Time Inc.
Form 10-K
February 19, 2016

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

FORM 10-K

(Mark One)

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

For the year ended December 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: 001-36218

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.)
225 Liberty Street, New York, N.Y.	10281
(Address of Principal Executive Offices)	(Zip Code)

(212) 522-1212
(Registrant's telephone number, including area code)

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

Title of Each Class	Name of Each Exchange on Which Registered
Common stock, par value $0.01 per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:
None
(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act of 1933. Yes x No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Securities Exchange Act of 1934. Yes ¨ No x

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

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

Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨ Smaller reporting company ¨

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

As of June 30, 2015, the last business day of the registrant's most recently completed second fiscal quarter, the aggregate market value of the registrant's Common Stock, par value $0.01 per share, held by non-affiliates (without admitting that any person whose shares are not included in such calculation is an affiliate) was approximately $2.5 billion based upon the closing price of $23.01 per share on The New York Stock Exchange on that date.
As of February 10, 2016, 104,852,752 shares of Common Stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE
Portions of the Registrant's Proxy Statement to be filed with the Securities and Exchange Commission in connection with the Registrant's 2016 Annual Meeting of Stockholders are incorporated by reference into Part III of this Form 10-K.
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Cautionary Statement Regarding Forward-Looking Statements

This annual report on Form 10-K contains certain “forward-looking statements,” as such term is defined in Section 21E of the Securities Exchange Act of 1934 (the “Exchange Act”). They are based on management’s current expectations and assumptions regarding our business and performance, the economy and other future conditions and forecasts of future events, circumstances and results. These statements can be identified by the fact that they do not relate strictly to historical or current facts. Forward-looking statements often include words such as “anticipates,” “estimates,” “expects,” “projects,” “intends,” “plans,” “believes” and words and terms of similar substance in connection with discussions of future operating or financial performance. Such forward-looking statements include, but are not limited to, statements regarding future actions, business plans and prospects, prospective products, trends, future performance or results of current and anticipated products, sales efforts, expenses, interest rates, the outcome of contingencies, such as legal proceedings, plans relating to dividends, stock repurchases and debt repayments, government regulations, the adequacy of our liquidity to meet our needs for the foreseeable future, our expectations regarding market conditions, and our anticipated contributions to international defined benefits plans.

As with any projection or forecast, forward-looking statements are inherently susceptible to uncertainty and changes in circumstances. Our actual results may vary materially from those expressed or implied in our forward-looking statements. Should known or unknown risks or uncertainties materialize, or should underlying assumptions prove inaccurate, actual results could vary materially from past results and those anticipated, estimated or projected. Investors should bear this in mind as they consider forward-looking statements.

We undertake no obligation to update forward-looking statements, whether as a result of new information, future events or otherwise. You are advised, however, to consult any further disclosures we make on related subjects in our quarterly reports on Form 10-Q and current reports on Form 8-K. We provide in Item 1A, “Risk Factors,” a cautionary discussion of certain risks and uncertainties related to our businesses. These are factors that we believe, individually or in the aggregate, could cause our actual results to differ materially from expected and historical results. We note these factors for investors as permitted by Section 21E of the Exchange Act. In addition, the operation and results of our business are subject to risks and uncertainties identified elsewhere in this annual report on Form 10-K as well as general risks and uncertainties such as those relating to general economic conditions. You should understand that it is not possible to predict or identify all such risks. Consequently, you should not consider such discussion to be a complete discussion of all potential risks or uncertainties.

Industry and Market Data
This annual report on Form 10-K includes publishing industry data, rankings, circulation information, Internet user data and other industry and market information that we obtained from public filings, internal company sources and various third-party sources. These third-party sources include, but are not limited to, Publishers Information Bureau as provided by Kantar Media (“PIB”), the Alliance for Audited Media (“AAM”), the Audit Bureau of Circulations (“ABC”), comScore Media Metrix ("comScore") and GfK Mediamark Research and Intelligence (“MRI”). While we are not aware of any misstatements regarding any industry data presented in this annual report on Form 10-K and believe such data are accurate, we have not independently verified any data obtained from third-party sources and cannot assure you of the accuracy or completeness of such data. Such data may involve uncertainties and are subject to change based on various factors.
Unless otherwise stated herein, all U.S. circulation data in this annual report on Form 10-K are sourced from AAM reports and all U.K. circulation data, including statements as to our position in the U.K. print publishing industry and ranking based on print newsstand revenues in the United Kingdom (the industry-standard metric for magazine rankings in the United Kingdom), are sourced from ABC reports. All Internet user data in this annual report on Form 10-K are sourced from comScore reports. All print advertising revenue data, including statements as to our position in the print publishing industry and ranking based on print advertising revenues in the United States, are sourced from PIB reports. Magazine readership and audience statistics presented in this annual report on Form 10-K are based on surveys conducted by MRI.
Part I
ITEM 1. BUSINESS
Overview
Time Inc., together with its subsidiaries (collectively, the "Company", "we", "us" or "our"), is one of the world's leading media companies, with a monthly global print audience of over 120 million and more than 150 million monthly visitors to its worldwide digital properties, including over 60 websites. Our influential brands include People, Sports Illustrated, InStyle, Time, Real Simple, Southern Living, Entertainment Weekly, Travel + Leisure, Cooking Light, Fortune and Food & Wine, as well as more than 50 diverse titles in the United Kingdom such as Decanter, Horse & Hound and Wallpaper*. Time Inc. is home to celebrated franchises and events including the Fortune 500, Time 100, People’s Sexiest Man Alive, Sports Illustrated’s Sportsperson of the Year, the Food & Wine Classic in Aspen, the Essence Festival and the biennial Fortune Global Forum. Hundreds of thousands of people attend our live media events each year. We have been extending the power of our brands through various investments and acquisitions, including the formation of Sports Illustrated Play, a new business devoted to youth and amateur sports, and the acquisition of inVNT, a company that specializes in live media. We also provide content marketing, targeted local print and digital advertising programs, branded book publishing and marketing and support services, including subscription sales services for magazines and other products, retail distribution and marketing services and customer service and fulfillment services, for ourselves and third-party clients, including other magazine publishers.

Since our founding in 1922, we have developed a worldwide reputation for quality, integrity and innovation in journalism. Today, we reach large, diverse audiences through our printed magazines, websites, on computers and mobile devices and through social media. We have a marketing database that includes approximately 160 million U.S. adults, which represents a majority of the adult U.S. population. We publish paid digital versions of a large majority of our magazines for the major tablet platforms. In total, we publish over 80 magazine titles worldwide. The following table lists our major magazine titles as of December 31, 2015, as well as related websites and related magazine titles for each:

Magazine title	Rate base[(a)]	Frequency[(b)]	Category	Related magazine titles	Related websites
People	3,425,000	53	Celebrity Weekly	People en Español (U.S.) People StyleWatch (U.S.)	People.com PeopleenEspanol.com
Time	3,000,000	44	Weekly Newsmagazine	Time for Kids (U.S.) Time (Europe) Time (Asia) Time (South Pacific)	Time.com Life.com TimeforKids.com
Sports Illustrated	3,000,000	49	Sports: General	Sports Illustrated Kids (U.S.)	SI.com FanNation.com SIKids.com
Southern Living	2,800,000	12	Regional	Coastal Living	SouthernLiving.com
Real Simple	1,975,000	12	Women's Lifestyle		RealSimple.com
Cooking Light	1,775,000	11	Epicurean		MyRecipes.com CookingLight.com
Entertainment Weekly	1,725,000	42	Entertainment		EW.com
InStyle	1,700,000	13	Women's Fashion		InStyle.com
Money	1,550,000	11	Personal Finance		Money.com
Golf	1,400,000	12	Sports: Golf		Golf.com
Health	1,350,000	10	Women's Health & Fitness		Health.com
Sunset	1,250,000	12	Regional		Sunset.com
Essence	1,050,000	12	African American		Essence.com
What's On TV (U.K.)	1,013,702	51	Entertainment		WhatsOnTV.co.uk
This Old House	950,000	10	Shelter		ThisOldHouse.com
Travel + Leisure	950,000	12	Travel		TravelandLeisure.com
Food & Wine	925,000	12	Epicurean		FoodandWine.com
Fortune	830,000	16	Business: Corporate	Fortune (Europe) Fortune (Asia) Executive Travel	Fortune.com

(a) Circulation level guaranteed to advertisers for regular issue U.S. magazines in second-half 2015 or ABC reported first-half 2015 circulation for U.K. magazines, as applicable.
(b) Number of physical issues, including regularly published special issues, delivered to subscribers in 2015.

People magazine is currently our largest print magazine title, generating almost 18% of our revenues in 2015. We publish special annual issues for certain of our magazine titles, including the Sports Illustrated Swimsuit issue, the Fortune 500 list of the largest U.S. corporations, the People World's Sexiest Man Alive issue and the Time Person of the Year issue. Popular events associated with our magazine brands include the Fortune conferences and the Essence Festival. Video extensions of our brands include TV specials for People and other brands and numerous digital video productions.

For a discussion of certain business dispositions and acquisitions we completed in 2015, see Note 3, "Acquisitions and Dispositions," to our consolidated and combined financial statements included in this annual report on Form 10-K.

The Separation

On March 6, 2013, Time Warner Inc. ("Time Warner") announced plans for the complete legal and structural separation of its magazine publishing and related business from Time Warner (the "Spin-Off"). On June 6, 2014 (the "Distribution Date"), the Spin-Off was completed by way of a pro rata dividend of Time Inc. shares held by Time Warner to its stockholders as of May 23, 2014 based on a distribution ratio of one share of Time Inc. common stock for every eight shares of Time Warner common stock held (the "Distribution"). 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 17, "Relationship Between Time Inc. and Time Warner," to our consolidated and combined financial statements included in this annual report on Form 10-K.)

Our Strategy

Enhancing our core business

We are committed to enhancing our core business. Our goals are to protect the margins and cash flows of our business, to reallocate resources to more effectively serve our audiences and advertisers, to leverage our extensive data and consumer insights and to continually deepen our consumer connections. Our management team is focused on the following initiatives:

- Consumer connection. We believe there are opportunities to serve our audiences across platforms, and with alternative approaches to content creation, including print, desktop, mobile, video, advertiser-sponsored content and social media. As of December 2015, our global print audience was over 120 million. Our U.S. multi-platform unique visitors increased by 22% year-over-year to 119 million as of December 2015. Our unique visitors exclusively from mobile devices increased 46% year-over-year to 75 million. Additionally, Time Inc.'s total worldwide social media audience as of December 2015 was 189 million, including 83 million Facebook likes and 53 million Twitter followers. During 2015, we grew our user-initiated video streams to more than 1.5 billion across Time Inc.'s video distribution network.
- Advertising sales effectiveness. Our long-standing relationships with advertisers are a key competitive advantage. We continue to configure our team to more effectively align ourselves with the current media environment, and leverage the collective strength of our brand portfolio. This includes optimizing both brand sales as well as moving toward selling Time Inc. as a single premium media network. For example, we are introducing a category sales structure for our Pharmaceutical, Autos and Technology/Telecom marketers and agencies. We are also optimizing our advertising sales organization around solutions selling, and more deeply understanding the needs of our customers. This includes making programmatic and data solutions more readily available to our advertising and agency partners.
- Consumer pricing and targeting. We believe there are opportunities to more effectively optimize subscription offers, newsstand pricing and other consumer targeting and pay strategies across our organization. For example, we are pursuing data initiatives to personalize the audience experience by more effectively targeting consumers at all stages of the marketing life cycle. We are planning to leverage enhanced

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data analytics to increase our ability to cross-promote across our brand portfolio. We continue to test paid content strategies for our digital properties, enabling us to turn anonymous visitors into known users and known users into paying customers.

- Cost transformation. In 2015, we incurred charges of $191 million associated with company-wide restructuring plans intended to streamline our organizational structure, to drive operational efficiencies and to create the appropriate infrastructure to support our long-range plan. Also, we completed the move of our corporate headquarters and other real estate consolidations, which are expected to drive meaningful ongoing cost savings. We anticipate additional headcount and efficiency measures in the future including global sourcing of personnel, streamlining the editorial process, centralized procurement, and further elimination of duplication across brands.
- Technology platform. We see opportunities to further improve our technology infrastructure, and eliminate outdated and redundant systems. We continue to shift our engineering teams' focus toward digital media, especially mobile and video. We are investing to ensure that we are aligned with the evolving needs of consumers and advertisers, that we are providing product development agility to our creative teams and that our technology supports innovation and accountability.

Extending our brands, content and audiences into new revenue streams

We believe there are significant opportunities to extend our products and services to enhance the value of our consumer offerings and provide powerful programs to our advertisers; and we are investing in selected growth initiatives. In particular, we see potential in the following categories:

- Better targeting and customization with data. We see opportunities to improve our targeting of individuals, and customizing both content experiences and marketing messages. In 2015, we hired our first Chief Data Officer, and we are migrating to a state-of-the-art marketing automation and analytics platform for email, mobile, social and online marketing to more effectively leverage our data for targeting consumers. We are enhancing our predictive models, including churn propensity and product recommendation systems, to improve our retention efforts and produce more tailored consumer offers. In addition, in February 2016, we entered into a series of agreements to acquire the assets of Viant Technology Inc., a data-driven leader in people-based marketing. The transaction combines Time Inc.'s premium content, subscriber and visitor data and advertising inventory with Viant's first party data and targeting capabilities.
- Branded content & native solutions. Time Inc. is further developing branded content and native capabilities across the portfolio. In 2015, we formed The Foundry, which provides custom solutions to our advertising partners, and collaborates with our editorial function to integrate branded content and native solutions across our brand portfolio. We have launched digital- and social-first content verticals that provide targeted advertising solutions. We plan to further extend our creative story-telling skills to our marketing and agency partners.
- Time Inc. Video. We continue to invest in video programming and distribution, achieving significant gains in viewership, reach and engagement. Time Inc.'s video distribution network includes approximately 20 partners spanning more than 4,000 U.S. sites and platforms. Our new studio space at our New York headquarters and the Birmingham food studio has more than tripled our production capacity in 2016. People and Entertainment Weekly currently have over 50 video series in various stages of development; and, we are exploring the possibilities for an ad-supported over-the-top network for People and Entertainment Weekly. Our original video production increased to approximately 23,000 segments in 2015 from 8,000 in 2014.
- Live events and conferences. We believe there are opportunities to continue to expand our live events and tent-pole franchises. For example, with the addition of inVNT, Time Inc. expects to host or manage approximately 600 events in 2016, including the Essence Festival, Fortune's Most Powerful Women Conferences and the Food & Wine Classic. In addition to launching new events, these franchises are expanding internationally; we announced that in addition to the annual Essence Festival in New Orleans we are hosting the Essence Festival in Durban, South Africa in 2016 and 2017.

- Adjacent revenue opportunities. We remain committed to reimagining our brands; we intend to invest in and build out adjacencies, i.e., new revenue streams that leverage Time Inc.'s existing strengths, capabilities and brands. In 2015, we launched Sports Illustrated Play, or SI Play, a new platform devoted to youth and amateur sports. It provides digital registration and tools to serve an audience of more than 30 million youth athletes, as well as their parents, coaches and leagues. It is estimated that 50% of youth sports player registrations are processed via analog channels, such as physical registration forms and checks passed along from parent to coach. An important element of our strategy is to create robust sets of digital tools and mobile device applications that convert analog activity to digital.

Actively managing our portfolio of titles, brands and assets

We intend to continue to evaluate our portfolio for opportunities to make internal investments, pursue strategic partnerships, close or divest titles, brands or operations where necessary, launch new titles, brands or operations and evaluate acquisition opportunities when they arise. As the largest magazine publisher in the United States and the United Kingdom, we believe there are opportunities to continue to utilize our scale to drive efficiencies from the integration of print and related media acquisitions.

Disciplined capital allocation

Our business has relatively low capital expenditure requirements, and consequently generates substantial cash flows. We are committed to a disciplined approach to evaluating acquisitions and internal investments, capital structure optimization and return of capital.

How We Generate Revenues

The sale of advertising generates approximately half of our total revenues. Circulation (or the sale of magazines to consumers) generates approximately one-third of our total revenues. The balance of our total revenues is generated by our other operations related to magazine publishing and live events. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Consolidated and Combined Results of Operations." A significant majority of our revenues are generated in the United States. See Note 19, "Segment Information," to our consolidated and combined financial statements included in this annual report on Form 10-K for certain financial information by geographic area.

Advertising Sales

We derive approximately half our revenues from the sale of advertising, primarily from our print magazines and with a lesser amount from our websites and marketing services. In 2015, our U.S. magazines accounted for 25.1% of the total U.S. advertising revenues generated across the industry by consumer magazines, excluding newspaper supplements. Our U.S. magazines accounted for 24.6% and 23.7% of such total industry revenues in 2014 and 2013, respectively. In 2015, People, Sports Illustrated and InStyle were ranked 1, 3 and 8, respectively, among all U.S. magazines in U.S. advertising revenues, and we had seven of the top 25 magazines based on the same measure. We have generated significant digital advertising growth and we continue to invest in technology that will allow us to more effectively manage the delivery of content to our audiences. Advertising in our print and tablet editions and on our websites is predominantly consumer advertising, including beauty, food, fashion and retail, pharmaceutical, financial, media, travel, auto, technology/telecom and home. We have a diverse pool of advertisers, and no single advertising category accounted for more than 16% of our aggregate domestic advertising revenues in 2015. None of our advertising clients accounted for more than 5% of our aggregate domestic advertising revenues in 2015.

We conduct our advertising sales through a combination of corporate and brand sales and marketing teams that sell advertising across media platforms, as well as programmatically through ad exchanges and our private programmatic marketplace. Our direct sales teams handle our relationships with our largest corporate accounts and agencies, as well as relationships with smaller agencies and direct sales to clients. We continue to configure our teams to more effectively align ourselves with the current media environment, and leverage the collective strength of our brand portfolio. This includes introducing a category sales structure for our Pharmaceutical, Autos and Technology/Telecom marketers and agencies in early 2016. We also offer our advertisers a broad range of analytics and research services, including consumer insights, audience measurement and accountability reporting.

The rates at which we sell print advertising depend on each magazine's rate base, which is the circulation of the magazine that we guarantee to our advertisers, as well as our audience size. If we are not able to meet our committed rate base, the price paid by advertisers is generally subject to downward adjustments, including in the form of future credits or discounts. Our published rates for each of our magazines are subject to negotiation with each of our advertisers. We sell digital advertising at a flat rate/sponsorship basis or on a cost per impression, or CPM, basis. Flat rate/sponsorship deals are sold on an exclusive basis to advertisers giving them access to our major events and tent-poles. CPM deals are sold on an impression basis with a guarantee that we will deliver the negotiated volume commitment. If we are not able to meet the impression goal, we will extend the campaign or provide alternative placements.

Circulation

Circulation generates approximately one-third of our total revenues. Circulation is an important component in determining our advertising revenues because advertising rates depend on circulation and audience. Most of our U.S. magazines are sold primarily by subscription and delivered to subscribers through the mail. For the six months ended December 31, 2015, we had an average of approximately 30 million active subscriptions worldwide. Most of our international magazines are sold primarily at newsstands and other retail locations. Subscriptions are sold primarily through direct mail, subscription sales agents, marketing agreements with other companies, our owned websites, online advertising and email solicitations, and insert cards in our magazines and other publications. Additionally, digital-only subscriptions and single-copy digital issues of our magazines are sold or distributed through various app stores and other digital storefronts across multiple platforms, including through a commercial arrangement with Next Issue Media ("NIM"), an all-you-can-eat digital subscription service in which we have a minority interest. NIM launched a new app, Texture, in 2015 that provides enhanced features including enabling subscribers to search for and explore content on an article level. We also sell bundled subscriptions that combine print delivery with cross-platform digital access. In 2015, subscription sales generated approximately two-thirds of our total circulation revenues, while sales at newsstands and other retail outlets accounted for the remainder.

Subscription Sales and Fulfillment

Our consumer marketing efforts include centralized direct-to-consumer marketing services for our titles, including customer acquisition and retention, consumer research, financial analysis and other ancillary services by employing a variety of advertising and marketing strategies. These include targeted direct mail, email, digital and social media solicitation campaigns conducted using consumer information drawn from our internal marketing databases or leased or purchased from third parties. Overall brand marketing activities are also conducted for our titles via other print, television, online and social media. Other consumer marketing functions include fulfillment, customer service and database management services, including order and payment processing and call-center support. We also provide fulfillment and related services for certain other publishers' magazines.

Newsstand Sales

Newsstand sales include sales through traditional newsstands as well as supermarkets, convenience stores, pharmacies and other retail outlets. Through our retail distribution operations, we market and arrange for the distribution of our magazines and certain other publishers' magazines to retailers through third-party wholesalers.

Our retail distribution operations, Time Inc. Retail ("TIR") and Marketforce (UK) Ltd. ("Marketforce"), provide services relating to wholesale and retail distribution, billing and marketing. Under arrangements with TIR and Marketforce, third-party wholesalers purchase our magazines and the magazines of our publisher clients, and those wholesalers sell and deliver copies of those magazines to individual retailers. TIR and Marketforce are paid by the wholesalers for magazines they purchase, less credit for returns of unsold magazines. TIR generally advances funds to our publisher clients based on anticipated sales. Marketforce generally remits funds to its publisher clients when it has been paid. Under the contractual arrangements with our publisher clients, in the United States our publisher clients generally bear the risk of loss for non-payment of any amounts due from wholesalers with respect to their magazines, while in the United Kingdom we generally bear this risk. TIR and Marketforce also administer payments from our publisher clients to retailers for promotional allowances, including for the placement of magazines at retail locations. Newsstand sales are highly sensitive to cover selection, retail placement and other factors. Our retail distribution operations coordinate with our consumer marketing, fulfillment and content creation groups to implement retail marketing plans and analyze expected demand for individual issues of our magazine titles.

We rely on wholesalers for retail distribution of our magazines. A small number of wholesalers are responsible for a substantial percentage of the wholesale magazine distribution business. In the United States, declines in magazine sales at newsstands and other retail outlets have increased the financial instability of magazine wholesalers. Several of our smaller wholesalers ceased operations in early 2014. In May 2014, we informed the then second-largest wholesaler of our publications (the "Discontinued Wholesaler") that effective immediately we would discontinue sales of publications to that wholesaler. This action was taken after the Discontinued Wholesaler's failure to pay amounts due to us and after discussions with the Discontinued Wholesaler. The Discontinued Wholesaler filed for protection under Chapter 11 of the U.S. Bankruptcy Code in June 2014. Additionally, we amended the terms of our existing agreements with the largest wholesaler of our publications (the "Selected Wholesaler") to expand the retail locations serviced by the Selected Wholesaler to include the vast majority of those that had been serviced by the Discontinued Wholesaler prior to the discontinuation. The change in distribution arrangements did not have a material impact on the distribution of our magazines. Our amended agreement with the Selected Wholesaler extends through May 2019. See Item 1A, "Risk Factors—Risks Relating to Our Business—We could face increased costs and business disruption from instability in our wholesaler distribution channels."

We believe the action we took has improved the strength and stability of our retail distribution network. However, we will continue to closely monitor industry-wide trends and the implications they may have on our relationships with our wholesalers.

Related Operations

We have a number of other operations related to publishing. Our subsidiary, Synapse Group, Inc. ("Synapse"), is an affinity marketing company that partners with brick and mortar retailers, websites, airline frequent flier programs and customer service and direct response call centers. They are a robust marketer of magazine subscriptions in the United States. Building on their continuity marketing expertise, Synapse has diversified its business to also market other products and services. For example, Synapse manages several branded continuity membership programs and is developing continuity programs for product partners.

We also publish branded books, including soft-cover "bookazines," through Time Home Entertainment Inc. These are distributed through magazine-style "check-out pockets" at retail outlets and traditional trade book channels. We publish books on a diverse range of topics aligned with our brands, including special commemorative and biographical books. We also publish books under various licensed third-party brands and a number of original titles. Under our Oxmoor House imprint, we also publish a variety of home, cooking and health books under our lifestyle-oriented brands as well as under licensed third-party brands.

As of December 31, 2015, we licensed 50 editions of our magazines, including the use of our trademarks and certain copyrighted content, for print or digital publication to publishers in over 30 countries. We also license to third parties the rights to our various brands and properties, including editions of our magazines and the use of our trademarks, individual articles, photos and other copyrighted content.

Through The Foundry, we provide content marketing and advertising services to clients across a broad range of industries. These services include using our content creation expertise to develop content marketing programs across multiple platforms, including native advertising that enable clients to engage new consumers and build long-term relationships with existing customers. Additionally, through MNI Targeted Media Inc., we provide clients with a single point of contact for a range of targeted print and digital advertising programs. We offer these clients digital and print products. Our digital products include programmatic offerings and custom display advertising on local and national websites. Our print product includes customized geographic and demographic-targeted advertising programs in over 40 top U.S. magazines, including our own magazines and those of other leading magazine publishers. In addition, we

offer “cover wraps” and other add-ons to magazines, allowing advertisers to distribute direct marketing messages to specific locations such as medical offices.

We also host hundreds of live events each year, including the Essence Festival, Fortune’s Most Powerful Women Conferences and the Food & Wine Classic. In 2015, we acquired a number of live event businesses, which included UK Cycling Events Limited, inVNT, LLC and International Craft and Hobby Fair Ltd. We believe that live events are a natural extension of our brands and can help build growth opportunities for our marketing partners.

In 2015, we launched SI Play, an online league management solution that provides digital tools to participants in youth sports for player registration, scheduling, communication and scorekeeping.

Production

Our paper procurement and printing functions are centrally managed across all our U.S. and U.K. magazines. This allows us to obtain volume discounts with our third-party suppliers and to achieve other efficiencies in our production operations. The final imaging and layout stage of our editorial production process is also centralized across all of our U.S. magazines, facilitating the adaptation of our magazines from print to digital form.

Coated and uncoated papers of various grades and weights are the principal raw materials used in the production of our magazines. A variety of factors affect paper prices and availability, including demand, capacity, raw material and energy costs and general economic conditions. Our current paper supply arrangements are based on an annual request-for-proposal process establishing a non-binding pricing framework for the year. Price and volume adjustments are negotiated from time to time under this pricing framework, typically on a quarterly basis. We believe we will continue to have access to an adequate supply of paper for our future needs. Should disruptions affect our current suppliers, alternative sources of paper are generally available at competitive prices.

Printing is a significant component in the production of our print magazines. The bulk of our U.S. printing is consolidated under multi-year contracts with a single printer. The bulk of our U.K. printing is also consolidated with a single printer.

Subscription copies of our U.S. magazines are delivered through the United States Postal Service ("USPS") as periodicals mail. We coordinate with our printers and local USPS distribution centers to achieve efficiencies in our production and distribution processes and to minimize mail processing costs and delays. However, we are subject to postal rate increases that affect delivery costs associated with our magazines, as well as our promotional and billing mailings. Effective May 31, 2015, rates for all classes of mail were increased by approximately 2% by the Postal Regulation Commission. Increases in postal rates are factored into our pricing strategies and operating plans. However, there can be unexpected increases in postal rates or other delivery charges. See Item 1A, “Risk Factors—Risks Relating to Our Business—Our results of operations could be adversely affected as a result of additional increases in postal rates, and our business and results of operations could be negatively affected by postal service changes.” In addition, the financial condition of the USPS continues to decline with large net annual losses despite revenue gains and a moderating decline in the volume of mail delivered. In 2015, the USPS introduced new service standards that slowed the delivery of periodical mail and resulted in a portion of our weekly magazines being delivered a day later. We do not believe that this change significantly impacted our business.

Competition

We compete with other magazine publishers for market share and for the time and attention of consumers of magazine media content. We also compete with digital publishers and other forms of media, including websites, tablet editions, social media and mobile apps. In addition, we compete to some extent with national newspapers.

Competition among print magazine and digital publishers for advertising is primarily based on the circulation and readership of magazines and the number of visitors to websites, respectively, the demographics of customer bases, advertising rates, the effectiveness of advertising sales teams and the results observed by advertisers. The shift in consumer preference from print media to digital media, as well as growing consumer engagement with digital media, such as online and mobile social networking, have introduced significant new competition for advertising.

Competition among print magazine publishers for magazine readership is primarily based on brand perception, magazine content, quality and price. Competition for subscription-based readership is also based on subscriber acquisition and retention, and competition for newsstand-based readership is also based on magazine cover selection and the placement and display of magazines in retail outlets. Technological advances and the growing popularity of digitally-delivered content and mobile consumer devices, such as smartphones and tablets, have introduced significant new competition for circulation in the form of readily available free or low-priced digital content.

Our magazine publishing and website operations compete with numerous other magazine and website publishers and other media for circulation and audience and for advertising directed at the general public and at more focused demographic groups. The use of digital devices as distribution platforms for content has lowered the barriers to entry for launching digital products that compete with our business. See Item 1A, "Risk Factors—Risks Relating to Our Business—We face significant competition from other magazine publishers and new forms of media, including digital media, which we expect will continue, and as a result we may not be able to maintain or improve our operating results." Nonetheless, we believe that our quality brands, reputation, scale and integrated publishing operations provide us with significant competitive advantages.

Intellectual Property

We are a leading creator, owner and distributor of intellectual property. Our intellectual property assets include:

- trademarks in product and service names and logos, including our key brands and trade names, such as "People," "Sports Illustrated," "InStyle," "Time," "Fortune" and "Travel + Leisure";
- copyrights in magazines, software, books and mobile apps, as well as in text and photos created or commissioned by us as "works made for hire";
- domain names;
- licenses of intellectual property rights, including rights to many of the photos appearing in our magazines and third-party content appearing in our products; and
- patents for inventions related to our products, business methods and/or services (although none of our patents are material to the financial condition or operation of our business).

We derive value and revenues from these intellectual property assets through a range of business activities, including the sale or distribution of print magazines, tablet editions and books, the distribution of mobile apps and the operation of websites. We also derive revenues related to our intellectual property through advertising in our print magazines, tablet editions, events and conferences, websites and mobile apps and from various types of licensing activities, including licensing and syndication of our trademarks and copyrights in the United States and internationally.

Our intellectual property assets are, collectively, among our most valuable assets and are important to our continued success and our competitive position. To protect our intellectual property assets, we rely on a combination of copyright, trademark, unfair competition, patent and trade secret laws and contractual provisions. The duration of the protection afforded to our intellectual property depends on the type of property in question and the laws and regulations of the relevant jurisdiction. In the case of licenses, our intellectual property rights also depend on contractual provisions. With respect to our trademarks and trade names, trademark laws and rights are generally territorial in scope and limited to those countries or regions where a mark has been registered, protected or used. While trademark registrations may generally be maintained in effect for as long as the mark is in use in the respective jurisdictions, there may be occasions where a mark, name or title is not registrable or protectable and may be barred from use in a particular country or region for either substantive or technical reasons. Even if registration for a mark has been obtained, a trademark registration may be subject to cancellation or invalidation based on certain use requirements and third-party challenges, or on other grounds. With respect to our copyrights, the usual copyright term for authored works in the United States is the life of the author plus 70 years, and for "works made for hire," the copyright term is the shorter of 95 years from the first publication or 120 years from creation. With respect to our patents, patent laws and rights are generally territorial in scope and limited to those countries or regions where a patent has been obtained. In the United States, in general, for patents based on applications filed before June 8, 1995, patents are valid until the later of 17 years from the date of issue or 20 years from the date of the earliest filed application in its chain of parentage. For patents based on applications filed on or after June 8, 1995, patents are valid until 20 years from the date of the earliest

filed application in its chain of parentage. In some instances, where appropriate, we may choose not to seek patent protection for a developed technology and instead undertake measures to protect such technology as a trade secret. There also may be occasions where a technology is not patentable or protectable under the laws of a particular jurisdiction, or barred from use in a particular country or region for either substantive or technical reasons. Even where a patent has been obtained, it may be subject to invalidation based on statutory interpretation or third-party challenges, or on other grounds. With respect to our domain names, the term for each domain name is dictated by the rules and terms agreed upon with the registrar for each particular domain name.

We actively protect, police and enforce our proprietary rights in our intellectual property in the U.S. and abroad based on our legal and business judgment under the circumstances. Our license agreements and other third-party user agreements contain provisions regarding the proper use and protection of our content and trademarks. With respect to trademarks, we seek registration for our marks, as appropriate, in countries or regions where our use of the mark may be planned or anticipated or where registration is otherwise warranted. We police our trademark rights through certain third-party vendors and in-house trademark watching mechanisms, and, where appropriate, we challenge third-party uses of trademarks, or applications to register trademarks, of which we become aware. Where necessary, we take appropriate legal action against such uses based on our legal and business judgment. We also engage in online enforcement of our brands and challenge domain name registrations and uses that we deem to undermine or conflict with our trademark rights. The Internet Corporation for Assigned Names and Numbers (ICANN) has expanded the supply of domain names on the Internet and designated more than 400 new generic Top Level Domains (i.e., the characters that appear to the right of the period in domain names, such as .com, .net and .org) ("gTLDs"), with more than 1,000 new gTLDs in total expected to be introduced over the next few years, which could significantly change the structure of the Internet and make it significantly more expensive for us to protect our intellectual property on the Internet. Policing unauthorized use of our products, content and related intellectual property is often difficult, and the steps taken may not in every case prevent infringement by unauthorized third parties of our intellectual property rights.

Outside the United States, laws and regulations relating to intellectual property protection and the effective enforcement of these laws and regulations vary greatly from jurisdiction to jurisdiction. Judicial, legislative and administrative developments are taking place in certain jurisdictions that may have the impact of limiting the ability of rights holders to exploit and enforce certain of their exclusive intellectual property rights outside the United States.

Regulatory Matters

Our business is subject to and affected by laws and regulations of U.S. federal, state and local governmental authorities as well as the laws and regulations of international countries and bodies such as the European Union (the “EU”), and these laws and regulations are subject to change. The following descriptions of significant U.S. federal, state, local and international laws, regulations, regulatory agency inquiries, rulemaking proceedings and other developments are not intended to substitute for the full texts of the respective laws, regulations, inquiries, rulemaking proceedings and other related materials.

Regulation Relating to Data Privacy, Data Security and Cybersecurity

Our business is subject to existing laws and regulations governing data privacy, data security and cybersecurity in the United States and internationally. For example, in the United States, we are subject to: (1) the Children’s Online Privacy Protection Act (“COPPA”), which affects certain of our websites, mobile apps and other online business activities and restricts the collection, maintenance and use of persistent identifiers (such as IP addresses or device serial numbers), location information, images, recordings and other personal information regarding children; (2) the Privacy and Security Rules under the Health Insurance Portability and Accountability Act, which imposes privacy and security requirements on our health plans for employees and on service providers under those plans; (3) state statutes requiring notice to individuals when a data breach results in the release of personally identifiable information; and (4) privacy and security rules imposed by the payment card industry, as well as other regulations designed to protect against identity theft and fraud in connection with the collection of credit and debit card payments from consumers.

Moreover, new laws and regulations have been adopted or are being considered in the United States and internationally that could affect how we collect, use and protect data. New or expanded laws and regulations regarding information security, online and behavioral advertising, geolocation tracking, cloud computing and data collection, sharing and use could increase our compliance costs. Additionally, increased enforcement actions could also increase our costs, and enforcement has been increasing. Since 2002, the Federal Trade Commission (the "FTC") has brought over 50 cases citing companies for failure to either design or implement an appropriately comprehensive privacy or data security program. Since 2014, the Federal Communications Commission (the “FCC”) has also become increasingly involved in privacy and data security enforcement actions. These trends with the FTC and FCC appear to be continuing, as indicated by the Consumer Protection Memorandum of Understanding (“MOU”) entered into by the FTC and FCC on November 16, 2015. Under the MOU, the FTC and FCC will work together in bringing data privacy and security enforcement actions against certain companies and will share data privacy and security compliance information between each other.

Many state legislatures have also adopted legislation that regulates how businesses operate online, including measures relating to privacy, data security and data breaches. For example, laws in 47 states require businesses to provide notice to customers whose personally identifiable information has been disclosed as a result of a data breach. The laws are not consistent, and compliance in the event of a widespread data breach is costly. Further, states are constantly amending existing laws, requiring attention to regulatory requirements. Recently, states have been broadening those notification laws and increasing the requirements of companies who suffer a data breach. For example, in April 2015, Washington passed a new law that strengthened its data breach notification requirements. The new law includes content requirements for notification letters provided to Washington consumers who are affected by a data breach. The new law also requires companies suffering a data breach to notify the Washington attorney general if the breach affects more than 500 state residents. In June 2015, Connecticut also revised its data security laws. The new law requires companies who suffer a data breach involving Social Security numbers to offer at least one year of free identity theft prevention services to affected Connecticut consumers. The new Connecticut law also requires consumer notification within 90 days for all data breaches.

States are also active in other areas of data privacy. For example, on January 1, 2016, the Delaware Online Privacy and Protection Act took effect. This new law includes prohibitions against certain advertising to children (defined as those under the age of 18), including prohibitions against advertising related to firearms, tobacco and alcohol. The law also mandates privacy policies for websites and apps that collect personal information from Delaware residents.

Foreign governments are also focusing on similar data privacy and security concerns. In 2015, two major developments occurred in the European Union. First, in October 2015, the European Court of Justice invalidated the U.S.-E.U. Safe Harbor framework, which thousands of U.S. companies had been relying upon in order to legally transfer personal data from the E.U. to the U.S. Despite the impact to such a significant number of U.S. companies, there are other ways for companies to comply with the E.U. restrictions and requirements for transferring personal data. For example, companies could enter into model contracts, which contain pre-approved standardized contractual clauses related to data privacy and security. On February 2, 2016, the European Commission and the U.S. Department of Commerce announced an agreement on a new framework for transatlantic data flows to replace the invalidated U.S.-E.U. Safe Harbor framework. The E.U.-U.S. Privacy Shield has not yet been released, but reportedly will require U.S. companies to commit to robust obligations on how personal data is protected.

On December 15, 2015, the European Commission announced that it has reached agreement upon the text of the General Data Protection Regulation (the “GDPR”). The GDPR will replace the Data Protection Directive (95/46/EC), which was adopted in 1995. The GDPR still has to be approved by the E.U. Parliament, and, if approved (as expected), it will go into effect in 2018. The GDPR will introduce numerous privacy-related changes for companies operating in the E.U., including greater control for data subjects (e.g., the “right to be forgotten”), increased data portability for EU consumers, data breach notification requirements, and increased fines, with potential fines for violations of certain provisions of GDPR reaching as high as 4% of a company’s annual total revenue. The GDPR also has certain benefits for companies operating in the E.U., including the fact that companies only have to comply with the GDPR rather than the different laws of each member nation of the E.U.

As the laws and regulations in the E.U. evolve, changes in the E.U. could adversely affect our operations in the E.U. and our websites and mobile applications that are accessed by E.U. residents.

