

TIME WARNER CABLE INC.

Form 10-Q

November 05, 2012

[Table of Contents](#)

## UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

### Form 10-Q

☐ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the quarterly period ended September 30, 2012 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: 001-33335

## TIME WARNER CABLE INC.

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

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

**60 Columbus Circle**  
**New York, New York 10023**

**84-1496755**  
*(I.R.S. Employer  
Identification No.)*

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*(Address of principal executive offices) (Zip Code)*

**(212) 364-8200**

*(Registrant's telephone number, including area code)*

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company)

Smaller reporting company

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

## Shares Outstanding

### Description of Class

as of October 31, 2012

Common Stock \$0.01 par value

301,773,738

**Table of Contents**

**TIME WARNER CABLE INC.**

**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS**

**AND OTHER FINANCIAL INFORMATION**

|   | <b>Page</b> |
|---|-------------|
| <b><u>PART I. FINANCIAL INFORMATION</u></b>   |             |
| <u>Management's Discussion and Analysis of Results of Operations and Financial Condition</u>                          | 1           |
| <u>Item 4. Controls and Procedures</u>  | 23          |
| <u>Consolidated Balance Sheet as of September 30, 2012 and December 31, 2011</u>                                      | 24          |
| <u>Consolidated Statement of Operations for the Three and Nine Months Ended September 30, 2012 and 2011</u>           | 25          |
| <u>Consolidated Statement of Comprehensive Income for the Three and Nine Months Ended September 30, 2012 and 2011</u> | 26          |
| <u>Consolidated Statement of Cash Flows for the Nine Months Ended September 30, 2012 and 2011</u>                     | 27          |
| <u>Consolidated Statement of Equity for the Nine Months Ended September 30, 2012 and 2011</u>                         | 28          |
| <u>Notes to Consolidated Financial Statements</u>   | 29          |
| <b><u>PART II. OTHER INFORMATION</u></b>  |             |
| <u>Item 1. Legal Proceedings</u>  | 56          |
| <u>Item 1A. Risk Factors</u>  | 56          |
| <u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>  | 56          |
| <u>Item 4. Mine Safety Disclosures</u>  | 56          |
| <u>Item 6. Exhibits</u>   | 56          |

---

**Table of Contents**

**TIME WARNER CABLE INC.**

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS**

**OF OPERATIONS AND FINANCIAL CONDITION**

**INTRODUCTION**

Management's discussion and analysis of results of operations and financial condition ( MD&A ) is a supplement to the accompanying consolidated financial statements and provides additional information on Time Warner Cable Inc.'s (together with its subsidiaries, TWC or the Company ) business, recent developments, financial condition, cash flows and results of operations. MD&A is organized as follows:

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

*Financial statement presentation.* This section provides a summary of how the Company's operations are presented in the accompanying consolidated financial statements.

*Results of operations.* This section provides an analysis of the Company's results of operations for the three and nine months ended September 30, 2012.

*Financial condition and liquidity.* This section provides an analysis of the Company's financial condition as of September 30, 2012 and cash flows for the nine months ended September 30, 2012.

*Caution concerning forward-looking statements.* This section provides a description of the use of forward-looking information appearing in this report, including in MD&A and the consolidated financial statements. Such information is based on management's current expectations about future events, which are susceptible to uncertainty and changes in circumstances. Refer to the Company's Annual Report on Form 10-K for the year ended December 31, 2011 (the 2011 Form 10-K ) for a discussion of the risk factors applicable to the Company.

**OVERVIEW**

TWC is among the largest providers of video, high-speed data and voice services in the U.S., with technologically advanced, well-clustered cable systems located mainly in five geographic areas—New York State (including New York City), the Carolinas, the Midwest (including Ohio, Kentucky and Wisconsin), Southern California (including Los Angeles) and Texas. As discussed below in Recent Developments, on February 29, 2012, TWC completed its acquisition of Insight Communications Company, Inc. and its subsidiaries ( Insight ). As of September 30, 2012, TWC served approximately 15.3 million customers (approximately 14.7 million residential services customers and 0.6 million business services customers) who subscribed to one or more of its three primary services, totaling approximately 28.9 million primary service units.

TWC offers its residential and business services customers video, high-speed data and voice services over its broadband cable systems. TWC's business services also include networking and transport services (including cell tower backhaul services) and, through its wholly owned subsidiary, NaviSite, Inc. ( NaviSite ), managed and outsourced information technology ( IT ) solutions and cloud services. During the nine months ended September 30, 2012, TWC generated total revenues of approximately \$15.9 billion. Of this total, approximately \$13.6 billion and \$1.4 billion were from the provision of residential and business services, respectively. TWC also sells advertising to a variety of national, regional and local customers, which resulted in advertising revenues of \$740 million during the nine months ended September 30, 2012. Additionally, TWC generated \$177 million of revenues from other sources during the nine months ended September 30, 2012.

As of September 30, 2012, TWC had approximately 12.2 million residential video subscribers, 10.9 million residential high-speed data subscribers and 5.0 million residential voice subscribers, as well as 185,000 business video subscribers, 446,000 business high-speed data

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subscribers and 212,000 business voice subscribers. TWC markets its services separately and in bundled packages of multiple services and features. As of September 30, 2012, 61.1% of TWC's customers subscribed to two or more of its primary services, including 27.9% of its customers who subscribed to all three primary services.

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**Table of Contents**

**TIME WARNER CABLE INC.**

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS**

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

TWC believes it will continue to increase revenues for the foreseeable future through organic growth in business services revenues and residential services revenues (primarily residential high-speed data service revenues). During the remainder of 2012 and early 2013, revenue growth will also benefit from recent acquisitions. Organic business services revenues are expected to increase due to growth in customers, an increasing percentage of customers purchasing more services, as well as higher-priced tiers of service and price increases. Organic residential high-speed data revenues are expected to increase due to growth in subscribers, an increasing percentage of subscribers purchasing higher-priced tiers of service, price increases and equipment rental fees. Future growth rates for revenues will depend on the Company's ability to attract, retain and upsell subscribers and increase pricing, which can be impacted by competitive factors, the state of the economy and regulation.

