizes the fair values of each of our significant debt instruments based on quoted market prices for similar issues or on the current rates offered to us for instruments of the same remaining maturities (in millions):

	September 30, 2014		December 31, 2013	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Debt instruments:				
Term Loan	$686	$692	$—	$—
5.75% Senior Notes	690	676	—	—
This Old House Promissory Note	—	—	38	38
	$1,376	$1,368	$38	$38

Our Term Loan and Senior Notes were issued at a discount of $13 million and