Marketing Regulation

Our U.S. magazine subscription, direct marketing and advertising sales activities are subject to regulation by the FTC and each of the states under general consumer protection statutes prohibiting unfair or deceptive acts or practices. Certain marketing activities are also subject to specific state and federal statutes and rules, such as the Telephone Consumer Protection Act, COPPA, the Gramm-Leach-Bliley Act (relating to financial privacy), the Electronic Fund Transfer Act, the Controlling the Assault of Non-Solicited Pornography and Marketing Act of 2003 (CAN SPAM), the FTC Mail or Telephone Order Merchandise Rule and the Restore Online Shoppers' Confidence Act. The FTC has also published a number of proposed rules, which, if enacted, could have an adverse impact on our marketing and subscription activities. For example, in 2009, the FTC proposed a rule that would regulate consumer offers that include a trial period (for free or at a reduced cost) for a specified period after which consumers would continue to receive products at a specified price until the offer is canceled. The rulemaking proceeding is still pending. The FTC also publishes guidelines from time to time that generally explain how to make disclosures in connection with various direct marketing and advertising activities to avoid unfair or deceptive acts or practices. For example, in December 2015, the FTC issued an Enforcement Policy Statement and accompanying Guide for Businesses addressing the use of native advertising by publishers and advertisers. In these documents the FTC lays out the general principles it will consider in determining whether any particular native advertising is deceptive and violates the FTC Act. We believe our native advertising practices are generally consistent with the FTC's Enforcement Policy Statement, but it is uncertain as to how the FTC will interpret its guidelines and how aggressive it will be in enforcing its position. We also regularly receive and resolve routine inquiries from state Attorneys General. Further, we are subject to agreements with state Attorneys General addressing some of our marketing activities, such as magazine subscription renewals. Since we entered into those agreements, many states have adopted regulations addressing the marketing activities that are the subject of our agreements with the state Attorneys General. For example, in 2010, California enacted a law requiring specific disclosures in automatic renewal offers similar to those required under our agreements with state Attorneys General. Other federal and state statutes and rules also regulate conduct in areas such as telemarketing.

In connection with our magazine subscription and marketing activities outside the United States, we are subject to local laws and regulations relating to consumer protection and electronic marketing, especially across Europe and the Asia Pacific region and in Canada. In the United Kingdom, these laws and regulations include the Data Protection Act of 1998, the Privacy and Electronic Communications (EC Directive) Regulations 2003 (SI 2003/2426) (Privacy Regulations) as amended by the Privacy and Electronic Communications (EC Directive) (Amendment) Regulations 2011 (SI 2011/1208), the Consumer Contracts Regulations 2013 and the Consumer Rights Act 2015. In addition, there are various international codes, directives, laws and regulations relating to the nature of content and advertising, including content restriction laws and consumer protection laws (such as laws relating to political advertisements, laws relating to electronic commerce and the marketing of pharmaceutical and tobacco products and alcoholic beverages).

Postal Regulation

Our U.S. magazine subscription, direct marketing and book publishing businesses are affected by laws and regulations relating to the USPS. The USPS is subject to statutorily-mandated prefunding of retiree health benefit payments, but its financial condition has continued to decline, resulting in defaults in 2012 and 2013 on the prefunding of future payments to retirees and likely future defaults on such prefunding payments that will be due under current law. As a result, members of Congress are considering the need for reform legislation. If postal reform legislation is enacted, it could result in, among other things, increases in postal rates, local post office closures and the elimination of Saturday mail delivery. The elimination of current protections against significant and unpredictable rate increases or other changes to the USPS as a result of the enactment of postal reform legislation could have an adverse effect on our businesses. For more information, see Item 1A, "Risk Factors-Risks Relating to Our Business-Our results of operations could be adversely affected as a result of additional increases in postal rates, and our business and results of operations could be negatively affected by postal service changes."

Employees

As of December 31, 2015, we had approximately 7,200 employees, of whom approximately 4,800 were located in the United States, approximately 1,600 were located in the United Kingdom, approximately 600 were located in India and approximately 200 were located in various other locations throughout Europe and Asia.

Our 2010-2013 collective bargaining agreement with the Newspaper Guild ("Guild"), covering approximately 200 print editorial employees and approximately 80 temporary workers (as of December 31, 2015) at Time, Fortune, People, Sports Illustrated and Money, expired on August 27, 2014 after several extensions. On September 19, 2014, we advised the Guild that the parties were at an impasse, which has continued, despite subsequent meetings, to the date of this annual report on Form 10-K. On November 20, 2014, we exercised our rights under applicable labor laws and implemented certain terms of our last, best and final offer. The Guild filed unfair labor practice charges with the National Labor Relations Board regarding the conduct of the negotiations. Among other things, the Guild is challenging our declaration of an impasse and our right to implement terms and conditions. Additionally, the Guild filed a unit clarification petition seeking to absorb into the unit certain employees who work for the digital publications of the covered brands of our portfolio. On August 31, 2015, the Regional Director of the National Labor Relations Board issued a complaint regarding the pending unfair labor practice charges. The matter is presently being heard by an Administrative Law Judge. There is no set timeline for resolving these charges and we cannot predict their outcome.

In our international operations, we have various arrangements with our employees that we believe to be customary for multinational corporations. We have had no strike or work stoppage during the year. We believe our current relationships with our employees are generally good.

Available Information and Website

Our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendment to such reports filed with or furnished to the Securities and Exchange Commission (the “SEC”) pursuant to Section 13(a) or 15(d) of the Exchange Act are available free of charge on our website at www.timeinc.com as soon as reasonably practicable after such reports are electronically filed with or furnished to the SEC. We are providing the address to our website solely for the information of investors. We do not intend the address to be an active link or to incorporate any information included on or accessible through the website into this report.

Seasonality

Our quarterly performance typically experiences moderate seasonal fluctuations. Advertising revenues from our magazines and websites are typically higher in the fourth quarter of the year due to higher consumer spending activity and corresponding higher advertiser demand to reach our audiences during this period.

Executive Officers of the Company

The following sets forth certain information concerning our executive officers.

Mr. Joseph A. Ripp

Mr. Ripp, age 64, has served as our Chief Executive Officer since September 2013, Director since November 2013 and Chairman since April 2014. Prior to that, Mr. Ripp served as Chief Executive Officer of OneSource Information Services, Inc., a leading provider of online business information and sales intelligence solutions, beginning shortly after the 2012 acquisition of OneSource by Cannondale Investments, Inc., a joint venture formed in 2010 between Mr. Ripp and GTCR, a leading private equity firm. Mr. Ripp served as Chief Executive Officer of Cannondale from 2010 to 2012. From 2008 to 2010, Mr. Ripp served as Chairman of Journal Register Company (now known as 21st Century Media). Prior to that, Mr. Ripp served as President and Chief Operating Officer of Dendrite International Inc., a leading provider of sales, marketing, clinical and compliance solutions for the global pharmaceutical industry.

Mr. Ripp began his media career at Time Inc. in 1985 and held several executive level positions at Time Inc. and Time Warner, including Senior Vice President, Chief Financial Officer and Treasurer of Time Inc. from 1993 to 1999, Executive Vice President and Chief Financial Officer of Time Warner from 1999 to January 2001, Executive Vice President and Chief Financial Officer of America Online from January 2001 to 2002 and Vice Chairman of America Online from 2002 to 2004.

Mr. Jeffrey J. Bairstow
Mr. Bairstow, age 57, has served as our Executive Vice President and Chief Financial Officer since September 2013; prior to that, Mr. Bairstow served as President of Digital First Media, a management company specializing in the publication of local newspapers and other multi-platform products whose properties include MediaNews Group, Journal Register Company (now known as 21st Century Media) and Digital First Ventures. Before the formation of Digital First Media and his appointment as President in 2011, Mr. Bairstow served as Chief Financial Officer of Journal Register Company from March 2010. From June 2007 to September 2008, Mr. Bairstow served as Executive Vice President and Chief Financial Officer of CCBR-Synarc, Inc., a clinical trials and imaging entity, where he also served as President of its Global Imaging Division. Prior to that, Mr. Bairstow served as Executive Vice President and Chief Financial Officer of Dendrite International Inc. from 2005 to 2007, as Chief Operating Officer of RelayHealth Corporation from 2004 to 2005 and as Chief Financial Officer of Vitria Technology from 2003 to 2004. Earlier, Mr. Bairstow held several executive positions with Health Net Inc. from 1997 to 2002, including President of the Government and Specialty Services Division from 1999 to 2002.

Mr. Richard Battista
Mr. Battista, age 51, has served as Executive Vice President and President, Entertainment & Sports Group and Video since January 2016; prior to that, he served as President, People and Entertainment Weekly from April 2015 to December 2015. Before joining us, Mr. Battista served as Chief Executive Officer of Mandalay Sports Media, a sports-focused content and media company from January 2013 to March 2015. He served as President and Chief Executive Officer of LodgeNet Interactive Corp. from September 2012 through January 2013. From January 2011 to September 2012, Mr. Battista invested in digitally-focused media properties through Pontiac Digital Media, an investment vehicle that he formed. From 2008 to 2010, Mr. Battista served as President of Fox's National Cable Networks. From 2004 to 2008, Mr. Battista served as Chief Executive Officer of Gemstar-TV Guide, a publicly-traded company that provided television program guidance and operated media properties. Earlier, Mr. Battista held leadership positions at Fox media organization over the course of 12 years.

Mr. Colin Bodell
Mr. Bodell, age 54, has served as our Executive Vice President and Chief Technology Officer since January 2014; prior to that, Mr. Bodell served as Vice President of Amazon's digital store platform from March 2013, with responsibility for the Kindle book, periodical and magazine store as well as technology that supports Amazon's digital content across multiple platforms. Mr. Bodell joined Amazon in 2006 and from that time until 2013 ran its website application platform group, which provides the platforms, services and tools necessary to support Amazon's websites around the world. Prior to joining Amazon, Mr. Bodell held senior executive and technology positions at VA Software, Webgain, Intellicorp and Micro Focus. Mr. Bodell is a member of the Board of Trustees of the Anita Borg Institute for Women and Technology.

Mr. Mark Ford
Mr. Ford, age 59, has served as our Executive Vice President, Global Advertising since February 2014; prior to that, Mr. Ford served as Executive Vice President and Group President of our Sports Group from January 2011, having previously served as President of the Time Inc. News & Sports Group (which included Time, Fortune, CNNMoney, Money, Sports Illustrated, Golf and SI Kids) and as President of Sports Illustrated. Mr. Ford joined Time Inc. in 1985 as a divisional sales manager for Time and has since served in a number of executive roles, including President of Time4 Media (a network of 17 enthusiast magazines later sold to Bonnier) and as a key member of the Entertainment Weekly launch team.

Mr. Gregory Giangrande
Mr. Giangrande, age 53, has served as our Executive Vice President and Chief Human Resources Officer since April 2012; prior to that, Mr. Giangrande served as Executive Vice President and Chief Human Resources Officer for Dow Jones & Company/The Wall Street Journal beginning in February 2008. From 1999 to 2008, Mr. Giangrande served as Senior Vice President and Chief Human Resources Officer at HarperCollins publishing group. Earlier, Mr. Giangrande held leadership positions in human resources at Hearst Corporation, Condé Nast and Random House LLC.
Mr. Lawrence A. Jacobs
Mr. Jacobs, age 60, has served as our Executive Vice President, General Counsel and Corporate Secretary since November 2013; prior to that, Mr. Jacobs served as Executive Vice President, Legal & General Counsel of Empire State Development Corporation, New York State's chief economic development agency, from April 2013. Mr. Jacobs previously served as Senior Executive Vice President and Group General Counsel at News Corporation from 2005 to 2011. Mr. Jacobs joined News Corporation in 1996. Earlier, Mr. Jacobs was a partner at the law firm Squadron Ellenoff Plesent & Sheinfeld.
Mr. Erik Moreno

Mr. Moreno, age 41, has served as our Executive Vice President, Business Development since September 2015; prior to that, Mr. Moreno served as Senior Vice President of Corporate Development for Fox Networks Group, a unit of 21st Century Fox, from 2008 to 2015. During his tenure at Fox, he also served as co-General Manager of Mobile Content Venture from 2011 to 2015 and led 21st Century Fox's efforts relating to the FCC's spectrum auction and other digital initiatives. Previously, he served as Director of Corporate Development for eBay Inc. from 2006 to 2008 and was Vice President of Corporate Development and Strategy for Level 3 Communications Ltd., a global wholesale telecommunications company, from 2000 to 2006. Mr. Moreno began his career at Gleacher & Co., a boutique investment bank specializing in mergers and acquisitions.
Mr. Norman Pearlstine
Mr. Pearlstine, age 73, has served as our Executive Vice President and Chief Content Officer since November 2013; prior to that, Mr. Pearlstine served as Chief Content Officer of Bloomberg L.P. from June 2008. He also served as Chairman, Bloomberg Businessweek following the acquisition of BusinessWeek magazine in December 2009 and co-Chairman, Bloomberg Government. From 2006 to 2008, Mr. Pearlstine served as a senior advisor to The Carlyle Group's telecommunications and media group. Prior to that, Mr. Pearlstine spent nearly four decades working as a reporter and editor. He was Time Inc.'s Editor-In-Chief from 1995 to 2005, and before that he spent 23 years working at The Wall Street Journal, including eight years as Managing Editor and one year as Executive Editor.
Ms. Evelyn Webster
Ms. Webster, age 46, has served as our Executive Vice President since January 2011, with the additional title of Group President, Lifestyle Group prior to the streamlining of our organizational structure in February 2014; prior to that, Ms. Webster served as Chief Executive Officer of Time Inc. UK (formerly IPC Media) from January 2009 to December 2010. Ms. Webster joined Time Inc. UK in 1992 where she served in a number of roles across marketing, digital strategy and new product development. Ms. Webster served as Managing Director of IPC Connect, a division of Time Inc. UK, from 2004 to 2008, and as Managing Director of IPC Inspire from 2003 to 2004.
Ms. Jennifer Wong
Ms. Wong, age 40, has served as our Executive Vice President, President of Digital since January 2016; prior to that, Ms. Wong served as Chief Business Officer of PopSugar, Inc. from 2011 to 2015, where she led business operations, business development, and growth strategy across all content and commerce platforms. From 2010 to 2011, Ms. Wong served as Senior Vice President/General Manager for Lifestyle in the Huffington Post Media Group at AOL

Inc. Prior to that, she served as the global head of business operations at AOL. Ms. Wong's earlier experience includes a role as Associate Partner, Media and Entertainment Practice for McKinsey & Company

ITEM 1A. RISK FACTORS

We believe the risks described below are the principal risks that we face. Some of the risks relate to our business; others relate principally to the securities markets and ownership of our common stock. Any of the following risks could materially and adversely affect our business, financial condition and results of operations and the actual outcome of matters as to which forward-looking statements are made in this annual report on Form 10-K. While we believe we have identified and discussed below the material risks affecting our business, there may be additional risks and uncertainties that we do not presently know or that we do not currently believe to be material that may adversely affect our business, financial condition and results of operations in the future.

We face significant competition from other magazine publishers and new forms of media, including digital media, which we expect will continue, and as a result we may not be able to maintain or improve our operating results.

We compete principally with other magazine publishers for market share and for the time and attention of consumers of print magazine content. The proliferation of choices available to consumers for information and entertainment has resulted in audience fragmentation and has negatively impacted overall consumer demand for print magazines and intensified competition with other magazine publishers for share of print magazine readership.

We also compete with digital publishers and other forms of media, including websites, tablet editions and mobile apps. The competition we face has intensified as a result of the growing popularity of mobile devices such as smartphones and tablets and the shift in consumer preference from print media to digital media for the delivery and consumption of content. These new platforms have reduced the cost of producing and distributing content on a wide scale, allowing new free or low-priced digital content providers to compete with us and other print magazine publishers. The ability of our paid print and digital content to compete successfully with free and low-priced digital content depends on several factors, including our ability to differentiate and distinguish our content from free or low-priced digital content, as well as our ability to increase the value of paid subscriptions to our customers by offering a different, deeper and richer digital experience. If we are unable to distinguish our content from that of our competitors or adapt to new distribution methods, our business, financial condition and results of operations may be adversely affected.

We derive approximately half of our revenues from advertising. The continuing shift in consumer preference from print media to digital media, as well as growing consumer engagement with new forms of digital media such as online and social networks, has introduced significant new competition for advertising. The proliferation of new platforms available to advertisers, combined with continuing strong competition from print platforms, has impacted both the amount of advertising we are able to sell as well as the rates advertisers are willing to pay. Our ability to compete successfully for advertising also depends on our ability to drive scale, engage digital audiences and prove the value of our advertising and the effectiveness of our print and digital platforms, including the value of advertising adjacent to high quality content, and on our ability to use our brands to continue to offer advertisers unique, multi-platform advertising programs and franchises. If we are unable to demonstrate to advertisers the continuing value of our print and digital platforms or offer advertisers unique advertising programs tied to our brands, our business, financial condition and results of operations may be adversely affected.

We are exposed to risks associated with the current challenging conditions in the magazine publishing industry.

We have experienced declines in our print advertising revenues and circulation revenues due to challenging conditions in the magazine publishing industry. For the years ended December 31, 2015, 2014 and 2013, our advertising revenues declined 7%, 2% and 1%, respectively, as compared to the preceding year despite our having maintained or gained market share in advertising revenues in each of 2015, 2014 and 2013 and our circulation revenues declined 5%, 3% and 7%, respectively, as compared to the preceding year. The challenging conditions and our declining revenues may limit our ability to invest in our brands and pursue new business strategies, including acquisitions, and make it more difficult to attract and retain talented employees and management. Moreover, while we have reduced our costs significantly in recent years to address these challenges, we will need to reduce costs further and such reductions are subject to risks. See "—We may experience financial and strategic difficulties and delays or unexpected costs in

completing our various restructuring plans and cost-saving initiatives, including not achieving the anticipated savings and benefits of these plans and initiatives."

Our profits will be affected by our ability to respond to recent and future changes in technology and consumer behavior.

Technology used in the publishing industry continues to evolve rapidly, and advances in that technology have led to alternative methods for the delivery and consumption of content, including via mobile devices such as smartphones and tablets. These technological developments have driven changes in consumer behavior, especially among younger demographics. Shifts to digital platforms present several challenges to our historical business model, which is based on the production and distribution of print magazines. In order to remain successful, we must continue to attract readers and advertisers to our print products while also appropriately adapting our business model to address consumer demand for digital content across a wide variety of devices.

This adaptation poses certain risks. First, advertising models and pricing for tablet editions and other digital platforms may not be as economically attractive to us as in print magazines, and our ability to continue to package print and digital audiences for advertisers could change in the future. Second, it is unclear whether it will be economically feasible for us to grow paid digital circulation to scale. Third, the increasing use of digital-only magazines is shifting how consumers interact with magazines and how readership is measured, which could indirectly adversely affect our advertising revenues. Further, our practice of offering certain content on our websites for free may reduce demand for our paid content. In addition, the increasing adoption of ad-blocking tools could negatively impact the revenues that we generate on our digital platforms.

The transition from print to digital platforms may also reduce the benefit of important economies of scale we have established in our print production and distribution operations. The scale of our print operations has allowed us to support significant vertical integration in our production, consumer marketing and retail distribution operations, among others, as well as to secure attractive terms with our third-party suppliers, all of which have provided us with significant economic and competitive advantages. As the size of our print operations declines, the advantages of the economies of scale in our print operations may also decline.

Also, the shift to digital distribution platforms, many of which are controlled by third parties, may lead to pricing restrictions, the loss of distribution control, further loss of a direct relationship with consumers and greater susceptibility to technological problems or failures in third-party systems as compared to our existing print distribution operations. Further, we may be required to incur significant costs as we continue to acquire new expertise and infrastructure to accommodate the shift to digital platforms, including additional consumer software and digital and mobile content development expertise, and we may not be able to economically adapt existing print production and distribution assets to support our digital operations. If we are unable to successfully manage the transition to a greater emphasis on digital platforms, continue to negotiate mutually agreeable arrangements with digital distributors or otherwise respond to changes in technology and consumer behavior, our business, financial condition and results of operations may be adversely affected.

We are exposed to risks associated with weak economic conditions.

We have been adversely affected by weak economic conditions in the recent past and have experienced declines in our advertising and circulation revenues. If these conditions persist or worsen, our business, financial condition and results of operations may continue to be adversely affected. Factors that affect economic conditions include the rate of unemployment, the level of consumer confidence and changes in consumer spending habits. Because magazines are generally discretionary purchases for consumers, our circulation revenues are sensitive to general economic conditions and economic cycles. Certain economic conditions such as general economic downturns, including periods of increased inflation, unemployment levels, tax rates, interest rates, gasoline and other energy prices or declining consumer confidence, negatively impact consumer spending. Reduced consumer spending or a shift in consumer spending patterns away from discretionary items will likely result in reduced demand for our magazines and may also require us to incur increased selling and marketing expenses.

We also face risks associated with the impact of weak economic conditions on third parties with which we do business, such as advertisers, suppliers, wholesale distributors, retailers and other parties. For example, if retailers file for reorganization under bankruptcy laws or otherwise experience negative effects on their businesses due to volatile or weak economic conditions, it could reduce the number of outlets for our magazines, which in turn could reduce the attractiveness of our magazines to advertisers. In addition, any financial instability of the wholesalers that distribute our print magazines to retailers could have various negative effects on us. See "—We could face increased costs and business disruption from instability in our wholesaler distribution channels."
We derive substantial revenues from the sale of advertising, and a decrease in overall advertising expenditures could lead to a reduction in the amount of advertising that companies are willing to purchase from us and the price at which they purchase it. Expenditures by advertisers tend to be cyclical and have become less predictable in recent years, reflecting domestic and global economic conditions. In addition, reviews by major advertisers of their advertising agencies which began in 2015 are continuing into 2016 and could result in a period of reduced visibility for advertising agencies and sellers of advertising. If the economic prospects of advertisers or current economic conditions worsen, such conditions could alter current or prospective advertisers' spending priorities. In particular, advertisers in certain industries that are more susceptible to weakness in domestic and global economic conditions, such as beauty, fashion and retail and food, account for a significant portion of our advertising revenues, and weakness in these industries could have a disproportionate negative impact on our advertising revenues. Declines in consumer spending on advertisers' products due to weak economic conditions could also indirectly negatively impact our advertising revenues, as advertisers may not perceive as much value from advertising if consumers are purchasing fewer of their products or services. Further, since the economic crisis of 2008-2010, advertisers have been less willing to commit funds upfront to advertising initiatives than in the past. As a result, our advertising revenues are less predictable.
If we are unable to successfully develop and execute our strategic growth initiatives, or if they do not adequately address the challenges or opportunities we face, our business, financial condition and prospects may be adversely affected.

Our success is dependent in part on our ability to identify, develop and execute appropriate strategic growth initiatives that will enable us to achieve sustainable growth in the long term. The implementation of our strategic initiatives is subject to both the risks affecting our business generally and the inherent risks associated with implementing new strategies. These strategic initiatives may not be successful in generating revenues or improving operating profit and, if they are, it may take longer than anticipated. Activities of activist shareholders could also be a distraction to management in executing its plans and may even cause us to change our strategic initiatives. As a result and depending on evolving conditions and opportunities, we may need to adjust our strategic initiatives and such changes could be substantial, including modifying or terminating one or more of such initiatives. Termination of such initiatives may require us to write down or write off the value of our investments in them. Transition and changes in our strategic initiatives may also create uncertainty in our employees, customers and partners that could adversely affect our business and revenues. In addition, we may incur higher than expected or unanticipated costs in implementing our strategic initiatives, attempting to attract revenue opportunities or changing our strategies. There is no assurance that the implementation of any strategic growth initiative will be successful, and we may not realize anticipated benefits at levels we project or at all, which would adversely affect our business, financial condition and prospects.
Changes to U.S. or international regulation of our business or the businesses of our advertisers could cause us to incur additional costs or liabilities, negatively impact our revenues or disrupt our business practices.
Our business is subject to a variety of U.S. and international laws and regulations. See Item 1, "Business–Regulatory Matters" for a description of the significant laws and regulations affecting our business. We could incur substantial costs to comply with new laws or regulations or substantial penalties or other liabilities if we fail to comply with them. Compliance with new laws or regulations could also cause us to change or limit our business practices in a manner that is adverse to our business. In addition, if there are changes in laws or regulations that provide protections that we rely on in conducting our business, they could subject us to greater risk of liability and could increase compliance costs or limit our ability to operate our business.

Our business performance is also indirectly affected by the laws and regulations that govern the businesses of our advertisers. For example, the pharmaceutical industry, which accounts for a significant portion of our advertising revenues, is subject to regulations of the Food and Drug Administration in the United States requiring pharmaceutical advertisers to communicate certain disclosures to consumers about advertised pharmaceutical products, typically through the purchase of print media advertising. We face the risk that the Food and Drug Administration could change pharmaceutical marketing regulations in a way that is detrimental to the sale of print advertising.

In addition, changes in laws and regulations that currently allow us to retain customer credit card information and other customer data and to engage in certain forms of consumer marketing, such as automatic renewal of subscriptions for our magazines and negative option offers via direct mail, email, online or telephone solicitation, could have a negative impact on our circulation revenues and adversely affect our financial condition and operating performance.

Our results of operations could be adversely affected as a result of additional increases in postal rates, and our business and results of operations could be negatively affected by postal service changes.

The financial condition of the USPS continues to decline with large net annual losses despite revenue gains and a moderating decline in the volume of mail delivered. In 2015, the USPS introduced new service standards that slowed the delivery of periodical mail and resulted in a portion of our weekly magazines being delivered a day later. We cannot predict how the USPS will address its fiscal condition in the future, and changes to delivery, reduction in staff or additional closings of processing centers may lead to changes in our internal production schedules or other changes in order to continue to meet our subscribers' expectations.

Other measures taken to address the declining financial condition of the USPS could include greater than CPI increases in the rates for periodicals mail. Congress has been considering comprehensive postal reform legislation, some of which would remove or modify the current restrictions on rate increases. Postage is a significant operating expense for us, and if there are significant increases in postal rates and we are not able to offset such increases, our results of operations could be negatively impacted.

We could face increased costs and business disruption from instability in our wholesaler distribution channels.

We operate a distribution network that relies on wholesalers to distribute our magazines to newsstands and other retail outlets. A small number of wholesalers are responsible for a substantial percentage of wholesale magazine distribution in the United States and the United Kingdom. We are experiencing significant declines in magazine sales at newsstands and other retail outlets. In light of these declines and the challenging industry conditions, there may be further consolidation among the wholesalers and one or more may become insolvent or unable to pay amounts due in a timely manner. For example, our then second-largest wholesaler of our publications filed for protection under Chapter 11 of the U.S. Bankruptcy Code in June 2014, requiring us to transition the distribution of our products and increase our use of other distributors. (See Item 1, "Business—How We Generate Revenues—Circulation—Newsstand Sales.") Distribution channel disruptions can impede our ability to distribute magazines to the retail marketplace, which could, among other things, negatively affect the ability of certain magazines to meet the rate base established with advertisers. Disruption in the wholesaler channel, an increase in wholesale distribution costs or the failure of wholesalers to pay amounts due could adversely affect our business, financial condition and results of operations.

A significant increase in the price of paper or significant disruptions in our supply of paper or printing services would have an adverse effect on our business, financial condition and results of operations.

Paper represents a significant component of our total costs to produce print magazines. While the price of paper is currently close to a 10-year low after adjusting for inflation, paper prices have historically been volatile and may increase as a result of various factors, including:

- a reduction in the number of suppliers due to restructurings, bankruptcies and consolidations;
- declining paper supply due to paper mill closures; and
- other factors that generally adversely impact supplier profitability, including increases in operating expenses caused by rising raw material and energy costs.

If paper prices increase significantly or we experience significant supply channel disruptions, our business, financial condition and results of operations would be adversely affected.

In addition, printing is a significant component in the production of our print magazines. While occasional disruptions in the services provided by our current printers can be addressed by shifting production to other suppliers, a prolonged interruption of services by either of our printers could have an adverse impact on our business, financial condition and results of operations.

We have substantial indebtedness and the ability to incur significant additional indebtedness, which could adversely affect our business, financial condition and results of operations.

In connection with the Spin-Off, on April 29, 2014, we issued $700 million aggregate principal amount of 5.75% senior notes (the "Senior Notes"). On April 24, 2014, we also entered into senior credit facilities (the "Senior Credit Facilities") providing for a term loan (the "Term Loan") in an initial principal amount of $700 million and a $500 million revolving credit facility (the "Revolving Credit Facility"), of which up to $100 million is available for the issuance of letters of credit. As of December 31, 2015, the only utilization under the Revolving Credit Facility was letters of credit in the face amount of approximately $3 million. As of December 31, 2015, we had total consolidated indebtedness, net of discounts, of approximately $1.29 billion.

In November 2015, our Board of Directors authorized principal debt repayments and/or repurchases of up to $200 million on both the Term Loan and the Senior Notes. The authorization expires on December 31, 2017, subject to extension or earlier termination by the Board of Directors. The extent to which we repurchase or repay our debt, and the timing of such transactions, will depend upon a variety of factors, including market and industry conditions, regulatory requirements and other corporate considerations, as determined by us from time to time. The authorization may be suspended or discontinued at any time without notice. Of the up to $200 million for debt repayments and/or repurchases authorized by our Board of Directors, $100 million remain unused as of February 5, 2016.

We may incur additional borrowings from the financial institutions under the Revolving Credit Facility, subject to the satisfaction of customary borrowing conditions. Additionally, the terms of the Senior Notes and Senior Credit Facilities permit us to incur significant additional indebtedness, subject to obtaining commitments from lenders.

Our level of indebtedness could have important consequences. For example, it could:

- increase our vulnerability to general adverse economic and industry conditions;
- limit our ability to obtain additional financing to fund future working capital, capital expenditures and other general corporate requirements or to carry out other aspects of our business;
- increase our cost of borrowing;
- require us to dedicate a substantial portion of our cash flow from operations to payments on indebtedness, thereby reducing the availability of such cash flow to fund working capital, capital expenditures and other general corporate requirements or to carry out other aspects of our business;
- limit our ability to make material acquisitions or take advantage of business opportunities that may arise;
- expose us to fluctuations in interest rates, to the extent our borrowings bear variable rates of interest;
- limit our flexibility in planning for, or reacting to, changes in our business and industry; and
- place us at a potential disadvantage compared to our competitors that have less debt.

Our ability to make scheduled payments on and to refinance our indebtedness will depend on and be subject to our future financial and operating performance, which in turn is affected by general economic, financial, competitive, business and other factors beyond our control, including the availability of financing in the banking and capital markets. Our business may fail to generate sufficient cash flow from operations or we may be unable to efficiently repatriate the portion of our cash flow that is derived from our foreign operations or borrow funds in an amount sufficient to enable us to make payments on our debt, to refinance our debt, to pay dividends to our stockholders at the historical rate or at all or to fund our other liquidity needs. If we were unable to make payments on or refinance our debt or obtain new financing under these circumstances, we would have to consider other options, such as asset sales, equity issuances or negotiations with our lenders to restructure the applicable debt. The terms of our debt agreements and market or business conditions may limit our ability to take some or all of these actions. In addition, if we incur additional debt, the related risks described above could be exacerbated.

The terms of the credit agreement that governs the Senior Credit Facilities and the indenture that governs the Senior Notes restrict our current and future operations, particularly our ability to incur debt that we may need to fund initiatives in response to changes in our business, the industries in which we operate, the economy and governmental regulations.

The credit agreement that governs the Senior Credit Facilities and the indenture that governs the Senior Notes contain a number of restrictive covenants that impose significant operating and financial restrictions on us and our subsidiaries and limit our ability to engage in actions that may be in our long-term best interests, including restrictions on our and our subsidiaries' ability to:

- incur or guarantee additional indebtedness or sell disqualified or preferred stock;
- pay dividends on, make distributions in respect of, repurchase or redeem, capital stock;
- make investments or acquisitions;
- sell, transfer or otherwise dispose of assets out of the ordinary course of business, including restrictions on the use of proceeds of such sales;
- create liens;
- enter into sale/leaseback transactions;
- enter into agreements restricting the ability to pay dividends or make other intercompany transfers;
- consolidate, merge, sell or otherwise dispose of all or substantially all of our or our subsidiaries' assets;
- enter into transactions with affiliates;
- prepay, repurchase or redeem certain kinds of indebtedness;
- issue or sell stock of our subsidiaries; and
- significantly change the nature of our business.

In addition, the credit agreement that governs the Revolving Credit Facility has a financial covenant that requires us to maintain a consolidated secured net leverage ratio (as defined in the credit agreement that governs the Senior Credit Facilities) of 2.75x to 1.00x or less. Our ability to meet this financial covenant may be affected by events beyond our control.

As a result of all of these restrictions, we may be:

- limited in how we conduct our business and pursue our strategy;
- unable to raise additional debt or equity financing to operate during general economic or business downturns; or
- unable to compete effectively or to take advantage of new business opportunities.

A breach of the covenants under the indenture that governs the Senior Notes or under the credit agreement that governs the Senior Credit Facilities could result in an event of default under the applicable agreement. If such an event of default occurs, the lenders under the Senior Credit Facilities and holders of the Senior Notes, as applicable, would have the right to accelerate the repayment of such debt and the event of default or acceleration may result in the acceleration of the repayment of any other debt to which a cross-default or cross-acceleration provision applies. In addition, an event of default under the credit agreement that governs the Senior Credit Facilities would also permit the lenders under the Revolving Credit Facility to terminate all other commitments to extend additional credit under the Revolving Credit Facility.

Furthermore, if we were unable to repay the amounts due and payable under the Senior Credit Facilities, the lenders under the Senior Credit Facilities could proceed against the collateral that secures the indebtedness. In the event our creditors accelerate the repayment of our borrowings, we may not have sufficient assets to repay such indebtedness and we may not be able to access the capital markets to refinance such indebtedness on terms we find acceptable or at all.

Our indebtedness subjects us to interest rate risk, which could cause our debt service obligations to increase significantly or could prevent us from taking advantage of lower rates.

As discussed under “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources,” a portion of our indebtedness consists of term loans and revolving credit facility borrowings with variable rates of interest that expose us to interest rate risks. If interest rates increase, our debt service obligations on the variable rate indebtedness will increase even though the amount borrowed remains the same, and our net income and cash flows will correspondingly decrease. Our Term Loan is subject to variable interest rates but includes a eurocurrency "floor" that is higher than the corresponding market rate currently prevailing. As such, a hypothetical 100 basis point increase in current interest rates would not have a material impact on our annual interest expense; however, a hypothetical 200 basis point increase in interest rates would increase our annual interest expense by $10 million. We will be exposed to the risk of rising interest rates to the extent that we fund our operations with short-term or variable-rate borrowings. Even if we enter into interest rate swaps in the future in order to reduce future interest rate volatility, we may not elect to maintain such interest rate swaps with respect to any of our variable rate indebtedness, and any swaps we enter into may not fully mitigate our interest rate risk. In addition, we have significant fixed rate indebtedness that includes prepayment penalties which could prevent us from taking advantage of any future decrease in interest rates that may otherwise be applicable to us.

We may need to raise additional capital, and we cannot be sure that additional financing will be available.

We will fund our ongoing working capital, capital expenditure and financing requirements through cash flows from operations, our Revolving Credit Facility and new sources of capital, including additional financing. Our ability to obtain future financing will depend, among other things, on our financial condition and results of operations as well as on the financial condition of the lenders under our Revolving Credit Facility (whose obligations are several and not joint) and the condition of the capital markets or other credit markets at the time we seek financing. Increased volatility and disruptions in the financial markets could make it more difficult and more expensive for us to obtain financing. In addition, the adoption of new statutes and regulations, the implementation of recently enacted laws or new interpretations or the enforcement of older laws and regulations applicable to the financial markets or the financial services industry could result in a reduction in the amount of available credit or an increase in the cost of credit. Moreover, we sold the headquarters building of our U.K. operations in London, England (the "Blue Fin Building") in 2015 for £415 million, which significantly increased cash flows in that year. Since we have a finite amount of disposable assets, cash flows in future years may not be similarly supported, which could increase the need to seek external financing. If we should require external financing for any reason, there can be no assurance that we will have access to the capital markets on terms we find acceptable or at all.

Adverse changes in the equity markets or interest rates, changes in actuarial assumptions and legislative or other regulatory actions could substantially increase our U.K. pension costs and adversely affect our ability to utilize earnings and proceeds of asset sales from our U.K. operations to invest in our business.

Through one of our U.K. subsidiaries, we sponsor the IPC Media Pension Scheme (the “IPC Plan”), a defined benefit pension plan that is closed to new participants and accrual of additional benefits for current participants other than certain enhanced benefits - most notably in connection with increases in certain participants' final compensation. In addition, the majority of pensions and deferred benefits in excess of the guaranteed minimum pension are increased annually in line with the increase in the retail price index up to a maximum of 5%.

In connection with the Spin-Off, we and the IPC Plan’s trustee (the "IPC Plan Trustee") entered into a binding agreement covering the actions that we would take, including an increase in the funding contribution to the IPC Plan to £11 million annually from April 2014 to 2020 and additional assurances and commitments regarding the business and assets that support the IPC Plan, including the Blue Fin Building. Such agreement has been superseded as described below.

The most recent triennial valuation of the IPC Plan under U.K. pension regulations was conducted as of April 5, 2015. Under the assumptions used in such valuation, which are more conservative than the assumptions used to determine a pension plan's funded status in accordance with generally accepted accounting principles in the United States, the IPC Plan was deemed to be underfunded by approximately £156 million. We sold the Blue Fin Building on November 24, 2015 (the "Blue Fin Sale Closing"), and as part of that sale a new pension funding agreement (the "New Pension Support Agreement") was reached among the IPC Plan Trustee, Time Inc. and Time Inc. (UK) Ltd. ("Time Inc. UK"). Pursuant to the New Pension Support Agreement, the Company is no longer subject to any restrictions on the use of proceeds from the sale of the Blue Fin Building, but has agreed to make the following cash contributions to the IPC Plan: (1) £50 million to be contributed within 30 days of the Blue Fin Sale Closing (which contribution was made in November 2015); (2) £11 million to be contributed annually until the sixth anniversary of the Blue Fin Sale Closing; (3) contributions on the sixth, seventh and eighth anniversaries of the Blue Fin Sale Closing calculated so as to eliminate the "self-sufficiency deficit", if any, of the IPC Plan as of the eighth anniversary of the Blue Fin Sale Closing, determined assuming that the discount rate on the IPC Plan's liabilities would be equivalent to 0.5% in excess of the then-prevailing rate on bonds issued by the UK Government ("gilts"); and (4) contributions between the eighth and 15th anniversaries of the Blue Fin Sale Closing calculated so as to eliminate the "self-sufficiency deficit", if any, of the IPC Plan as of the 15th anniversary of the Blue Fin Sale Closing, determined assuming that the discount rate on the plan's liabilities would be equivalent to the then-prevailing gilts rate. The "self-sufficiency deficit," which is calculated using more conservative assumptions than those used in the triennial valuation performed for purposes of determining an appropriate annual funding obligation for the IPC Plan, is an estimate of the amount of a hypothetical one-time contribution that would provide a high level of assurance that the IPC Plan could fund all future benefit obligations as they come due with no further contributions.