TWC's operations have been affected by the challenging economic environment. The Company believes that factors such as new household formation, housing vacancy rates, unemployment rates and consumer spending levels have negatively affected its residential services subscriber, revenue and profit growth.

TWC faces intense competition for residential services customers from a variety of alternative communications, information and entertainment delivery sources. TWC competes with incumbent local telephone companies across each of its primary residential services. Some of these telephone companies offer a broad range of services with features and functions comparable to those provided by TWC and in bundles similar to those offered by TWC, sometimes including wireless service. Each of TWC's residential services also faces competition from other companies that provide services on a stand-alone basis. TWC's residential video service faces competition from direct broadcast satellite services, and increasingly from companies that deliver content to consumers over the Internet. TWC's residential high-speed data and voice services face competition from wireless Internet and voice providers. TWC's residential voice service also faces competition from over-the-top phone services and other alternatives.

TWC also competes across each of its business high-speed data, networking and voice services with incumbent local exchange carriers, or ILECs, competitive local exchange carriers, or CLECs, and interexchange carriers, or IXCs. TWC's cell tower backhaul service also faces competition from ILECs and CLECs, as well as other carriers, such as metro and regional fiber providers. TWC's business video service faces competition from direct broadcast satellite providers. Through its NaviSite subsidiary, TWC competes with cloud, hosting and related service providers and application-services providers. Technological advances and product innovations have increased and will likely continue to increase the number of alternatives available to TWC's current and potential residential and business services customers, further intensifying competition. The Company believes the competitive environment has negatively affected its residential and business services subscriber, revenue and profit growth.

TWC faces intense competition in its advertising business across many different platforms and from a wide range of local and national competitors. Competition has increased and will likely continue to increase as new formats for advertising seek to attract the same advertisers. TWC competes for advertising revenues against, among others, local broadcast stations, national cable and broadcast networks, radio, newspapers, magazines and outdoor advertisers, as well as Internet companies.

For the nine months ended September 30, 2012, video programming and employee costs represented 34.4% and 33.6%, respectively, of the Company's total operating expenses. Video programming costs are expected to continue to increase, reflecting rate increases on existing programming services (particularly sports-related programming), the impact in 2012 of recent acquisitions and the addition of new networks, partially offset by an organic decline in total video subscribers. TWC expects that its video programming costs as a percentage of video revenues will continue to increase, in part due to the more competitive environment discussed above. Employee costs are also expected to continue to increase as a result of many factors, including higher compensation expenses and headcount, reflecting the Company's investment in business services and other areas of growth, as well as the impact in 2012 of acquisitions.

**Recent Developments**

***Hurricane Sandy***

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In late October 2012, Hurricane Sandy caused damage and business interruption to the Company's cable systems from the Carolinas to Maine and into Ohio, with the most significant impact in the New York metropolitan area. The Company is in the early stages of assessing the financial, operational and subscriber impacts of the storm and is, therefore, unable to estimate its full financial and operational impact. However, it is not expected to be significant to the Company's overall fourth-quarter 2012 financial results.

**Table of Contents****TIME WARNER CABLE INC.****MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS****OF OPERATIONS AND FINANCIAL CONDITION (Continued)*****Wireless-related Transactions******SpectrumCo***

On August 24, 2012, SpectrumCo, LLC (SpectrumCo), a joint venture between TWC, Comcast Corporation (Comcast) and Bright House Networks, LLC (Bright House), sold all of its advanced wireless spectrum licenses to Cellco Partnership (doing business as Verizon Wireless), a joint venture between Verizon Communications Inc. and Vodafone Group Plc, for \$3.6 billion in cash. Upon closing, TWC, which owns 31.2% of SpectrumCo, received \$1.112 billion and recorded a pretax gain of \$430 million (\$261 million on an after-tax basis), which is included in other income (expense), net, in the accompanying consolidated statement of operations for the three and nine months ended September 30, 2012. As of September 30, 2012, the balance of the Company's investment in SpectrumCo was \$8 million, representing TWC's share of SpectrumCo's remaining members' equity (primarily consisting of cash and equivalents, net of accrued expenses).

During the second quarter of 2012, the Company and Verizon Wireless began selling each other's products and services in a number of cities under agency agreements entered into by TWC, Comcast, Bright House and Verizon Wireless that allow the cable companies to sell Verizon Wireless-branded wireless service, and Verizon Wireless to sell each cable company's services. Subject to certain conditions, the cable companies have the option to offer wireless service under their own brands utilizing Verizon Wireless' network. In addition, the cable companies and Verizon Wireless have formed an innovation technology joint venture to better integrate wireless and cable services. These activities are subject to the requirements contained in the August 16, 2012 consent decree executed with the Department of Justice in connection with the SpectrumCo transaction. The consent decree is pending the approval of the United States District Court for the District of Columbia.

***Clearwire***

On September 13, 2012, the Company exchanged all of its beneficially owned shares of Class B common stock of Clearwire Corporation (Clearwire) together with all of its beneficially owned Class B common units of Clearwire Communications LLC (Clearwire Communications) for shares of Class A common stock of Clearwire. On September 27, 2012, the Company sold these shares of Class A common stock for \$64 million in cash, which was received on October 3, 2012. The sale resulted in a pretax gain of \$64 million, which is included in other income (expense), net, in the accompanying consolidated statement of operations for the three and nine months ended September 30, 2012. In addition, during the three and nine months ended September 30, 2012, the Company recorded an income tax benefit of \$19 million primarily related to the sale. The income tax benefit included the reversal of a \$46 million valuation allowance against a deferred income tax asset associated with the Company's investment in Clearwire, which had been established due to the uncertainty of realizing the full benefit of such asset. The Company reversed the valuation allowance as a result of its ability to fully realize the capital losses from the sale of its Clearwire interests by offsetting capital gains related to SpectrumCo's sale of its spectrum licenses.