The New Pension Support Agreement provides that Time Inc. will guarantee all of Time Inc. UK's obligations under the IPC Plan and the New Pension Support Agreement, including the above-described payment obligations, as well as the obligation to fund the IPC Plan's "buyout deficit" (i.e., the amount that would be needed to purchase annuities to discharge the benefits under the plan) under certain circumstances. Specifically, Time Inc. would be required to deposit the buyout deficit into escrow or provide a surety bond or other suitable credit support if we were to experience a significant drop in our credit ratings or if our debt in excess of $50 million were to not be paid when due or were to come due prior to its stated maturity as a result of a default (a "Major Debt Acceleration"). We would be permitted to recoup the escrowed funds under certain circumstances after a recovery in its credit ratings. However, if the Company or Time Inc. UK were to become insolvent, or if a Major Debt Acceleration were to occur (without being promptly cured and accompanied by a recovery in the Company's credit ratings), any escrowed funds would be immediately contributed into the IPC Plan and we would be obligated to immediately contribute into the IPC Plan any shortfall in the buy-out deficit amount.

It is possible that, following future valuations of the IPC Plan's assets and liabilities or following future discussions with the trustee, the annual funding obligation will change. These calculations under the IPC Plan can be affected by a number of assumptions and factors, including legislative changes, assumptions regarding interest rates, inflation, mortality, compensation increases and retirement rates, the investment strategy and performance of the IPC Plan assets, the strength of our U.K. business, and (in certain limited circumstances) actions by the U.K. pensions regulator. Volatile economic conditions could increase the risk that the funding requirements increase following the next triennial valuation, which is expected to commence in April 2018. A significant increase in our funding requirements for the IPC Plan or in the calculated "self-sufficiency deficit" could negatively affect our ability to utilize earnings and sale proceeds from our U.K. operations to invest in our business.

We face risks relating to doing business internationally that could adversely affect our business, financial condition and operating results.

Our business operates internationally. There are risks inherent in doing business internationally, including:

- issues related to managing international operations;
- potentially adverse changes in tax laws and regulations;
- lack of sufficient protection for intellectual property in some countries;
- government policies that restrict the print and digital flow of information;

- complying with international laws and regulations, including those governing the collection, use, retention, sharing and security of consumer data;
- currency exchange and export controls;
- local labor laws and regulations;
- political or social instability; and
- limitations on our ability to efficiently repatriate cash from our foreign operations.

One or more of these factors could harm our international operations and operating results. These risks will be heightened if we expand the international scope of our operations. In addition, some of our operations are conducted in foreign currencies, and the value of each of these currencies fluctuates relative to the U.S. dollar. As a result, we are exposed to exchange rate fluctuations, which in the past have had, and in the future could have, an adverse effect on our results of operations in a given period.

Our business may suffer if we cannot continue to enforce the intellectual property rights on which our business depends.

Our business relies on a combination of trademarks, trade names, copyrights and other proprietary rights, as well as contractual arrangements, including licenses, to establish, maintain and protect our intellectual property rights and brands. Our proprietary trademarks and other intellectual property rights are important to our continued success and our competitive position. See Item 1, “Business—Intellectual Property” for a description of our intellectual property assets and the measures we take to protect them. Effective intellectual property protection may not be available in every country or region in which we operate or where our products are available. We also may not be able to acquire or maintain appropriate domain names in all countries or regions in which we do business. The Internet Corporation for Assigned Names and Numbers (ICANN) has expanded the supply of domain names on the Internet and has so far designated more than 400 new gTLDs (i.e., the characters that appear to the right of the period in domain names, such as .com, .net and .org), with more than 1,000 new gTLDs in total expected to be introduced over the next few years, which could significantly change the structure of the Internet and make it significantly more expensive for us to protect our intellectual property on the Internet. We may be unable to prevent third parties from acquiring domain names, including generic top level domain names, that are similar to, infringe or diminish the value of our trademarks and other proprietary rights. Any impairment of our intellectual property or brands, including due to changes in U.S. or foreign intellectual property laws or the absence of effective legal protections or enforcement measures, could adversely impact our business, financial condition and results of operations.

We have been, and may be in the future, subject to claims of intellectual property infringement, which could require us to change our business practices.

Successful claims that we infringe the intellectual property of others could require us to enter into royalty or licensing agreements on unfavorable terms, incur substantial monetary liability or be enjoined preliminarily or permanently from further use of the intellectual property in question. This could require us to change our business practices and limit our ability to compete effectively. Even if we believe that claims of intellectual property infringement are without merit, defending against the claims can be time-consuming and costly and divert management’s attention and resources away from our business.

Service disruptions or failures of our or our vendors’ information systems and networks as a result of computer viruses, misappropriation of data or other malfeasance, natural disasters (including extreme weather), accidental releases of information or other similar events, may disrupt our business, damage our reputation or have a negative impact on our results of operations.

Because information systems, networks and other technologies are critical to many of our operating activities, shutdowns or service disruptions at our company or vendors that provide information systems, networks, printing or other services to us pose increasing risks. Such disruptions may be caused by events such as computer hacking, phishing attacks, dissemination of computer viruses, worms and other destructive or disruptive software, denial of service attacks and other malicious activity, as well as power outages, natural disasters (including extreme weather), terrorist attacks or other similar events. Such events could have an adverse impact on us and our customers, including degradation or disruption of service, loss of data and damage to equipment and data. In addition, system redundancy may be ineffective or inadequate, and our disaster recovery planning may not be sufficient to cover all eventualities. Significant events could result in a disruption of our operations, customer or advertiser dissatisfaction, damage to our reputation or brands or a loss of customers or revenues. In addition, we may not have adequate insurance coverage to compensate for any losses associated with such events.

We could be subject to risks caused by misappropriation, misuse, leakage, falsification or intentional or accidental release or loss of information maintained in the information systems and networks of our company and our vendors, including personal information of our employees and customers, and company and vendor confidential data. In addition, outside parties may attempt to penetrate our systems or those of our vendors or fraudulently induce our employees or customers or employees of our vendors to disclose sensitive information in order to gain access to our data. Like other companies, we have on occasion experienced, and will continue to experience, threats to our data and systems, including malicious codes and viruses, and other cyber-attacks. The number and complexity of these threats continue to increase over time. If a material breach of our security or that of our vendors occurs, the market perception of the effectiveness of our security measures could be harmed, we could lose customers and advertisers and our reputation, brands and credibility could be damaged. We could be required to expend significant amounts of money and other resources to repair or replace information systems or networks. In addition, we could be subject to regulatory actions and claims made by consumers and groups in private litigation involving privacy issues related to consumer data collection and use practices and other data privacy laws and regulations, including claims for misuse or inappropriate disclosure of data, as well as unfair or deceptive practices. Although we develop and maintain systems and controls designed to prevent these events from occurring, and we have a process to identify and mitigate threats, the development and maintenance of these systems, controls and processes is costly and requires ongoing monitoring and updating as technologies change and efforts to overcome security measures become more sophisticated. Moreover, despite our efforts, the possibility of these events occurring cannot be eliminated entirely. As we distribute more of our content digitally, outsource more of our information systems to vendors, engage in more electronic transactions with consumers and rely more on cloud-based information systems, the related security risks will increase and we will need to expend additional resources to protect our technology and information systems. Additionally, a growing portion of our subscription revenue, both through our Synapse subsidiary and direct-to-publisher subscriptions, is dependent on the continuous service model and our ability to automatically renew customers (with proper notifications) using credit or debit cards that customers provide at the time of purchase. Significant credit card breaches at major retailers have resulted in a number of banks re-issuing credit cards. This creates a break in our relationship with customers whose cards are reissued and results in lost renewal revenue. A continuation or increase in such breaches and resulting re-issuances could adversely impact our business, financial condition and results of operations.

We are also subject to payment card association rules and obligations under our contracts with payment card processors. Under these rules and obligations, if information is compromised, we could be liable to payment card issuers for the cost of associated expenses and penalties. In addition, if we fail to follow payment card industry security standards, even if no customer information is compromised, we could incur significant fines or experience a significant increase in payment card transaction costs. Furthermore, if we fail to comply with the chargeback policies established by a payment card processor, it could result in us incurring significant fines or even the termination of our contract with that payment card processor.

We could be required to record significant impairment charges in the future.

Under U.S. generally accepted accounting principles, goodwill and indefinite-lived intangible assets are required to be tested for impairment annually or earlier upon the occurrence of certain events or substantive changes in circumstances, and long-lived assets, including finite-lived intangible assets, are required to be tested for impairment upon the occurrence of a triggering event. Factors that could lead to impairment of goodwill and indefinite-lived intangible assets include significant adverse changes in the business climate and declines in the value of our business. We assessed Goodwill for impairment at September 30, 2015 as a result of the then pending sale of the Blue Fin Building, a decline in our publicly traded share price and recent trends in our advertising and circulation revenues. The assessment resulted in a noncash goodwill impairment charge of $952 million ($943 million, net of tax). Our annual impairment test as of December 31, 2015 did not result in a further impairment charge. For more information, see Note

2, "Summary of Significant Accounting Policies–Asset Impairments–Goodwill" to our consolidated and combined financial statements included in this annual report on Form 10-K. Market conditions in the publishing industry remain challenging, and we continue to experience declines in print advertising revenues and circulation revenues as a result of the continuing shift in consumer preference from print media to digital media and how consumers engage with digital media. If market conditions worsen, if the market price of our publicly traded common stock declines, or if our performance fails to meet current expectations, it is possible that the carrying value of our reporting unit, even after the impairment of goodwill discussed above, will exceed its fair value, which could result in further recognition of a noncash impairment of goodwill that could be material.

We have made and expect to continue to make acquisitions and investments, which could involve inherent risks and uncertainties.

We have made and expect to continue to make acquisitions and investments, which could involve inherent risks and uncertainties, including:

- the difficulty in integrating newly acquired businesses and operations in an efficient and effective manner;
- the challenge in achieving strategic objectives, cost savings and other anticipated benefits;
- the potential loss of key employees of the acquired businesses;
- the potential diversion of senior management's attention from our operations;
- the risks associated with integrating financial reporting and internal control systems;
- the risks associated with the computing environment in which the acquired business operates, including security risks;
- the difficulty in expanding information technology systems and other business processes to incorporate the acquired businesses;
- potential future impairments of goodwill associated with the acquired businesses; and
- in some cases, the potential for increased regulation.

If an acquired business fails to operate as anticipated, cannot be successfully integrated with our existing business, or one or more of the other risks and uncertainties identified occur in connection with our acquisitions, our business, results of operations and financial condition could be adversely affected.

If it becomes more difficult to attract and retain key personnel, our business could be adversely affected.

We are dependent on our ability to hire and retain talented employees and management. We underwent significant changes over the past few years, including several changes in executive leadership and various restructuring and cost management initiatives, which were disruptive to our business. As a result of these disruptions or other factors, it may become more difficult to attract and retain the key employees we need to meet our strategic objectives.

Our operating results are subject to seasonal variations.

Our business has experienced, and is expected to continue to experience, seasonality due to, among other things, seasonal advertising patterns and seasonal influences on people's reading habits. Typically, our revenues from advertising are highest in the fourth quarter. The effects of such seasonality make it difficult to estimate future operating results based on the previous results of any specific quarter.

We may experience financial and strategic difficulties and delays or unexpected costs in completing our various restructuring plans and cost-saving initiatives, including not achieving the anticipated savings and benefits of these plans and initiatives.

In 2015 and 2014, we initiated restructuring plans that included streamlining our organizational structure to enhance operational flexibility, speed decision making, and spur the development of new cross-brand products and services. We expect to continue to actively manage our costs and may undertake additional restructuring plans and cost-savings initiatives. Our cost savings initiatives include moving some of our business operations and corporate functions to outsourced arrangements or off-shore locations. Identifying and implementing additional cost reductions, however, may become increasingly difficult to do in an operationally effective manner.

We may not realize the anticipated savings or benefits from one or more of these restructuring plans or cost-savings initiatives in full or in part, and we may encounter financial and strategic difficulties and delays or unexpected costs in our efforts to do so. In addition, our cost savings initiatives may adversely affect the quality of our products and brands and further limit our ability to attract and retain talent. Our cost savings initiatives are also subject to execution risk, including business disruptions, diversion of management attention, inadequate knowledge transfer, cultural differences, incurring greater than anticipated expenses and risks associated with providing services and functions in outsourced and off-shore locations. In addition, our plan to invest these savings and benefits ahead of future growth means that such costs will be incurred whether or not we realize these savings and benefits. If we fail to realize anticipated savings or benefits or fail to better align our cost structure in a timely manner, or fail to reduce business expenditures through our restructuring plans and cost-savings initiatives, our ability to continue to fund growth initiatives and our business, financial condition and results of operations may be adversely affected.

We are subject to credit risk with respect to our bank deposits and investments in certain short-term securities.

We maintain a portion of our cash in bank accounts with several financial institutions. Although the Federal Deposit Insurance Corporation provides deposit insurance guaranteeing the safety of a depositor’s accounts in the United States, such insurance is limited to an immaterial portion of our deposits. In addition, we invest a portion of our cash in securities that include Treasury money funds, government money funds and prime money funds. The value of these investments is subject to credit risk from the issuers and/or guarantors of the securities and other counterparties in certain transactions. Defaults by the issuer and, where applicable, an issuer’s guarantor or other counterparties with regard to any such investments could reduce our net realized investment gains or result in investment losses.

We could have an indemnification obligation to Time Warner if the Distribution were determined not to qualify for non-recognition tax treatment, which could materially adversely affect our financial condition.

If, due to any of our representations being untrue or our covenants being breached, it were determined that the Distribution did not qualify for non-recognition of gain and loss under Section 355 of the Internal Revenue Code (the "Code"), or that an excess loss account existed at the date of the Spin-Off, we could be required to indemnify Time Warner for the resulting taxes and related expenses. Any such indemnification obligation could materially adversely affect our financial condition.

In addition, Section 355(e) of the Code generally creates a presumption that the Distribution would be taxable to Time Warner, but not to stockholders, if we or our stockholders were to engage in transactions that result in a 50% or greater change by vote or value in the ownership of our stock during the four-year period beginning on the date that begins two years before the date of the Distribution, unless it were established that such transactions and the Distribution were not part of a plan or series of related transactions giving effect to such a change in ownership. If the Distribution were taxable to Time Warner due to such a 50% or greater change in ownership of our stock, Time Warner would recognize a gain in an amount up to the fair market value of our common stock held by it immediately before the Distribution, increased by the amount of the special dividend that we paid Time Warner in connection with the Spin-Off, and we generally would be required to indemnify Time Warner for the tax on such gain and any related expenses. Any such indemnification obligation could materially adversely affect our financial condition. See Note 17, "Relationship Between Time Inc. and Time Warner," to our consolidated and combined financial statements included in this annual report on Form 10-K.

We agreed to numerous restrictions to preserve the non-recognition tax treatment of the Distribution, which may reduce our strategic and operating flexibility.

In connection with the Spin-Off, we entered into a Tax Matters Agreement with Time Warner pursuant to which we agreed to covenants and indemnification obligations that address compliance with Section 355(e) of the Code. These covenants and indemnification obligations may limit our ability to pursue strategic transactions or engage in new businesses or other transactions that may maximize the value of our business, and might discourage or delay a strategic transaction that our stockholders may consider favorable. See Note 17, "Relationship Between Time Inc. and Time Warner," to our consolidated and combined financial statements included in this annual report on Form 10-K.

Our historical financial information is not necessarily representative of the results we would have achieved as an independent publicly-traded company and may not be a reliable indicator of our future results.

We derived the historical financial information for periods prior to the Spin-Off from Time Warner's consolidated financial statements, and this information does not necessarily reflect the results of operations and financial position we would have achieved as an independent publicly-traded company during the periods presented, or those that we will achieve in the future. This is primarily because of the following factors:

- Prior to the Spin-Off, we operated as part of Time Warner's broader corporate organization and Time Warner performed various corporate functions for us, including information technology, tax administration, treasury activities, accounting, benefits administration, procurement, legal and ethics and compliance program administration. Our historical financial information for periods prior to the Spin-Off reflects allocations of corporate expenses from Time Warner for these and similar functions. These allocations may not reflect the costs we would have incurred or will incur as an independent publicly-traded company.
- We entered into agreements with Time Warner that either did not exist prior to the Spin-Off or that have different terms than terms of arrangements or agreements that existed prior to the Spin-Off.
- Our historical financial information for periods prior to the Spin-Off does not reflect changes that we have experienced or may experience as a result of our separation from Time Warner, including changes in the financing, operations, cost structure and personnel needs of our business. As part of Time Warner, we enjoyed certain benefits from Time Warner's operating diversity, size, purchasing power, borrowing leverage and available capital for investments, and we lost these benefits after the Spin-Off. As an independent entity, we may be unable to purchase goods, services and technologies, such as insurance and health care benefits and computer software licenses, or access capital markets on terms as favorable to us as those we obtained as part of Time Warner prior to the Spin-Off. In addition, subject to the discretion of our Board and other factors, we have made and expect to continue to make quarterly dividend payments to our stockholders.

In addition, our pre-Spin-Off financial data does not include an allocation of interest expense comparable to the interest expense we incur as a result of the Senior Notes and the Senior Credit Facilities. Our interest expense for the year ended December 31, 2015 was $70 million, exclusive of fees and discounts, which is significantly higher than the amount reflected in our historical financial statements for the years before 2015.

Following the Spin-Off, we became responsible for the additional costs associated with being an independent publicly-traded company, including costs related to corporate governance, investor and public relations and public reporting. Therefore, our financial statements for the years before 2015 may not be indicative of our performance as an independent publicly-traded company. For additional information about our past financial performance and the basis of presentation of our financial statements, see Item 6, "Selected Financial Data," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our historical financial statements and the notes thereto included elsewhere in this annual report on Form 10-K.

Our stock price may fluctuate significantly.

The market price of our common stock may fluctuate widely, depending on many factors, some of which may be beyond our control, including:

- actual or anticipated fluctuations in our operating results due to factors related to our business;

- success or failure of our business strategies;
- our quarterly or annual earnings, or those of other companies in our industry;
- our ability to obtain financing as needed;
- announcements by us or our competitors of significant acquisitions or dispositions;
- changes in accounting standards, policies, guidance, interpretations or principles;
- the failure of securities analysts to continue to cover our common stock;
- changes in earnings estimates by securities analysts or our ability to meet those estimates;
- the operating and stock price performance of other comparable companies;
- investor perception of our company and the magazine publishing industry;
- overall market fluctuations;
- results from any material litigation or government investigation;
- changes in laws and regulations (including tax laws and regulations) affecting our business;
- changes in capital gains taxes and taxes on dividends affecting stockholders; and
- general economic conditions and other external factors.

Stock markets in general have experienced volatility that has often been unrelated to the operating performance of a particular company. These broad market fluctuations could adversely affect the trading price of our common stock.

Provisions in our Amended and Restated Certificate of Incorporation and Amended and Restated By-laws and of Delaware law may prevent or delay an acquisition of our company, which could decrease the trading price of our common stock.

Several provisions of our Amended and Restated Certificate of Incorporation, Amended and Restated By-laws and Delaware law may discourage, delay or prevent a merger or acquisition that stockholders may consider favorable. These include provisions that:

- permit us to issue blank check preferred stock;
- do not permit our stockholders to act by written consent and require that stockholder action must take place at an annual or special meeting of our stockholders;
- provide that only our Chief Executive Officer, Board of Directors or any record holders of shares representing at least 25% of the combined voting power of the outstanding shares of all classes and series of our capital stock entitled generally to vote in the election of directors, voting as a single class, are entitled to call a special meeting of our stockholders; and
- limit the ability of certain stockholders to enter into business combination transactions with the Company without the approval of our Board of Directors.

In addition, the Tax Matters Agreement that we entered into with Time Warner in connection with the Spin-Off limits our ability to pursue certain strategic transactions (including restrictions on share issuances, business combinations, sales of assets and similar transactions) that were designed to preserve the tax-free nature of the Distribution. These restrictions apply for the two-year period after the Distribution.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

The following table sets forth certain information concerning our principal properties as of December 31, 2015:

Description / Location	Principal Use	Approximate Square Footage	Leased or Owned	Expiration Date
225 Liberty Street New York, New York	Executive, business, administrative and editorial offices	670,000[(a)]	Leased	2032
135 West 50th Street New York, New York	Business and editorial offices	240,000[(b)]	Leased	2017
3102 Queen Palm Drive Tampa, Florida	Warehouse and distribution facility	230,000[(c)]	Leased	2020
Blue Fin Building 110 Southwark Street London, United Kingdom	Executive, business, administrative and editorial offices	200,000[(d)]	Leased	2025
2100 Lakeshore Drive Birmingham, Alabama	Executive, business, administrative and editorial offices	156,000[(e)]	Leased	2030
3000 University Center Drive/10419 N 30th Street Tampa, Florida	Business offices, call center and distribution facility	133,000[(f)]	Leased	2020
225 High Ridge Road Stamford, Connecticut	Business offices	77,000[(g)]	Leased	2016
241 37th Street Brooklyn, New York	Business offices	58,000[(h)]	Leased	2031

(a) The lease at 225 Liberty Street commenced on February 11, 2015 and extends through December 31, 2032, although cash payments for rent obligations under the lease are not expected to begin until January 1, 2018. We have two five-year renewal options under this lease that are exercisable in December 2030 and 2035, respectively. We have an option to reduce the amount of space under this lease that is exercisable in August 2022.

(b) Approximately 33,000 square feet are subleased to unaffiliated third-party tenants. Approximately 111,000 square feet are vacant and on the market for sublet.

(c) We have two five-year renewal options under this lease that are exercisable in June 2019 and 2024, respectively.

(d) Approximately 40,000 square feet are subleased to unaffiliated third-party tenants.

(e) We have four five-year renewal options under this lease that are exercisable in December 2029, 2034, 2039, and 2044, respectively.

(f) We have exercised our option to terminate this lease effective June 30, 2017.

(g) We have an option to renew this lease for an additional five years. We are currently negotiating an extension to the expiration date of this renewal option.

(h) We have one five-year renewal option under this lease that is exercisable in May 2030. We have two expansion options under this lease that are both exercisable between September 2016 and March 2017.

As of December 31, 2015, we also had a lease for approximately 1,382,000 square feet in the Time & Life Building at 1271 Avenue of the Americas, New York, New York, our former New York City headquarters. We completed the relocation of our headquarters to Brookfield Place at 225 Liberty Street in late 2015. In January 2016, we exercised a surrender option for 673,000 square feet with respect to the Time & Life Building lease with a payment of $86 million, which became effective on January 16, 2016. Our lease for the remaining space in the Time & Life Building expires in December 2017. We have sublet the majority of the remaining space to unaffiliated third-party tenants, with the balance being vacant and on the market for sublet.

In addition to the properties listed above, we lease approximately 50 facilities for use as offices, technology centers, warehouses and other operational facilities in Alabama, Arizona, Arkansas, California, Florida, Georgia, Illinois, Massachusetts, Michigan, Minnesota, New Jersey, New York, Ohio, Pennsylvania, Texas, Washington and Washington, DC, and in the countries of Canada, China, Germany, Hong Kong, India, Japan, the Netherlands, the Philippines, Singapore, Switzerland and the United Kingdom.

We continually review and update our real estate portfolio to meet changing business needs. We believe that our facilities are well maintained and are sufficient to meet our current and projected needs.

ITEM 3. LEGAL PROCEEDINGS

On March 10, 2009, Anderson News L.L.C. and Anderson Services L.L.C. (collectively, "Anderson News") filed an antitrust lawsuit in the U.S. District Court for the Southern District of New York (the “District Court”) against several magazine publishers, distributors and wholesalers, including Time Inc. and one of its subsidiaries, Time Inc. Retail (formerly Time/Warner Retail Sales & Marketing, Inc.) ("TIR"). Plaintiffs allege that defendants violated Section 1 of the Sherman Antitrust Act by engaging in an antitrust conspiracy against Anderson News, as well as other related state law claims. Specifically, plaintiffs allege that defendants conspired to reduce competition in the wholesale market for single-copy magazines by rejecting the magazine distribution surcharge proposed by Anderson News and another magazine wholesaler and refusing to distribute magazines to them. Plaintiffs are seeking (among other things) an unspecified award of treble monetary damages against defendants, jointly and severally. On August 2, 2010, the District Court granted defendants' motions to dismiss the complaint with prejudice and, on October 25, 2010, the District Court denied Anderson News' motion for reconsideration of that dismissal. On November 8, 2010, Anderson News appealed and, on April 3, 2012, the U.S. Court of Appeals for the Second Circuit (the “Circuit Court”) vacated the District Court's dismissal of the complaint and remanded the case to the District Court. On January 7, 2013, the U.S. Supreme Court denied defendants' petition for writ of certiorari to review the judgment of the Circuit Court vacating the District Court's dismissal of the complaint. In February 2014, Time Inc. and several other defendants amended their answers to assert antitrust counterclaims against plaintiffs. On December 19, 2014, the defendants filed a motion for summary judgment on Anderson News' claims and Anderson News filed a motion for summary judgment on the antitrust counterclaim. On August 20, 2015, the District Court granted the defendants’ motion for summary judgment on Anderson News’ claims and granted Anderson News’ motion for summary judgment on the defendants’ antitrust counterclaim. On August 25, 2015, Anderson News filed a notice with the Circuit Court appealing the District Court’s dismissal of Anderson News’ claims, and on September 14, 2015, the defendants filed a notice with the Circuit Court appealing the District Court’s dismissal of the defendants’ antitrust counterclaim. On December 8, 2015, Anderson News filed its appellate brief with the Circuit Court.

On November 14, 2011, TIR and several other magazine publishers and distributors filed a complaint in the U.S. Bankruptcy Court for the District of Delaware against Anderson Media Corporation, the parent company of Anderson News, and several Anderson News affiliates. Plaintiffs, acting on behalf of the Anderson News bankruptcy estate, seek to avoid and recover in excess of $70 million that they allege Anderson News transferred to the Anderson News-affiliated insider defendants in violation of the United States Bankruptcy Code and Delaware state law prior to the involuntary bankruptcy petition filed against Anderson News by certain of its creditors. On December 28, 2011, the defendants moved to dismiss the complaint. On June 5, 2012, the court denied defendants' motion. On November 6, 2013, the bankruptcy court lifted the automatic stay barring claims against the debtor, allowing Time Inc. and others to pursue an antitrust counterclaim against Anderson News in the antitrust action brought by Anderson News in the U.S. District Court for the Southern District of New York (described above).

On October 26, 2010, the Canadian Minister of National Revenue denied the claims by TIR for input tax credits in respect of goods and services tax that TIR had paid on magazines it imported into, and had displayed at retail locations in, Canada during the years 2006 to 2008, on the basis that TIR did not own those magazines, and issued Notices of Reassessment in the amount of approximately C$52 million. On January 21, 2011, TIR filed an objection to the Notices of Reassessment with the Chief of Appeals of the Canada Revenue Agency ("CRA"), arguing that TIR claimed input tax credits only in respect of goods and services tax it actually paid and, regardless of whether its payment of the goods and services tax was appropriate or in error, it is entitled to a rebate for such payments. On September 13, 2013, TIR received Notices of Reassessment in the amount of C$26.9 million relating to the disallowance of input tax credits claimed by TIR for goods and services tax that TIR had paid on magazines it imported into, and had displayed at retail locations in, Canada during the years 2009 to 2010. On October 22, 2013, TIR filed an objection to the Notices of Reassessment received on September 13, 2013 with the Chief of Appeals of the CRA, asserting the same arguments made in the objection TIR filed on January 21, 2011. By letter dated June 19, 2015, the collections department of the CRA requested payment of C$89.8 million, which includes interest accrued on both assessments, and stated that failure to pay may result in legal action. TIR responded by letter dated July 9, 2015 stating that collection should remain stayed pending resolution of the issues raised by TIR’s objection and that the alleged liability associated with the assessments substantially exceeds the value of TIR’s assets and business in Canada. By letter dated September 21, 2015, the CRA stated that collection would not be stayed and requested that TIR pay the assessments or post a letter of credit as security until the matter is resolved. In subsequent discussions, the CRA indicated that it intended to make a decision on TIR's objections to the CRA's assessments and will not take collection actions prior to that time. By letter dated February 1, 2016, CRA Collections stated that although the Appeals Division is still reviewing TIR’s objections to the assessments, Collections is again requesting the assessments be paid or sufficient security be provided pending the review. On February 8, 2016, the Company filed an application for a remission order with the International Trade Policy Division of Finance Canada to seek relief from the assessments and the collection action requested in the February 1, 2016 letter. Including interest accrued on both reassessments, the total reassessment by the CRA for the years 2006 to 2010 was C$91.1 million as of November 30, 2015.

On October 3, 2012, Susan Fox filed a class action complaint (the "Complaint") against Time Inc. in the United States District Court for the Eastern District of Michigan alleging violations of Michigan’s Video Rental Privacy Act (“VRPA”) as well as claims for breach of contract and unjust enrichment. The VRPA limits the ability of entities engaged in the business of selling, renting or lending retail books or other written materials from disclosing to third parties certain information about customers’ purchase, lease or rental of those materials. The Complaint alleges that Time Inc. violated the VRPA by renting to third parties lists of subscribers to various Time Inc. magazines. The Complaint sought injunctive relief and the greater of statutory damages of $5,000 per class member or actual damages. On December 3, 2012, Time Inc. moved to dismiss the Complaint on the grounds that it failed to state claims for relief and because the named plaintiff lacked standing because she suffered no injury from the alleged conduct. On August 6, 2013, the court granted, in part, and denied, in part, Time Inc.’s motion, dismissing the breach of contract claim but allowing the VRPA and unjust enrichment claims to proceed. On November 11, 2013, Rose Coulter-Owens replaced Susan Fox as the named plaintiff. On March 13, 2015, the plaintiff filed a motion seeking to certify a class consisting of all Michigan residents who between March 31, 2009 and November 15, 2013 purchased a subscription to TIME, Fortune or Real Simple magazines through any website other than Time.com, Fortune.com and RealSimple.com. On July 27, 2015, the court granted plaintiff’s motion to certify the class, which we estimate to comprise approximately 40,000 consumers. On August 31, 2015, Time Inc. and the plaintiff moved for summary judgment and on October 1, 2015 both parties filed briefs in opposition to their adversaries’ motions. On February 16, 2016, the court granted Time Inc.'s motion for summary judgment and dismissed the case.

We intend to vigorously defend against or prosecute the matters described above.

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

For the matters disclosed above, we do not believe that any reasonably possible loss in excess of accrued liabilities would be material to the Financial Statements as a whole. In view of the inherent difficulty of predicting the outcome of litigation, claims and other matters, we often cannot predict what the eventual outcome of a pending matter will be, or what the timing or results of the ultimate resolution of a matter will be.

In addition to the matters described above, we are a party to a variety of legal proceedings that arise in the normal course of our business. While the results of such normal course legal proceedings cannot be predicted with certainty, management believes that, based on current knowledge, the final outcome of such current pending matters will not have a material adverse effect on our financial position, results of operations or cash flows. Regardless of the outcome, legal proceedings can have an adverse effect on us because of defense costs, diversion of management resources and other factors.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

Part II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock is listed on the New York Stock Exchange ("NYSE") under the symbol "TIME" and began "regular-way" trading on the NYSE on June 9, 2014. As of February 10, 2016, there were approximately 9,400 holders of record of our common stock.

The following table sets forth for the periods indicated the reported high and low closing sales price of our common stock on the NYSE since May 21, 2014, the date that our common stock began "when-issued" trading on the NYSE, as reported by the NYSE:

Year Ended December 31, 2014	High	Low
Second Quarter (since May 21, 2014)	$24.43	$20.85
Third Quarter	$25.62	$22.59
Fourth Quarter	$24.98	$19.41
Year Ended December 31, 2015	High	Low
First Quarter	$25.60	$21.64
Second Quarter	$24.05	$21.34
Third Quarter	$23.84	$18.31
Fourth Quarter	$19.88	$14.96

Dividend Policy

We have paid consecutive quarterly cash dividends of $0.19 per common share since the fourth quarter of 2014. In February 2016, our Board of Directors declared a cash dividend of $0.19 per common share to stockholders of record as of the close of business on February 29, 2016, which dividend will be payable on March 15, 2016. We currently intend to continue to declare regular quarterly dividends on our outstanding common stock in respect of each completed fiscal quarter, with quarterly payment dates occurring on or about the middle of the last month of each quarter. The declaration and amount of any actual dividend are in the sole discretion of our Board of Directors and are subject to numerous factors that ordinarily affect dividend policy, including the results of our operations and our financial position, as well as general economic and business conditions. Although the Senior Credit Facilities contain limitations on our ability to declare dividends and make other restricted payments, such limitations are not expected to hinder our ability to declare regular quarterly dividends at rates similar to those declared in the past.

Recent Sale of Unregistered Securities

None.

Issuer Purchases of Equity Securities

The following table provides certain information with respect to our purchases of shares of Time Inc.'s common stock during the fourth quarter of 2015:

Period	Total Number of Shares Repurchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs[1]	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs [1]
October 1 to October 31	NA	NA	NA	NA
November 1 to November 30	1,578,486	$ 16.08	1,578,486	$274,625,264
December 1 to December 31	2,355,141	$ 16.05	2,355,141	$236,818,539
Total	3,933,627		3,933,627	

(1) On November 12, 2015, our Board of Directors authorized the repurchase of up to $300 million of Time Inc.'s common stock. The authorization expires on December 31, 2017, subject to extension or earlier termination by the Board of Directors.

Performance Presentation

The following graph shows the cumulative total stockholder return from May 21, 2014 (the first day our common stock began “when-issued” trading on the NYSE) through December 31, 2015 on an assumed investment of $100 on May 21, 2014 in our common stock, the Standard & Poor’s S&P 400 MidCap Stock Index and the Standard & Poor’s S&P 1500 Publishing and Printing Index. Stockholder return is measured by dividing (a) the sum of (i) the cumulative amount of dividends declared for the measurement period, assuming reinvestment of dividends, and (ii) the difference between the issuer’s share price at the end versus the beginning of the measurement period, by (b) the share price at the beginning of the measurement period. As a result, stockholder return includes both dividends and stock appreciation. The stock price performance included in this graph is not necessarily indicative of future stock price performance.

This performance graph shall not be deemed "filed" for purposes of Section 18 of the Exchange Act or incorporated by reference into any of our filings under the Securities Act of 1933, as amended, or the Securities Act, except as shall be expressly set forth by specific reference in such filing.

*$100 invested on 5/21/14 in stock and in index, including reinvestment of dividends.
Fiscal year ending December 31.

ITEM 6. SELECTED FINANCIAL DATA

The following tables present selected historical consolidated and combined financial information as of and for each of the years in the five-year period ended December 31, 2015. The selected historical consolidated and combined financial data as of December 31, 2015 and 2014 and for each of the years in the three-year period ended December 31, 2015 are derived from our historical consolidated and combined financial statements included elsewhere in this annual report on Form 10-K. The selected historical combined financial data as of December 31, 2013, 2012 and 2011 and for the years ended December 31, 2012 and 2011 are derived from our audited combined financial statements that are not included in this annual report on Form 10-K.

You should review the selected historical financial data presented below in conjunction with our consolidated and combined financial statements and the accompanying notes thereto, and "Management's Discussion and Analysis of Financial Condition and Results of Operations," included elsewhere in this annual report on Form 10-K. For each of the periods presented prior to the Distribution Date, the entities that are part of Time Inc. were each separate indirect wholly owned subsidiaries of Time Warner prior to the Spin-Off. The financial information included herein for years prior to 2015 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 during the periods presented as such historical financial information prior to the Distribution Date includes 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 we would have incurred if we had operated as an independent publicly-traded company. See also "Management's Discussion and Analysis of Financial Condition and Results of Operations – Transactions and Other Items Affecting Comparability" for items impacting comparability of results.

	Year Ended December 31,				
	2015	2014	2013	2012	2011
(in millions, except per share data)					
Selected Operating Statement Information:					
Revenues					
Advertising	$1,655	$1,775	$1,807	$1,819	$1,923
Circulation	1,043	1,095	1,129	1,210	1,271
Other	405	411	418	407	483
Total revenues	$3,103	$3,281	$3,354	$3,436	$3,677
Operating income (loss)	$(823)	$180	$330	$420	$563
Net income (loss)	$(881)	$87	$201	$263	$368
Basic net income (loss) per common share[(a)]	$(8.32)	$0.80	$1.85	$2.41	$3.38
Diluted net income (loss) per common share[(a)]	$(8.32)	$0.80	$1.85	$2.41	$3.38
Cash dividends declared per share of common stock	$0.76	$0.19	$—	$—	$—

(a) On the Distribution Date, approximately 108.94 million shares of Time Inc. stock were distributed to Time Warner stockholders of record. This initial share amount is being utilized for the calculation of both basic and diluted net income (loss) per common share for all years presented that ended prior to the Distribution Date as Time Inc. common stock was privately held by Time Warner Inc. prior to June 6, 2014.

	As of December 31,				
	2015	2014	2013	2012	2011
(in millions)					
Selected Balance Sheet Information:					
Cash and cash equivalents	$651	$519	$46	$81	$95
Total assets	4,884	5,896	5,674	5,935	6,148
Current portion of long-term debt	7	7	—	—	—
Long-term debt	1,286	1,364	38	36	34
Total stockholders' equity	1,809	2,871	4,042	4,284	4,448

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The information set forth under the caption “Management’s Discussion and Analysis of Results of Operations and Financial Condition” at pages 46 through 77 is incorporated herein by reference.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We have exposure to different types of market risk including changes in foreign currency exchange rates and interest rate risk. We neither hold nor issue financial instruments for trading purposes.

The following sections provide quantitative and qualitative information on our exposure to foreign currency exchange rate risk and interest rate risk. We make use of sensitivity analyses that are inherently limited in estimating actual losses in fair value that can occur from changes in market conditions.

Foreign Currency Exchange Rate Risk

We conduct operations in three principal currencies: the U.S. dollar; the British pound sterling; and the Euro. These currencies primarily serve as the functional currency for our U.S., U.K. and European operations, respectively. Cash is managed centrally within each of these regions with net earnings reinvested locally and working capital requirements met from existing liquid funds. To the extent such funds are not sufficient to meet working capital requirements, funding in the appropriate local currencies is made available from intercompany capital and/or overdraft facilities. We generally do not hedge our investments in the net assets of our U.K. and European operations.

To manage foreign currency exchange rate risk, we may enter into foreign currency contracts from time to time with financial institutions to limit our exposure to fluctuations in foreign currency exchange rates. We do not enter into foreign currency contracts for speculative or trading purposes.

Because of fluctuations in currency exchange rates, we are subject to currency translation exposure on the results of our operations. Foreign currency translation risk is the risk that exchange rate gains or losses arise from translating foreign entities' statements of earnings and balance sheets from each functional currency to our reporting currency (the U.S. dollar) for consolidation purposes. We do not hedge translation risk because we typically generate positive cash flows from our international operations that are typically reinvested locally. The currency exchange rates with the most significant impact on translation are the British pound sterling and, to a lesser extent, the Euro. As currency exchange rates fluctuate, translation of our Statements of Operations into U.S. dollars affects the comparability of revenues and operating expenses between years.

For the year ended December 31, 2015, a 10% change in the U.S. dollar/British pound sterling rate and the U.S. dollar/Euro rate would have impacted revenues by approximately $24 million and $4 million, respectively, on an annual basis.

For the year ended December 31, 2014, a 10% change in the U.S. dollar/British pound sterling rate and the U.S. dollar/Euro rate would have impacted revenues by approximately $42 million and $4 million, respectively, on an annual basis.

Interest Rate Risk

Based on the level of interest rates prevailing at December 31, 2015, the fair value of our fixed rate Senior Notes of $566 million was less than their carrying value of $616 million by $50 million. The fair value of these financial instruments is estimated based on reference to quoted market prices for comparable securities and consideration of our risk profile. A hypothetical 100 basis point decrease in interest rates prevailing at December 31, 2015 would increase the estimated fair value of our fixed rate debt by approximately $26 million to approximately $592 million.

Our Term Loan is subject to variable interest rates but includes a eurocurrency "floor" that is higher than the corresponding market rate currently prevailing. As such, a hypothetical 100 basis point increase in current interest rates will not have a material impact on our annual interest expense. A hypothetical 200 basis point increase in interest rates would increase our annual interest expense by $10 million. The Revolving Credit Facility is subject to variable interest rates but is assumed to be undrawn for purposes of this calculation. Our Revolving Credit Facility remained undrawn as of the date of filing of this annual report on Form 10-K, except for $3 million in letters of credit issued thereunder.

The discount rate used to measure the benefit obligations for our non-U.S. pension plans is determined by using a spot-rate yield curve, derived from the yields available on high quality corporate bonds. Broad equity and bond indices are used in the determination of the expected long-term rate of return on our non-U.S. pension plan assets. Therefore, interest rate fluctuations and volatility of the debt and equity markets can have a significant impact on asset values of our non-U.S. pension plans and future anticipated contributions. For example, a 100 basis point increase in interest rates generally would decrease our benefit obligations under our non-U.S. pension plans by approximately $122 million.

Credit Risk

Cash and cash equivalents are maintained with several financial institutions as well as invested in certain high quality money markets mutual funds and term deposits. Insurance with respect to deposits held with banks is limited to an insignificant amount of such deposits. However, our bank deposits generally may be redeemed upon demand and are maintained with financial institutions of reputable credit and, therefore, bear minimal credit risk.

There is also limited credit risk with respect to the money market mutual funds and term deposits in which we invest as these investments all have issuers, guarantors and/or other counterparties of reputable credit.

Our receivables did not represent significant concentrations of credit risk as of December 31, 2015 or December 31, 2014 due to the wide variety of customers, markets and geographic areas to which our products and services are sold.

We monitor our positions and the credit quality of the financial institutions which are counterparties to our financial instruments. We are exposed to credit loss in the event of nonperformance by the counterparties to the agreements. As of December 31, 2015 and December 31, 2014, we did not anticipate nonperformance by any of the counterparties.

Other Market Risk

We continue to be exposed to risks associated with paper used for printing. Paper is a basic commodity and its price is sensitive to the balance of supply and demand. Our expenses are affected by the cyclical increases and decreases in the price of paper. The cost of raw materials, of which paper is a major component, represented approximately 5% and 7% of our total annual operating expenses in 2015 and 2014, respectively. Based on the number of tons of paper consumed in 2015 and 2014, a $10 per ton or 1% increase in paper price would have resulted in additional pretax paper cost of $2 million and $3 million in 2015 and 2014, respectively.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The consolidated and combined financial statements and supplementary data of the Company and the report of independent registered public accounting firm thereon set forth at pages F-4 through F-64, F-65 and F-2, respectively, are incorporated herein by reference.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15(d)-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) as of the end of the period covered by this annual report. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in reports filed and submitted by us under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that information required to be disclosed by us is accumulated and communicated to our management to allow timely decisions regarding required disclosure.

Management's Report on Internal Control Over Financial Reporting

Management's report on internal control over financial reporting and the report of independent registered public accounting firm thereon set forth at pages F-1 and F-3, respectively, are incorporated herein by reference.

Changes in Internal Control Over Financial Reporting

There has been no change in the Company's internal control over financial reporting (as such term is defined in Rule 13a-15(f) and 15d-15(f) under the Exchange Act) during the Company's fourth quarter of the year ended December 31, 2015 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

Part III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

In addition to the information set forth under the caption "Executive Officers of the Company" in Part I, Item 1 of this annual report on Form 10-K, the information required by this Item is incorporated by reference to our definitive proxy statement to be issued in connection with our 2016 Annual Meeting of Stockholders (the "2016 Proxy Statement").

We have adopted a Code of Ethics for our Senior Executive and Senior Financial Officers (the "Code of Ethics"). A copy of the Code of Ethics is publicly available on our website at www.timeinc.com. Amendments to the Code of Ethics or any grant of a waiver from a provision of the Code of Ethics requiring disclosure under applicable SEC rules will also be disclosed on our website.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item is incorporated by reference to the 2016 Proxy Statement.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this Item is incorporated by reference to the 2016 Proxy Statement.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

The information required by this Item is incorporated by reference to the 2016 Proxy Statement.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this Item is incorporated by reference to the 2016 Proxy Statement.

Part IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) The following documents are filed as part of this annual report on Form 10-K:

(1) The financial statements as indicated in the index set forth on page F-4

(2) Financial Statement Schedule:

Schedule II – Valuation and Qualifying Accounts

Schedules other than that listed above have been omitted, since they are either not applicable or not required, or since the information is included elsewhere herein.

(3) Exhibits

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

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

TIME INC.
(Registrant)

By: /s/ Jeffrey J. Bairstow
Jeffrey J. Bairstow
Executive Vice President and
Chief Financial Officer

Date: February 19, 2016

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Joseph A. Ripp, Jeffrey J. Bairstow and Lawrence A. Jacobs, jointly and severally, his or her attorney-in-fact, each with the power of substitution, for him or her in any and all capacities, to sign any amendments to this annual report on Form 10-K and to file the same, with exhibits thereto and other documents in connection therewith with the Securities and Exchange Commission, hereby ratifying and confirming all that each of said attorneys-in-fact, or substitute or substitutes may do or cause to be done by virtue hereof.

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

Signature	Title	Date
/s/ Joseph A. Ripp Joseph A. Ripp	Director, Chairman of the Board and Chief Executive Officer (principal executive officer)	February 19, 2016
/s/ Jeffrey J. Bairstow Jeffrey J. Bairstow	Executive Vice President and Chief Financial Officer (principal financial officer)	February 19, 2016
/s/ Susana D'Emic Susana D'Emic	Senior Vice President and Controller (principal accounting officer)	February 19, 2016
/s/ David A. Bell David A. Bell	Director	February 19, 2016
/s/ John M. Fahey, Jr. John M. Fahey, Jr.	Director	February 19, 2016
/s/ Manuel A. Fernandez Manuel A. Fernandez	Director	February 19, 2016
/s/ Dennis J. FitzSimons Dennis J. FitzSimons	Director	February 19, 2016
/s/ Betsy D. Holden Betsy D. Holden	Director	February 19, 2016
/s/ Kay Koplovitz Kay Koplovitz	Director	February 19, 2016
/s/ J. Randall MacDonald J. Randall MacDonald	Director	February 19, 2016
/s/ Ronald S. Rolfe Ronald S. Rolfe	Director	February 19, 2016
/s/ Sir Howard Stringer Sir Howard Stringer	Director	February 19, 2016
/s/ Michael Zeisser Michael Zeisser	Director	February 19, 2016

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

This management's discussion and analysis of financial condition and results of operations, or MD&A, contains statements that constitute “forward-looking statements” within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and Section 27A of the Securities Act of 1933, as amended (the "Securities Act"). Important information regarding such forward-looking statements and a discussion of certain risks, uncertainties and other important factors that could cause actual results to differ materially from those in the forward-looking statements are set forth in this annual report on Form 10-K under the heading "Cautionary Statement Regarding Forward-Looking Statements'" at the beginning of Part I and under the heading "Risk Factors" in Item 1A, which information is incorporated herein by reference. This section should be read together with the Consolidated and Combined Financial Statements of Time Inc. and related notes thereto set forth elsewhere in this annual report.

INTRODUCTION

Time Inc., together with its subsidiaries (collectively, the "Company", "we", "us" or "our"), is one of the world's leading media companies, with a monthly global print audience of over 120 million and more than 150 million monthly visitors to its worldwide digital properties, including over 60 websites. Our influential brands include People, Sports Illustrated, InStyle, Time, Real Simple, Southern Living, Entertainment Weekly, Travel + Leisure, Cooking Light, Fortune and Food & Wine, as well as more than 50 diverse titles in the United Kingdom such as Decanter, Horse & Hound and Wallpaper*. Time Inc. is home to celebrated franchises and events including the Fortune 500, Time 100, People’s Sexiest Man Alive, Sports Illustrated’s Sportsperson of the Year, the Food & Wine Classic in Aspen, the Essence Festival and the biennial Fortune Global Forum. Hundreds of thousands of people attend our live media events each year. We have been extending the power of our brands through various investments and acquisitions, including the formation of Sports Illustrated Play, a new business devoted to youth and amateur sports, and the acquisition of inVNT, a company that specializes in live media. We also provide content marketing, targeted local print and digital advertising programs, branded book publishing and marketing and support services, including subscription sales services for magazines and other products, retail distribution and marketing services and customer service and fulfillment services, for ourselves and third-party clients, including other magazine publishers.

The Spin-Off

On June 6, 2014 (the "Distribution Date"), we completed the 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 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 17, "Relationship Between Time Inc. and Time Warner," to the accompanying consolidated and combined financial statements.

Basis of Presentation

Subsequent to the Distribution Date, our financial statements as of and for the years ended December 31, 2015 and 2014 are presented on a consolidated basis as we became a separate consolidated entity. Our consolidated statements of operations for the years ended December 31, 2015 and 2014 reflect our operations as a stand-alone company following the Distribution Date. Our consolidated balance sheets as of December 31, 2015 and 2014 consist of our consolidated balances subsequent to the Spin-Off.

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

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 for the year ended December 31, 2013 were prepared 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").

Our consolidated and combined statements of operations for the years ended December 31, 2014 and 2013 include allocations of general corporate expenses for certain support functions that were provided on a centralized basis by Time Warner prior to the Distribution Date and not recorded at the business unit level, such as expenses related to cash management and other treasury services, administrative services (such as tax, human resources and employee benefit administration) and certain global marketing and IT services. These expenses were allocated to us on the basis of direct usage when identifiable, with the remainder allocated on a pro rata basis of consolidated or combined revenues, operating income, headcount or other measures. We believe the assumptions underlying the consolidated and combined financial statements, including the assumptions regarding allocating general corporate expenses from Time Warner, are reasonable. Nevertheless, the consolidated and combined financial statements may not include all of the actual expenses that would have been incurred by us and may not reflect our consolidated and combined results of operations, financial position and cash flows had we been a stand-alone company during the applicable periods. 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 prior to the Spin-Off 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. During the years ended December 31, 2014 and 2013, we incurred $6 million and $17 million, respectively, of expenses related to charges for administrative services performed by Time Warner. Actual costs that would have been incurred if we had been a stand-alone company would depend on multiple factors, including organizational structure and strategic decisions made in various areas, including information technology and infrastructure.

The consolidated and combined financial statements are referred to as the "Financial Statements" herein. The consolidated balance sheets are referred to as the "Balance Sheets" herein. The consolidated and combined statements of operations are referred to as the "Statements of Operations" herein. The consolidated and combined statements of comprehensive income (loss) are referred to as the "Statements of Comprehensive Income (Loss)" herein. The consolidated and combined statements of stockholders' equity are referred to as the "Statements of Stockholders' Equity" herein. The consolidated and combined statements of cash flows are referred to as the "Statements of Cash Flows" herein.

Our Financial Statements have been prepared in accordance with generally accepted accounting principles in the United States of America ("GAAP").

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 entity 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 for years prior to 2015. 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 filed 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 December 31, 2014 included 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 our foreign operations are consolidated or combined 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 loss, net.

This MD&A of our results of operations and financial condition is provided as a supplement to, and should be read in conjunction with, the Financial Statements to help provide an understanding of our financial condition, changes in financial condition, results of our operations and cash flows.

Our MD&A is organized as follows:

Business Overview. This section provides a general description of our business, as well as other matters that we believe are important in understanding our results of operations and financial condition and in anticipating future trends.

Consolidated and Combined Results of Operations. This section provides an analysis of our results of operations for the three years ended December 31, 2015. Our discussion is presented on a consolidated and combined basis. We report as one reportable segment. In addition a brief description is provided of significant transactions and events that impacted the comparability of the results being analyzed.

Liquidity and Capital Resources. This section provides an analysis of our cash flows for the three years ended December 31, 2015 and our outstanding debt, commitments and cash resources as of December 31, 2015.

Critical Accounting Policies. This section identifies those accounting policies that we consider important to our results of operations and financial condition, require significant judgment and involve significant management estimates. Our significant accounting policies, including those considered to be critical accounting policies, are summarized in Note 2, "Summary of Significant Accounting Policies," to the accompanying Financial Statements.

BUSINESS OVERVIEW

Business Description

We generate revenues primarily from the sale of advertising in our magazines and on our websites and from magazine subscriptions and newsstand sales. We operate as one reportable segment and the majority of our revenues are generated in the United States. During the year ended December 31, 2015, we generated Revenues of $3.1 billion (a decrease of $178 million from $3.3 billion for the year ended December 31, 2014); Operating loss of $823 million (a decrease of $1.0 billion from an Operating income of $180 million for the year ended December 31, 2014); Net loss of $881 million (a decrease of $968 million from a Net income of $87 million for the year ended December 31, 2014); and Cash provided by operations of $154 million (a decrease of $127 million from $281 million for the year ended December 31, 2014).

Advertising, circulation and the price of paper are the key variables whose fluctuations can have a material effect on our operating results and cash flow. We have to anticipate the level of advertising, circulation and paper prices in managing our businesses to maximize operating profit during expanding and contracting economic cycles.

We continue to experience declines in our print advertising and circulation revenues as a result of the continuing shift in consumer preference from print media to digital media, as well as growing consumer engagement with digital media, such as online and social networks, which have introduced significant new competition. At the same time, the use of digital devices and applications as content distribution platforms has lowered the barriers to entry for introducing new products that compete with our businesses. We expect these trends to continue. Furthermore, our advertising and circulation revenues are sensitive to general economic conditions, economic cycles and evolving consumer preferences.

Business Strategy

We are pursuing initiatives to help mitigate the declines in our print advertising and circulation revenues, including developing new ways to sell branded content outside of traditional channels, such as through websites, tablets and other mobile devices. We are also developing integrated advertising solutions to provide greater data insights and creative ideas to advertisers. In addition, we are improving our operating efficiency through management of our cost structure.

TIME INC
MANAGEMENT'S DISCUSSION AND ANALYSIS
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We have developed strategies and initiatives intended to enhance the scale of our digital platforms and associated revenues, extend brands and audiences into new adjacent opportunities, enhance the alignment of our creative functions with our business requirements, and stabilize operating income trends. These initiatives include:

- Investing in digital media, including mobile, video, contributor networks and extensions of our brands across social media;
- Expanding corporate sales efforts and in early 2016 introducing a category sales structure for our Pharmaceutical, Autos and Technology/Telecom marketers and agencies to increase cross-brand advertising sales;
- Evaluating alternative approaches to pricing models including testing paywall technology, channel optimization and subscriber targeting;
- Extending our brands beyond magazines, including through direct sale or licensing agreements related to consumer products and services;
- Using our extensive database and consumer insights to extend data services to marketers; including investing to offer advertisers and agencies performance-based advertising solutions;
- Expanding live events and conferences; and
- Streamlining our organizational structure to drive operational efficiencies, including through global sourcing of staff.

Key Developments in 2015

Acquisitions

During the year ended December 31, 2015, we completed a number of acquisitions for total cash consideration, net of cash acquired, of $141 million. Additional consideration may be required to be paid by us that primarily relates to earn-outs that are contingent upon the achievement of certain performance objectives in the current and future fiscal years, which are estimated to be $13 million, and other deferred payments of $3 million as of December 31, 2015. The excess of the total consideration over the fair value of the net tangible and intangible assets acquired has been recorded as Goodwill. The values assigned to the assets acquired and liabilities assumed are based on estimates of fair value. Any changes in these fair values could potentially result in an adjustment to the Goodwill recorded for these transactions if such adjustments are within one year of the acquisition date. Our results of operations include the operations of these acquisitions from the date of the respective acquisitions but such activities were not significant for the year ended December 31, 2015.

Dispositions

IPC Magazines Group Limited ("Blue Fin Building")

In November 2015, we sold 100% of the capital stock of IPC Magazines Group Limited, a subsidiary of Time Inc. UK, which owned the Blue Fin Building, our principal executive offices in the U.K. ("Blue Fin Building"), for £415 million ($629 million at exchange rates on the date of consummation of the sale). Time Inc. UK continues to occupy a portion of the premises under a lease agreement with the buyers which extends through December 31, 2025, with a renewal option for an additional term of between five and ten years. Our lease commitments under this agreement are £9 million ($13 million at December 31, 2015 exchange rates) per annum. In connection with these transactions, in the fourth quarter of 2015, we recognized a pretax gain of $68 million included within Gain (loss) on operating assets on the accompanying Statements of Operations. Additionally, a pretax gain of $97 million has been deferred and will be recognized ratably over the lease period. As a result of the sale, we will forgo £9 million ($13 million at December 31, 2015 exchange rates) per annum of third-party rental income; however, we will recognize depreciation expense savings of £11 million ($16 million at December 31, 2015 exchange rates) per annum.

New Pension Support Agreement

In October 2015, we entered into a deed of guarantee (the “New Pension Support Agreement”) with IPC Media Pension Trustee Limited, the trustee of the IPC Media Pension Scheme, a defined benefit pension plan for certain of our current and former U.K. employees that is closed to new participants (the “UK Pension Plan”).

The New Pension Support Agreement was effective upon the closing of the sale of the Blue Fin Building (the “Sale Closing”). The New Pension Support Agreement replaced Time Inc. UK’s and IPC Magazines Group Limited’s existing agreement with the trustee of the IPC Media Pension Scheme (the “2014 Pension Support Agreement”), which was entered into in connection with our June 2014 Spin-off from Time Warner and, among other things, included certain restrictions on the use of the proceeds of any sale of the Blue Fin Building and required ongoing funding of the UK Pension Plan at the rate of £11 million per year ($17 million at exchange rates on the date of execution of the 2014 Pension Support Agreement). Pursuant to the New Pension Support Agreement, we were no longer subject to any restrictions on such use of proceeds but agreed to make the following cash contributions to the UK Pension Plan: (1) £50 million ($75 million on payment date in November 2015) to be contributed within 30 days of the Sale Closing; (2) £11 million ($17 million at exchange rates on the date of execution of the agreement) to be contributed annually until the sixth anniversary of the Sale Closing; (3) contributions on the sixth, seventh and eighth anniversaries of the Sale Closing calculated so as to eliminate the “self-sufficiency deficit”, if any, of the UK Pension Plan as of the eighth anniversary of the Sale Closing, determined assuming that the discount rate on the UK Pension Plan’s liabilities would be equivalent to 0.5% in excess of the then-prevailing rate on bonds issued by the U.K. Government (“gilts”); and (4) contributions between the eighth and fifteenth anniversaries of the Sale Closing calculated so as to eliminate the “self-sufficiency deficit”, if any, of the UK Pension Plan as of the fifteenth anniversary of the Sale Closing, determined assuming that the discount rate on the plan’s liabilities would be equivalent to the then-prevailing gilts rate. The “self-sufficiency deficit” is an estimate based on agreed-upon actuarial assumptions of the amount of a hypothetical one-time contribution that would provide high levels of assurance that the UK Pension Plan could fund all future benefit obligations as they come due with no further contributions. The “self-sufficiency deficit” is subject to significant variation over time based on changes in actuarial assumptions such as interest rates, investment returns and other factors.

The New Pension Support Agreement provides that Time Inc. will guarantee all of Time Inc. UK’s obligations under the UK Pension Plan and the New Pension Support Agreement, including the above-described payment obligations, as well as the obligation to fund the UK Pension Plan’s “buyout deficit” (i.e., the amount that would be needed to purchase annuities to discharge the benefits under the plan) under certain circumstances. Specifically, Time Inc. would be required to deposit the buyout deficit into escrow or provide a surety bond or other suitable credit support if we were to experience a significant drop in our credit ratings or if our debt in excess of $50 million were to not be paid when due or were to come due prior to its stated maturity as a result of a default (a “Major Debt Acceleration”). We would be permitted to recoup the escrowed funds under certain circumstances after a recovery in our credit ratings. However, if the Company or Time Inc. UK were to become insolvent, or if a Major Debt Acceleration were to occur (without being promptly cured and accompanied by a recovery in the Company's credit ratings), any escrowed funds would be immediately contributed into the UK Pension Plan and we would be obligated to immediately contribute into the UK Pension Plan any shortfall in the buy-out deficit amount.

Stock and Debt Repurchase Authorization

In November 2015, our Board of Directors authorized share repurchases of our common stock of up to $300 million and principal debt repayments and/or repurchases of up to $200 million on both our term loan (the "Term Loan") and our 5.75% senior notes (the "Senior Notes"). The authorization expires on December 31, 2017, subject to extension or earlier termination by the Board of Directors. Under the stock repurchase authorization, we may repurchase shares in open-market and/or privately negotiated transactions in accordance with applicable securities laws and regulations, including Rule 10b-18 of the Exchange Act, and repurchases may be executed pursuant to Rule 10b5-1 under the Securities Act. The extent to which we repurchase shares or repay our debt, and the timing of such transactions, will depend upon a variety of factors, including market and industry conditions, regulatory requirements and other corporate considerations, as determined by us from time to time. The authorization may be suspended or discontinued at any time without notice. We have been financing, and expect to finance in the future, the purchases and repayments out of the working capital and/or cash balances. Shares repurchased are immediately retired.

During the fourth quarter of 2015, we repurchased approximately 3.93 million shares of our common stock at a weighted average price of $16.08 per share. We repurchased an additional 1.41 million shares from January 1, 2016 through February 5, 2016 at a weighted average price of $14.26 per common share. During the fourth quarter of 2015, we repurchased $75 million of the $700 million initial principal amount of our 5.75% Senior Notes at a discounted price together with accrued interest totaling $73 million. As a result of the repurchase, we recognized a pretax gain on extinguishment of $2 million. From January 1, 2016 through February 5, 2016, we repurchased an additional $25 million of the aggregate principal amount of our Senior Notes at a discount with accrued interest totaling $23 million and recognized a pretax gain from extinguishment of $2 million.

Goodwill Impairment

We assessed Goodwill for impairment at September 30, 2015 as a result of the then pending sale of the Blue Fin Building, a decline in our publicly traded share price and recent trends in our advertising and circulation revenues. The assessment resulted in a noncash goodwill impairment charge of $952 million ($943 million, net of tax). Our annual impairment test as of December 31, 2015 did not result in a further impairment charge.

We continue to experience declines in our print advertising and circulation revenues as a result of the continuing shift in consumer preference from print media to digital media and how consumers engage with digital media. If market conditions worsen, if the market price of our publicly traded stock declines, or if our performance fails to meet current expectations, it is possible that the carrying value of our reporting units, even after the recent impairment of Goodwill, will exceed their fair value which could result in further recognition of a noncash impairment of Goodwill that could be material.

Restructuring Activities

In the fourth quarter of 2015, we expanded our restructuring plans. Our 2015 initiatives primarily consisted of real estate consolidations and headcount reductions. We incurred exit costs primarily relating to the remaining rent obligations at our former corporate headquarters at the Time and Life Building at 1271 Avenue of the Americas in New York City when we ceased use of the premises in the fourth quarter of 2015. In connection with our exit from the Time and Life Building in November 2015, we entered into an agreement with the landlord which gave us an option to surrender certain floors for $86 million, which we exercised and paid in January 2016. Our minimum rental obligation for the remaining floors was also reduced to a total of $68 million, payable ratably through 2017, partially offset by sublease income of $59 million payable to us ratably through 2017.

TIME INC
MANAGEMENT'S DISCUSSION AND ANALYSIS
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Transactions and Other Items Affecting Comparability
As more fully described herein and in the related notes to the accompanying Financial Statements, the comparability of our results has been affected by the following in the years ended December 31, 2015, 2014 and 2013 (in millions):

	Year Ended December 31,		
	2015	2014	2013
Restructuring and severance costs	$191	$192	$63
Asset impairments	—	26	79
Goodwill impairment	952	26	—
(Gain) loss on operating assets, net	(68)	(87)	(13)
Pension settlements/curtailments	6	1	—
Other costs	10	7	1
Impact on operating income	$1,091	$165	$130
(Gain) loss on non-operating assets, net	(2)	—	—
(Gain) loss on extinguishment of debt, net	(2)	—	—
Income tax impact of above items	(81)	(78)	(45)
Impact on Net income (loss) applicable to Time Inc. stockholders from items affecting comparability	$1,006	$87	$85

Restructuring and Severance Costs
For the years ended December 31, 2015, 2014 and 2013, we incurred Restructuring and severance charges of $191 million, $192 million and $63 million, respectively, related to headcount reductions and real estate consolidations.

Asset Impairments
There were no Asset impairments during the year ended December 31, 2015. During the year ended December 31, 2014, we incurred $26 million of noncash Asset impairments primarily related to a building we classified as held for sale and our exit from certain other leased premises. During the year ended December 31, 2013, we recorded noncash Asset impairments of $79 million, $78 million of which related to certain tradenames.

Goodwill Impairment
For the year ended December 31, 2015, we incurred a noncash Goodwill impairment charge of $952 million as described above. For the year ended December 31, 2014, we recorded an allocated Goodwill impairment charge of $26 million in connection with the sale of our Mexico-based operations, Grupo Editorial Expansión ("GEX") which was consummated in August 2014. There was no Goodwill impairment charge during the year ended December 31, 2013.

(Gain) Loss on Operating Assets, Net
During the year ended December 31, 2015, we recognized a pretax gain of $68 million on the sale of the Blue Fin Building. Additionally, a gain of $97 million has been deferred and will be recognized ratably over the lease period. During the year ended December 31, 2014, we recognized a total pretax gain of $87 million resulting from a pretax gain of $76 million on the sale of our Menlo Park, California property, a pretax gain of $10 million on the sale of one of our properties in Birmingham, Alabama and a pretax gain of $1 million on the sale of our Mexico-based GEX operations. For the year ended December 31, 2013, we recognized a $13 million pretax gain resulting from the settlement of a pre-existing contractual arrangement with American Express Publishing in connection with the acquisition of Affluent Media Group (the "AMG Acquisition").

Pension Settlements/Curtailments

During the year ended December 31, 2015 we recognized a noncash pretax loss of $6 million in connection with the settlement of our domestic excess pension plan. Pension settlement losses of $1 million were recognized in 2014. During the year ended December 31, 2013, we did not incur gains or losses on pension settlements and/or curtailments. Gains and losses on pension settlements and/or curtailments are included within Selling, general and administrative expenses on the accompanying Statements of Operations.

Other Costs

For the year ended December 31, 2015, Other costs, included within Selling, general and administrative expenses on the accompanying Statements of Operations, was $10 million related to costs in connection with mergers, acquisitions, investments and dispositions. For the year ended December 31, 2014, Other costs was $7 million primarily related to the Spin-off. For the year ended December 31, 2013, Other costs was $1 million.

(Gain) Loss on Non-operating Assets, Net

In April 2015, we acquired the remaining 50% interest in a U.K. joint venture to establish Look magazine as a consolidated division of our Time Inc. UK operations. This transaction resulted in a gain of $2 million included within Other income (expense), net on the accompanying Statements of Operations for the year ended December 31, 2015. There were no gains or losses on non-operating assets in 2014 and 2013.

(Gain) Loss on Extinguishment of Debt, Net

In the fourth quarter of 2015, we repurchased $75 million of the aggregate principal value of our 5.75% Senior Notes at a discount with accrued interest totaling $73 million and recognized a pretax gain on extinguishment of $2 million. There were no gains or losses on extinguishment of debt in 2014 and 2013. Gains and losses on extinguishment of debt are included in Other (income) expense, net on the accompanying Statements of Operations.

Other Items Affecting Comparability

In addition to the items described above, the following items affected comparability of results for the years ended December 31, 2015, 2014 and 2013:

- Headquarters Relocation: As a result of the planned relocation of our corporate headquarters, we began to accelerate the depreciation on our tenant improvements at our former New York City headquarters at 1271 Avenue of the Americas during the second quarter of 2014. This accelerated depreciation charge impacted the years ended December 31, 2015 and 2014 by $21 million and $16 million, respectively. Additionally, during the year ended December 31, 2015, we incurred incremental rent expense of $39 million of which $27 million related to the relocation of our New York City headquarters.
- Corporate Transactions: Acquisitions completed during 2015 have not had a significant impact on our results of operations for the year ended December 31, 2015. We sold our Mexico-based GEX operations in August 2014 and our CNNMoney.com collaborative arrangement with a subsidiary of Time Warner terminated in June 2014. Additionally, our results of operations for the year ended December 31, 2014 included a full year of activity from the AMG Acquisition which was completed in the fourth quarter of 2013.
- Wholesaler Transition: In May 2014, we informed the then second-largest wholesaler of our publications (the "Discontinued Wholesaler") that effective immediately we would discontinue sales of publications to that wholesaler. In connection with this action, in the second quarter of 2014, we reversed $19 million of revenues and wrote-off $8 million of receivables to bad debt expense from the Discontinued Wholesaler. The wholesaler transition further adversely impacted our Revenues by $3 million in the third quarter of 2014.

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CONSOLIDATED AND COMBINED RESULTS OF OPERATIONS

The following discussion provides an analysis of our results of operations and should be read in conjunction with the accompanying Statements of Operations.

Geographic Concentration of Revenues

A significant majority of our Revenues have been generated in the United States and, to a lesser extent, in the United Kingdom. In 2015, 2014 and 2013, 85%, 84% and 83%, respectively, of our Revenues were generated in the United States, and 12%, 13% and 12%, respectively, of our Revenues were generated in the United Kingdom. We expect the significant majority of our revenues will continue to be generated in the United States for the foreseeable future.

Seasonality

Our quarterly performance typically reflects moderate seasonal fluctuations. Advertising revenues from our magazines and websites are typically higher in the fourth quarter of the year due to higher consumer spending activity and corresponding higher advertiser demand to reach our audiences during this period.

Results of Operations – year ended December 31, 2015 versus the year ended December 31, 2014

The following discussion provides an analysis of our results of operations and should be read in conjunction with the accompanying Statements of Operations.

The table below provides a summary of our results of operations for the years ended December 31, 2015 and 2014 (in millions):

	Year Ended December 31,		
	2015	2014	% Change
Revenues	$3,103	$3,281	(5%)
Goodwill impairment	952	26	NM
Other operating expenses	2,974	3,075	(3%)
Operating income (loss)	$(823)	$180	NM
Interest expense, net	77	51	51%
Other (income) expense, net	2	6	(67%)
Income tax provision (benefit)	(21)	36	NM
Net income (loss)	$(881)	$87	NM

NM - Not Meaningful

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Revenues

The following table presents our Revenues, by type, for the years ended December 31, 2015 and 2014 (in millions):

	Year Ended December 31,			
	2015	2014	% Change	
Revenues				
Advertising				
Print and other advertising	$1,324	$1,477	(10	%)
Digital advertising	331	298	11	%
Total advertising revenues	$1,655	$1,775	(7	%)
Circulation	1,043	1,095	(5	%)
Other	405	411	(1	%)
Total revenues	$3,103	$3,281	(5	%)

The following table presents our Revenues, by type, as a percentage of total revenues for the years ended December 31, 2015 and 2014:

	Year Ended December 31,			
	2015		2014	
Revenues				
Advertising	53	%	54	%
Circulation	34	%	33	%
Other	13	%	13	%
Total revenues	100	%	100	%

Advertising Revenues

We derive approximately half our revenues from the sale of advertising, primarily from our print magazines and with a lesser amount from our websites and marketing services. In 2015, our U.S. magazines accounted for 25.1% of the total U.S. advertising revenues generated across the industry by consumer magazines, excluding newspaper supplements. Our U.S. magazines accounted for 24.6% of such total industry revenues in 2014. In 2015, People, Sports Illustrated and InStyle were ranked 1, 3 and 8, respectively, among all U.S. magazines in U.S. advertising revenues, and we had seven of the top 25 magazines based on the same measure. We have generated significant digital advertising growth and we continue to invest in technology that will allow us to more effectively manage the delivery of content to our audiences. Advertising in our print and tablet editions and on our websites is predominantly consumer advertising, including beauty, food, fashion and retail, pharmaceutical, financial, media, travel, auto, technology and home. We have a diverse pool of advertisers, and no single advertising category accounted for more than 16% of our aggregate domestic advertising revenues in 2015. None of our advertising clients accounted for more than 5% of our aggregate domestic advertising revenues in 2015 or 2014.

We conduct our advertising sales through a combination of corporate and brand sales and marketing teams that sell advertising across media platforms. These teams handle our relationships with our largest corporate accounts and agencies, as well as relationships with smaller agencies and direct sales to clients. We continue to configure our teams to more effectively align ourselves with the current media environment, and leverage the collective strength of our brand portfolio. This includes introducing a category sales structure for our Pharmaceutical, Autos and Technology/Telecom marketers and agencies in early 2016. We also offer our advertisers a broad range of analytics and research services, including consumer insights, audience measurement and accountability reporting.

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The rates at which we sell print advertising depend on each magazine's rate base, which is the circulation of the magazine that we guarantee to our advertisers, as well as our audience size. If we are not able to meet our committed rate base, the price paid by advertisers is generally subject to downward adjustments, including in the form of future credits or discounts. Our published rates for each of our magazines are subject to negotiation with each of our advertisers.

For the year ended December 31, 2015, Advertising revenues decreased 7% as compared to the year ended December 31, 2014. The decline in Advertising revenues was driven by lower Print and other advertising revenues. Domestic and international print advertising revenues declined $120 million and $33 million, respectively. The decline in print magazine advertising revenues was attributable to fewer advertising pages sold and a lower average price per page of advertising sold. Fewer advertising pages sold was primarily due to the continuing trend of advertisers shifting advertising spending from print to other media. Lower average price per page of advertising sold was primarily due to the mix of advertisers. As compared to the year ended December 31, 2014, our domestic titles experienced advertising declines in the beauty, fashion/retail and financial categories, partially offset by strong sales in the pharmaceutical category. We expect the adverse market conditions associated with our Print and other advertising revenues to continue at a slower rate of decline. The stronger U.S. dollar relative to the British pound also adversely impacted Print and other advertising revenues for the year ended December 31, 2015 by $8 million. For the year ended December 31, 2014, Print and other advertising revenues included $16 million of revenues from our GEX operations. Partially offsetting the decline in our Print and other advertising revenues was an 11% increase in our Digital advertising revenues, primarily in video and programmatic sales. The stronger U.S. dollar relative to the British pound adversely impacted Digital advertising revenues for the year ended December 31, 2015 by $2 million. Included in Digital advertising revenues for the year ended December 31, 2014 were $17 million of revenues from our CNNmoney.com collaborative arrangement and $9 million of revenues from our GEX operations. The increase in Digital advertising revenues in 2015 as compared to 2014 reflects the continuing shift in advertiser and consumer demand from print to digital media as well as our increased focus on digital offerings. We expect the favorable trends in our Digital advertising revenues to continue.

Circulation Revenues

The components of Circulation revenues for the years ended December 31, 2015 and 2014 are as follows (in millions):

	Year Ended December 31,			
	2015	2014	% Change	
Circulation revenues				
Subscription	$684	$716	(4	%)
Newsstand	329	356	(8	%)
Other circulation	30	23	30	%
Total circulation revenues	$1,043	$1,095	(5	%)

Circulation generates approximately one-third of our total revenues and is an important component in determining our advertising revenues since advertising rates depend on circulation and audiences. Most of our U.S. magazines are sold primarily by subscription and delivered to subscribers through the mail. Most of our international magazines are sold primarily at newsstands and other retail locations. Subscriptions are sold primarily through our owned websites, direct mail and email solicitations, online advertising, subscription sales agents, marketing agreements with other companies and insert cards in our magazines and other publications. Additionally, digital-only subscriptions and single-copy digital issues of our magazines are sold or distributed through various app stores and other digital storefronts across multiple platforms. We also sell bundled subscriptions that combine print delivery with cross-platform digital access. In 2015 and 2014, subscription sales generated approximately 66% and 65%, respectively, of our total circulation revenues, while newsstand and other sales accounted for the remainder.

Subscription Revenues

Our consumer marketing efforts include centralized direct-to-consumer marketing services for our titles, including customer acquisition and retention, consumer research, financial analysis and other ancillary services by employing a variety of advertising and marketing strategies. These include targeted direct mail, email, digital and social media solicitation campaigns conducted using consumer information drawn from our internal marketing databases or leased or purchased from third parties. Overall brand marketing activities are also conducted for our titles via other print, television, online and social media. Other consumer marketing functions include fulfillment, customer service and database management services, including order and payment processing and call-center support. We also provide fulfillment and related services for certain other publishers' magazines.

Newsstand Revenues

Newsstand sales include sales through traditional newsstands as well as supermarkets, convenience stores, pharmacies and other retail outlets. Through our retail distribution operations, we market and arrange for the distribution of our magazines and certain other publishers' magazines to retailers through third-party wholesalers.

Our retail distribution operations, Time Inc. Retail ("TIR") and Marketforce (UK) Ltd. ("Marketforce"), provide services relating to wholesale and retail distribution, billing and marketing. Under arrangements with our retail distribution operations, third-party wholesalers purchase our magazines and the magazines of our publisher clients, and those wholesalers sell and deliver copies of those magazines to individual retailers. Our retail distribution operations are paid by wholesalers for magazines they purchase, less credit for returns of unsold magazines. Our retail distribution operations generally advances funds to our publisher clients based on anticipated sales. Under the contractual arrangements with our publisher clients, in the United States, our publisher clients generally bear the risk of loss for non-payment of any amounts due from wholesalers with respect to their magazines, while in the United Kingdom we generally bear this risk. TIR and Marketforce also administer payments from our publisher clients to retailers for promotional allowances, including for the placement of magazines at retail locations.