***2012 Bond Offerings***

On June 27, 2012, TWC issued £650 million (approximately U.S. \$1.0 billion) in aggregate principal amount of 5.250% senior unsecured notes due 2042 and, on August 10, 2012, TWC issued \$1.25 billion in aggregate principal amount of 4.500% senior unsecured debentures due 2042, each in a public offering under a shelf registration statement on Form S-3 (the 2012 Bond Offerings). At the time of issuance, TWC's obligations under the debt securities issued in the 2012 Bond Offerings were guaranteed by the Company's wholly owned subsidiaries, Time Warner Entertainment Company, L.P. (TWE) and TW NY Cable Holding Inc. (TW NY). In connection with an internal reorganization discussed further in Note 16 to the accompanying consolidated financial statements, as of September 30, 2012, TWC's obligations under the debt securities issued in the 2012 Bond Offerings are guaranteed by TW NY, Time Warner Cable Enterprises LLC (TWCE) and Time Warner Cable Internet Holdings II LLC (TWC Internet Holdings II), each a wholly owned subsidiary of the Company. As described further in Note 8 to the accompanying consolidated financial statements, the Company entered into cross-currency swaps to effectively convert its fixed-rate British pound sterling denominated debt, including annual interest payments and the payment of principal at maturity, to fixed-rate U.S. dollar denominated debt. See Note 7 to the accompanying consolidated financial statements for further details regarding the 2012 Bond Offerings.





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**Table of Contents**

**TIME WARNER CABLE INC.**

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS**

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

***Revolving Credit Facility and Commercial Paper Program***

On April 27, 2012, the Company entered into a credit agreement for a \$3.5 billion senior unsecured five-year revolving credit facility maturing in April 2017 (the Revolving Credit Facility). In connection with the entry into the Revolving Credit Facility, the Company's \$4.0 billion senior unsecured three-year revolving credit facility (the Prior Credit Facility), scheduled to mature in November 2013, was terminated. The Company's unsecured commercial paper program (the CP Program) was also reduced from \$4.0 billion to \$2.5 billion.

The Company's obligations under the Revolving Credit Facility were initially guaranteed by TWE and TW NY but, in connection with the internal reorganization discussed above, as of September 30, 2012, the obligations are guaranteed by TW NY, TWCE and TWC Internet Holdings II. Borrowings under the Revolving Credit Facility bear interest at a rate based on the credit rating of TWC, which interest rate was LIBOR plus 1.10% per annum as of September 30, 2012. In addition, TWC is required to pay a facility fee on the aggregate commitments under the Revolving Credit Facility at a rate determined by the credit rating of TWC, which rate was 0.15% per annum as of September 30, 2012. The Revolving Credit Facility provides same-day funding capability, and a portion of the aggregate commitments, not to exceed \$500 million at any time, may be used for the issuance of letters of credit.

The Revolving Credit Facility contains conditions, covenants, representations and warranties and events of default (with customary grace periods, as applicable) substantially similar to the conditions, covenants, representations and warranties and events of default in the Prior Credit Facility, including a maximum leverage ratio covenant of 5.0 times TWC's consolidated EBITDA. The terms and related financial metrics associated with the leverage ratio are defined in the agreement. The Revolving Credit Facility does not contain any credit ratings-based defaults or covenants or any ongoing covenants or representations specifically relating to a material adverse change in TWC's financial condition or results of operations. Borrowings under the Revolving Credit Facility may be used for general corporate purposes, and unused credit is available to support borrowings under the CP Program.

***Insight Acquisition***

On February 29, 2012, TWC completed its acquisition of Insight for \$1.339 billion in cash, net of cash acquired and including a third-quarter 2012 post-closing purchase price adjustment of \$4 million, and repaid \$1.164 billion outstanding under Insight's senior secured credit facility (including accrued interest), and terminated the facility. Additionally, during 2012, Insight's \$495 million in aggregate principal amount of 9.375% senior notes due 2018 were redeemed for \$579 million in cash (including premiums and accrued interest). The financial results for Insight, which served subscribers in Kentucky, Indiana and Ohio representing approximately 1.6 million primary service units as of the acquisition date, have been included in the Company's consolidated financial statements from the acquisition date. See Note 4 to the accompanying consolidated financial statements for additional information on the Insight acquisition.

***Common Stock Repurchase Program***

On January 25, 2012, the Company's Board of Directors increased the remaining authorization (\$758 million as of January 25, 2012) under its existing \$4.0 billion common stock repurchase program (the Stock Repurchase Program) to an aggregate of up to \$4.0 billion of TWC common stock effective January 26, 2012. Purchases under the Stock Repurchase Program may be made from time to time on the open market and in privately negotiated transactions. The size and timing of the Company's purchases under the Stock Repurchase Program are based on a number of factors, including TWC's common stock price, as well as business and market conditions. From the inception of the Stock Repurchase Program in the fourth quarter of 2010 through October 31, 2012, the Company repurchased 63.0 million shares of TWC common stock for \$4.602 billion and, as of October 31, 2012, the Company had \$2.640 billion remaining under the Stock Repurchase Program.

**Table of Contents**

**TIME WARNER CABLE INC.**

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS  
OF OPERATIONS AND FINANCIAL CONDITION (Continued)**

**FINANCIAL STATEMENT PRESENTATION**

**Revenues**

The Company's revenues consist of residential services, business services, advertising and other revenues.

**Residential services.** Residential services revenues consist of revenues from the following residential services:

**Video.** Video revenues include residential subscriber fees for the Company's various tiers or packages of video programming services generally distinguished from one another by the number and type of programming networks they include. Video revenues also include related equipment rental charges, installation charges and fees collected on behalf of local franchising authorities and the Federal Communications Commission (the FCC). Additionally, video revenues include revenues from premium channels, transactional video-on-demand (e.g., events and movies) and digital video recorder (DVR) service.

**High-speed data.** High-speed data revenues primarily include residential subscriber fees for the Company's high-speed data services and related equipment rental and installation charges. The Company offers multiple tiers of high-speed data services providing various service speeds and other attributes to meet the different needs of its subscribers. In addition, high-speed data revenues include fees received from third-party Internet service providers (e.g., Earthlink) whose on-line services are provided to some of TWC's customers.

**Voice.** Voice revenues include residential subscriber fees for the Company's voice services, along with related installation charges, as well as fees collected on behalf of governmental authorities.

**Other.** Other revenues include revenues from home monitoring and security services and other residential subscriber-related fees.