Newsstand sales are highly sensitive to cover selection, retail placement and other factors. Our retail distribution operations coordinate with our consumer marketing, fulfillment and content creation groups to implement retail marketing plans and analyze expected demand for individual issues of our magazine titles.

We rely on wholesalers for retail distribution of our magazines. A small number of wholesalers are responsible for a substantial percentage of the wholesale magazine distribution business.

For the year ended December 31, 2015, Circulation revenues decreased 5% as compared to the year ended December 31, 2014 primarily due to lower domestic and international Subscription revenues of $21 million and $11 million, respectively, and lower domestic and international Newsstand revenues of $3 million and $24 million, respectively. The stronger U.S. dollar relative to the British pound adversely impacted Circulation revenues for the year ended December 31, 2015 by $19 million. During the year ended December 31, 2014, Newsstand revenues were adversely impacted by $14 million from the wholesaler transition. For the year ended December 31, 2014, Circulation revenues included $3 million of revenues from our GEX operations. The decline in Circulation revenues was primarily due to the continued shift in consumer preference from print to digital media. We expect the market conditions associated with our Circulation revenues to continue.

Other Revenues

Other revenues primarily relate to marketing and support services provided to third-parties, events, licensing and branded book publishing.

Included within Other revenues are revenues from our subsidiary, Synapse Group, Inc. ("Synapse"), an affinity marketing company that partners with brick and mortar retailers, websites, airline frequent flier programs and customer service and direct response call centers. They are a robust marketer of magazine subscriptions in the United States. Building on their continuity marketing expertise, Synapse has diversified their business to also market other products and services. For example, Synapse manages several branded continuity membership programs and is developing

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continuity programs for product partners.

For the year ended December 31, 2015, Other revenues decreased 1% as compared to the year ended December 31, 2014. The decrease in Other revenues was primarily attributable to declines at our book publishing business partially offset by the benefit of acquisitions and the Fortune Global Forum which was held in 2015 and not in 2014. The stronger U.S. dollar relative to the British pound adversely impacted Other revenues for the year ended December 31, 2015 by $4 million. During the year ended December 31, 2014, Other revenues were adversely impacted by $8 million from the wholesaler transition. Included in Other revenues for the year ended December 31, 2014 was $3 million of revenues from our GEX operations. We expect favorable trends in our Other revenues primarily attributable to acquisitions completed in 2015.

Operating Expenses

The components of Operating expenses for the years ended December 31, 2015 and 2014 are as follows (in millions):

	Year Ended December 31,		
	2015	2014	% Change
Operating expenses			
Costs of revenues			
Production costs	$703	$742	(5%)
Editorial costs	375	435	(14%)
Other	130	104	25%
Total costs of revenues[(a)]	1,208	1,281	(6%)
Selling, general and administrative expenses[(a)]	1,471	1,484	(1%)
Asset impairments	—	26	NM
Goodwill impairment	952	26	NM
Restructuring and severance costs	191	192	(1%)
Depreciation	92	101	(9%)
Amortization of intangible assets	80	78	3%
(Gain) loss on operating assets, net	(68)	(87)	(22%)
Total operating expenses	$3,926	$3,101	27%

NM - Not Meaningful

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

Costs of Revenues

Costs of revenues consist of costs related to the production of magazines and books, editorial costs, as well as other costs. Production costs include paper, printing and distribution costs. A variety of factors affect paper prices and availability, including demand, capacity, raw material and energy costs and general economic conditions. Our current paper supply arrangements are based on an annual request-for-proposal process establishing a non-binding pricing framework for the year. Price and volume adjustments are negotiated from time to time under this pricing framework, typically on a quarterly basis. Effective January 2014, we have combined the bulk of our U.S. printing under multi-year contracts with a single printer. The Board of Governors of the USPS reviews prices for mailing services annually and periodically adjusts postage rates for each class of mail, including periodicals. Although prices and price increases for various USPS products vary, overall average price increases generally are capped by law at the rate of inflation as measured by the Consumer Price Index. Effective May 31, 2015, rates for all classes of mail were increased by approximately 2% by the Postal Regulation Commission.

For the year ended December 31, 2015, Costs of revenues decreased 6% as compared to the year ended December 31, 2014 primarily due to a decrease in Production costs and Editorial costs. Production costs decreased due to a lower volume of pages produced and favorable paper and printing costs. Editorial costs decreased primarily as a result of previously announced cost savings initiatives, partially offset by costs associated with growth initiatives and the operations of acquired businesses. Other costs of revenues increased $26 million or 25% as compared to the prior year primarily from costs associated with growth initiatives and the operations of acquired businesses. The stronger U.S. dollar relative to the British pound favorably impacted Costs of revenues for the year ended December 31, 2015 by $14 million. Included within Costs of revenues for the year ended December 31, 2014 was $15 million of costs associated with our GEX operations and $8 million of costs associated with the CNNMoney.com collaborative arrangement.

Selling, General and Administrative Expenses

Selling, general and administrative expenses ("SG&A") consist primarily of circulation promotion, advertising and selling expenses, and personnel and facility costs. For the year ended December 31, 2015, SG&A decreased 1% as compared to the year ended December 31, 2014 primarily due to benefits realized from previously announced cost savings initiatives, partially offset by expenses associated with growth initiatives and the operations of acquired businesses, incremental noncash rent expense associated with the relocation of our corporate headquarters and previously-announced sale-leaseback transactions (a portion of which was associated with temporary space) of $39 million and noncash losses of $6 million in connection with the settlement of our domestic excess pension plan. The stronger U.S. dollar relative to the British pound favorably impacted SG&A for the year ended December 31, 2015 by $12 million. Included within SG&A for the year ended December 31, 2014 was $21 million of expense associated with our GEX operations and $6 million of expense associated with our CNNMoney.com collaborative arrangement. SG&A was adversely impacted by $8 million during the year ended December 31, 2014 from the wholesaler transition.

Asset Impairments

There were no Asset impairments during the year ended December 31, 2015. During the year ended December 31, 2014, we recorded $26 million of Asset impairments primarily related to a building we classified as held for sale and our exit from certain other leased premises.

Goodwill Impairment

For the year ended December 31, 2015, we recorded a noncash Goodwill impairment charge of $952 million as described above. During the year ended December 31, 2014, we recorded a Goodwill impairment charge of $26 million in connection with the sale of GEX.

Restructuring and Severance Costs

For the years ended December 31, 2015 and 2014, we incurred Restructuring and severance costs of $191 million and $192 million, respectively, related to real estate consolidations primarily related to our former corporate headquarters at 1271 Avenue of the Americas in New York City and headcount reductions. The total number of employee terminations recognized in the years ended December 31, 2015 and 2014 was approximately 500 and 1,500, respectively. We do not currently expect significant severance or exit costs in 2016.

Depreciation

Depreciation expense was $92 million and $101 million for the years ended December 31, 2015 and 2014, respectively, reflecting a larger number of assets becoming fully depreciated as well as the absence of depreciation expense on our Birmingham, Alabama facility, which was sold in 2014.

Amortization of Intangible Assets

Amortization of intangible assets was $80 million and $78 million for the years ended December 31, 2015 and 2014, respectively. The increase in amortization expense was the result of newly acquired intangible assets in connection with acquisition of businesses in 2015.

(Gain) Loss on Operating Assets, Net

Gain on sale of operating assets of $68 million for the year ended December 31, 2015 represented a gain on the sale of the Blue Fin Building. Additionally, a pretax gain of $97 million has been deferred and will be recognized ratably over the lease period. Gain on sale of operating assets of $87 million for the year ended December 31, 2014 represented a gain on the sale of our Menlo Park, California and Birmingham, Alabama properties and our Mexico-based GEX operations.

Operating Income (Loss)

Operating income (loss) was a loss of $823 million for the year ended December 31, 2015 and income of $180 million for the year ended December 31, 2014. Operating loss in 2015 was due to a higher Goodwill impairment charge. The wholesaler transition adversely impacted operating results during the year ended December 31, 2014 by $30 million.

Interest Expense, Net

Interest expense, net was $77 million and $51 million for the years ended December 31, 2015 and 2014, respectively. Interest income for the years ended December 31, 2015 and 2014 was insignificant.

The increase in Interest expense was the result of the issuance of the Senior Notes and the incurrence of the Term Loan during the second quarter of 2014. As discussed more fully in Note 8, "Debt," to the accompanying Financial Statements, during the second quarter of 2014, we issued $700 million aggregate principal amount of 5.75% unsecured Senior Notes due 2022 and entered into the Senior Credit Facilities providing for a Term Loan in an initial principal amount of $700 million due 2021 and a $500 million revolving credit facility (the "Revolving Credit Facility") which remains undrawn and matures in 2019. As a result of these transactions, Interest expense, net was substantially higher for periods after the incurrence of such indebtedness than for periods prior thereto.

Other (Income) Expense, Net

Other (income) expense, net was an expense of $2 million and $6 million for the years ended December 31, 2015 and 2014, respectively, and primarily consisted of losses from equity method investees.

Income Tax Provision (Benefit)

For the year ended December 31, 2015, our Income tax benefit was $21 million. For the year ended December 31, 2014, our Income tax provision was $36 million. Our effective income tax rate was 2% and 29% for the years ended December 31, 2015 and 2014, respectively. The change in the effective income tax rate from 2014 to 2015 was primarily due to the tax effect of the non-deductible Goodwill impairment (tax rate increase of 34%), the non-taxable sale of a subsidiary (tax rate benefit of 2%), and the effect of foreign operations (tax rate benefit of 1%).

Net Income (Loss)

Net income (loss) was a loss of $881 million for the year ended December 31, 2015 and income of $87 million for the year ended December 31, 2014. Net loss in 2015 reflected an Operating loss driven by the Goodwill impairment charge.

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Results of Operations – year ended December 31, 2014 versus the year ended December 31, 2013
The table below provides a summary of our results of operations for the years ended December 31, 2014 and 2013 (in millions):

	Year Ended December 31,			
	2014	2013	% Change	
Revenues	$3,281	$3,354	(2	%)
Operating expenses	3,101	3,024	3	%
Operating income (loss)	$180	$330	(45	%)
Interest expense, net	51	3	NM	
Other (income) expense, net	6	1	NM	
Income tax provision (benefit)	36	125	(71	%)
Net income (loss)	$87	$201	(57	%)

NM - Not Meaningful.

Revenues

The following table presents our Revenues, by type, for the years ended December 31, 2014 and 2013 (in millions):

	Year Ended December 31,			
	2014	2013	% Change	
Revenues				
Advertising				
Print and other advertising	$1,477	$1,527	(3	%)
Digital advertising	298	280	6	%
Total advertising revenues	$1,775	$1,807	(2	%)
Circulation	1,095	1,129	(3	%)
Other	411	418	(2	%)
Total revenues	$3,281	$3,354	(2	%)

The following table presents our Revenues, by type, as a percentage of total revenues for the years ended December 31, 2014 and 2013:

	Year Ended December 31,			
	2014		2013	
Revenues				
Advertising	54	%	54	%
Circulation	33	%	34	%
Other	13	%	12	%
Total revenues	100	%	100	%

Advertising Revenues

In 2014, our U.S. magazines accounted for 24.6% of the total U.S. advertising revenues generated across the industry by consumer magazines, excluding newspaper supplements. Our U.S. magazines accounted for 23.7% of such total industry revenues in 2013. In 2014, People, Sports Illustrated and InStyle were ranked 1, 3 and 4, respectively, among all U.S. magazines in U.S. advertising revenues and we had seven of the top 25 magazines based on the same measure. Advertising in our print and tablet editions and on our websites is predominantly consumer advertising, including beauty, food, fashion and retail, pharmaceutical, financial, media, travel, auto, technology and home. None of our advertising clients accounted for more than 5% of our aggregate domestic advertising revenues in 2014 or 2013.

For the year ended December 31, 2014, Advertising revenues decreased as compared to the year ended December 31, 2013 primarily in Print and other advertising revenues due to a decline in domestic and international print advertising revenues of $26 million and $24 million, respectively. The reduction in print magazine advertising revenues was attributable to fewer advertising pages sold, which was primarily due to the continuing trend of advertisers shifting advertising spending from print to other media. In particular, our domestic titles experienced advertising declines in the auto and food advertising categories as compared to the year ended December 31, 2013. For the year ended December 31, 2014, Print and other advertising revenues included $122 million of revenues resulting from the AMG Acquisition and $16 million from our GEX operations. For the year ended December 31, 2013, Print and other advertising revenues included $42 million of revenues resulting from the AMG Acquisition and $34 million of revenues from our GEX operations.

Partially offsetting the decline in our Print and other advertising revenues were increases in our Digital advertising revenues in 2014 as compared to 2013. Included in Digital advertising revenues for the year ended December 31, 2014 were $25 million of revenues resulting from the AMG Acquisition, $1 million of revenues from our acquisition of Cozi Inc. in the second quarter of 2014 and $17 million from our CNNmoney.com partnership which terminated in June 2014 in connection with the Spin-Off. Included in Digital advertising revenues for the year ended December 31, 2013 were $7 million of revenues resulting from the AMG Acquisition and $49 million of revenues from our CNNmoney.com partnership. The increase in Digital advertising in 2014 as compared to 2013 reflects the shift in consumer demand from print to digital media as well as our increased focus on digital offerings.

Circulation Revenues

The components of Circulation revenues for the years ended December 31, 2014 and 2013 are as follows (in millions):

	Year Ended December 31,			
	2014	2013	% Change	
Circulation revenues				
Subscription	$716	$721	(1	%)
Newsstand	356	389	(8	%)
Other circulation	23	19	21	%
Total circulation revenues	$1,095	$1,129	(3	%)

For the years ended December 31, 2014 and 2013, subscription sales generated approximately 65% and 64%, respectively, of our total circulation revenues, while newsstand and other sales accounted for the remainder.

For the year ended December 31, 2014, Circulation revenues decreased 3% as compared to the year ended December 31, 2013 primarily due to lower domestic and international Newsstand revenues of $25 million and $8 million, respectively. Included in Circulation revenues for the year ended December 31, 2014 was $45 million of revenues resulting from the AMG Acquisition and $3 million of revenues from our GEX operations. Included in Circulation revenues for the year ended December 31, 2013 was $15 million of revenues resulting from the AMG Acquisition and $8 million of revenues from our GEX operations. The wholesaler transition adversely impacted Newsstand revenues by approximately $14 million in 2014.

The decrease in Circulation revenues for the year ended December 31, 2014 as compared to the year ended December 31, 2013 was primarily due to lower demand for print subscriptions and lower newsstand sales, partially offset by a benefit to Circulation revenues of approximately $15 million from the weaker U.S. dollar relative to the British pound and the increase in Newsstand revenues of approximately $10 million from the March 2014 People magazine price increase.

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Other Revenues

For the year ended December 31, 2014, Other revenues decreased 2% as compared to the year ended December 31, 2013. Included within Other revenues for the year ended December 31, 2014 was $40 million associated with the AMG Acquisition and $3 million from our GEX operations. Included within Other revenues for the year ended December 31, 2013 was $8 million of revenues associated with the AMG Acquisition and $7 million from our GEX operations. The decrease in Other revenues was primarily attributable to lower revenues at our subscription marketing business of approximately $13 million, the absence of revenues from the Fortune Global Forum, which was held in 2013 and occurs every other year (impact of approximately $11 million) and lower revenues of approximately $10 million in our book publishing business, of which $8 million consisted of the negative impact to our bookazine business from the wholesaler transition.

Operating Expenses

The components of Operating expenses for the years ended December 31, 2014 and 2013 are as follows (in millions):

	Year Ended December 31,		
	2014	2013	% Change
Operating expenses			
Costs of revenues			
Production costs	$742	$779	(5%)
Editorial costs	435	443	(2%)
Other	104	100	4%
Total costs of revenues[a]	1,281	1,322	(3%)
Selling, general and administrative expenses[a]	1,484	1,446	3%
Asset impairments	26	79	(67%)
Goodwill impairment	26	—	NM
Restructuring and severance costs	192	63	NM
Depreciation	101	85	19%
Amortization of intangible assets	78	42	86%
(Gain) loss on operating assets, net	(87)	(13)	NM
Total operating expenses	$3,101	$3,024	3%

NM - Not Meaningful.

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

Costs of Revenues

For the year ended December 31, 2014, Costs of revenues decreased as compared to the year ended December 31, 2013 primarily due to a decrease in Production costs and Editorial costs. Production costs decreased due to lower paper prices and reduced printing costs of $47 million, partially offset by higher costs associated with the AMG Acquisition, postal rate increases and foreign currency fluctuations. Editorial costs decreased primarily as a result of previously announced cost savings initiatives. Other costs of revenues, primarily related to production overhead costs, increased $4 million or 4% as compared to the prior year primarily due to digital investments.

Selling, General and Administrative Expenses

For the year ended December 31, 2014, SG&A increased as compared to the year ended December 31, 2013 primarily due to higher costs of $61 million resulting from the AMG Acquisition, partially offset by benefits realized from previously announced cost savings initiatives, including savings from restructuring in both the first quarters of 2014 and 2013. Other items increasing SG&A for the year ended December 31, 2014 as compared to the year ended December 31, 2013 included stock compensation, in light of the absence of grants in the prior year, public company costs and the wholesaler transition.

Asset Impairments

The results for the year ended December 31, 2014 included $26 million of fixed asset impairments primarily related to a building held for sale and our exit from certain other leased premises. The results for the year ended December 31, 2013 included $79 million of noncash impairments, of which $78 million related to certain tradenames.

Goodwill Impairment

During the year ended December 31, 2014, we recorded a Goodwill impairment charge of $26 million in connection with the sale of our Mexico-based GEX operations.

Restructuring and Severance Costs

For the years ended December 31, 2014 and 2013, we incurred Restructuring and severance costs primarily related to headcount reductions and other exit activities. The total number of accrued employee terminations in the years ended December 31, 2014 and 2013, was approximately 1,500 and 600, respectively.

Depreciation

Depreciation expense was $101 million and $85 million for the years ended December 31, 2014 and 2013, respectively, and reflected an accelerated depreciation charge on our tenant improvements at our New York City headquarters at 1271 Avenue of the Americas. This accelerated depreciation charge affected our results of operations for the year ended December 31, 2014 by $16 million.

Amortization of Intangible Assets

Amortization of intangible assets was $78 million and $42 million for the years ended December 31, 2014 and 2013, respectively. The increase in expense for the year ended December 31, 2014 as compared to the year ended December 31, 2013 was primarily related to the classification of certain previously defined indefinite-lived intangibles to finite lives of 17 years effective January 1, 2014.

(Gain) Loss on Operating Assets

During the year ended December 31, 2014, we recognized a pretax gain of $76 million on the sale of our Menlo Park, California property, $10 million on the sale of our Birmingham, Alabama properties, and $1 million on the sale of our Mexico-based GEX operations. For the year ended December 31, 2013, we recognized a $13 million pretax gain resulting from the settlement of a pre-existing contractual arrangement with AEP in connection with the AMG Acquisition.

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Operating Income (Loss)
Operating income was $180 million and $330 million for the years ended December 31, 2014 and 2013, respectively. Operating income decreased for the year ended December 31, 2014 as compared to the year ended December 31, 2013 primarily due to higher Restructuring and severance costs, higher Selling, general and administrative expenses and lower Revenues, partially offset by higher gains from the disposition of operating assets.
Interest Expense, Net
Interest expense, net was $51 million and $3 million for the years ended December 31, 2014 and 2013, respectively. Interest income for the years ended December 31, 2014 and 2013 was insignificant.
The increase in Interest expense was the result of the issuance of the Senior Notes and Term Loan during the second quarter of 2014. See Note 8, "Debt" to the accompanying Financial Statements.
Other (Income) Expense, Net
Other expense, net, which primarily relates to losses from equity method investees, was a loss of $6 million and $1 million for the years ended December 31, 2014 and 2013, respectively.
Income Tax Provision (Benefit)
For the years ended December 31, 2014 and 2013, our Income tax provision was $36 million and $125 million, respectively. Our effective income tax rate was 29% and 38% for the years ended December 31, 2014 and 2013, respectively. The change in the effective income tax rate from 2013 to 2014 was primarily due to the utilization of the tax loss generated on the sale of GEX (tax rate benefit of 16%) offset by the effect of foreign operations (tax rate increase of 7%).
Net Income (Loss)
Net income was $87 million and $201 million for the years ended December 31, 2014 and 2013, respectively. The decrease in 2014 as compared to 2013 primarily reflected lower Operating income and higher interest expense, partially offset by lower income tax expense.
LIQUIDITY AND CAPITAL RESOURCES
Our operations have historically generated positive net cash flow from operating activities. Sources of cash primarily include cash flow from operations, amounts available under our Revolving Credit Facility and access to capital markets. Our access to additional borrowings under the Revolving Credit Facility is subject to the satisfaction of customary borrowing conditions, including the absence of any event or circumstance having a material adverse effect on our business. In addition, the obligation of the financial institutions under our Revolving Credit Facility are several and not joint, and, as a result, a funding default by one or more institutions does not need to be made up by the others. As a public company, we may have access to other sources of capital such as the public bond markets. However, our access to, and the availability of, financing on acceptable terms in the future will be affected by many factors, including (i) our financial condition, prospects and credit rating, (ii) the liquidity of the overall capital markets and (iii) the state of the economy. There can be no assurance that we will continue to have access to the capital markets on favorable terms or at all. As of December 31, 2015, total Cash and cash equivalents were $651 million, including $107 million held by foreign subsidiaries. As of December 31, 2015, we also held Short-term investments consisting of term deposits of $60 million with original maturities of greater than three months and remaining maturities of less than one year.
In 2015, we obtained net cash proceeds of $623 million from the sale of the Blue Fin Building. In connection with the sale, we executed foreign exchange forward contracts to convert a portion of the proceeds from British pound sterling to United States dollars. The forward contracts were executed contemporaneously with the execution of the sales contract and settled contemporaneously with the final sale closing. Foreign exchange gains on the forward contracts were offset by foreign exchange losses on the sale proceeds.

The principal uses of cash that affect our liquidity position include the following: operational expenditures including employee costs, paper purchases, capital expenditures; acquisitions; dividends and stock repurchases; debt repurchases and debt service costs, including interest and principal payments on our Senior Notes and Senior Credit Facilities; investments; and income tax payments. Of the up to $300 million of stock repurchases and $200 million for debt repayments and/or repurchases authorized by our Board of Directors, $217 million and $100 million, respectively, remains unused as of February 5, 2016. We have been financing, and expect to finance in the future, repurchases under our 2015 share repurchase authorization and fund debt repayments and/or repurchases out of working capital and/or cash balances.

We have evaluated and expect to continue to evaluate possible acquisitions and dispositions of certain businesses and assets. Such transactions may be material and may involve cash, the issuance of other securities or the assumption of indebtedness. In accordance with the provisions of our debt agreements, we may under certain circumstances be required to use the net cash proceeds of asset sales out of the ordinary course of business (including proceeds from sale-leaseback transactions) to prepay our debt unless we invest (or commit to invest) such proceeds in our business within 15 months of receipt.

On February 11, 2016, our Board of Directors declared a dividend of $0.19 per common share to stockholders of record as of the close of business on February 29, 2016, payable on March 15, 2016. Our Board of Directors has declared regular quarterly dividends of $0.19 per common share in each quarter since October 2014 resulting in dividend payments of approximately $21 million per quarter. We currently intend to continue to declare regular quarterly dividends on our outstanding common stock in respect of each completed fiscal quarter. The declaration and amount of any actual dividend are in the sole discretion of our Board of Directors and are subject to numerous factors that ordinarily affect dividend policy, including the results of our operations and our financial position, as well as general economic and business conditions.

We believe that a combination of cash-on-hand, cash generated from operating activities, sale/leaseback transactions and availability under our Revolving Credit Facility will provide sufficient liquidity to service the principal and interest payments on our indebtedness, along with our funding and investment requirements over the next twelve months and over the long-term.

Our level of debt could have important consequences on our business, including, but not limited to, increasing our vulnerability to general adverse economic and industry conditions, limiting the availability of our cash flow to fund future investments, capital expenditures, working capital, business activities and other general corporate requirements and limiting our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate. In addition, economic or market disruptions could lead to a decrease in demand for our services, such as lower levels of advertising. These events would adversely impact our results of operations, cash flows and financial position. As of December 31, 2015, the only utilization under the Revolving Credit Facility was letters of credit in the face amount of $3 million. Subject to the satisfaction of customary conditions, undrawn revolver commitments are available to be drawn for our general corporate purposes. We were in compliance with all of our debt covenants as of the filing of this annual report on Form 10-K.

Sources and Uses of Cash

Cash and cash equivalents increased by $132 million for the year ended December 31, 2015 as compared to the year ended December 31, 2014; increased $473 million for the year ended December 31, 2014 as compared to the year ended December 31, 2013; and decreased $35 million for the year ended December 31, 2013 as compared to the year ended December 31, 2012. The components of these changes are discussed below.

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Operating Activities
Details of Cash provided by operations are as follows (in millions):

	Year Ended December 31,		
	2015	2014	2013
Net income (loss)	$(881)	$87	$201
Adjustments to reconcile net income (loss) to cash provided by (used in) operations			
Depreciation and amortization	172	179	127
Amortization and write-offs of deferred financing costs and discounts on indebtedness	6	3	—
(Gain) loss on pension settlement	6	1	—
Asset impairments	—	26	79
Goodwill impairment	952	26	—
(Gain) loss on operating assets, net	(68)	(87)	—
(Gain) loss on repurchases of 5.75% Senior Notes	(2)	—	—
(Gain) loss on non-operating assets, net	(2)	—	—
(Gain) loss on equity method of investee companies, net of cash distributions	8	12	2
Equity-based compensation expense	35	35	18
Deferred income taxes	19	(23)	28
All other net, including working capital changes	(91)	22	(37)
Cash provided by operations[(a)]	$154	$281	$418

(a) Includes foreign net income taxes paid of $3 million in each of the years ended December 31, 2015 and 2014 and $7 million for the year ended December 31, 2013. Includes domestic net income taxes paid of $32 million, $37 million and nil for the years ended December 31, 2015, 2014 and 2013, respectively.

The decrease in Cash provided by operations for the year ended December 31, 2015 as compared to the year ended December 31, 2014 primarily reflects cash used for working capital. Included within the cash outflow for working capital was a payment of $75 million in connection with the New Pension Support Agreement. The decrease in Cash provided by operations for the year ended December 31, 2014 as compared with the year ended December 31, 2013 primarily reflected a lower Net income offset by a decrease in cash used for working capital.

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Investing Activities

Details of Cash provided by (used in) investing activities are as follows (in millions):

	Year Ended December 31,		
	2015	2014	2013
Acquisitions, net of cash acquired	$(141)	$(18)	$13
(Investments in) divestitures of equity affiliates	2	(20)	(3)
Proceeds from dispositions	627	176	1
Purchases of short-term investments	(100)	—	—
Maturities of short-term investments	40	—	—
Capital expenditures	(212)	(41)	(34)
Cash provided by (used in) investing activities	$216	$97	$(23)

Cash provided by investing activities for the year ended December 31, 2015 as compared with the year ended December 31, 2014 increased due to proceeds from the sale of the Blue Fin Building, our corporate headquarters in the U.K., partially offset by higher capital expenditures, primarily associated with the relocation of our corporate headquarters in New York City and other facilities, acquisition activities, primarily associated with digital investments and adjacent revenue streams, and reallocation of cash to short-term investments. Cash provided by investing activities for the year ended December 31, 2014 as compared with cash used in investing activities for the year ended December 31, 2013 reflected the proceeds from the sale of our Menlo Park, California and Birmingham, Alabama facilities and the sale of our Mexico-based GEX operations.

Financing Activities

Details of Cash (used in) provided by financing activities are as follows (in millions):

	Year Ended December 31,		
	2015	2014	2013
Purchase of common stock	$(61)	$—	$—
Repurchase of 5.75% Senior Notes	(72)	—	—
Proceeds from the issuance of debt	—	1,377	—
Financing costs	—	(13)	—
Principal payments on Term Loan	(7)	(4)	—
Withholding taxes paid on equity-based compensation	(12)	—	—
Excess tax benefits from equity-based compensation	—	—	34
Dividends paid	(84)	(21)	—
Transfer to Time Warner in connection with Spin-Off	—	(1,400)	—
Net transfers (to) from Time Warner	—	159	(464)
Cash provided by (used in) financing activities	$(236)	$98	$(430)

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Cash used in financing activities for the year ended December 31, 2015 as compared with cash provided by financing activities for the year ended December 31, 2014 primarily reflected dividends paid on our common stock and repurchases of our common stock and Senior Notes. Cash provided by financing activities for the year ended December 31, 2014 as compared with cash used in financing activities for the year ended December 31, 2013 primarily reflected net transfers from Time Warner.

Principal Debt Obligations

In connection with the Spin-Off, we issued the Senior Notes in an aggregate principal amount of $700 million and entered into the Senior Credit Facilities consisting of:

- a Term Loan in an initial principal amount of $700 million with a seven-year maturity; and
- a $500 million Revolving Credit Facility with a five-year maturity, of which up to $100 million is available for the issuance of letters of credit.

The proceeds from the Senior Notes and the Term Loan were used to fund the purchase of our Time Inc. U.K. operations (the "Time Inc. UK Purchase") from Time Warner and to pay Time Warner a special dividend. The credit agreement governing the Senior Credit Facilities permits us to incur incremental senior secured term loan borrowings under the Senior Credit Facilities, subject to the satisfaction of certain conditions, in an aggregate principal amount not to exceed the sum of $500 million. The credit agreement governing the Senior Credit Facilities also allows us to incur additional incremental senior secured term loans in unlimited amounts (beyond the $500 million Pro forma combined operating results—We have included the operating results of Songa in our condensed consolidated results of operations, commencing on the acquisition date, January 30, 2018. In the three and six months ended June 30, 2018, our condensed consolidated statement of operations includes revenues of $135 million and $219 million, respectively, and net income of $23 million and $20 million, respectively, associated with the operations of Songa. Pro forma combined operating results, assuming the acquisition was completed as of January 1, 2017, were as follows (in millions, except per share data):

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Contract drilling revenues	$ 790	$ 891	$ 1,503	$ 1,795
Net loss	(1,139)	(1,660)	(1,344)	(1,560)
Per share loss - basic and diluted	(2.46)	(3.65)	(2.91)	(3.44)

The pro forma financial information includes various adjustments, primarily related to additional depreciation resulting from the fair value adjustments to the acquired property and equipment and amortization resulting from the contract intangible assets. The pro forma information is not necessarily indicative of the results of operations had the Songa acquisition been completed on the assumed dates or the results of operations for any future periods.

Note 5—Revenues

Overview—The services we perform represent a single performance obligation under our drilling contracts with customers that is satisfied over time. We earn revenues primarily by performing the following activities: (i) providing our drilling rig, work crews, related equipment and services necessary to operate the rig (ii) delivering the drilling rig by mobilizing to and demobilizing from the drill location, and (iii) performing certain pre operating activities, including rig preparation activities or equipment modifications required for the contract.

We recognize revenues earned under our drilling contracts based on variable dayrates, which range from a full operating dayrate to lower rates or zero rates for periods when drilling operations are interrupted or restricted, based on the specific activities we perform during the contract on an hourly, or more frequent, basis. Such dayrate consideration is attributed to the distinct time period to which it relates within the contract term, and therefore, recognized as we perform the services. We recognize reimbursement revenues and the corresponding costs as we provide the customer requested goods and services, when such reimbursable costs are incurred while performing drilling operations. Prior to performing drilling operations, we may receive pre operating revenues, on either a fixed lump sum or variable dayrate basis, for mobilization, contract preparation, customer requested goods and services or capital upgrades, which we recognize on a straight line basis over the estimated firm contract period. We recognize losses for loss contracts as such losses are incurred. We recognize revenues for demobilization or from contract terminations as we fulfill our obligations and all contingencies have been resolved.

The duration of our performance obligation varies by contract. At June 30, 2018, the expected remaining duration of our drilling contracts extends through February 2028, excluding unexercised options. In the three and six months ended June 30, 2018, we recognized revenues of $55 million and $103 million, respectively, for performance obligations satisfied in previous periods, primarily related to our customer's termination of the contract for Discoverer Clear Leader, effective November 2017, and certain revenues recognized on a cash basis.

We have taken the optional exemption that permits us to exclude disclosure of the estimated transaction price related to the variable portion of unsatisfied performance obligations at the end of the reporting period, as our transaction price is based on a single performance obligation consisting of a series of distinct hourly, or more frequent, periods, the variability of which will be resolved at the time of the future services.

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To obtain contracts with our customers, we incur costs to prepare a rig for contract and deliver, or mobilize a rig to the drilling location. We defer pre operating costs, such as contract preparation and mobilization costs, and recognize such costs on a straight line basis, consistent with the general pace of activity, in operating and maintenance costs over the estimated firm period of drilling. In the three and six months ended June 30, 2018, we recognized costs of $10 million and $22 million, respectively, associated with pre operating costs for contracts with customers. In the three and six months ended June 30, 2017, we recognized costs of $11 million and $24 million, respectively, associated with pre operating costs for contracts with customers. At June 30, 2018 and December 31, 2017, the unrecognized pre operating costs to obtain contracts was $21 million and $18 million, respectively, recorded in other assets.

Disaggregation—In the three and six months ended June 30, 2018 and 2017, we recognized revenues as follows (in millions):

	Three months ended June 30, 2018						Three months ended June 30, 2017					
	U.S.	U.K.	Norway	Brazil	Other	Total	U.S.	U.K.	Norway	Brazil	Other	Total
Ultra-deepwater floaters	$ 417	$ —	$ —	$ —	$ 53	$ 470	$ 395	$ —	$ —	$ 76	$ 70	$ 541
Harsh environment floaters	—	29	171	—	52	252	—	55	23	—	28	106
Deepwater floaters	—	—	—	25	10	35	—	—	—	25	11	36
Midwater floaters	—	9	—	—	9	18	—	9	—	—	9	18
High-specification jackups	—	—	—	—	15	15	—	12	—	—	38	50
Total revenues	$ 417	$ 38	$ 171	$ 25	$ 139	$ 790	$ 395	$ 76	$ 23	$ 101	$ 156	$ 751

	Six months ended June 30, 2018						Six months ended June 30, 2017					
	U.S.	U.K.	Norway	Brazil	Other	Total	U.S.	U.K.	Norway	Brazil	Other	Total
Ultra-deepwater floaters	$ 766	$ —	$ —	$ —	$ 82	$ 848	$ 799	$ —	$ —	$ 159	$ 128	$ 1,086
Harsh environment floaters	—	51	293	—	112	456	—	135	39	—	56	230
Deepwater floaters	—	—	—	49	21	70	—	—	—	49	22	71
Midwater floaters	—	20	—	—	18	38	—	14	—	—	18	32
High-specification jackups	—	—	—	—	42	42	—	33	—	—	84	117

Total revenues	$ 766	$ 71	$ 293	$ 49	$ 275	$ 1,454	$ 799	$ 182	$ 39	$ 208	$ 308	$ 1,536

Contract liabilities—We recognize contract liabilities, recorded in other current liabilities and other long-term liabilities, for mobilization, contract preparation and capital upgrades using the straight line method over the remaining contract term. Contract liabilities for our contracts with customers were as follows (in millions):

	June 30, 2018	January 1, 2018
Deferred contract revenues, recorded in other current liabilities	$ 135	$ 203
Deferred contract revenues, recorded in other long-term liabilities	418	422
Total contract liabilities	$ 553	$ 625

Significant changes in contract liabilities were as follows (in millions):

	Six months ended June 30, 2018
Total contract liabilities, at beginning of period	625
Decrease due to recognition of revenues for goods and services	(129)
Increase due to goods and services transferred over time	57
Total contract liabilities, at end of period	$ 553

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Note 6—Drilling Fleet

Construction work in progress—For the six months ended June 30, 2018 and 2017, the changes in our construction work in progress, including capital expenditures and other capital additions, were as follows (in millions):

	Six months ended June 30, 2018	2017
Construction work in progress, at beginning of period	$ 1,392	$ 2,171
Capital expenditures		
Newbuild construction program	44	200
Other equipment and construction projects	48	58
Total capital expenditures	92	258
Changes in accrued capital additions	2	(23)
Construction work in progress acquired in business combination	26	—
Construction work in progress sold	—	(289)
Property and equipment placed into service		
Newbuild construction program	(903)	—
Other property and equipment	(48)	(47)
Construction work in progress, at end of period	$ 561	$ 2,070

Impairments of assets held and used—During the three months ended June 30, 2017, we identified indicators that the asset groups in our contract drilling services reporting unit may not be recoverable. Such indicators included recent significant declines in commodity prices and the market value of our stock, a reduction of projected dayrates and a further extension of currently low utilization rates. As a result of our testing, we determined that the carrying amount of the midwater floater asset group was impaired. In the three and six months ended June 30, 2017, we recognized a loss of $96 million ($0.25 per diluted share), which had no tax effect, associated with the impairment of the midwater floater asset group. We measured the fair value of this asset group by applying a combination of income and market approaches, using projected discounted cash flows and estimates of the exchange price that would be received for the assets in the principal or most advantageous markets for the assets in an orderly transaction between participants as of the measurement date. Our estimate of fair value required us to use significant unobservable inputs, representative of a Level 3 fair value measurement, including assumptions related to the future performance of our contract drilling services reporting unit, such as future commodity prices, projected demand for our services, rig availability and dayrates.

Impairments of assets held for sale—In June 2018, we announced our intent to retire in an environmentally responsible way, the ultra deepwater floaters Deepwater Discovery, Deepwater Frontier and Deepwater Millennium and the midwater floater Songa Trym, along with related assets. In the three and six months ended June 30, 2018, we recognized an aggregate loss of $548 million ($1.18 and $1.22 per diluted share, respectively), which had no tax effect, associated with the impairment of these assets, which we determined were impaired at the time we classified the assets as held for sale. In the three and six months ended June 30, 2017, we recognized an aggregate loss of

$17 million ($0.04 per diluted share), which had no tax effect, associated with the impairment of the midwater floaters Transocean Prospect and Transocean Searcher, along with related assets, which we determined were impaired at the time we classified the assets as held for sale. We measured the impairment of the drilling units and related equipment as the amount by which the carrying amount exceeded the estimated fair value less costs to sell. We estimated the fair value of the assets using significant other observable inputs, representative of a Level 2 fair value measurement, including indicative market values for the drilling units and related assets to be sold for scrap value.

Dispositions—During the six months ended June 30, 2018, in connection with our efforts to dispose of non strategic assets, we completed the sale of the ultra deepwater floaters Cajun Express, Deepwater Pathfinder, Sedco Energy and Sedco Express, along with related assets. In the six months ended June 30, 2018, we received aggregate net cash proceeds of $19 million and recognized an aggregate net gain of $7 million ($0.02 per diluted share), which had no tax effect, associated with the disposal of these assets. In the six months ended June 30, 2018, we received aggregate net cash proceeds of $4 million and recognized an aggregate net loss of $1 million associated with the disposal of assets unrelated to rig sales.

On May 31, 2017, we completed the sale of 10 high specification jackups, including GSF Constellation I, GSF Constellation II, GSF Galaxy I, GSF Galaxy II, GSF Galaxy III, GSF Monarch, Transocean Andaman, Transocean Ao Thai, Transocean Honor and Transocean Siam Driller, along with related assets, and novated the contracts relating to the construction of five high specification jackups, together with related assets. In the three and six months ended June 30, 2017, we received aggregate net cash proceeds of $319 million and recognized an aggregate net loss of $1.6 billion ($4.08 per diluted share), which had no tax effect, associated with the disposal of these assets. Following the completion of the sale, we agreed to continue to operate three of these high specification jackups through completion or novation of the drilling contracts, one of which we continue to operate as of June 30, 2018. In the three and six months ended June 30, 2018, our operating results included income of $11 million and $31 million, respectively, before taxes, associated with the high specification jackups that we continue to operate. In the three and six months ended June 30, 2017, excluding our loss on the

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disposal of these assets, our operating results included income of $9 million and $27 million, respectively, before taxes, associated with the high specification jackup asset group.

During the six months ended June 30, 2017, we also completed the sale of the midwater floater GSF Rig 140, along with related assets. In the six months ended June 30, 2017, we received aggregate net cash proceeds of $3 million and recognized an aggregate net gain of $2 million associated with the disposal of this asset. In the three and six months ended June 30, 2017, we received aggregate net cash proceeds of $6 million and $7 million, respectively, and recognized an aggregate net gain of $1 million associated with the disposal of assets unrelated to rig sales.

Assets held for sale—At June 30, 2018, the aggregate carrying amount of our assets held for sale, including the ultra deepwater floaters Deepwater Discovery, Deepwater Frontier and Deepwater Millennium, the deepwater floater Transocean Marianas and the midwater floater Songa Trym, along with related assets, was $32 million, recorded in other current assets. At December 31, 2017, the aggregate carrying amount of our assets held for sale, including the ultra deepwater floaters Cajun Express, Deepwater Pathfinder, Sedco Energy and Sedco Express and the deepwater floater Transocean Marianas, along with related assets, was $22 million, recorded in other current assets.

Note 7—Goodwill

Impairment—We conduct impairment testing of goodwill annually and when events occur or circumstances change that would more likely than not reduce the fair value of our reporting unit below its carrying amount. During the three months ended June 30, 2018, we classified as held for sale and impaired three ultra deepwater floaters (see Note 6—Drilling Fleet). We identified the impairment of these assets included in our single contract drilling services reporting unit as a trigger to test the recoverability of goodwill. As a result, we performed an interim goodwill impairment test as of June 30, 2018, and we determined that the goodwill associated with our contract drilling services reporting unit was fully impaired. In the three and six months ended June 30, 2018, we recognized a loss of $463 million ($1.00 and $1.03 per diluted share, respectively), which had no tax effect, associated with the impairment of our goodwill. We estimated the fair value of the contract drilling services reporting unit using the income approach. Our estimate of fair value required us to use significant unobservable inputs, representative of a Level 3 fair value measurement, including assumptions related to the future performance of the reporting unit, such as future commodity prices, projected demand for our services, rig availability and dayrates.

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Note 8—Debt

Overview

Outstanding debt—The aggregate principal amounts and aggregate carrying amounts, net of debt related balances, including unamortized discounts, premiums, issue costs and fair value adjustments of our debt, were as follows (in millions):

	Principal amount		Carrying amount	
	June 30, 2018	December 31, 2017	June 30, 2018	December 31, 2017
Eksportfinans Loan due January 2018	$ —	$ 26	$ —	$ 26
6.50% Senior Notes due November 2020	286	286	288	288
6.375% Senior Notes due December 2021	328	328	327	327
5.52% Senior Secured Notes due May 2022	323	362	319	356
3.80% Senior Notes due October 2022	422	506	419	502
0.50% Exchangeable Bonds due January 2023	863	—	862	—
9.00% Senior Notes due July 2023	1,250	1,250	1,218	1,216
7.75% Senior Secured Notes due October 2024	510	540	498	526
6.25% Senior Secured Notes due December 2024	531	562	519	549
Senior Secured Term Loans due August 2025	560	—	561	—
7.50% Junior Secured Bonds due August 2025	171	—	171	—
7.50% Senior Notes due January 2026	750	750	742	742
Senior Secured Term Loans due March 2026	855	—	857	—
7.45% Notes due April 2027	88	88	86	86
8.00% Debentures due April 2027	57	57	57	57
7.00% Notes due June 2028	300	300	307	307
Capital lease contract due August 2029	526	541	526	541
7.50% Notes due April 2031	588	588	585	585
6.80% Senior Notes due March 2038	1,000	1,000	991	991
7.35% Senior Notes due December 2041	300	300	297	297
Total debt	9,708	7,484	9,630	7,396
Less debt due within one year				
Eksportfinans Loan due January 2018	—	26	—	26
5.52% Senior Secured Notes due May 2022	81	79	79	77
7.75% Senior Secured Notes due October 2024	60	60	57	57
6.25% Senior Secured Notes due December 2024	62	62	60	60
Senior Secured Term Loans due August 2025	560	—	561	—
7.50% Junior Secured Bonds due August 2025	171	—	171	—
Senior Secured Term Loans due March 2026	855	—	857	—
Capital lease contract due August 2029	31	30	31	30
Total debt due within one year	1,820	257	1,816	250

Total long-term debt	$ 7,888	$ 7,227	$ 7,814	$ 7,146

Scheduled maturities—At June 30, 2018, the scheduled maturities of our debt were as follows (in millions):

	Total
Twelve months ending June 30,	
2019	$ 1,820
2020	242
2021	534
2022	556
2023	1,449
Thereafter	5,107
Total principal amount of debt	9,708
Total debt-related balances, net	(78)
Total carrying amount of debt	$ 9,630

Interest rate adjustments—The interest rates for certain of our notes are subject to adjustment from time to time upon a change to the credit rating of our non credit enhanced senior unsecured long term debt ("Debt Rating"). As of June 30, 2018, the interest rate in effect for the 6.375% senior notes due December 2021, 3.80% senior notes due October 2022 and the 7.35% senior notes due December 2041 was 8.375 percent, 5.80 percent and 9.35 percent, respectively.

New Credit Facility—In June 2018, we entered into a bank credit agreement, which established a $1.0 billion secured revolving credit facility (the "New Credit Facility"), which is scheduled to expire on the earlier of (i) June 22, 2023 and (ii) if the 9.00% Senior Notes due July 2023, or any refinancing or replacement thereof with a stated maturity that is earlier than 91 days after the five year anniversary of the closing of the New Credit Facility, remain outstanding in an aggregate principal amount in excess of $300 million, the earliest stated maturity of such senior notes, or such refinancing or replacement. The New Credit Facility is guaranteed by Transocean Ltd. and certain subsidiaries. The New Credit Facility is initially secured by, among other things, a lien on the ultra deepwater floaters Deepwater Asgard, Deepwater Invictus, Discoverer Inspiration, Transocean Barents and Transocean Spitsbergen. The New Credit Facility contains covenants that, among other things, include maintenance of certain guarantee and collateral coverage ratios, a maximum debt to capitalization ratio of 0.60 to 1.00 and minimum liquidity of $500 million. The New Credit Facility also restricts the ability of Transocean Ltd. and certain of our subsidiaries to merge, consolidate or otherwise make changes to the corporate structure, incur liens, incur additional indebtedness, enter into transactions with affiliates, pay dividends and other distributions.

We may borrow under the New Credit Facility at either (1) the adjusted London Interbank Offered Rate ("LIBOR") plus a margin (the "New Credit Facility Margin"), which ranges from 2.625 percent to 3.25 percent based on the Debt Rating, or (2) the base rate specified in the credit agreement plus the New Credit Facility Margin, plus one percent per annum. Throughout the term of the New Credit Facility, we pay a facility fee on the daily unused amount of the underlying commitment which ranges from 0.375 percent to 1.00 percent based on our Debt Rating. At June 30, 2018, based on our Debt Rating on that date, the New Credit Facility Margin was 3.25 percent and the facility fee was 0.75 percent. At June 30, 2018, we had no borrowings outstanding, $12 million of letters of credit issued, and we had $1.0 billion of available borrowing capacity under the New Credit Facility. See Note 13—Commitments and Contingencies—Global Marine litigation.

Former Credit Facility—In June 2014, we entered into an amended and restated bank credit agreement, which established a $3.0 billion unsecured five year revolving credit facility, which was scheduled to expire on June 28, 2019 (the "Former Credit Facility"). In June 2018, we terminated the Former Credit Facility and recognized a loss of $1 million associated with the termination.

Debt issuances

Senior secured notes—On June 27, 2018, we entered into an agreement to issue $750 million aggregate principal amount of 5.875% senior secured notes due January 2024 (the "5.875% Senior Secured Notes"). See Note 16—Subsequent Events.

Exchangeable bonds—In connection with the Songa acquisition transactions, we issued $863 million aggregate principal amount of Exchangeable Bonds, as partial consideration for the Songa shares and as consideration for refinancing certain Songa indebtedness. Transocean Inc., our wholly owned direct subsidiary, is the issuer of the Exchangeable Bonds, for which Transocean Ltd. has provided a full and unconditional guarantee. We are required to pay interest on the Exchangeable Bonds semiannually, beginning on July 30, 2018. The Exchangeable Bonds may be converted at any time prior to the maturity date at an exchange rate of 97.29756 shares per $1,000 note, equivalent to a conversion price of $10.28 per share, subject to adjustment upon the occurrence of certain events. Holders of Exchangeable Bonds may require us to repurchase all or a portion of such holder's Exchangeable Bonds upon the occurrence of certain events. The Exchangeable Bonds had an aggregate fair value of $1.04 billion, measured as of the issuance date, and we recorded the value above par, representing a substantial premium of $172 million, to additional paid in capital. We estimated the fair value using significant other observable inputs, representative of a Level 2 fair value measurement, including the terms and credit spreads for the instruments.

5.52% Senior Secured Notes—On May 5, 2017, we issued $410 million aggregate principal amount of 5.52% senior secured notes due May 2022 (the “5.52% Senior Secured Notes”), and in the six months ended June 30, 2017, we received $403 million aggregate cash proceeds, net of issue costs.

Debt assumption

Senior Secured Term Loans—In connection with the Songa acquisition, we assumed rights and obligations under credit agreements establishing the senior secured term loan facility due August 2025 (the “Senior Secured Term Loans due August 2025”) and the senior secured term loan facility due March 2026 (the “Senior Secured Term Loans due March 2026” and, together with the Senior Secured Term Loans due August 2025, the “Senior Secured Term Loans”). Borrowings under the Senior Secured Term Loans due August 2025 and the Senior Secured Term Loans due March 2026 bear interest at LIBOR plus 3.00 percent and LIBOR plus 2.50 percent, respectively. The Senior Secured Term Loans require scheduled quarterly installments of interest and principal. The credit agreements for the Senior Secured Term Loans limit the ability of our subsidiaries that own or operate the collateral rigs to declare or pay dividends to their affiliates, limit our ability to incur certain liens on our drilling units without equally and ratably securing the notes, to engage in certain sale and lease back transactions covering any of our drilling units, to allow our subsidiaries to incur certain additional debt, or to engage in certain merger, consolidation or reorganization transactions or to enter into a scheme of arrangement qualifying as an amalgamation. Additionally, the credit agreements contain covenants that require us to maintain the following: (a) minimum amounts of liquidity, working capital and equity, (b) a maximum leverage ratio and (c) minimum ratios of equity, interest coverage and asset value-to-loan coverage. The borrowings under the Senior Secured Term Loans are secured by the assets and earnings associated with the harsh environment floaters Songa Equinox, Songa Endurance, Songa Encourage and Songa Enabler. At June 30, 2018, the weighted average interest rate for borrowings under the Senior Secured Term Loans due August 2025 and the Senior Secured Term Loans due March 2026 was 5.33 percent and 4.08 percent, respectively.

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The credit agreements also contain change of control clauses, for which we received waivers from the lenders, which expire on August 31, 2018. Accordingly, we have classified the borrowings under the Senior Secured Term Loans as debt due within one year. We are evaluating alternatives for refinancing, restructuring or retiring the Senior Secured Term Loans. See Note 16—Subsequent Events.

Junior Secured Bonds—In connection with the Songa acquisition, we assumed the rights and obligations under a subscription agreement establishing a junior secured bond facility, which is scheduled to expire in August 2025 (the "Junior Secured Bonds"). Borrowings under the Junior Secured Bonds bear interest at 7.50 percent. The Junior Secured Bonds require scheduled quarterly installments of interest and principal. The subscription agreement for the Junior Secured Bonds contains covenants consistent with those under the credit agreements for the Senior Secured Term Loans. The borrowings under the Junior Secured Bonds are secured by the assets and earnings associated with the harsh environment floaters Songa Endurance and Songa Equinox and such borrowings are subordinate to the borrowings under the Senior Secured Term Loans.

The subscription agreement also contains change of control clauses, for which we received waivers from the lenders, which expire on August 31, 2018. On February 12, 2018, we served notice of our intent to call the Junior Secured Bonds, effective August 12, 2018. Accordingly, we have classified the borrowings under the Junior Secured Bonds as debt due within one year.

Other debt—In connection with the Songa acquisition, we assumed the indebtedness related to two bond loans (together, the "Bond Loans"), previously publicly traded on the Oslo stock exchange. On the acquisition date, the Bond Loans had an aggregate principal amount of NOK 337 million, equivalent to $44 million. On March 14, 2018, we made a cash payment of NOK 345 million, equivalent to $44 million, to repay the Bond Loans.

We also assumed the rights and obligations under a credit agreement, which was due to expire March 31, 2018, for a secured borrowing facility. On February 2, 2018, we made a cash payment of $23 million to repay the borrowings outstanding under the secured borrowing facility.

Debt retirements

Repurchases and repayments—During the six months ended June 30, 2018 and 2017, we repurchased in the open market debt securities with aggregate principal amounts as follows (in millions):

	Six months ended June 30,	
	2018	2017
2.50% Senior Notes due October 2017	$ —	$ 62
6.00% Senior Notes due March 2018	—	35
7.375% Senior Notes due April 2018	—	1
6.50% Senior Notes due November 2020	—	9
6.375% Senior Notes due December 2021	—	7
3.80%Senior Notes due October 2022	84	33

Aggregate principal amount retired	$ 84	$ 147
Aggregate cash payment	$ 84	$ 147

In the three and six months ended June 30, 2018, we recognized an aggregate net loss of less than $1 million associated with the retirement of repurchased or repaid debt. In the three and six months ended June 30, 2017, we recognized an aggregate net loss of $1 million associated with the retirement of such repurchased debt. See Note 16—Subsequent Events.

Tender offers—In June 2017, we announced cash tender offers (the "2017 Tender Offers") to purchase up to $1.5 billion aggregate principal amount of certain notes (the "2017 Tendered Notes"). As of June 26, 2017, the early tender date, we received valid tenders from holders of aggregate principal amounts of the 2017 Tendered Notes as follows (in million):

	Six months ended June 30, 2017
2.50% Senior Notes due October 2017	$ 271
6.00% Senior Notes due March 2018	400
7.375% Senior Notes due April 2018	127
6.50% Senior Notes due November 2020	203
6.375% Senior Notes due December 2021	211
Aggregate principal amount retired	$ 1,212
Aggregate cash payment	$ 1,261

In the three and six months ended June 30, 2017, we recognized an aggregate net loss of $47 million associated with the retirement of such debt, validly tendered on or before the early tender date, June 26, 2017.

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Note 9—Derivative Instruments

Interest rate swaps—In connection with the Songa acquisition, we acquired interest rate swaps, which were previously designated but no longer qualify as a cash flow hedge, to reduce the variability of cash interest payments associated with the variable rate borrowings under the Senior Secured Term Loans, which are expected to be refinanced, restructured or retired by August 31, 2018. On the acquisition date, the aggregate fair value of the undesignated interest rate swaps represented an asset of $14 million. At June 30, 2018, the aggregate fair value of the undesignated interest rate swaps was $19 million, recorded in other current assets. In the three and six months ended June 30, 2018, we recognized a gain of $2 million and $5 million, respectively, recorded in other, net, associated with fair value adjustments to the undesignated interest rate swaps. At June 30, 2018, the aggregate notional amounts and weighted average interest rates for our undesignated interest rate swaps were as follows (in millions, except weighted average interest rates):

	Pay				Receive			
	Aggregate notional amount	Fixed or variable rate	Weighted average rate		Aggregate notional amount	Fixed or variable rate	Weighted average rate	
Undesignated interest rate swaps	$ 743	fixed	1.65	%	$ 743	variable	2.33	%

Forward exchange contracts—In connection with the Songa acquisition, we acquired certain undesignated forward exchange contracts, extending through May 2018, which represent an economic hedge to reduce the variability of cash payments of expenditures denominated in Norwegian krone. On the acquisition date, the aggregate fair value of the forward exchange contracts represented an asset of $4 million. During the three months ended June 30, 2018, we settled the remaining forward exchange contracts upon expiration. In the six months ended June 30, 2018, we recognized a loss of $1 million, recorded in other, net, associated with the fair value adjustments resulting from currency exchange rates.

Currency swaps—In connection with the Songa acquisition, we acquired currency swaps, which were previously designated as a cash flow hedge, to reduce the variability of cash interest payments and the final cash principal payment associated with the Bond Loans resulting from the changes in the U.S. dollar to Norwegian krone exchange rate. On the acquisition date, the aggregate fair value of the currency swaps represented a liability of $81 million. In the six months ended June 30, 2018, we settled and terminated the currency swaps for an aggregate cash payment of $92 million, and we recognized a loss of $11 million, recorded in other, net.

Note 10—Postemployment Benefit Plans

The components of net periodic benefit costs, before tax, and funding contributions for our postemployment benefit plans were as follows (in millions):

	Three months ended June 30, 2018				Three months ended June 30, 2017			
	U.S. Plans	Non-U.S. Plans	OPEB Plans	Total	U.S. Plans	Non-U.S. Plans	OPEB Plans	Total

Net periodic benefit costs								
Service cost	$ —	$ 1	$ —	$ 1	$ 1	$ —	$ —	$ 1
Interest cost	15	3	—	18	17	2	—	19
Expected return on plan assets	(18)	(4)	—	(22)	(19)	(5)	—	(24)
Special termination benefits	—	—	2	2	—	—	—	—
Settlements and curtailments	—	—	(4)	(4)	—	5	—	5
Actuarial loss, net	2	—	—	2	2	—	—	2
Prior service cost, net	—	—	—	—	—	—	—	—
Net periodic benefit costs	$ (1)	$ —	$ (2)	$ (3)	$ 1	$ 2	$ —	$ 3
Funding contributions	$ —	$ 2	$ —	$ 2	$ —	$ 1	$ —	$ 1

	Six months ended June 30, 2018				Six months ended June 30, 2017			
	U.S. Plans	Non-U.S. Plans	OPEB Plans	Total	U.S. Plans	Non-U.S. Plans	OPEB Plans	Total
Net periodic benefit costs								
Service cost	$ —	$ 3	$ —	$ 3	$ 2	$ 1	$ —	$ 3
Interest cost	30	6	—	36	33	5	—	38
Expected return on plan assets	(36)	(10)	—	(46)	(37)	(10)	—	(47)
Special termination benefits	—	—	2	2	—	—	—	—
Settlements and curtailments	—	—	(4)	(4)	—	5	—	5
Actuarial loss, net	4	1	—	5	3	—	—	3
Prior service cost, net	—	—	(1)	(1)	—	—	(1)	(1)
Net periodic benefit costs	$ (2)	$ —	$ (3)	$ (5)	$ 1	$ 1	$ (1)	$ 1
Funding contributions	$ —	$ 11	$ 1	$ 12	$ 1	$ 7	$ 1	$ 9

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Note 11—Income Taxes

Tax provision and rate—Transocean Ltd., a holding company and Swiss resident, is exempt from cantonal and communal income tax in Switzerland, but is subject to Swiss federal income tax. Our provision for income taxes is based on the tax laws and rates applicable in the jurisdictions in which we operate and earn income. In the six months ended June 30, 2018 and 2017, our estimated effective tax rate, excluding discrete items, was (32.5) percent and 78.0 percent, respectively, based on estimated annual income or loss before income taxes. In the six months ended June 30, 2018, compared to the six months ended June 30, 2017, our effective tax rate decreased primarily due to changes in the relative blend of income from operations in certain jurisdictions partially offset by the U.S. base erosion and anti abuse tax.

We consider the tax effect, if any, of the excluded items, as well as settlements of prior year tax estimates to be discrete period tax expenses or benefits. In the six months ended June 30, 2018 and 2017, the effect of the various discrete period tax items was a net tax expense of $90 million and a net tax benefit of $147 million, respectively. In the six months ended June 30, 2018, such discrete items were primarily related to the U. S. transition tax on non U.S. earnings. In the six months ended June 30, 2017, such discrete items were primarily related to the tax benefit of changes in unrecognized tax benefits associated with tax positions taken in prior years, valuation allowances on deferred tax assets for foreign tax credits not expected to be realized, release of a valuation allowance on deferred tax assets for foreign tax credits expected to be realized and deductions related to resolution of certain litigation matters related to the Macondo well incident. For the six months ended June 30, 2018 and 2017, these discrete tax items, coupled with the excluded income and expense items noted above, resulted in an effective tax rate of (12.3) percent and 4.7 percent, respectively, based on income or loss before income tax expense.

U.S. tax reform—In December 2017, the U.S. enacted the 2017 Tax Act, which included prospective changes beginning in 2018, including a base erosion and anti abuse tax (“BEAT”), a global intangible low taxed income (“GILTI”) tax, additional limitations on the deductibility of executive compensation, limitations on the deductibility of interest and repeal of the domestic manufacturing deduction. Effective January 1, 2018, we elected to treat any potential GILTI inclusions as a period cost. We have evaluated our bareboat charter structure and have concluded that the current structure of our U.S. operations is subject to BEAT. We have reflected the estimated impact of this tax in our provision for the six months ended June 30, 2018. A significant portion of our BEAT liability is contractually protected due to a change in law provision in certain drilling contracts.

Transition tax on non U.S. earnings—The 2017 Tax Act imposes a one time transition tax on certain unremitted earnings and profits of our non U.S. subsidiaries. At December 31, 2017, we did not have the necessary information available, prepared and analyzed to develop a reasonable estimate of the transition tax. In the three months ended June 30, 2018, we recorded a liability of $108 million, recorded in other long term liabilities, for estimated transition taxes and a tax benefit of $17 million, recorded in other assets, for the estimated effect on the utilization of foreign tax credits. Due to the number of years and complexity of determining amounts and composition of earnings and profits held in cash and other assets by the non U.S. subsidiaries of our U.S. subsidiaries, the determination of the transition tax requires further analysis. The ultimate effect of our analysis may result in changes to our current estimate. We have not yet made any changes to our assertion that the unremitted earnings of our non U.S. subsidiaries will be indefinitely reinvested. We will complete our evaluation within the measurement period provided by Staff Accounting Bulletin No. 118.

Tax returns—We file federal and local tax returns in several jurisdictions throughout the world. With few exceptions, we are no longer subject to examinations of our U.S. and non U.S. tax matters for years prior to 2010. Our tax returns in the major jurisdictions in which we operate, other than Brazil, as mentioned below, are generally subject to examination for periods ranging from three to six years. We have agreed to extensions beyond the statute of limitations in two major jurisdictions for up to 20 years. Tax authorities in certain jurisdictions are examining our tax returns and in some cases have issued assessments. We are defending our tax positions in those jurisdictions. While we cannot predict or provide assurance as to the timing or the outcome of these proceedings, we do not expect the ultimate liability to have a material adverse effect on our condensed consolidated statement of financial position or results of operations, although it may have a material adverse effect on our condensed consolidated statement of cash flows.

Brazil tax investigations—In December 2005, the Brazilian tax authorities began issuing tax assessments for an aggregate amount of BRL 862 million, equivalent to $222 million, including penalties and interest, with respect to our tax returns for the years 2000 through 2004. In January 2008, we filed a protest letter with the Brazilian tax authorities for this tax assessment, and we are currently engaged in the appeals process. In May 2014, the Brazilian tax authorities issued an additional tax assessment for an aggregate amount of BRL 146 million, equivalent to approximately $38 million, including penalties and interest, with respect to our Brazilian income tax returns for the years 2009 and 2010. In June 2014, we filed protests with the Brazilian tax authorities for these tax assessments. We believe our returns are materially correct as filed, and we are vigorously contesting these assessments. An unfavorable outcome on these proposed assessments could result in a material adverse effect on our condensed consolidated statement of financial position, results of operations or cash flows.

Other tax matters—We conduct operations through our various subsidiaries in a number of countries throughout the world. Each country has its own tax regimes with varying nominal rates, deductions, employee contribution requirements and tax attributes. From time

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to time, we may identify changes to previously evaluated tax positions that could result in adjustments to our recorded assets and liabilities. Although we are unable to predict the outcome of these changes, we do not expect the effect, if any, resulting from these adjustments to have a material adverse effect on our condensed consolidated statement of financial position, results of operations or cash flows.

Note 12—Loss Per Share

The numerator and denominator used for the computation of basic and diluted per share loss were as follows (in millions, except per share data):

	Three months ended June 30,				Six months ended June 30,			
	2018		2017		2018		2017	
	Basic	Diluted	Basic	Diluted	Basic	Diluted	Basic	Diluted
Numerator for loss per share								
Net loss attributable to controlling interest	$ (1,135)	$ (1,135)	$ (1,690)	$ (1,690)	$ (1,345)	$ (1,345)	$ (1,599)	$ (1,599)
Undistributed earnings allocable to participating securities	—	—	—	—	—	—	—	—
Net loss available to shareholders	$ (1,135)	$ (1,135)	$ (1,690)	$ (1,690)	$ (1,345)	$ (1,345)	$ (1,599)	$ (1,599)
Denominator for loss per share								
Weighted-average shares outstanding	462	462	391	391	450	450	391	391
Effect of stock options and other share-based awards	—	—	—	—	—	—	—	—
Weighted-average shares for per share calculation	462	462	391	391	450	450	391	391
Per share loss	$ (2.46)	$ (2.46)	$ (4.32)	$ (4.32)	$ (2.99)	$ (2.99)	$ (4.09)	$ (4.09)

In the three and six months ended June 30, 2018, we excluded from the calculation 11.4 million and 11.2 million share based awards, respectively, since the effect would have been anti dilutive. In the three and six months ended

June 30, 2017, we excluded from the calculation 5.7 million and 3.7 million share based awards, respectively, since the effect would have been anti dilutive. In the three and six months ended June 30, 2018, we excluded from the calculation 84.0 million and 70.2 million shares issuable upon conversion of the Exchangeable Bonds, respectively, since the effect would have been anti dilutive.

Note 13—Commitments and Contingencies

Macondo well incident commitments and contingencies

Overview—On April 22, 2010, the ultra deepwater floater Deepwater Horizon sank after a blowout of the Macondo well caused a fire and explosion on the rig off the coast of Louisiana. At the time of the explosion, Deepwater Horizon was contracted to an affiliate of BP plc (together with its affiliates, "BP"). Following the incident, we have been subject to civil and criminal claims, as well as causes of action, fines and penalties by local, state and federal governments. Litigation commenced shortly after the incident, and most claims against us were consolidated by the U.S. Judicial Panel on Multidistrict Litigation and transferred to the U.S. District Court for the Eastern District of Louisiana (the "MDL Court"). A significant portion of the contingencies arising from the Macondo well incident has now been resolved or is pending release of funds from escrow (see "—PSC Settlement Agreement"). As for any actions not resolved by our previous settlements, including any claims by individuals who opted out of the settlement agreement that we and the Plaintiff Steering Committee (the "PSC") filed with the MDL Court in May 2015 (the "PSC Settlement Agreement"), we will vigorously defend those claims and pursue any and all defenses available.

We have recognized a liability for the remaining estimated loss contingencies associated with litigation resulting from the Macondo well incident that we believe are probable and for which a reasonable estimate can be made. At June 30, 2018 and December 31, 2017, the liability for estimated loss contingencies that we believe are probable and for which a reasonable estimate can be made was $217 million and $219 million, respectively, recorded in other current liabilities, the majority of which is related to our settlement with the PSC.

Plea Agreement—Pursuant to the plea agreement (the "Plea Agreement"), one of our subsidiaries pled guilty to one misdemeanor count of negligently discharging oil into the U.S. Gulf of Mexico, in violation of the Clean Water Act, for which our subsidiary is no longer subject to probation. We also agreed to make an aggregate cash payment of $400 million, including a criminal fine and certain cash contributions payable in scheduled installments. In the six months ended June 30, 2017, we made a cash payment of $60 million, representing the final installment for our obligations under the Plea Agreement.

PSC Settlement Agreement—On May 29, 2015, together with the PSC, we filed the PSC Settlement Agreement with the MDL Court for approval. Through the PSC Settlement Agreement, we agreed to pay a total of $212 million, plus up to $25 million for partial reimbursement of attorneys' fees, to be allocated between two classes of plaintiffs as follows: (1) 72.8 percent to private plaintiffs, businesses, and local governments who could have asserted punitive damages claims against us under general maritime law ; and (2) 27.2 percent to private plaintiffs who previously settled economic damages claims against BP and were assigned certain claims BP had made against us. In exchange for these payments, each of the classes agreed to release all respective claims it has against us.

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Thirty claimants elected to opt out of the PSC Settlement Agreement. In June 2016 and August 2015, we made a cash deposit of $25 million and $212 million, respectively, into escrow accounts established by the MDL Court for the settlement. On February 15, 2017, the MDL Court entered a final order and judgement approving the PSC Settlement Agreement, which is no longer subject to appeal. In November 2017, the MDL Court released $25 million from the escrow accounts for payment of attorneys' fees. At June 30, 2018 and December 31, 2017, the aggregate cash balance in escrow accounts was $213 million and $212 million, respectively, recorded in restricted cash accounts and investments.

Other legal proceedings

Asbestos litigation—In 2004, several of our subsidiaries were named, along with numerous other unaffiliated defendants in complaints filed in the Circuit Courts of the State of Mississippi, and in 2014, a group of similar complaints were filed in Louisiana. The plaintiffs, former employees of some of the defendants, generally allege that the defendants used or manufactured asbestos containing drilling mud additives for use in connection with drilling operations, claiming negligence, products liability, strict liability and claims allowed under the Jones Act and general maritime law. The plaintiffs generally seek awards of unspecified compensatory and punitive damages, but the court appointed special master has ruled that a Jones Act employer defendant, such as us, cannot be sued for punitive damages. At June 30, 2018, nine plaintiffs have claims pending in Louisiana, in which we have or may have an interest. We intend to defend these lawsuits vigorously, although we can provide no assurance as to the outcome. We historically have maintained broad liability insurance, although we are not certain whether insurance will cover the liabilities, if any, arising out of these claims. Based on our evaluation of the exposure to date, we do not expect the liability, if any, resulting from these claims to have a material adverse effect on our condensed consolidated statement of financial position, results of operations or cash flows.

One of our subsidiaries has been named as a defendant, along with numerous other companies, in lawsuits arising out of the subsidiary's manufacture and sale of heat exchangers, and involvement in the construction and refurbishment of major industrial complexes alleging bodily injury or personal injury as a result of exposure to asbestos. As of June 30, 2018, the subsidiary was a defendant in approximately 125 lawsuits with a corresponding number of plaintiffs. For many of these lawsuits, we have not been provided with sufficient information from the plaintiffs to determine whether all or some of the plaintiffs have claims against the subsidiary, the basis of any such claims, or the nature of their alleged injuries. The operating assets of the subsidiary were sold and its operations were discontinued in 1989, and the subsidiary has no remaining assets other than insurance policies, rights and proceeds, including (i) certain policies subject to litigation and (ii) certain rights and proceeds held directly or indirectly through a qualified settlement fund. The subsidiary has in excess of $1.0 billion in insurance limits potentially available to the subsidiary. Although not all of the policies may be fully available due to the insolvency of certain insurers, we believe that the subsidiary will have sufficient funding directly or indirectly, including from settlements and payments from insurers, assigned rights from insurers and coverage in place settlement agreements with insurers to respond to these claims. While we cannot predict or provide assurance as to the outcome of these matters, we do not expect the ultimate liability, if any, resulting from these claims to have a material adverse effect on our condensed consolidated statement of financial position, results of operations or cash flows.

Rio de Janeiro tax assessment—In the year ended December 31, 2006, the state tax authorities of Rio de Janeiro in Brazil issued to one of our subsidiaries tax assessments on equipment imported into the state in connection with our operations, resulting from a preliminary finding by these authorities that our record keeping practices were deficient. In September 2006, we filed an initial response refuting these tax assessments, and, in September 2007, the state tax authorities confirmed that they believed the tax assessments were valid. On September 27, 2007, we filed an appeal with the state Taxpayer's Council contesting the assessments. In November 2017, the Third Chamber of the Taxpayer's Council for administrative proceedings ruled in our favor with regard to one of the tax assessments. In June 2018, the state tax authorities appealed against only a portion of this case, thus rendering greater than BRL 500 million, equivalent to approximately $130 million, of the tax assessments closed in our favor. At June 30, 2018, the Taxpayer's Council has yet to rule on the aggregate remaining tax assessment of BRL 41 million, equivalent to approximately $11 million. While we cannot predict or provide assurance as to the final outcome of these proceedings, we do not expect it to have a material adverse effect on our condensed consolidated statement of financial position, results of operations or cash flows.

Nigerian Cabotage Act litigation—In October 2007, three of our subsidiaries were each served a Notice and Demand from the Nigeria Maritime Administration and Safety Agency, imposing a two percent surcharge on the value of all contracts performed by us in Nigeria pursuant to the Coastal and Inland Shipping (Cabotage) Act 2003 (the "Cabotage Act"). Our subsidiaries each filed an originating summons in the Federal High Court in Lagos challenging the imposition of this surcharge on the basis that the Cabotage Act and associated levy is not applicable to drilling rigs. The respondents challenged the competence of the suits on several procedural grounds. The court upheld the objections and dismissed the suits. In December 2010, our subsidiaries filed a new joint Cabotage Act suit. While we cannot predict or provide assurance as to the outcome of these proceedings, we do not expect the proceedings to have a material adverse effect on our condensed consolidated statement of financial position, results of operations or cash flows.

Global Marine litigation—On November 28, 2017, Wilmington Trust Company, in its capacity as trustee, filed a lawsuit in the Supreme Court of the State of New York, County of New York, against Global Marine Inc. ("Global Marine"), one of our wholly owned, indirect subsidiaries, seeking a declaratory judgment that Global Marine is in default under the indenture governing its $300 million of outstanding 7.00% Notes due June 2028. We disagree with the assertions in the lawsuit and believe that Global Marine is in compliance

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(Unaudited)

with the indenture and has meritorious defenses against these allegations, although it can make no assurance regarding the outcome of the lawsuit, including the actual amount that would be due in the event that the lawsuit is successful. The notes are neither guaranteed by, nor recourse to, Transocean Ltd. or our other subsidiaries. The claimants seek payment prior to the scheduled maturity of the principal amount of notes outstanding and accrued but unpaid interest as well as make whole amounts under the indenture. In addition, the acceleration of the amounts due under the indenture could, absent a waiver from the requisite lenders, result in an event of default under our currently undrawn New Credit Facility. We intend to vigorously defend the lawsuit. While we cannot predict or provide assurance as to the outcome of these proceedings, we do not expect the proceedings to have a material adverse effect on our consolidated statement of financial position, results of operations or cash flows.

Other matters—We are involved in various tax matters, various regulatory matters, and a number of claims and lawsuits, asserted and unasserted, all of which have arisen in the ordinary course of our business. We do not expect the liability, if any, resulting from these other matters to have a material adverse effect on our condensed consolidated statement of financial position, results of operations or cash flows. We cannot predict with certainty the outcome or effect of any of the litigation matters specifically described above or of any such other pending, threatened, or possible litigation or liability. We can provide no assurance that our beliefs or expectations as to the outcome or effect of any tax, regulatory, lawsuit or other litigation matter will prove correct and the eventual outcome of these matters could materially differ from management's current estimates.

Other environmental matters

Hazardous waste disposal sites—We have certain potential liabilities under the Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA") and similar state acts regulating cleanup of various hazardous waste disposal sites, including those described below. CERCLA is intended to expedite the remediation of hazardous substances without regard to fault. Potentially responsible parties ("PRPs") for each site include present and former owners and operators of, transporters to and generators of the substances at the site. Liability is strict and can be joint and several.

We have been named as a PRP in connection with a site located in Santa Fe Springs, California, known as the Waste Disposal, Inc. site. We and other PRPs have agreed with the Environmental Protection Agency (the "EPA") and the Department of Justice to settle our potential liabilities for this site by agreeing to perform the remaining remediation required by the EPA. The parties to the settlement have entered into a participation agreement, which makes us liable for approximately eight percent of the remediation and related costs. The remediation is complete, and we believe our share of the future operation and maintenance costs of the site is not material. There are additional potential liabilities related to the site, but these cannot be quantified, and we have no reason at this time to believe that they will be material.

One of our subsidiaries has been ordered by the California Regional Water Quality Control Board ("CRWQCB") to develop a testing plan for a site known as Campus 1000 Fremont in Alhambra, California, which is now a part of the San Gabriel Valley, Area 3, Superfund site. We were also advised that one or more of our subsidiaries that formerly owned and operated the site would likely be named by the EPA as PRPs. The current property owner, an unrelated party, performed the required testing and detected no contaminants. In discussions with CRWQCB staff, we were advised of their intent to issue us a "no further action" letter, but it has not yet been received. Based on the test results, we would contest any potential liability. We have no knowledge at this time of the potential cost of any remediation, who else will be named as PRPs, and whether in fact any of our subsidiaries is a responsible party. The subsidiaries in question do not own any operating assets and have limited ability to respond to any liabilities.

Resolutions of other claims by the EPA, the involved state agency or PRPs are at various stages of investigation. These investigations involve determinations of (a) the actual responsibility attributed to us and the other PRPs at the site, (b) appropriate investigatory or remedial actions and (c) allocation of the costs of such activities among the PRPs and other site users. Our ultimate financial responsibility in connection with those sites may depend on many factors, including (i) the volume and nature of material, if any, contributed to the site for which we are responsible, (ii) the number of other PRPs and their financial viability and (iii) the remediation methods and technology to be used.