**Business services.** Business services revenues consist of revenues from the following business services:

**Video.** Video revenues include the same fee categories received from business video subscribers as described above under residential video revenues.

**High-speed data.** High-speed data revenues primarily include business subscriber fees for the Company's high-speed data service and installation charges. High-speed data revenues also include amounts generated by the sale of commercial networking and point-to-point transport services, such as Metro Ethernet services.

**Voice.** Voice revenues include business subscriber fees for the Company's voice services, along with related installation charges, as well as fees collected on behalf of governmental authorities.

**Wholesale transport.** Wholesale transport revenues primarily include amounts generated by the sale of point-to-point transport services offered to wireless telephone providers (i.e., cell tower backhaul) and other carriers.

**Other.** Other revenues primarily include revenues from managed and outsourced IT solutions and cloud services provided by NaviSite, revenues from business monitoring and security services and other business subscriber-related fees.

**Advertising.** Advertising revenues are generated through the sale of video and online advertising inventory to local, regional and national advertising customers. The Company derives most of its advertising revenues from the sale of advertising inventory on cable networks owned by third parties and acquired by the Company in connection with the Company's agreements to carry such networks. The Company also generates advertising revenues from the sale of inventory on its own local news, sports and lifestyle channels (such as NY1 News), as well as from the sale of advertising inventory on behalf of other video distributors (including Verizon Communications Inc.'s FiOS and AT&T Inc.'s U-verse).

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Beginning in the fourth quarter of 2012, advertising revenues will also include revenues derived from advertising sold on the Company's two regional sports networks launched on October 1, 2012 that carry Los Angeles Lakers' basketball games and other sports programming (the "LA RSNs").

**Table of Contents**

**TIME WARNER CABLE INC.**

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS**

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

*Other.* Other revenues primarily include (i) fees paid to TWC by the Advance/Newhouse Partnership for (a) the ability to distribute the Company's high-speed data service and (b) TWC's management of certain functions, including, among others, programming and engineering, and (ii) commissions earned on the sale of merchandise by home shopping networks. Beginning in the fourth quarter of 2012, other revenues will also include LA RSN affiliate revenues.

**Costs and Expenses**

Costs of revenues include the following costs directly associated with the delivery of services to subscribers or the maintenance of the Company's delivery systems: video programming costs; high-speed data connectivity costs; voice network costs; other service-related expenses, including non-administrative labor; franchise fees; and other related costs. Beginning in the fourth quarter of 2012, costs of revenues will also include costs directly associated with the LA RSNs, including content acquisition costs.

Selling, general and administrative expenses include amounts not directly associated with the delivery of services to subscribers or the maintenance of the Company's delivery systems, such as administrative labor costs, marketing expenses, bad debt expense, billing system charges, non-plant repair and maintenance costs and other administrative overhead costs.

Costs of revenues and selling, general and administrative expenses exclude depreciation expense, which is presented separately in the accompanying consolidated statement of operations.

**Use of Operating Income before Depreciation and Amortization**

In discussing its performance, the Company may use certain measures that are not calculated and presented in accordance with U.S. generally accepted accounting principles (GAAP). These measures include Operating Income before Depreciation and Amortization (OIBDA), which the Company defines as Operating Income before depreciation of tangible assets and amortization of intangible assets.

Management uses OIBDA, among other measures, in evaluating the performance of the Company's business because it eliminates the effects of (i) considerable amounts of noncash depreciation and amortization and (ii) items not within the control of the Company's operations managers (such as net income attributable to noncontrolling interests, income tax provision, other income (expense), net, and interest expense, net). Performance measures derived from OIBDA are also used in the Company's annual incentive compensation programs. In addition, this measure is commonly used by analysts, investors and others in evaluating the Company's performance.

This measure has inherent limitations. For example, OIBDA does not reflect capital expenditures or the periodic costs of certain capitalized assets used in generating revenues. To compensate for such limitations, management evaluates performance through, among other measures, various cash flow measures, which reflect capital expenditure decisions, and net income attributable to TWC shareholders, which reflects the periodic costs of capitalized assets. OIBDA also fails to reflect the significant costs borne by the Company for income taxes and debt servicing costs, the share of OIBDA attributable to noncontrolling interests, the results of the Company's equity investments and other non-operational income or expense. Management compensates for these limitations by using other analytics such as a review of net income attributable to TWC shareholders.

This non-GAAP measure should be considered in addition to, not as a substitute for, the Company's Operating Income and net income attributable to TWC shareholders, as well as other measures of financial performance reported in accordance with GAAP, and may not be comparable to similarly titled measures used by other companies.

**Basis of Presentation**

***Reclassifications***

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Certain reclassifications have been made to the prior year financial information to conform to the current year presentation.

**Table of Contents****TIME WARNER CABLE INC.****MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS  
OF OPERATIONS AND FINANCIAL CONDITION (Continued)****Recent Accounting Standards**

See Note 2 to the accompanying consolidated financial statements for accounting standards adopted in 2012.

**RESULTS OF OPERATIONS****Three and Nine Months Ended September 30, 2012 Compared to Three and Nine Months Ended September 30, 2011**

The following discussion provides an analysis of the Company's results of operations and should be read in conjunction with the accompanying consolidated statement of operations, as well as the consolidated financial statements and notes thereto and MD&A included in the 2011 Form 10-K.

**Revenues.** Revenues by major category were as follows (in millions):

|                                  | Three Months Ended<br>September 30, |                 |                       | %                | Nine Months Ended<br>September 30, |             |                       | % |
|----------------------------------|-------------------------------------|-----------------|-----------------------|------------------|------------------------------------|-------------|-----------------------|---|
|                                  | 2012 <sup>(a)</sup>                 | 2011            | Change <sup>(a)</sup> |                  | 2012 <sup>(a)</sup>                | 2011        | Change <sup>(a)</sup> |   |
| Residential services             | \$ 4,548                            | \$ 4,250        | 7.0%                  | \$ 13,598        | \$ 12,809                          | 6.2%        |                       |   |
| Business services <sup>(b)</sup> | 493                                 | 387             | 27.4%                 | 1,386            | 1,060                              | 30.8%       |                       |   |
| Advertising                      | 264                                 | 216             | 22.2%                 | 740              | 638                                | 16.0%       |                       |   |
| Other                            | 58                                  | 58              |                       | 177              | 175                                | 1.1%        |                       |   |
| <b>Total<sup>(b)</sup></b>       | <b>\$ 5,363</b>                     | <b>\$ 4,911</b> | <b>9.2%</b>           | <b>\$ 15,901</b> | <b>\$ 14,682</b>                   | <b>8.3%</b> |                       |   |

<sup>(a)</sup> Revenues for the three and nine months ended September 30, 2012 include revenues from Insight since its acquisition on February 29, 2012, the cable systems acquired from NewWave Communications ( NewWave ) in the fourth quarter of 2011 and NaviSite, which was acquired in the second quarter of 2011, as follows (in millions):

|                      | Three Months Ended September 30, 2012 |              |              | Nine Months Ended September 30, 2012 |              |               |
|----------------------|---------------------------------------|--------------|--------------|--------------------------------------|--------------|---------------|
|                      | Insight                               | NewWave      | NaviSite     | Insight                              | NewWave      | NaviSite      |
| Residential services | \$ 242                                | \$ 18        | \$           | \$ 570                               | \$ 54        | \$            |
| Business services    | 17                                    | 2            | 41           | 38                                   | 5            | 115           |
| Advertising          | 11                                    |              |              | 26                                   |              |               |
| Other                |                                       |              |              | 2                                    |              |               |
| <b>Total</b>         | <b>\$ 270</b>                         | <b>\$ 20</b> | <b>\$ 41</b> | <b>\$ 636</b>                        | <b>\$ 59</b> | <b>\$ 115</b> |

<sup>(b)</sup> Business services and total revenues in 2011 include NaviSite revenues from the date of acquisition (April 21, 2011), which were \$34 million and \$60 million for the three and nine months ended September 30, 2011, respectively.





**Table of Contents****TIME WARNER CABLE INC.****MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS****OF OPERATIONS AND FINANCIAL CONDITION (Continued)**

Selected subscriber-related statistics were as follows (in thousands):

|  | <b>September 30,</b>      |               | <b>%</b>                    |
|--|---------------------------|---------------|-----------------------------|
|  | <b>2012<sup>(a)</sup></b> | <b>2011</b>   | <b>Change<sup>(a)</sup></b> |
| <b>Residential services:</b>                     |                           |               |                             |
| Video <sup>(b)</sup>                             | 12,159                    | 11,939        | 1.8%                        |
| High-speed data <sup>(c)</sup>                   | 10,860                    | 9,792         | 10.9%                       |
| Voice <sup>(d)</sup>                             | 4,990                     | 4,481         | 11.4%                       |
| <b>Primary service units<sup>(e)</sup></b>       | <b>28,009</b>             | <b>26,212</b> | <b>6.9%</b>                 |
| <b>Business services:</b>                        |                           |               |                             |
| Video <sup>(b)</sup>                             | 185                       | 170           | 8.8%                        |
| High-speed data <sup>(c)</sup>                   | 446                       | 375           | 18.9%                       |
| Voice <sup>(d)</sup>                             | 212                       | 149           | 42.3%                       |
| <b>Primary service units<sup>(e)</sup></b>       | <b>843</b>                | <b>694</b>    | <b>21.5%</b>                |
| <b>Total primary service units<sup>(e)</sup></b> | <b>28,852</b>             | <b>26,906</b> | <b>7.2%</b>                 |
| <b>Customer relationships<sup>(f)</sup></b>      | <b>15,264</b>             | <b>14,446</b> | <b>5.7%</b>                 |
| Double play <sup>(g)</sup>                       | 5,070                     | 4,881         | 3.9%                        |
| Triple play <sup>(h)</sup>                       | 4,258                     | 3,789         | 12.4%                       |

(a) The Company's subscriber numbers as of September 30, 2012 reflect certain acquired subscribers and adjustments, as follows:

(i) On February 29, 2012, the Company acquired Insight, resulting in an increase of 673,000 residential video subscribers, 548,000 residential high-speed data subscribers, 289,000 residential voice subscribers, 1,510,000 residential primary service units, 10,000 business video subscribers, 20,000 business high-speed data subscribers, 10,000 business voice subscribers, 40,000 business primary service units, 1,550,000 total primary service units, 777,000 customer relationships, 319,000 double play subscribers and 227,000 triple play subscribers.

(ii) During the fourth quarter of 2011, the Company acquired cable systems from NewWave, as well as another small cable system, resulting, in total, in an increase of 79,000 residential video subscribers, 45,000 residential high-speed data subscribers, 26,000 residential voice subscribers, 150,000 residential primary service units, 2,000 business video subscribers, 2,000 business high-speed data subscribers, 1,000 business voice subscribers, 5,000 business primary service units, 155,000 total primary service units, 91,000 customer relationships, 22,000 double play subscribers and 21,000 triple play subscribers.

(b) Video subscriber numbers reflect billable subscribers who purchase at least the basic service video programming tier. The determination of whether a video subscriber is categorized as residential or business is based on the type of subscriber purchasing the service.

(c) High-speed data subscriber numbers reflect billable subscribers who purchase any of the high-speed data services offered by TWC. The determination of whether a high-speed data subscriber is categorized as residential or business is generally based upon the type of service provided to that subscriber. For example, if TWC provides a business service, the subscriber is classified as business.

(d) Voice subscriber numbers reflect billable subscribers who purchase an IP-based telephony service, as well as a small number of subscribers acquired from Insight who receive traditional, circuit-switched telephone service. The determination of whether a voice subscriber is categorized as residential or business is generally based upon the type of service provided to that subscriber. For example, if TWC provides a business service, the subscriber is classified as business.

(e) Primary service unit numbers represent the sum of video, high-speed data and voice subscribers.

(f) Customer relationships represent the number of subscribers who purchase at least one of the Company's primary services. For example, a subscriber who purchases only high-speed data service and no video service will count as one customer relationship, and a subscriber who purchases both video and

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high-speed data services will also count as only one customer relationship.