It is difficult to quantify with certainty the potential cost of these environmental matters, particularly in respect of remediation obligations. Nevertheless, based upon the information currently available, we believe that our ultimate liability arising from all environmental matters, including the liability for all other related pending legal proceedings, asserted legal claims and known potential legal claims that are likely to be asserted, is adequately accrued and should not have a material effect on our condensed consolidated statement of financial position, results of operations or cash flows.

Note 14—Equity

Redeemable noncontrolling interest—Until June 11, 2018, we owned a 65 percent interest in Angola Deepwater Drilling Company Ltd. (“ADDCL”), a Cayman Islands company and variable interest entity for which we concluded that we were the primary beneficiary. Angco Cayman Limited (“Angco Cayman”) owned the remaining a 35 percent interest in ADDCL. Under the terms of ADDCL’s governing documents, Angco Cayman had the right to require us to purchase its interest in ADDCL for cash, and accordingly, we presented the carrying amount of Angco Cayman’s ownership interest as redeemable noncontrolling interest on our consolidated balance

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sheets. We also had the right under ADDCL's governing documents to require Angco Cayman to sell us its interest, and we exercised that right. On June 11, 2018, with no cash payment, we acquired the interests in ADDCL not previously owned by us, and ADDCL became our wholly owned subsidiary. In connection with the acquisition, we reclassified the $53 million aggregate carrying amount of the redeemable noncontrolling interest to additional paid in capital. At December 31, 2017, the carrying amount of the assets and liabilities of ADDCL, after eliminating the effect of intercompany transactions, was $716 million and $7 million, respectively.

Extraordinary general meeting—On January 16, 2018, in connection with the Songa acquisition, shareholders at our extraordinary general meeting approved: (1) the issuance of up to 68.6 million Transocean Ltd. shares, (2) an amendment of our articles of association to create additional authorized share capital, (3) the election of a new director to our board of directors and (4) the issuance of consideration shares from our authorized share capital and shares issuable upon exchange of the Exchangeable Bonds.

Note 15—Financial Instruments

Overview—The carrying amounts and fair values of our financial instruments were as follows (in millions):

	June 30, 2018		December 31, 2017	
	Carrying amount	Fair value	Carrying amount	Fair value
Cash and cash equivalents	$ 2,506	$ 2,506	$ 2,519	$ 2,519
Short-term investments	—	—	450	450
Restricted cash and cash equivalents	501	501	456	456
Restricted investments	7	7	33	33
Long-term debt, including current maturities	9,630	10,087	7,396	7,538
Derivative instruments, assets	19	19	—	—

We estimated the fair value of each class of financial instruments, for which estimating fair value is practicable, by applying the following methods and assumptions:

Cash and cash equivalents—The carrying amount of our cash and cash equivalents represents the historical cost, plus accrued interest. Our cash equivalents are primarily invested in short term time deposits and money market funds. The carrying amount of our cash and cash equivalents approximates fair value because of the short maturities of the instruments. At June 30, 2018 and December 31, 2017, the aggregate carrying amount of our cash equivalents was $1.9 billion and $2.1 billion, respectively.

Short term investments—The carrying amount of our unrestricted short term investments represents the historical cost of the time deposits in which they are invested. The carrying amount of such short term investments approximates fair value because of the near term maturities of the instruments.

Restricted cash and cash equivalents—The carrying amount of our restricted cash and cash equivalents, which are subject to restrictions due to collateral requirements, legislation, regulation or court order, approximates fair value due to the near term maturities of the instruments in which the restricted balances are held. At June 30, 2018, the aggregate carrying amount of such restricted cash and cash equivalents was $501 million, including $490 million and $11 million recorded in current assets and other assets, respectively. At December 31, 2017, the aggregate carrying amount of such restricted cash and cash equivalents was $456 million, including $440 million and $16 million recorded in current assets and other assets, respectively.

Restricted investments—The carrying amount of our restricted investments, which are pledged for security of certain other credit arrangements, represents the amortized historical cost of the investment. The carrying amount of such restricted investments approximates fair value because of the near term maturities of the instruments. At June 30, 2018, the aggregate carrying amount of the restricted cash investments was $7 million, recorded in other assets. At December 31, 2017, the aggregate carrying amount of the restricted cash investments was $33 million, including $26 million and $7 million, recorded in current assets and other assets, respectively.

Debt—The carrying amount of our debt represents the principal amount, net of unamortized discounts, premiums, debt issue costs and fair value adjustments. We measured the estimated fair value of our debt using significant other observable inputs, representative of a Level 2 fair value measurement, including the terms and credit spreads for the instruments.

Derivative instruments—The carrying amount of our derivative instruments represents the estimated fair value of such instruments. We measured the estimated fair value of our derivative instruments using significant other observable inputs, representative of a Level 2 fair value measurement, including the terms and credit spreads for the instruments.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS continued

(Unaudited)

Note 16—Subsequent Events

Senior secured notes issuances—On July 13, 2018, we issued $750 million aggregate principal amount of the 5.875% Senior Secured Notes due January 2024 and received approximately $733 million aggregate cash proceeds, net of discount and issue costs. In connection with the issuance of such notes, we were required to deposit $63 million in restricted cash accounts to satisfy debt service and working capital requirements. We are required to pay semiannual installments of principal and interest on the 5.875% Senior Secured Notes, beginning January 15, 2019. We may redeem all or a portion of the 5.875% Senior Secured Notes at a price equal to 100 percent of the aggregate principal amount plus a make whole provision. We will be required to redeem the notes at a price equal to 100 percent of the aggregate principal amount without a make whole provision, upon the occurrence of certain events related to the collateral rigs and the related drilling contracts. The indenture that governs the 5.875% Senior Secured Notes contains covenants that limit the ability of our subsidiaries that own or operate the collateral rigs to declare or pay dividends to their affiliates. The indenture also imposes a maximum collateral rig leverage ratio (“Maximum Collateral Ratio”), represented by the combined net earnings of the rigs relative to the debt balance, that changes over the term of the notes. Through March 31, 2019, the Maximum Collateral Ratio under the indenture is 6.00 to 1.00. The 5.875% Senior Secured Notes are secured by the assets and earnings associated with the harsh environment floaters Songa Enabler and Songa Encourage and the equity of the wholly owned subsidiaries that own or operate the collateral rigs.

On July 20, 2018, we issued $600 million aggregate principal amount of 6.125% senior secured notes due August 2025 (the “6.125% Senior Secured Notes”), and we received approximately $586 million aggregate cash proceeds, net of discount and issue costs. In connection with the issuance of such notes, we were required to deposit $51 million in restricted cash accounts to satisfy debt service and working capital requirements. We are required to pay semiannual installments of principal and interest on the 6.125% Senior Secured Notes, beginning February 1, 2019. We may redeem all or a portion of the 6.125% Senior Secured Notes at a price equal to 100 percent of the aggregate principal amount plus a make whole provision. We will be required to redeem the notes at a price equal to 100 percent of the aggregate principal amount, without a make whole provision, upon the occurrence of certain events related to the collateral rig and the related drilling contract. The indenture that governs the 6.125% Senior Secured Notes contains covenants that limit the ability of our subsidiaries that own or operate the collateral rig to declare or pay dividends to their affiliates. The indenture also imposes a Maximum Collateral Ratio, represented by the net earnings of the rig relative to the debt balance, that changes over the term of the notes. Through March 31, 2020, the Maximum Collateral Ratio under the indenture is 5.75 to 1.00. The 6.125% Senior Secured Notes are secured by the assets and earnings associated with the ultra deepwater floater Deepwater Pontus and the equity of the wholly owned subsidiaries that own or operate the collateral rig.

Senior secured term loan retirement—Subsequent to June 30, 2018, using proceeds from the 5.875% Senior Secured Notes, we made an aggregate cash payment of $855 million to repay the borrowings under the Senior Secured Term Loans due March 2026.

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Item 2.Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward Looking Information

The statements included in this quarterly report regarding future financial performance and results of operations and other statements that are not historical facts are forward looking statements within the meaning of Section 27A of the United States ("U.S.") Securities Act of 1933 and Section 21E of the U.S. Securities Exchange Act of 1934. Forward looking statements in this quarterly report include, but are not limited to, statements about the following subjects:

§ our results of operations, our revenue efficiency and other performance indicators and our cash flow from operations;
§ the offshore drilling market, including the effects of declines in commodity prices, supply and demand, utilization rates, dayrates, customer drilling programs, stacking and reactivation of rigs, effects of new rigs on the market, the impact of changes to regulations in the jurisdictions in which we operate and changes in the global economy or market outlook for our various geographical operating sectors and classes of rigs;
§ customer drilling contracts, including contract backlog, force majeure provisions, contract awards, commencements, extensions, terminations, contract option exercises, contract revenues, early termination payments, indemnity provisions and rig mobilizations;
§ liquidity, including availability under our bank credit agreement, and adequacy of cash flows for our obligations;
§ regulatory or other limitations imposed as a result of the acquisition of Songa Offshore SE, a European public company limited by shares, or societas Europaea, existing under the laws of Cyprus ("Songa");
§ the success of our business following completion of the Songa acquisition;
§ the ability to successfully integrate our business with the Songa business;
§ the risk that we may be unable to achieve expected synergies from the Songa acquisition or that it may take longer or be more costly than expected to achieve those synergies;
§ debt levels, including impacts of a financial and economic downturn, and interest rates;
§ newbuild, upgrade, shipyard and other capital projects, including completion, delivery and commencement of operation dates, expected downtime and lost revenue, the level of expected capital expenditures and the timing and cost of completion of capital projects;
§ the cost and timing of acquisitions and the proceeds and timing of dispositions;
§ the optimization of rig based spending;
§ tax matters, including our effective tax rate, changes in tax laws, treaties and regulations, tax assessments and liabilities for tax issues, including those associated with our activities in Brazil, Nigeria, Norway, the United Kingdom ("U.K.") and the U.S.;
§ legal and regulatory matters, including results and effects of legal proceedings and governmental audits and assessments, outcomes and effects of internal and governmental investigations, customs and environmental matters;
§ insurance matters, including adequacy of insurance, renewal of insurance, insurance proceeds and cash investments of our wholly owned captive insurance company;
§ effects of accounting changes and adoption of accounting policies; and
§ investment in recruitment, retention and personnel development initiatives, defined benefit pension plan contributions, the timing of severance payments and benefit payments.

Forward looking statements in this quarterly report are identifiable by use of the following words and other similar expressions:

§ anticipates	§ budgets	§ estimates	§ forecasts	§ may	§ plans	§ projects	§ should
§ believes	§ could	§ expects	§ intends	§ might	§ predicts	§ scheduled	

Such statements are subject to numerous risks, uncertainties and assumptions, including, but not limited to:

- § those described under "Item 1A. Risk Factors" included in Part I of our annual report on Form 10 K for the year ended December 31, 2017;
- § the adequacy of and access to sources of liquidity;
- § our inability to obtain drilling contracts for our rigs that do not have contracts;
- § our inability to renew drilling contracts at comparable dayrates;
- § operational performance;
- § the cancellation of drilling contracts currently included in our reported contract backlog;
- § losses on impairment of long lived assets;
- § shipyard, construction and other delays;
- § the results of meetings of our shareholders;
- § changes in political, social and economic conditions;
- § the effect and results of litigation, regulatory matters, settlements, audits, assessments and contingencies; and
- § other factors discussed in this quarterly report and in our other filings with the U.S. Securities and Exchange Commission ("SEC"), which are available free of charge on the SEC website at www.sec.gov.

The foregoing risks and uncertainties are beyond our ability to control, and in many cases, we cannot predict the risks and uncertainties that could cause our actual results to differ materially from those indicated by the forward looking statements. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those indicated. All subsequent written and oral forward looking statements attributable to us or to persons acting on our behalf are expressly qualified in their entirety by reference to these risks and uncertainties. You should not place undue reliance on forward looking statements. Each forward looking statement speaks only as of the date of the particular statement. We expressly disclaim any obligations or undertaking to release publicly any updates or revisions to any forward looking statement to reflect any change in our expectations or beliefs with regard to the statement or any change in events, conditions or circumstances on which any forward looking statement is based, except as required by law.

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Business

Transocean Ltd. (together with its subsidiaries and predecessors, unless the context requires otherwise, “Transocean”, “we,” “us” or “our”) is a leading international provider of offshore contract drilling services for oil and gas wells. As of July 23, 2018, we owned or had partial ownership interests in and operated 43 mobile offshore drilling units, including 24 ultra deepwater floaters, 12 harsh environment floaters, two deepwater floaters and five midwater floaters. As of July 23, 2018, we were constructing (i) two additional ultra deepwater drillships and (ii) one harsh environment semisubmersible, in which we hold a partial ownership interest. We also operate one high specification jackup that was under a drilling contract when the rig was sold, and we continue to operate the rig until completion or novation of the drilling contract. See “—Significant Events.”

We provide contract drilling services in a single, global operating segment, which involves contracting our mobile offshore drilling fleet, related equipment and work crews primarily on a dayrate basis to drill oil and gas wells. We specialize in technically demanding regions of the offshore drilling business with a particular focus on ultra deepwater and harsh environment drilling services. We believe our drilling fleet is one of the most versatile fleets in the world, consisting of drillships and semisubmersible floaters used in support of offshore drilling activities and offshore support services on a worldwide basis.

Our contract drilling services operations are geographically dispersed in oil and gas exploration and development areas throughout the world. Although rigs can be moved from one region to another, the cost of moving rigs and the availability of rig moving vessels may cause the supply and demand balance to fluctuate somewhat between regions. Still, significant variations between regions do not tend to persist long term because of rig mobility. Our fleet operates in a single, global market for the provision of contract drilling services. The location of our rigs and the allocation of resources to operate, build or upgrade our rigs are determined by the activities and needs of our customers.

Significant Events

Business combination—On January 30, 2018, we acquired an approximate 97.7 percent ownership interest in Songa. On March 28, 2018, we acquired the remaining shares not owned by us through a compulsory acquisition under Cyprus law, and as a result, Songa became our wholly owned subsidiary. In connection with these transactions, we issued 68.0 million shares and $863 million aggregate principal amount of 0.50% exchangeable senior bonds due January 30, 2023 (the “Exchangeable Bonds”). As a result of the acquisition, we acquired seven mobile offshore drilling units, including five harsh environment floaters and two midwater floaters. See “—Liquidity and Capital Resources—Sources and uses of liquidity.”

Impairments—In the three and six months ended June 30, 2018, we recognized an aggregate loss of $548 million associated with the impairment of three ultra deepwater floaters, along with related assets, which we determined were impaired at the time we classified the assets as held for sale. We performed an interim goodwill impairment test as of June 30, 2018 and determined that the goodwill associated with our contract drilling services reporting unit was impaired. In the three and six months ended June 30, 2018, we recognized a loss of $463 million, which had no tax effect, associated with the impairment of our goodwill. See “—Operating Results.”

New Credit Facility—In June 2018, we entered into a bank credit agreement, which established a $1.0 billion secured revolving credit facility (the “New Credit Facility”), and we terminated the former bank credit agreement. See “—Liquidity and Capital Resources—Sources and uses of liquidity.”

Debt issuances—On July 13, 2018, we issued $750 million aggregate principal amount of 5.875% senior secured notes due January 2024 (the “5.875% Senior Secured Notes”), and we received approximately $733 million aggregate cash proceeds, net of discount and issue costs. On July 20, 2018, we issued $600 million aggregate principal amount of 6.125% senior secured notes due August 2025 (the "6.125% Senior Secured Notes"), and we received approximately $586 million aggregate cash proceeds, net of discount and issue costs. See "—Liquidity and Capital Resources—Sources and uses of liquidity."

Debt retirement—In the six months ended June 30, 2018, we repurchased in the open market $84 million aggregate principal amount of our debt securities for an aggregate cash payment of $84 million. On July 13, 2018, we made an aggregate cash payment of $855 million to repay the borrowings under the Senior Secured Term Loans due March 2026. See "—Liquidity and Capital Resources—Sources and uses of liquidity."

Investment in unconsolidated affiliates—In the six months ended June 30, 2018, we made an aggregate cash investment of $106 million in unconsolidated affiliates. This included an initial investment of $91 million, representing a 33.0 percent interest, in Orion Holdings (Cayman) Limited, a Cayman Islands company formed to construct and own a newbuild harsh environment semisubmersible, recently renamed Transocean Norge. The rig is expected to be delivered in the first quarter of 2019. See "—Liquidity and Capital Resources—Sources and uses of liquidity."

Fleet expansion—In February 2018, we completed the construction of and placed into service the ultra deepwater floater Deepwater Poseidon. See "—Liquidity and Capital Resources—Drilling fleet."

Dispositions—During the six months ended June 30, 2018, we completed the sale of four ultra deepwater floaters, along with related equipment, for which we received aggregate net cash proceeds of $19 million. See "—Operating Results" and "—Liquidity and Capital Resources—Drilling fleet."

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Outlook

Drilling market—Our long term view of the offshore drilling market is positive, especially for harsh environment and ultra deepwater floaters. Brent oil prices have remained above $70 per barrel for most of 2018, improving our customers' economics of drilling oil and gas wells and supporting the budget cycle of our customers for 2019. This is, in large part, due to favorable trends in the hydrocarbon supply demand balance where oil supply has declined relative to demand.

Over the past year, opportunities have increased for our drilling services. In markets requiring harsh environment floating drilling rigs, such as the Norwegian North Sea and eastern Canada, the limited supply of these specialized rigs has improved fleet utilization, which is resulting in increased dayrates on high specification rigs being tendered for new work. Outside of harsh environment markets, the excess supply of ultra deepwater floaters relative to demand has delayed improvement of dayrates despite the increase in contract activity. However, as the hydrocarbon supply demand balance improves, we expect that stability and sustained improvement of oil prices, will ultimately result in greater demand for ultra deepwater drilling rigs and improvement of dayrates as utilization tightens.

As of July 23, 2018, our contract backlog was $11.7 billion. The risks of drilling project delays, contract renegotiations and contract terminations and cancellations have diminished.

Fleet status—We refer to the availability of our rigs in terms of the uncommitted fleet rate. The uncommitted fleet rate is defined as the number of uncommitted days divided by the total number of rig calendar days in the measurement period, expressed as a percentage. An uncommitted day is defined as a calendar day during which a rig is idle or stacked, is not contracted to a customer and is not committed to a shipyard. The uncommitted fleet rates exclude the effect of priced options. As of July 23, 2018, the uncommitted fleet rates for the remainder of 2018 and each of the four years in the period ending December 31, 2022 were as follows:

	2018	2019	2020	2021	2022
Uncommitted fleet rate					
Ultra-deepwater floaters	75 %	58 %	74 %	78 %	85 %
Harsh environment floaters	66 %	57 %	58 %	62 %	67 %
Deepwater floaters	72 %	100 %	100 %	100 %	100 %
Midwater floaters	84 %	75 %	85 %	100 %	100 %

Performance and Other Key Indicators

Contract backlog—Contract backlog is defined as the maximum contractual operating dayrate multiplied by the number of days remaining in the firm contract period, excluding revenues for mobilization, demobilization, contract preparation, other incentive provisions or reimbursement revenues, which are not expected to be significant to our contract drilling revenues.

The contract backlog represents the maximum contract drilling revenues that can be earned considering the contractual operating dayrate in effect during the firm contract period and represents the basis for the maximum revenues in our revenue efficiency measurement. To determine maximum revenues for purposes of calculating revenue efficiency, however, we include the revenues earned for mobilization, demobilization and contract preparation, other incentive provisions or cost escalation provisions, which are excluded from the amounts presented for contract backlog. The contract backlog for our fleet was as follows:

	July 23,	April 18,

	2018	2018	February 19, 2018
Contract backlog	(In millions)		
Ultra-deepwater floaters	$ 7,562	$ 8,142	$ 8,367
Harsh environment floaters	3,985	4,163	4,269
Deepwater floaters	41	81	105
Midwater floaters	119	48	60
High-specification jackups	11	25	38
Total contract backlog	$ 11,718	$ 12,459	$ 12,839

Our contract backlog includes only firm commitments, which are represented by signed drilling contracts or, in some cases, by other definitive agreements awaiting contract execution. Our contract backlog includes amounts associated with our newbuild units that are currently under construction. The contractual operating dayrate may be higher than the actual dayrate we ultimately receive or an alternative contractual dayrate, such as a waiting on weather rate, repair rate, standby rate or force majeure rate, may apply under certain circumstances. The contractual operating dayrate may also be higher than the actual dayrate we ultimately receive because of a number of factors, including rig downtime or suspension of operations. In certain contracts, the dayrate may be reduced to zero if, for example, repairs extend beyond a stated period of time.

Our contract backlog as of July 23, 2018, includes an aggregate reduction of approximately $360 million due to changes to contract dayrates for four of our newbuild drillships related to cost reductions attributed to crew optimization and cost de-escalations. In connection with the Songa acquisition, we acquired contract backlog of $3.7 billion, included in the contract backlog for our harsh environment floaters presented above, measured as of the acquisition date, January 30, 2018.

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The contract backlog for high specification jackups represents the backlog for one high specification jackup that was under contract when we sold the rig, and we continue to operate such rig until completion or novation of the respective drilling contract. See "—Operating Results" and "—Liquidity and Capital Resources—Drilling fleet."

Average daily revenue—Average daily revenue is defined as contract drilling revenues, excluding revenues for contract terminations and reimbursements, earned per operating day. An operating day is defined as a calendar day during which a rig is contracted to earn a dayrate during the firm contract period after commencement of operations. The average daily revenue for our fleet was as follows:

	Three months ended		
	June 30, 2018	March 31 2018	June 30, 2017
Average daily revenue			
Ultra-deepwater floaters	$ 377,600	$ 381,600	$ 482,200
Harsh environment floaters	$ 304,600	$ 279,100	$ 262,200
Deepwater floaters	$ 189,800	$ 193,400	$ 199,000
Midwater floaters	$ 99,100	$ 111,500	$ 100,300
High-specification jackups	$ 150,600	$ 150,000	$ 142,800
Total fleet average daily revenue	$ 308,300	$ 287,600	$ 329,900

Our average daily revenue fluctuates relative to market conditions and our revenue efficiency. The average daily revenue may also be affected by revenues for lump sum bonuses or demobilization fees received from our customers and is reduced by the amortization of the contract intangible assets acquired in the Songa acquisition. Our total fleet average daily revenue is also affected by the mix of rig classes being operated, as deepwater floaters, midwater floaters and high specification jackups are typically contracted at lower dayrates compared to ultra deepwater floaters and harsh environment floaters. We include newbuilds in the calculation when the rigs commence operations upon acceptance by the customer. We remove rigs from the calculation upon disposal or classification as held for sale, except when we continue to operate rigs subsequent to sale, as we do with one of the high specification jackups sold in May 2017.

Revenue efficiency—Revenue efficiency is defined as actual contract drilling revenues, excluding revenues for contract terminations and reimbursements, for the measurement period divided by the maximum revenue calculated for the measurement period, expressed as a percentage. Maximum revenue is defined as the greatest amount of contract drilling revenues, excluding revenues for contract terminations and reimbursements, the drilling unit could earn for the measurement period, excluding amounts related to incentive provisions. The revenue efficiency rates for our fleet were as follows:

	Three months ended		
	June 30, 2018	March 31 2018	June 30, 2017
Revenue efficiency			
Ultra-deepwater floaters	100 %	88 %	97 %
Harsh environment floaters	95 %	95 %	98 %
Deepwater floaters	92 %	93 %	96 %
Midwater floaters	99 %	97 %	99 %
High-specification jackups	100 %	99 %	99 %
Total fleet average revenue efficiency	97 %	92 %	97 %

Our revenue efficiency rate varies due to revenues earned under alternative contractual dayrates, such as a waiting on weather rate, repair rate, standby rate, force majeure rate or zero rate, that may apply under certain circumstances. We include newbuilds in the calculation when the rigs commence operations upon acceptance by the customer. We exclude rigs that are not operating under contract, such as those that are stacked.

Rig utilization—Rig utilization is defined as the total number of operating days divided by the total number of rig calendar days in the measurement period, expressed as a percentage. The rig utilization rates for our fleet were as follows:

	Three months ended		
	June 30, 2018	March 31 2018	June 30, 2017
Rig utilization			
Ultra-deepwater floaters	47 %	35 %	38 %
Harsh environment floaters	81 %	84 %	62 %
Deepwater floaters	100 %	100 %	67 %
Midwater floaters	35 %	38 %	33 %
High-specification jackups	95 %	97 %	54 %
Total fleet average rig utilization	57 %	52 %	44 %

Our rig utilization rate declines as a result of idle and stacked rigs and during shipyard and mobilization periods to the extent these rigs are not earning revenues. We include newbuilds in the calculation when the rigs commence operations upon acceptance by the

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customer. We remove rigs from the calculation upon disposal, classification as held for sale or classification as discontinued operations. Accordingly, our rig utilization can increase when idle or stacked units are removed from our drilling fleet.

Operating Results

Three months ended June 30, 2018 compared to the three months ended June 30, 2017

The following is an analysis of our operating results. See "—Performance and Other Key Indicators" for definitions of operating days, average daily revenue, revenue efficiency and rig utilization.

	Three months ended June 30, 2018	Three months ended June 30, 2017	Change	% Change
	(In millions, except day amounts and percentages)			
Operating days	2,458	2,137	321	15 %
Average daily revenue	$ 308,300	$ 329,900	$ (21,600)	(7) %
Revenue efficiency	97 %	97 %		
Rig utilization	57 %	44 %		
Contract drilling revenues	$ 790	$ 705	$ 85	12 %
Other revenues	—	46	(46)	nm
	790	751	39	5 %
Operating and maintenance expense	(431)	(331)	(100)	(30) %
Depreciation expense	(211)	(219)	8	4 %
General and administrative expense	(52)	(35)	(17)	(49) %
Loss on impairment	(1,014)	(113)	(901)	nm
Gain (loss) on disposal of assets, net	1	(1,595)	1,596	nm
Operating loss	(917)	(1,542)	625	41 %
Other income (expense), net				
Interest income	13	7	6	86 %
Interest expense, net of amounts capitalized	(148)	(129)	(19)	(15) %
Loss on retirement of debt	(2)	(48)	46	96 %
Other, net	—	(4)	4	nm
Loss before income tax (expense) benefit	(1,054)	(1,716)	662	39 %
Income tax (expense) benefit	(85)	37	(122)	nm
Net loss	$ (1,139)	$ (1,679)	$ 540	32 %

"nm" means not meaningful.

Contract drilling revenues—Contract drilling revenues increased for the three months ended June 30, 2018, compared to the three months ended June 30, 2017, primarily due to the following: (a) approximately $130 million resulting from operations acquired in the Songa acquisition, (b) approximately $100 million resulting from our newbuild ultra deepwater drillships that commenced operations subsequent to January 1, 2017, (c) $37 million resulting from contract early terminations and cancellations, (d) approximately $35 million resulting from the reactivation of two rigs and (e) $25 million of reimbursement revenues. These increases were partially offset by the following decreases: (a) approximately $125 million resulting from lower dayrates, (b) approximately $85 million resulting from a greater number of rigs idle or stacked and (c) approximately $35 million resulting from rigs sold or classified as held for sale.

Other revenues for the three months ended June 30, 2017, included revenues of $40 million resulting from contract early terminations and cancellations and $6 million of reimbursement revenues. For the three months ended June 30, 2018, these activities are presented in contract drilling revenues as part of our single performance obligation.

Costs and expenses—Operating and maintenance costs and expenses increased for the three months ended June 30, 2018, compared to the three months ended June 30, 2017, primarily due to the following: (a) approximately $80 million resulting from operations acquired in the Songa acquisition, (b) approximately $20 million resulting from our newbuild ultra deepwater drillships that commenced operations subsequent to January 1, 2017, (c) approximately $20 million resulting from increased reimbursable costs and (d) approximately $10 million resulting from the reactivation of two rigs. These increases were partially offset by the following decreases: (a) approximately $30 million resulting from rigs sold or classified as held for sale and (b) approximately $10 million resulting from a greater number of rigs idle or stacked.

Depreciation expense decreased for the three months ended June 30, 2018, compared to the three months ended June 30, 2017, primarily due to the following: (a) approximately $36 million resulting from rigs sold or classified as held for sale and (b) approximately $5 million resulting from the retirement or full depreciation of certain assets. These decreases were partially offset by the following increases: (a) approximately $21 million related to the harsh environment floaters acquired in the Songa acquisition and (b) approximately $14 million resulting from our newbuild ultra deepwater drillships placed into service subsequent to April 1, 2017.

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General and administrative expense increased for the three months ended June 30, 2018, compared to the three months ended June 30, 2017, primarily due to the following: (a) approximately $9 million of increased personnel costs, primarily resulting from the early retirement of certain personnel, and (b) approximately $8 million of increased professional fees, of which $4 million was for costs related to developing technology for improving fleet performance and reducing costs.

Loss on impairment of assets—In the three months ended June 30, 2018, we recognized losses related to the following: (a) $548 million associated with the impairment of certain assets classified as held for sale and (b) $463 million associated with the impairment of our goodwill. In the three months ended June 30, 2017, we recognized a loss on impairment related to the following: (a) $96 million associated with the impairment of our midwater floater asset group and (b) $17 million associated with the impairment of certain assets classified as held for sale.

Disposal of assets—In the three months ended June 30, 2017, we recognized a loss, primarily due to the completion of the sale of 10 high specification jackups and novation of the contracts relating to the construction of five high specification jackups, together with related assets.

Other income and expense—Interest expense, net of amounts capitalized, increased in the three months ended June 30, 2018, compared to the three months ended June 30, 2017, primarily due to the following: (a) approximately $15 million of increased interest expense resulting from debt issued subsequent to April 1, 2017, (b) approximately $28 million of increased interest expense resulting from reduced interest costs capitalized for our newbuild ultra deepwater drillships that commenced operations subsequent to April 1, 2017 and (c) approximately $13 million of increased interest expense resulting from the debt and related undesignated derivative instruments issued or assumed in connection with the Songa acquisition. Partially offsetting these increases was approximately $31 million of decreased interest expense resulting from the retirement of debt.

Loss on retirement of debt in the three months ended June 30, 2017, was primarily due to the retirement of notes validly tendered through the early tender date of the cash tender offers (the “2017 Tender Offers”).

Income tax expense—We operate internationally and provide for income taxes based on the tax laws and rates in the countries in which we operate and earn income. In the three months ended June 30, 2018 and 2017, our effective tax rate was (8.0) percent and 2.2 percent, respectively, based on income or loss before income tax expense. In the three months ended June 30, 2018 and 2017, the effect of the various discrete period tax items was a net tax expense of $91 million and a net tax benefit of $70 million, respectively. In the three months ended June 30, 2018, such discrete items were primarily related to the U.S. transition tax on non U.S. earnings. In the three months ended June 30, 2017, such discrete items were primarily related to tax benefit of changes in unrecognized tax benefit associated with tax positions taken in prior years and valuation allowances on deferred tax assets for foreign tax credits not expected to be realized. In the three months ended June 30, 2018 and 2017, our effective tax rate, excluding discrete items, was 22.0 percent and 74.0 percent, respectively, based on income or loss before income tax expense. In the three months ended June 30, 2018 compared to the three months ended June 30, 2017, our effective tax rate decreased primarily due to changes in the relative blend of income from operations in certain jurisdictions, partially offset by the U.S. base erosion and anti abuse tax (“BEAT”).

In December 2017, the U.S. enacted the Tax Cuts and Jobs Act (the “2017 Tax Act”), which includes a number of changes to existing U.S. tax laws that have an impact on our income tax provision, most notably a reduction of the U.S. corporate income tax rate and the creation of a territorial tax system with a one time mandatory tax on certain unremitted earnings and profits of the non U.S. subsidiaries of our U.S. subsidiaries. The 2017 Tax Act also makes prospective changes beginning in 2018, including a base erosion and anti abuse tax, a global intangible low taxed income tax, additional limitations on the deductibility of executive compensation, limitations on the deductibility of interest, and repeal of the domestic manufacturing deduction. We have evaluated our bareboat charter structure and have concluded that the current structure of our U.S. operations is subject to BEAT. We have reflected the estimated impact of this tax in our provision for the three months ended June 30, 2018. A significant portion of our BEAT liability is contractually protected due to a change in law provision in certain drilling contracts. However, we are still analyzing certain aspects of the 2017 Tax Act and refining our calculations which could potentially affect the measurement of these balances or potentially give rise to new deferred tax amounts.

Due to a number of factors related to our operating activities and organizational structure, our income tax expense does not change proportionally with our income before income taxes. Significant decreases in our income before income taxes typically lead to higher effective tax rates, while significant increases in income before income taxes can lead to lower effective tax rates, subject to the other factors impacting income tax expense noted above. With respect to the effective tax rate calculation for the three months ended June 30, 2018, a significant portion of our income tax expense was generated in countries in which income taxes are imposed on gross revenues, with the most significant of these countries being Angola and India. Conversely, the countries in which we incurred the most significant income taxes during this period that were based on income before income tax include Brazil, Switzerland, Norway, the U.K. and the U.S. Our rig operating structures further complicate our tax calculations, especially in instances where we have more than one operating structure for the particular taxing jurisdiction and, thus, more than one method of calculating taxes depending on the operating structure utilized by the rig under the contract. For example, two rigs operating in the same country could generate significantly different provisions for income taxes if they are owned by two different subsidiaries that are subject to differing tax laws and regulations in the respective country of incorporation.

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Six months ended June 30, 2018 compared to the six months ended June 30, 2017

The following is an analysis of our operating results. See "—Performance and Other Key Indicators" for definitions of operating days, average daily revenue, revenue efficiency and rig utilization.

	Six months ended June 30,			
	2018	2017	Change	% Change
	(In millions, except day amounts and percentages)			
Operating days	4,611	4,324	287	7 %
Average daily revenue	$ 298,600	$ 333,800	$ (35,200)	(11) %
Revenue efficiency	95 %	98 %		
Rig utilization	55 %	44 %		
Contract drilling revenues	$ 1,454	$ 1,443	$ 11	1 %
Other revenues	—	93	(93)	nm
	1,454	1,536	(82)	(5) %
Operating and maintenance expense	(855)	(678)	(177)	(26) %
Depreciation expense	(413)	(451)	38	8 %
General and administrative expense	(99)	(74)	(25)	(34) %
Loss on impairment	(1,014)	(113)	(901)	nm
Gain (loss) on disposal of assets, net	6	(1,593)	1,599	nm
Operating loss	(921)	(1,373)	452	33 %
Other income (expense), net				
Interest income	25	13	12	92 %
Interest expense, net of amounts capitalized	(295)	(256)	(39)	(15) %
Loss on retirement of debt	(2)	(48)	46	96 %
Other, net	(10)	3	(13)	nm
Loss before income tax (expense) benefit	(1,203)	(1,661)	458	28 %
Income tax (expense) benefit	(148)	77	(225)	nm
Net loss	$ (1,351)	$ (1,584)	$ 233	15 %

"nm" means not meaningful.

Contract drilling revenues—Contract drilling revenues decreased for the six months ended June 30, 2018, compared to the six months ended June 30, 2017, primarily due to the following: (a) approximately $225 million resulting from lower dayrates, (b) approximately $210 million resulting from a greater number of rigs idle or stacked, (c) approximately $70 million resulting from rigs sold or classified as held for sale, (d) approximately $40 million resulting from lower revenue efficiency and (e) approximately $20 million resulting from lower activity across the fleet. These decreases were partially offset by the following increases: (a) approximately $210 million resulting from operations acquired in the Songa acquisition, (b) approximately $175 million resulting from our newbuild ultra deepwater drillships that commenced operations subsequent to January 1, 2017, (c) $75 million resulting from contract early terminations and cancellation, (d) approximately $65 million resulting from the reactivation of two rigs and (e) $51 million of reimbursement revenues.

Other revenues for the six months ended June 30, 2017, included revenues of $77 million resulting from contract early terminations and cancellations and $16 million of reimbursement revenues. For the six months ended June 30, 2018, these activities are presented in contract drilling revenues as part of our single performance obligation.

Costs and expenses—Operating and maintenance costs and expenses increased for the six months ended June 30, 2018, compared to the six months ended June 30, 2017, primarily due to the following: (a) approximately $130 million resulting from operations acquired in the Songa acquisition, (b) approximately $40 million resulting from our newbuild ultra deepwater drillships that commenced operations subsequent to January 1, 2017, (c) approximately $35 million resulting from the reactivation of two rigs and (d) approximately $35 million resulting from increased reimbursable costs. These increases were partially offset by the following decreases: (a) approximately $45 million resulting from a greater number of rigs sold or classified as held for sale and (b) approximately $15 million resulting from a greater number of rigs idle or stacked.

Depreciation expense decreased for the six months ended June 30, 2018, compared to the six months ended June 30, 2017, primarily due to the following: (a) approximately $80 million resulting from rigs sold or classified as held for sale, (b) approximately $12 million resulting from the retirement or full depreciation of certain assets and (c) approximately $6 million resulting from the impairment of our midwater floater asset group in the three months ended to June 30, 2017. These decreases were partially offset by the following increases: (a) approximately $35 million related to the harsh environment floaters acquired in the Songa acquisition and (b) approximately $26 million resulting from our newbuild ultra deepwater drillships placed into service subsequent to January 1, 2017.

General and administrative expense increased for the six months ended June 30, 2018, compared to the six months ended June 30, 2017, primarily due to the following: (a) approximately $14 million of increased professional fees, of which $7 million was for costs associated with the Songa acquisition and $5 million was for increased costs related to developing technology for improving fleet performance and reducing costs, and (b) approximately $9 million of increased personnel costs, primarily resulting from costs associated with the early retirement of certain personnel.

Loss on impairment of assets—In the six months ended June 30, 2018, we recognized losses related to the following: (a) $548 million associated with the impairment of certain assets classified as held for sale and (b) $463 million associated with the impairment of our goodwill. In the six months ended June 30, 2017, we recognized a loss on impairment related to the following: (a) $96 million associated with the impairment of our midwater floater asset group and (b) $17 million associated with the impairment of certain assets classified as held for sale.

Disposal of assets—Gain on disposal of assets in the six months ended June 30, 2018, was primarily due to the sale of the ultra deepwater Deepwater Pathfinder, along with related equipment. Loss on disposal of assets in the six months ended June 30, 2017, was primarily due to the completion of the sale of 10 high specification jackups and novation of the contracts relating to the construction of five high specification jackups, together with related assets.

Other income and expense—Interest expense, net of amounts capitalized, increased in the six months ended June 30, 2018, compared to the six months ended June 30, 2017, primarily due to the following: (a) approximately $35 million resulting from debt issued subsequent to January 1, 2017, (b) approximately $47 million resulting from reduced interest costs capitalized for our newbuild ultra deepwater drillships placed into service during the year ended December 31, 2017 and (c) approximately $24 million resulting from the debt and related undesignated derivative instruments issued or assumed in connection with the Songa acquisition. Partially offsetting these increases was approximately $63 million of decreased interest expense resulting from the retirement of debt.

Loss on retirement of debt in the six months ended June 30, 2017, was primarily due to the retirement of notes validly tendered through the early tender date of the 2017 Tender Offers.