- (g) Double play subscriber numbers reflect customers who subscribe to two of the Company's primary services.
- (h) Triple play subscriber numbers reflect customers who subscribe to all three of the Company's primary services.

**Table of Contents****TIME WARNER CABLE INC.****MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS****OF OPERATIONS AND FINANCIAL CONDITION (Continued)**

*Residential services revenues.* The major components of residential services revenues were as follows (in millions):

|                            | Three Months Ended                |          |                         | Nine Months Ended                 |           |                         |
|----------------------------|-----------------------------------|----------|-------------------------|-----------------------------------|-----------|-------------------------|
|                            | September 30, 2012 <sup>(a)</sup> | 2011     | % Change <sup>(a)</sup> | September 30, 2012 <sup>(a)</sup> | 2011      | % Change <sup>(a)</sup> |
| Residential services:      |                                   |          |                         |                                   |           |                         |
| Video                      | \$ 2,722                          | \$ 2,624 | 3.7%                    | \$ 8,230                          | \$ 7,961  | 3.4%                    |
| High-speed data            | 1,279                             | 1,119    | 14.3%                   | 3,744                             | 3,328     | 12.5%                   |
| Voice                      | 530                               | 494      | 7.3%                    | 1,577                             | 1,484     | 6.3%                    |
| Other                      | 17                                | 13       | 30.8%                   | 47                                | 36        | 30.6%                   |
| Total residential services | \$ 4,548                          | \$ 4,250 | 7.0%                    | \$ 13,598                         | \$ 12,809 | 6.2%                    |

<sup>(a)</sup> Residential services revenues for the three and nine months ended September 30, 2012 include revenues from Insight since its acquisition on February 29, 2012 and the cable systems acquired from NewWave in the fourth quarter of 2011, as follows (in millions):

|                            | Three Months Ended September 30, 2012 |         | Nine Months Ended September 30, 2012 |         |
|----------------------------|---------------------------------------|---------|--------------------------------------|---------|
|                            | Insight                               | NewWave | Insight                              | NewWave |
| Residential services:      |                                       |         |                                      |         |
| Video                      | \$ 138                                | \$ 11   | \$ 325                               | \$ 33   |
| High-speed data            | 66                                    | 4       | 154                                  | 13      |
| Voice                      | 38                                    | 3       | 89                                   | 8       |
| Other                      |                                       |         | 2                                    |         |
| Total residential services | \$ 242                                | \$ 18   | \$ 570                               | \$ 54   |

For residential services, average monthly revenues per unit were as follows:

|                                      | Three Months Ended September 30, |          |          | Nine Months Ended September 30, |          |          |
|--------------------------------------|----------------------------------|----------|----------|---------------------------------|----------|----------|
|                                      | 2012                             | 2011     | % Change | 2012                            | 2011     | % Change |
| Video <sup>(a)</sup>                 | \$ 74.32                         | \$ 72.99 | 1.8%     | \$ 74.84                        | \$ 73.07 | 2.4%     |
| High-speed data <sup>(b)</sup>       | 39.41                            | 38.22    | 3.1%     | 39.17                           | 38.21    | 2.5%     |
| Voice <sup>(c)</sup>                 | 35.45                            | 36.72    | (3.5%)   | 35.87                           | 37.00    | (3.1%)   |
| Primary service units <sup>(d)</sup> | 54.16                            | 54.08    | 0.1%     | 54.55                           | 54.30    | 0.5%     |

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- (a) Average monthly residential video revenues per unit represents residential video revenues divided by the corresponding average residential video subscribers for the period.
- (b) Average monthly residential high-speed data revenues per unit represents residential high-speed data revenues divided by the corresponding average residential high-speed data subscribers for the period.
- (c) Average monthly residential voice revenues per unit represents residential voice revenues divided by the corresponding average residential voice subscribers for the period.
- (d) Average monthly residential revenues per residential primary service unit represents residential services revenues divided by the corresponding average residential primary service units for the period.

**Table of Contents****TIME WARNER CABLE INC.****MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS****OF OPERATIONS AND FINANCIAL CONDITION (Continued)**

The major components of residential video revenues were as follows (in millions):

|   | Three Months Ended                |                 |                         | Nine Months Ended                 |                 |                         |
|---|-----------------------------------|-----------------|-------------------------|-----------------------------------|-----------------|-------------------------|
|   | September 30, 2012 <sup>(a)</sup> | 2011            | % Change <sup>(a)</sup> | September 30, 2012 <sup>(a)</sup> | 2011            | % Change <sup>(a)</sup> |
| Programming tiers <sup>(b)</sup>                | \$ 1,793                          | \$ 1,721        | 4.2%                    | \$ 5,409                          | \$ 5,231        | 3.4%                    |
| Premium channels                                | 203                               | 200             | 1.5%                    | 608                               | 608             |                         |
| Transactional video-on-demand                   | 65                                | 80              | (18.8%)                 | 225                               | 256             | (12.1%)                 |
| Video equipment rental and installation charges | 366                               | 341             | 7.3%                    | 1,098                             | 1,025           | 7.1%                    |
| DVR service                                     | 168                               | 161             | 4.3%                    | 510                               | 475             | 7.4%                    |
| Franchise and other fees <sup>(c)</sup>         | 127                               | 121             | 5.0%                    | 380                               | 366             | 3.8%                    |
| <b>Total</b>                                    | <b>\$ 2,722</b>                   | <b>\$ 2,624</b> | <b>3.7%</b>             | <b>\$ 8,230</b>                   | <b>\$ 7,961</b> | <b>3.4%</b>             |

<sup>(a)</sup> Residential video revenues for the three and nine months ended September 30, 2012 include revenues from Insight since its acquisition on February 29, 2012 and the cable systems acquired from NewWave in the fourth quarter of 2011, as follows (in millions):

|   | Three Months Ended |                    | Nine Months Ended  |                    |
|---|--------------------|--------------------|--------------------|--------------------|
|   | September 30, 2012 | September 30, 2012 | September 30, 2012 | September 30, 2012 |
|   | Insight            | NewWave            | Insight            | NewWave            |
| Programming tiers <sup>(b)</sup>                | \$ 101             | \$ 9               | \$ 240             | \$ 28              |
| Premium channels                                | 8                  | 1                  | 18                 | 2                  |
| Transactional video-on-demand                   | 4                  |                    | 11                 |                    |
| Video equipment rental and installation charges | 14                 |                    | 32                 | 1                  |
| DVR service                                     | 7                  | 1                  | 17                 | 2                  |
| Franchise and other fees <sup>(c)</sup>         | 4                  |                    | 7                  |                    |
| <b>Total</b>                                    | <b>\$ 138</b>      | <b>\$ 11</b>       | <b>\$ 325</b>      | <b>\$ 33</b>       |

<sup>(b)</sup> Programming tier revenues include subscriber fees for the Company's various tiers or packages of video programming services generally distinguished from one another by the number and type of programming networks they include.

<sup>(c)</sup> Franchise and other fees include fees collected on behalf of franchising authorities and the FCC.

The increase in residential video revenues for the three and nine months ended September 30, 2012 was primarily due to the acquisitions of Insight and the NewWave cable systems and an increase in average revenues per subscriber, partially offset by an organic decrease in video subscribers. For both periods, the increase in such average revenues per subscriber was primarily due to price increases, a greater percentage of subscribers purchasing higher-priced tiers of service and increased revenues from equipment rentals, partially offset by a decrease in transactional video-on-demand revenues. Additionally, for the nine months ended September 30, 2012, average revenues per subscriber increased as a result of higher DVR service revenues.

Residential high-speed data revenues increased due to organic growth in high-speed data subscribers and an increase in average revenues per subscriber (due to both price increases and a greater percentage of subscribers purchasing higher-priced tiers of service), as well as

acquisition-related growth (primarily Insight).

The increase in residential voice revenues was due to acquisition-related (primarily Insight) and organic growth in voice subscribers, partially offset by a decrease in average revenues per subscriber (primarily due to promotional offers).

**Table of Contents****TIME WARNER CABLE INC.****MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS****OF OPERATIONS AND FINANCIAL CONDITION (Continued)**

*Business services revenues.* The major components of business services revenues were as follows (in millions):

|  | Three Months Ended<br>September 30, |        |                            | Nine Months Ended<br>September 30, |          |                            |
|--|-------------------------------------|--------|----------------------------|------------------------------------|----------|----------------------------|
|  | 2012 <sup>(a)</sup>                 | 2011   | %<br>Change <sup>(a)</sup> | 2012 <sup>(a)</sup>                | 2011     | %<br>Change <sup>(a)</sup> |
| Business services:                     |                                     |        |                            |                                    |          |                            |
| Video                                  | \$ 83                               | \$ 73  | 13.7%                      | \$ 240                             | \$ 212   | 13.2%                      |
| High-speed data                        | 235                                 | 187    | 25.7%                      | 667                                | 531      | 25.6%                      |
| Voice                                  | 83                                  | 52     | 59.6%                      | 219                                | 140      | 56.4%                      |
| Wholesale transport                    | 47                                  | 39     | 20.5%                      | 132                                | 110      | 20.0%                      |
| Other <sup>(b)</sup>                   | 45                                  | 36     | 25.0%                      | 128                                | 67       | 91.0%                      |
| Total business services <sup>(b)</sup> | \$ 493                              | \$ 387 | 27.4%                      | \$ 1,386                           | \$ 1,060 | 30.8%                      |

<sup>(a)</sup> Business services revenues for the three and nine months ended September 30, 2012 include revenues from Insight since its acquisition on February 29, 2012, the cable systems acquired from NewWave in the fourth quarter of 2011 and NaviSite, which was acquired in the second quarter of 2011, as follows (in millions):

|                         | Three Months Ended September 30, 2012 |         |          | Nine Months Ended September 30, 2012 |         |          |
|-------------------------|---------------------------------------|---------|----------|--------------------------------------|---------|----------|
|                         | Insight                               | NewWave | NaviSite | Insight                              | NewWave | NaviSite |
| Business services:      |                                       |         |          |                                      |         |          |
| Video                   | \$ 5                                  | \$ 1    | \$       | \$ 10                                | \$ 2    | \$       |
| High-speed data         | 9                                     | 1       |          | 20                                   | 2       |          |
| Voice                   | 3                                     |         |          | 7                                    | 1       |          |
| Wholesale transport     |                                       |         |          | 1                                    |         |          |
| Other                   |                                       |         | 41       |                                      |         | 115      |
| Total business services | \$ 17                                 | \$ 2    | \$ 41    | \$ 38                                | \$ 5    | \$ 115   |

<sup>(b)</sup> Other and total business services revenues in 2011 include NaviSite revenues from the date of acquisition (April 21, 2011), which were \$34 million and \$60 million for the three and nine months ended September 30, 2011, respectively.

Business services revenues for the three and nine months ended September 30, 2012 increased primarily due to organic growth in high-speed data and voice subscribers, the acquisitions of Insight and NaviSite and an organic increase in Metro Ethernet revenues of \$7 million and \$21 million, respectively.

*Advertising revenues.* Advertising revenues increased primarily due to growth in political advertising revenues, as well as a result of the Insight acquisition and growth in lower margin revenues from advertising inventory sold on behalf of other video distributors ( ad rep agreements ). For the three and nine months ended September 30, 2012, political advertising revenues were \$25 million and \$54 million, respectively (including political advertising revenues from Insight and ad rep agreements) compared to \$3 million and \$10 million for the three and nine months ended September 30, 2011, respectively. The Company expects advertising revenues in the fourth quarter of 2012 to continue to increase compared to

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the fourth quarter of 2011 from growth in political advertising revenues, as well as the impact of the Insight acquisition and growth in revenues from ad rep agreements and advertising sold on the LA RSNs.