Other expenses, net, increased in the six months ended June 30, 2018, compared to the six months ended June 30, 2017, primarily related to the following: (a) a loss of $19 million associated with currency exchange, primarily resulting from undesignated derivative instruments acquired in the Songa acquisition, partially offset by (b) a gain of $7 million associated with the non service component of net periodic benefit costs and (c) a gain of $5 million associated with the fair value adjustments of undesignated interest rate swaps acquired in the Songa acquisition.

Income tax expense—We operate internationally and provide for income taxes based on the tax laws and rates in the countries in which we operate and earn income. In the six months ended June 30, 2018 and 2017, our effective tax rate was (12.3) percent and 4.7 percent, respectively, based on income or loss before income tax expense. In the six months ended June 30, 2018 and 2017, the effect of various discrete period tax items was a net tax expense of $90 million and a net tax benefit of $147 million, respectively. In the six months ended June 30, 2018, such discrete items were primarily related to the U.S. transition tax on non U.S. earnings. In the six months ended June 30, 2017, such discrete items were primarily related to the tax benefit of changes in unrecognized tax benefits associated with tax positions taken in prior years, valuation allowances on deferred tax assets for foreign tax credits not expected to be realized, release of a valuation allowance on deferred tax assets for foreign tax credits expected to be realized and deductions related to resolution of certain litigation matters related to the Macondo well incident. In the six months ended June 30, 2018 and 2017, our effective tax rate, excluding discrete items, was (32.5) percent and 78.0 percent, respectively, based on income or loss before income tax expense. Our effective tax rate decreased in the six months ended June 30, 2018 compared to the six months ended June 30, 2017, primarily due to changes in the relative blend of income from operations in certain jurisdictions, partially offset by the U.S. BEAT.

For the six months ended June 30, 2018 and 2017, to calculate our annual estimated effective income tax rate of (32.5) percent and 78.0 percent, respectively, in accordance with accounting standards for the provision of income taxes, we excluded certain operating losses in taxable jurisdictions for which we do not expect to realize a tax benefit. For the six months ended June 30, 2018 and 2017, our annual estimated effective income tax rate would have been (30.3) percent and 77.1 percent, respectively, if we had included all jurisdictions in our calculations.

In December 2017, the U.S. enacted the 2017 Tax Act, which includes a number of changes to existing U.S. tax laws that have an impact on our income tax provision, most notably a reduction of the U.S. corporate income tax rate and the creation of a territorial tax system with a one time mandatory tax on certain unremitted earnings and profits of the non U.S. subsidiaries of our U.S. subsidiaries. The 2017 Tax Act also makes prospective changes beginning in 2018, including a base erosion and anti abuse tax, a global intangible low taxed income tax, additional limitations on the deductibility of executive compensation, limitations on the deductibility of interest and repeal of the domestic manufacturing deduction. We have evaluated our bareboat charter structure and have concluded that the current structure of our U.S. operations is subject to BEAT. We have reflected the estimated impact of this tax in our provision for the six months ended June 30, 2018. A significant portion of our BEAT liability is contractually protected due to a change in law provision in certain drilling contracts. However, we are still analyzing certain aspects of the 2017 Tax Act and refining our calculations which could potentially affect the measurement of these balances or potentially give rise to new deferred tax amounts.

Due to a number of factors related to our operating activities and organizational structure, our income tax expense does not change proportionally with our income before income taxes. Significant decreases in our income before income taxes typically lead to higher effective tax rates, while significant increases in income before income taxes can lead to lower effective tax rates, subject to the other factors impacting income tax expense noted above. With respect to the effective tax rate calculation for the six months ended

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June 30, 2018, a significant portion of our income tax expense was generated in countries in which income taxes are imposed on gross revenues, with the most significant of these countries being Angola and India. Conversely, the countries in which we incurred the most significant income taxes during this period that were based on income before income tax include Brazil, Switzerland, Norway, the U.K. and the U.S. Our rig operating structures further complicate our tax calculations, especially in instances where we have more than one operating structure for the particular taxing jurisdiction and, thus, more than one method of calculating taxes depending on the operating structure utilized by the rig under the contract. For example, two rigs operating in the same country could generate significantly different provisions for income taxes if they are owned by two different subsidiaries that are subject to differing tax laws and regulations in the respective country of incorporation.

Liquidity and Capital Resources

Sources and uses of cash

At June 30, 2018, we had $2.5 billion in unrestricted cash and cash equivalents and $501 million in restricted cash and cash equivalents. In the six months ended June 30, 2018, our primary sources of cash were proceeds from maturities of short term investments, unrestricted and restricted cash acquired in our business combination and our cash flows from operating activities. Our primary uses of cash were (1) repayments of debt, (2) investments in unconsolidated affiliates, (3) capital expenditures, primarily associated with our newbuild construction projects, and (4) payments to terminate certain derivative instruments assumed in the Songa acquisition.

	Six months ended June 30, 2018	2017	Change
	(In millions)		
Cash flows from operating activities			
Net loss	$ (1,351)	$ (1,584)	$ 233
Contract intangible asset amortization	49	—	49
Depreciation	413	451	(38)
Loss on impairment	1,014	113	901
(Gain) loss on disposal of assets, net	(6)	1,593	(1,599)
Loss on retirement of debt	2	48	(46)
Deferred income tax expense (benefit)	46	(39)	85
Other non-cash items, net	33	39	(6)
Changes in deferred revenues and costs, net	(65)	(76)	11
Changes in other operating assets and liabilities, net	(29)	(1)	(28)
	$ 106	$ 544	$ (438)

Net cash provided by operating activities decreased primarily due to (a) reduced operating activities and (b) proceeds of $172 million received from customers for early terminations or cancellations of drilling contracts in prior-year period with no comparable activity in current-year period.

	Six months ended June 30, 2018	2017	Change
	(In millions)		

Cash flows from investing activities			
Capital expenditures	$ (92)	$ (258)	$ 166
Proceeds from disposal of assets, net	23	329	(306)
Unrestricted and restricted cash acquired in business combination	131	—	131
Investment in unconsolidated affiliates	(106)	—	(106)
Proceeds from maturities of short-term investments, net of deposits	450	—	450
Other, net	—	(15)	15
	$ 406	$ 56	$ 350

Net cash provided by investing activities increased primarily due to (a) proceeds from maturities of short term investments, net of deposits, (b) unrestricted and restricted cash acquired in the Songa acquisition and (c) reduced capital expenditures, primarily associated with our major construction projects, partially offset by cash used to invest in a joint venture company, established to construct and own the harsh environment semisubmersible Transocean Norge.

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	Six months ended June 30, 2018	2017	Change
	(In millions)		
Cash flows from financing activities			
Proceeds from issuance of debt, net of issue costs	$ —	$ 403	$ (403)
Repayments of debt	(388)	(1,533)	1,145
Proceeds from investments restricted for financing activities	26	50	(24)
Payments to terminate derivative instruments	(92)	—	(92)
Other, net	(26)	(3)	(23)
	$ (480)	$ (1,083)	$ 603

Net cash used in financing activities decreased primarily due to (a) decreased cash used to repay debt, primarily due to the 2017 cash tender offers in the prior-year period, partially offset by (b) net cash proceeds from the issuance of $410 million aggregate principal amount of 5.52% senior secured notes due May 2022 (the "5.52%Senior Secured Notes") in the prior year period with no comparable activity in the current period and (c) cash used to settle and terminate certain derivative instruments acquired in the Songa acquisition in the current period with no comparable activity in the prior-year period.

Sources and uses of liquidity

Overview—We expect to use existing unrestricted cash balances and short term investments, internally generated cash flows, borrowings under our new bank credit agreement, proceeds from the disposal of assets or proceeds from the issuance of additional debt to fulfill anticipated obligations, which may include capital expenditures, working capital and other operational requirements, scheduled debt maturities or other payments. We may also consider establishing additional financing arrangements with banks or other capital providers. Subject to market conditions and other factors, we may also be required to provide collateral for future financing arrangements. In each case subject to then existing market conditions and to our then expected liquidity needs, among other factors, we may continue to use a portion of our internally generated cash flows and proceeds from asset sales to reduce debt prior to scheduled maturities through debt repurchases, either in the open market or in privately negotiated transactions, or through debt redemptions or tender offers.

Our access to debt and equity markets may be limited due to a variety of events, including, among others, credit rating agency downgrades of our debt ratings, industry conditions, general economic conditions, market conditions and market perceptions of us and our industry. The rating of our non credit enhanced senior unsecured long term debt ("Debt Rating") are below investment grade. Such Debt Rating has caused us to experience increased fees under our credit facility and interest rates under agreements governing certain of our senior notes. Further downgrades may affect or limit our ability to access debt markets in the future. Our ability to access such markets may be severely restricted at a time when we would like, or need, to access such markets, which could have an impact on our flexibility to react to changing economic and business conditions. An economic downturn could have an impact on the lenders participating in our credit facilities or on our customers, causing them to fail to meet their obligations to us.

Our internally generated cash flows are directly related to our business and the market sectors in which we operate. Should the drilling market deteriorate, or should we experience poor results in our operations, cash flows from operations may be reduced. We have, however, continued to generate positive cash flows from operating activities over recent years and expect that such cash flows will continue to be positive over the next year.

New Credit Facility—In June 2018, we entered into a bank credit agreement, which established a $1.0 billion New Credit Facility, which is scheduled to expire on the earlier of (i) June 22, 2023 and (ii) if the 9.00% Senior Notes due 2023, or any refinancing or replacement thereof with a stated maturity date that is earlier than 91 days after the five year anniversary of the closing date of the New Credit Facility, remain outstanding in an aggregate principal amount in excess of $300 million, the earliest stated maturity of such senior notes, or such refinancing or replacement. The New Credit Facility is guaranteed by Transocean Ltd. and certain subsidiaries. The New Credit Facility is initially secured by, among other things, a lien on the ultra deepwater floaters Deepwater Asgard, Deepwater Invictus, Discoverer Inspiration, Transocean Barents and Transocean Spitsbergen. The New Credit Facility contains covenants that, among other things, include maintenance of certain guarantee and collateral coverage ratios, a maximum debt to capitalization ratio of 0.60 to 1.00 and minimum liquidity of $500 million. The New Credit Facility also restricts the ability of Transocean Ltd. and certain of our subsidiaries to merge, consolidate or otherwise make changes to the corporate structure, incur liens, incur additional indebtedness, enter into transactions with affiliates, pay dividends and other distributions.

We may borrow under the New Credit Facility at either (1) the adjusted London Interbank Offered Rate (“LIBOR”) plus a margin (the “New Credit Facility Margin”), which ranges from 2.625 percent to 3.25 percent based on the Debt Rating, or (2) the base rate specified in the credit agreement plus the New Credit Facility Margin, plus one percent per annum. Throughout the term of the New Credit Facility, we pay a facility fee on the daily unused amount of the underlying commitment which ranges from 0.375 percent to 1.00 percent based on our Debt Rating. At June 30, 2018, based on our Debt Rating on that date, the New Credit Facility Margin was 3.25 percent and the facility fee was 0.75 percent. At June 30, 2018, we had no borrowings outstanding, $12 million of letters of credit issued, and we had $1.0 billion of available borrowing capacity under the New Credit Facility. See Note 8—Debt and Note 13—Commitments and Contingencies—Global Marine litigation.

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Investment in unconsolidated affiliates—In the six months ended June 30, 2018. We made an aggregate cash investment of $106 million in unconsolidated affiliates. This included an initial investment of $91 million, representing a 33.0 percent interest, in Orion Holdings (Cayman) Limited, a Cayman Islands company formed to construct and own a newbuild harsh environment semisubmersible, recently renamed Transocean Norge. The total purchase price for the rig, under construction at the Jurong Shipyard Pte Ltd. in Singapore, is $500 million. We expect to make additional investments of $50 million and $33 million in January 2019 and January 2020, respectively. The rig is expected to be delivered in the first quarter of 2019. Additionally, we invested $15 million in a company involved in researching and developing technology for performing automated drilling and other activities.

Share issuances—On January 30, 2018, we acquired an approximate 97.7 percent ownership interest in Songa. On March 28, 2018, we acquired the remaining shares not owned by us through a compulsory acquisition under Cyprus law, and as a result, Songa became our wholly owned subsidiary. In connection with these transactions, we issued 68.0 million shares.

Debt issuances—On July 20, 2018, we issued $600 million aggregate principal amount of the 6.125% Senior Secured Notes, and we received approximately $586 million aggregate cash proceeds, net of discount and issue costs. The indenture that governs the 6.125% Senior Secured Notes contains covenants that limit the ability of our subsidiaries that own or operate Deepwater Pontus to declare or pay dividends to their affiliates.

On July 13, 2018, we issued $750 million aggregate principal amount of the 5.875% Senior Secured Notes, and we received approximately $733 million aggregate cash proceeds, net of discount and issue costs. The indenture that governs the 5.875% Senior Secured Notes contains covenants that limit the ability of our subsidiaries that own or operate Songa Encourage or Songa Enabler to declare or pay dividends to their affiliates.

In connection with the Songa acquisition transactions, we also issued $863 million aggregate principal amount of Exchangeable Bonds as partial consideration for the acquisition of the acquired Songa shares and partial settlement of certain Songa indebtedness. Holders of the Exchangeable Bonds may convert the notes into shares of Transocean Ltd. under certain circumstances at a rate of 97.29756 shares per $1,000 note, equivalent to a conversion price of $10.28 per share, subject to adjustment due to the occurrence of certain events.

On October 17, 2017, we issued $750 million aggregate principal amount of 7.50% senior unsecured notes due January 2026 (the "7.50% Senior Notes"), and we received aggregate cash proceeds of $742 million, net of issue costs. We used the majority of the net proceeds from the debt offering to repay or redeem certain maturing debt.

On May 5, 2017, we issued $410 million aggregate principal amount of 5.52% senior secured notes due May 2022 (the "5.52% Senior Secured Notes"), and we received aggregate cash proceeds of $403 million, net of issue costs. The indenture that governs the 5.52% Senior Secured Notes contains covenants that limit the ability of our subsidiaries that own or operate Deepwater Conqueror to declare or pay dividends to affiliates. We will be required to redeem or to offer to redeem the notes at a price equal to 100 percent of the aggregate principal amount, and, under certain circumstances, the payment of a make whole amount, upon the occurrence of certain events related to Deepwater Conqueror and the related drilling contract.

Debt assumption—In connection with the Songa acquisition, we assumed rights and obligations under credit agreements establishing two senior secured term loan facilities (together, the "Senior Secured Term Loans") and a subscription agreement establishing a junior secured bond facility (the "Junior Secured Bonds"). The credit agreements and the subscription agreement contain covenants that, among other things, require us to maintain the following: (a) minimum amounts of liquidity, working capital and equity and (b) minimum ratios of leverage, equity, interest coverage and asset value to loan coverage. The credit agreements and the subscription agreement for the assumed debt contain change of control clauses. For the Senior Secured Term Loans, we received waivers from the lenders, which expire on August 31, 2018. We intend to restructure the existing credit agreements or retire the borrowings through new financing arrangements with commercial banks or capital market sources. We also have available credit under the New Credit Facility. Economic conditions could impact the availability of these sources of funding. On February 12, 2018, we served notice of our intent to call the borrowings under the Junior Secured Bonds, effective August 12, 2018. On July 13, 2018, we made a $855 million aggregate cash payment to repay the borrowings under one of the Senior Secured Term Loans and terminated the underlying credit agreement. At July 23, 2018, the aggregate borrowings outstanding under the remaining Senior Secured Term Loans and the Junior Secured Bonds was $560 million and $171 million, respectively.

In connection with the Songa acquisition, we also assumed the indebtedness related to two bond loans (together, the “Bond Loans”), previously publicly traded on the Oslo stock exchange, and on March 14, 2018, we made a cash payment of NOK 345 million, equivalent to $44 million, to repay the Bond Loans. We also assumed the rights and obligations under a credit agreement, which was due to expire on March 31, 2018, for a secured borrowing facility. On February 2, 2018, we made a cash payment of $23 million to repay the borrowings outstanding under the secured borrowing facility.

Debt tender offers—On July 11, 2017, we completed cash tender offers to purchase up to $1.5 billion aggregate principal amount of certain notes (the “2017 Tendered Notes”). As a result, we received valid tenders from holders of $1.2 billion aggregate principal amount of the 2017 Tendered Notes, and we made an aggregate cash payment of $1.3 billion to settle the 2017 Tendered Notes.

Debt redemptions, repurchases and other repayments—In the six months ended June 30, 2018, we repurchased in the open market $84 million aggregate principal amount of our debt securities for an aggregate cash payment of $84 million. In the year ended

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December 31, 2017, we repurchased in the open market $156 million aggregate principal amount of our debt securities for an aggregate cash payment of $157 million.

In November 2017, we redeemed the outstanding 6.00% Senior Notes due March 2018 and the 7.375% Senior Notes due April 2018 with aggregate principal amounts of $319 million and $82 million, respectively, by making an aggregate cash payment of $407 million using proceeds from the issuance of the 7.50% Senior Notes.

Debt scheduled maturities—On the scheduled maturity date of October 16, 2017, we made a cash payment of $152 million to repay the outstanding 2.50% Senior Notes due October 2017, at a price equal to 100 percent of the aggregate principal amount.

Derivative instruments—In connection with the Songa acquisition, we acquired certain currency swaps, which were previously designated as a cash flow hedge associated with the Bond Loans, which were denominated in Norwegian kroner. In February 2018, we terminated and settled the currency swaps for an aggregate cash payment of $92 million.

Litigation settlements—On May 29, 2015, together with the Plaintiff Steering Committee, (the "PSC") we filed a settlement agreement (the "PSC Settlement Agreement") in which we agreed to pay a total of $212 million, plus up to $25 million for partial reimbursement of attorneys' fees, to resolve (1) punitive damages claims of private plaintiffs, businesses, and local governments and (2) certain claims that BP plc. (together with its affiliates, "BP") had made against us and had assigned to private plaintiffs who previously settled economic damages claims against BP. On February 15, 2017, the U.S. District Court for the Eastern District of Louisiana (the "MDL Court") entered a final order and judgment approving the PSC Settlement Agreement, which is no longer subject to appeal. In June 2016 and August 2015, we made a cash deposit of $25 million and $212 million, respectively, into an escrow account established by the MDL Court for the settlement. In November 2017, the MDL Court released $25 million from the escrow accounts for partial payment of attorneys' fees. As of July 23, 2018, the aggregate cash balance of our escrow accounts was $213 million.

Share repurchase program—In May 2009, at our annual general meeting, our shareholders approved and authorized our board of directors, at its discretion, to repurchase an amount of our shares for cancellation with an aggregate purchase price of up to CHF 3.5 billion. On February 12, 2010, our board of directors authorized our management to implement the share repurchase program. In the six months ended June 30, 2018 and the year ended December 31, 2017, we did not purchase shares under our share repurchase program. At July 23, 2018, the authorization remaining under the share repurchase program was for the repurchase of up to CHF 3.2 billion, equivalent to approximately $3.3 billion, of our outstanding shares. We intend to fund any repurchases using available cash balances and cash from operating activities. The share repurchase program could be suspended or discontinued by our board of directors or company management, as applicable, at any time. We may decide, based upon our ongoing capital requirements, the price of our shares, regulatory and tax considerations, cash flow generation, the amount and duration of our contract backlog, general market conditions, debt rating considerations and other factors, that we should retain cash, reduce debt, make capital investments or acquisitions or otherwise use cash for general corporate purposes. Decisions regarding the amount, if any, and timing of any share repurchases will be made from time to time based upon these factors. Any repurchased shares under the share repurchase program would be held by us for cancellation by the shareholders at a future general meeting of shareholders.

Contractual obligations—As of June 30, 2018, with exception to the following, there have been no material changes to the contractual obligations as previously disclosed in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" in our annual report on Form 10 K for the year ended December 31, 2017:

	Total	For the twelve months ending June 30, 2019	2020 - 2021	2022 - 2023	Thereafter
	(in millions)				
Contractual obligations					
Debt	$ 9,182	$ 1,789	$ 707	$ 1,924	$ 4,762
Interest on debt	5,237	562	1,056	913	2,706
Total	$ 14,419	$ 2,351	$ 1,763	$ 2,837	$ 7,468

Other commercial commitments—As of June 30, 2018, there have been no material changes to the commercial commitments as previously disclosed in “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our annual report on Form 10 K for the year ended December 31, 2017.

Drilling fleet

Expansion—From time to time, we review possible acquisitions of businesses and drilling rigs and may make significant future capital commitments for such purposes. We may also consider investments related to major rig upgrades, new rig construction, or the acquisition of a rig under construction. We may commit to such investment without first obtaining customer contracts. Any acquisition, upgrade or new rig construction could involve the payment by us of a substantial amount of cash or the issuance of a substantial number of additional shares or other securities. Our failure to secure drilling contracts for rigs under construction could have an adverse effect on our results of operations or cash flows.

In connection with the Songa acquisition, we acquired seven mobile offshore drilling units, including five harsh environment floaters and two midwater floaters. See Notes to Condensed Consolidated Financial Statements—Note 4—Business Combination.

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In the six months ended June 30, 2018, we made an aggregate cash investment of $91 million, representing a 33.0 percent interest, in Orion Holdings (Cayman) Limited, a Cayman Islands company formed to construct and own a newbuild harsh environment semisubmersible, recently renamed Transocean Norge. The total purchase price for the rig, under construction at the Jurong Shipyard Pte Ltd. in Singapore, is $500 million. The Moss Maritime CS60 design is considered among the most capable newbuild semisubmersibles in the world. Transocean Norge is not yet contracted and is expected to be delivered in the first quarter of 2019. See Notes to Condensed Consolidated Financial Statements—Note 1—Business.

In the six months ended June 30, 2018, we made capital expenditures of $92 million, including capitalized interest of $20 million. We only capitalize interest costs during periods in which progress for construction projects continues to be underway. The historical and projected capital expenditures and other capital additions, including capitalized interest, for our ongoing major construction projects were as follows:

	Total costs through December 31, 2017	Total costs for the six months ended June 30, 2018	Expected costs for the six months ending December 31, 2018	For the years ending December 31, 2019	2020	Total estimated costs at completion
	(In millions)					
Deepwater Poseidon (a)	871	32	—	—	—	903
Ultra-Deepwater drillship TBN1 (b)	266	14	14	55	461	810
Ultra-Deepwater drillship TBN2 (b)	200	6	11	39	504	760
Total	$ 1,337	$ 52	$ 25	$ 94	$ 965	$ 2,473

(a) In February 2018, the ultra deepwater floater Deepwater Poseidon was placed into service and commenced operations.
(b) Our two unnamed ultra deepwater drillships under construction at the Jurong Shipyard Pte Ltd. in Singapore do not yet have drilling contracts and are expected to be delivered in the second quarter of 2020 and the fourth quarter of 2020, respectively. The delivery expectations and the cost projections presented above reflect the terms of our construction agreements, as amended to delay delivery in consideration of current market conditions.

The ultimate amount of our capital expenditures is partly dependent upon financial market conditions, the actual level of operational and contracting activity, the costs associated with the current regulatory environment and customer requested capital improvements and equipment for which the customer agrees to reimburse us. As with any major shipyard project that takes place over an extended period of time, the actual costs, the timing of expenditures and the project completion date may vary from estimates based on numerous factors, including actual contract terms, weather, exchange rates, shipyard labor conditions, availability of suppliers to recertify equipment and the market demand for components and resources required for drilling unit construction. We intend to fund the cash requirements relating to our capital expenditures through available cash balances, cash generated from operations and asset sales and commercial banks or capital market financings. We also have available credit under our New Credit Facility. Economic conditions could impact the availability of these sources of funding.

Dispositions—From time to time, we may also review the possible disposition of non strategic drilling units. Considering recent market conditions, we have committed to plans to sell certain lower specification drilling units for scrap value. During the six months ended June 30, 2018, we identified four such drilling units that we intend to sell for scrap value. During the year ended December 31, 2017, we identified seven such drilling units that we have sold or intend to sell for scrap value. We continue to evaluate the drilling units in our fleet and may identify additional lower specification drilling units to be sold for scrap value. During the six months ended June 30, 2018, we completed the sale of four ultra deepwater floaters, along with related assets, and we received net cash proceeds of $19 million. During the year ended December 31, 2017, we completed the sale of one ultra deepwater floater and three midwater floaters, along with related assets, and we received aggregate net cash proceeds of $22 million.

Other Matters

Regulatory matters

Consent Decree—Under the civil consent decree (the "Consent Decree"), we agreed to undertake certain actions, including enhanced safety and compliance actions when operating in U.S. waters. The Consent Decree also requires us to submit and make publicly available certain plans, reports and other submissions. One such plan is a performance plan approved on January 2, 2014, that contains, among other things, interim milestones for actions in specified areas and schedules for reports required under the Consent Decree. Additionally, as required, we retained an independent auditor to review and report to the Department of Justice our compliance with the Consent Decree and an independent process safety consultant to review, report and assist with the process safety requirements of the Consent Decree. We may request termination of the Consent Decree after January 2, 2019, provided we meet certain conditions. The Consent Decree resolved the claim by the U.S. for civil penalties under the Clean Water Act. We also agreed to pay, and have satisfied our obligations to pay, civil penalties of $1.0 billion plus interest.

Other regulatory matters—In addition, from time to time, we receive inquiries from governmental regulatory agencies regarding our operations around the world, including inquiries with respect to various tax, environmental, regulatory and compliance matters. To the

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extent appropriate under the circumstances, we investigate such matters, respond to such inquiries and cooperate with the regulatory agencies.

See Notes to Condensed Consolidated Financial Statements—Note 13—Commitments and Contingencies.

Tax matters

We conduct operations through our various subsidiaries in a number of countries throughout the world. Each country has its own tax regimes with varying nominal rates, deductions and tax attributes. From time to time, we may identify changes to previously evaluated tax positions that could result in adjustments to our recorded assets and liabilities. Although we are unable to predict the outcome of these changes, we do not expect the effect, if any, resulting from these adjustments to have a material adverse effect on our consolidated statement of financial position, results of operations or cash flows. We file federal and local tax returns in several jurisdictions throughout the world. Tax authorities in certain jurisdictions are examining our tax returns and in some cases have issued assessments. We are defending our tax positions in those jurisdictions. While we cannot predict or provide assurance as to the final outcome of these proceedings, we do not expect the ultimate liability to have a material adverse effect on our consolidated statement of financial position or results of operations, although it may have a material adverse effect on our consolidated cash flows.

See Notes to Condensed Consolidated Financial Statements—Note 11—Income Taxes.

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations are based upon our condensed consolidated financial statements. This discussion should be read in conjunction with disclosures included in the notes to our condensed consolidated financial statements related to estimates, contingencies and other accounting policies. We disclose our significant accounting policies in Note 2 to our condensed consolidated financial statements in this quarterly report on Form 10 Q and in Note 2 to our consolidated financial statements in our annual report on Form 10 K for the year ended December 31, 2017.

We prepare our condensed consolidated financial statements in accordance with accounting principles generally accepted in the U.S., which require us to make estimates that affect the reported amounts of assets, liabilities, revenues, expenses and related disclosures of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates, including those related to our allowance for doubtful accounts, materials and supplies obsolescence, property and equipment, assets held for sale, goodwill, income taxes, contingencies, share based compensation and postemployment benefit plans. These estimates require significant judgments and assumptions. We base our estimates on historical experience and on various other assumptions that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying amounts of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

For a discussion of the critical accounting policies and estimates that we use in the preparation of our condensed consolidated financial statements, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies and Estimates" in our annual report on Form 10 K for the year ended December 31, 2017. We have discussed the development, selection and disclosure of these critical accounting policies and estimates with the audit committee of our board of directors. As of June 30, 2018, with exception to the following, there have been no material changes to the types of judgments, assumptions and estimates upon which our critical accounting policies and estimates are based.

Revenue recognition—Effective January 1, 2018, we adopted the accounting standards update that requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. See Notes to Condensed Consolidated Financial Statements—Note 5—Revenues.

Goodwill impairment—We conduct impairment testing for our goodwill annually as of October 1 and more frequently, on an interim basis, when an event occurs or circumstances change that may indicate a reduction in the fair value of a reporting unit is below its carrying amount. Before testing goodwill, we consider whether or not to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount and whether an impairment test is required. If, as the result of our qualitative assessment, we determine that an impairment test is required, or, alternatively, if we elect to forgo the qualitative assessment, we test goodwill for impairment by comparing the carrying amount of the reporting unit, including goodwill, to the fair value of the reporting unit. We test goodwill at the reporting unit level, which is defined as an operating segment or a component of an operating segment that constitutes a business for which financial information is available and is regularly reviewed by management. We have determined that contract drilling services is our single reporting unit for this purpose.

To estimate the fair value of our reporting unit, we apply a variety of valuation methods, incorporating the income, market and cost approaches. We estimate fair value using discounted cash flows, publicly traded company multiples and acquisition multiples. To develop the projected cash flows associated with our contract drilling services reporting unit, which are based on estimated future dayrates and rig utilization, we consider key factors, including assumptions regarding future commodity prices, credit market conditions and the effect these factors may have on our contract drilling operations and the capital expenditure budgets of our customers. We discount projected cash flows using a long term weighted average cost of capital, which is based on our estimate of the investment returns that

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market participants would require for our reporting unit. To develop the publicly traded company multiples, we gather available market data for companies with operations similar to our reporting unit and publicly available information for recent acquisitions in the marketplace. We may weight the approaches, under certain circumstances, when a single approach produces inconclusive results or when results from multiple approaches deviate significantly.

Our estimates of fair value require us to use significant unobservable inputs, representative of a Level 3 fair value measurement, including assumptions related to the future performance of our contract drilling services reporting unit, such as future commodity prices, projected demand for our services, rig utilization and dayrates. Because our business is cyclical in nature, the results of our impairment testing are expected to vary significantly depending on the timing of the assessment relative to the business cycle. Altering either the timing of or the assumptions used in a reporting unit's fair value calculations could result in an estimate that is significantly below its carrying amount, which may indicate its goodwill is impaired. In the six months ended June 30, 2018, as a result of an interim goodwill test, we recognized an aggregate loss of $463 million, which had no tax effect, associated with the impairment of the full balance of our goodwill. See Note 3—Accounting Standards Updates, Note 4—Business Combination and Note 7—Goodwill.

Accounting Standards Updates

For a discussion of the new accounting standards updates that have had or are expected to have an effect on our condensed consolidated financial statements, see Notes to Condensed Consolidated Financial Statements—Note 3—Accounting Standards Updates in this quarterly report on Form 10 Q and "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" in our annual report on Form 10 K for the year ended December 31, 2017.

Item 3.Quantitative and Qualitative Disclosures About Market Risk

We are exposed to interest rate risk, primarily associated with our long term debt, including current maturities, restricted cash balances, short term investments and undesignated derivative instruments. Additionally, we are exposed to currency exchange rate risk related to our international operations. For a complete discussion of our interest rate risk and currency exchange rate risk, see "Item 7A. Quantitative and Qualitative Disclosures About Market Risk" in our annual report on Form 10 K for the year ended December 31, 2017.

For our debt and derivative instruments, the following table presents the notional amounts and related weighted average interest rates by contractual maturity date. The following table presents information as of June 30, 2018 for the 12 month periods ending June 30 (in millions, except interest rate percentages):

	Scheduled Maturity Date (a)							
	2019	2020	2021	2022	2023	Thereafter	Total	Fair Value
Debt								
Fixed rate (USD)	$ 405	$ 242	$ 534	$ 556	$ 1,449	$ 5,107	$ 8,293	$ 8,671
Average interest rate	6.97 %	6.57 %	6.53 %	7.69 %	2.80 %	7.79 %		
Floating rate (USD)	$ 1,415	$ —	$ —	$ —	$ —	$ —	$ 1,415	$ 1,416
Average interest rate	4.58 %	— %	— %	— %	— %	— %		

Interest rate swaps								
Fixed to variable (USD)	$ —	$ 540	$ 203	$ —	$ —	$ —	$ 743	$ 19
Average receive rate	— %	2.33 %	2.33 %	— %	— %	— %		
Average pay rate	— %	1.81 %	1.23 %	— %	— %	— %		

(a) Expected maturity amounts are based on the face value of debt.

Interest rate risk—At June 30, 2018 and December 31, 2017, the fair value of debt, presented above, was $10.1 billion and $7.5 billion, respectively. During the six months ended June 30, 2018, the fair value of such debt increased by $2.6 billion due to the following: (a) an increase of approximately $1.6 billion due to the assumption of debt in connection with the Songa acquisition, (b) an increase of approximately $1.3 billion due to the issuance of exchangeable bonds, partially offset by (c) a decrease of approximately $230 million due to the repayment of debt at scheduled maturities and (d) a decrease of approximately $67 million due to changes in market prices for our outstanding U.S. dollar denominated debt.

Item 4.Controls and Procedures

Disclosure controls and procedures—We carried out an evaluation, under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures as defined in the Exchange Act, Rules 13a 15 and 15d 15, as of the end of the period covered by this report. Our disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed in our reports filed or submitted under the Exchange Act is (1) accumulated and communicated to our management, including our Chief Executive Officer and our Chief Financial Officer, to allow timely decisions regarding required disclosure and (2) recorded, processed, summarized and reported within the time periods specified in the United States ("U.S.") Securities and Exchange Commission's rules and forms. Based on that

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evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of June 30, 2018.

Internal control over financial reporting—There were no changes to our internal control over financial reporting during the quarter ended June 30, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II.OTHER INFORMATION

Item 1.Legal Proceedings

Transocean Ltd. (together with its subsidiaries and predecessors, unless the context requires otherwise, "Transocean," "we," "us," or "our") has certain actions, claims and other matters pending as discussed and reported in "Part II. Item 8. Financial Statements and Supplementary Data—Notes to Consolidated Financial Statements—Note 10—Commitments and Contingencies" and "Part II. Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Other Matters—Macondo well incident" in our annual report on Form 10 K for the year ended December 31, 2017. We are also involved in various tax matters as described in "Part II. Financial Statements and Supplementary Data—Notes to Consolidated Financial Statements—Note 6—Income Taxes" and in "Part II. Item 7. Management's Discussio and Analysis of Financial Condition and Results of Operations—Other Matters—Tax matters" in our annual report on Form 10 K for the year ended December 31, 2017. All such actions, claims, tax and other matters are incorporated herein by reference.

As of June 30, 2018, we were also involved in a number of other lawsuits, claims and disputes, which have arisen in the ordinary course of our business and for which we do not expect the liability, if any, to have a material adverse effect on our current consolidated statement of financial position, results of operations or cash flows. We cannot predict with certainty the outcome or effect of any of the matters referred to above or of any such other pending or threatened litigation or legal proceedings. There can be no assurance that our beliefs or expectations as to the outcome or effect of any lawsuit or claim or dispute will prove correct and the eventual outcome of these matters could materially differ from management's current estimates.

Item 1A.Risk Factors

There have been no material changes to the risk factors as previously disclosed in "Item 1A. Risk Factors" in our annual report on Form 10 K for the year ended December 31, 2017.

Item 2.Unregistered Sales of Equity Securities and Use of Proceeds

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased (a)	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (b)	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs (in millions) (b)
April 2018	71,120	$ 12.05	—	$ 3,274
May 2018	29,048	12.25	—	3,274
June 2018	222	10.09	—	3,274
Total	100,390	$ 12.10	—	$ 3,274

(a) Total number of shares purchased in the three months ended June 30, 2018, were withheld by us through a broker arrangement and limited to statutory tax amounts due upon vesting of restricted share units awarded to our employees and non employee directors under our long term incentive plan.

(b) In May 2009, at our annual general meeting, our shareholders approved and authorized our board of directors, at its discretion, to repurchase for cancellation any amount of our shares for an aggregate purchase price of up to CHF 3.5 billion. At June 30, 2018, the authorization remaining under the share repurchase program was for the repurchase of our outstanding shares for an aggregate cost of up to CHF 3.2 billion, equivalent to $3.3 billion. The share repurchase program could be suspended or discontinued by our board of directors or company management, as applicable, at any time. See “Part I. Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Sources and uses of liquidity.”

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Item 6Exhibits

(a) Exhibits
The following exhibits are filed in connection with this Report:

Number	Description	Location
3.1	Articles of Association of Transocean Ltd.	Filed herewith.
3.2	Organizational Regulations of Transocean Ltd., adopted November 18, 2016.	Exhibit 3.1 to Transocean Ltd.'s Current Report on Form 8 K (Commission File No. 000 53533) filed on November 23, 2016.
4.1	Credit Agreement dated June 22, 2018, among Transocean Inc., the lenders parties thereto and Citibank, N.A., as administrative agent and collateral agent.	Exhibit 4.1 to Transocean Ltd.'s Current Report on Form 8 K (Commission File No. 001 38373) filed on June 27, 2018.
4.2	Indenture, dated July 13, 2018, by and among Transocean Guardian Limited, the Guarantors and Wells Fargo Bank, National Association.	Exhibit 4.1 to Transocean Ltd.'s Current Report on Form 8 K (Commission File No. 001 38373) filed on July 17, 2018.
4.3	Indenture, dated July 20, 2018, by and among Transocean Pontus Limited, the Guarantors and Wells Fargo Bank, National Association.	Exhibit 4.1 to Transocean Ltd.'s Current Report on Form 8 K (Commission File No. 001 38373) filed on July 24, 2018.
* 10.1	First Amendment to Transocean Ltd. 2015 Long Term Incentive Plan.	Annex B to Transocean Ltd.'s definitive proxy statement (Commission File No. 001 38373) filed on March 20, 2018.
31.1	Certification of Chief Executive Officer pursuant to Rule 13a 14(a) of the Securities Exchange Act of 1934 and Section 302 of the Sarbanes Oxley Act of 2002.	Filed herewith.
31.2	Certification of Chief Financial Officer pursuant to Rule 13a 14(a) of the Securities Exchange Act of 1934 and Section 302 of the Sarbanes Oxley Act of 2002.	Filed herewith.
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes Oxley Act of 2002.	Furnished herewith.
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes Oxley Act of 2002.	Furnished herewith.
101	Interactive data files.	Filed herewith.

* Compensatory plan or arrangement

Certain instruments relating to our long term debt and our subsidiaries have not been filed as exhibits as permitted by paragraph (b)(4)(iii)(A) of Item 601 of Regulation S K since the total amount of securities authorized under any such instrument does not exceed 10 percent of our total assets and our subsidiaries on a consolidated basis. We agree to furnish a copy of each such instrument to the SEC upon request.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned; thereunto duly authorized, on July 31, 2018.

TRANSOCEAN LTD.

By: /s/ Mark L. Mey
Mark L. Mey
Executive Vice
President, Chief
Financial Officer
(Principal Financial
Officer)

By: /s/ David Tonnel
David Tonnel
Senior Vice
President and
Corporate Controller
(Principal
Accounting Officer)