**Table of Contents****TIME WARNER CABLE INC.****MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS****OF OPERATIONS AND FINANCIAL CONDITION (Continued)**

*Costs of revenues.* The major components of costs of revenues were as follows (in millions, except per subscriber data):

|  | Three Months Ended<br>September 30, |                 |             | Nine Months Ended<br>September 30, |                 |             |
|--|-------------------------------------|-----------------|-------------|------------------------------------|-----------------|-------------|
|  | 2012                                | 2011            | % Change    | 2012                               | 2011            | % Change    |
| Video programming  | \$ 1,170                            | \$ 1,081        | 8.2%        | \$ 3,468                           | \$ 3,264        | 6.3%        |
| Employee <sup>(a)</sup>                                      | 725                                 | 672             | 7.9%        | 2,132                              | 1,964           | 8.6%        |
| High-speed data  | 46                                  | 42              | 9.5%        | 139                                | 126             | 10.3%       |
| Voice  | 151                                 | 136             | 11.0%       | 458                                | 454             | 0.9%        |
| Video franchise and other fees <sup>(b)</sup>                | 129                                 | 123             | 4.9%        | 390                                | 375             | 4.0%        |
| Other direct operating costs <sup>(a)</sup>                  | 278                                 | 232             | 19.8%       | 790                                | 672             | 17.6%       |
| <b>Total</b>   | <b>\$ 2,499</b>                     | <b>\$ 2,286</b> | <b>9.3%</b> | <b>\$ 7,377</b>                    | <b>\$ 6,855</b> | <b>7.6%</b> |
| Costs of revenues as a percentage of revenues                | 46.6%                               | 46.5%           |             | 46.4%                              | 46.7%           |             |
| Average monthly video programming costs per video subscriber | \$ 31.45                            | \$ 29.65        | 6.1%        | \$ 31.07                           | \$ 29.54        | 5.2%        |
| Average monthly voice costs per voice subscriber             | \$ 9.69                             | \$ 9.79         | (1.0%)      | \$ 10.04                           | \$ 11.00        | (8.7%)      |

<sup>(a)</sup> Employee and other direct operating costs include costs directly associated with the delivery of the Company's video, high-speed data, voice and other services to subscribers and the maintenance of the Company's delivery systems.

<sup>(b)</sup> Video franchise and other fees include fees collected on behalf of franchising authorities and the FCC.

Costs of revenues increased primarily due to increases in video programming, employee and other direct operating costs. Additionally, for the three months ended September 30, 2012, costs of revenue growth was impacted by higher voice costs.

The increase in video programming costs was primarily due to contractual rate increases and the acquisition of Insight, partially offset by organic declines in video subscribers and transactional video-on-demand costs. For the three and nine months ended September 30, 2012, video programming costs were reduced by approximately \$5 million and \$20 million, respectively, and, for the three and nine months ended September 30, 2011, video programming costs were reduced by approximately \$10 million and \$25 million, respectively, due to changes in cost estimates for programming services carried without a contract, changes in programming audit reserves and certain contract settlements. The Company expects the rate of growth in video programming costs per video subscriber in 2012 to be similar to that in 2011.

Employee costs increased primarily as a result of acquisitions and higher compensation costs per employee, partially offset by a decline in residential services headcount. Pension costs increased \$8 million and \$27 million for the three and nine months ended September 30, 2012, respectively.

Voice costs consist of the direct costs associated with the delivery of voice services, including network connectivity costs. For the three and nine months ended September 30, 2012, voice costs increased primarily due to an increase in voice subscribers due to both organic growth and the Insight acquisition, partially offset by a decrease in delivery costs per subscriber as a result of the ongoing replacement of Sprint Nextel Corporation (Sprint) as the provider of voice transport, switching and interconnection services. The Sprint replacement process began in the fourth quarter of 2010 and, as of September 30, 2012, TWC had replaced Sprint with respect to nearly half of TWC's voice lines. The Company

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expects to migrate the majority of the remaining voice lines in the second half of 2013 and to complete the process during the first quarter of 2014. The Company expects average voice costs per voice subscriber to decrease in 2012 compared to 2011.

Other direct operating costs increased as a result of Insight-related costs, as well as increases in a number of categories, including facilities expense, information technology expense, costs associated with ad rep agreements and repairs and maintenance costs.

**Table of Contents****TIME WARNER CABLE INC.****MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS****OF OPERATIONS AND FINANCIAL CONDITION (Continued)**

*Selling, general and administrative expenses.* The components of selling, general and administrative expenses were as follows (in millions):

|                         | Three Months Ended<br>September 30, |               |             | Nine Months Ended<br>September 30, |                 |             |
|-------------------------|-------------------------------------|---------------|-------------|------------------------------------|-----------------|-------------|
|                         | 2012                                | 2011          | % Change    | 2012                               | 2011            | % Change    |
| Employee                | \$ 421                              | \$ 370        | 13.8%       | \$ 1,249                           | \$ 1,097        | 13.9%       |
| Marketing               | 165                                 | 163           | 1.2%        | 472                                | 482             | (2.1%)      |
| Bad debt <sup>(a)</sup> | 36                                  | 41            | (12.2%)     | 104                                | 98              | 6.1%        |
| Other                   | 296                                 | 269           | 10.0%       | 869                                | 813             | 6.9%        |
| <b>Total</b>            | <b>\$ 918</b>                       | <b>\$ 843</b> | <b>8.9%</b> | <b>\$ 2,694</b>                    | <b>\$ 2,490</b> | <b>8.2%</b> |

<sup>(a)</sup> Bad debt expense includes amounts charged to expense associated with the Company's allowance for doubtful accounts and collection expenses, net of late fees billed to subscribers. Late fees billed to subscribers were \$39 million and \$112 million for the three and nine months ended September 30, 2012, respectively, and \$35 million and \$104 million for the three and nine months ended September 30, 2011, respectively.

Selling, general and administrative expenses increased primarily as a result of increases in employee costs and other costs (primarily Insight-related costs). The increase in employee costs was primarily as a result of acquisitions, increased business services headcount and higher compensation costs per employee. For the three and nine months ended September 30, 2012, pension costs increased \$7 million and \$18 million, respectively, and, for the nine months ended September 30, 2012, equity-based compensation costs increased \$14 million.

*Merger-related and restructuring costs.* For the three and nine months ended September 30, 2012, the Company incurred merger-related costs of \$7 million and \$50 million, respectively, primarily due to severance costs and legal, professional and other fees incurred in connection with the Insight acquisition. For the three and nine months ended September 30, 2011, the Company incurred merger-related costs of \$4 million and \$8 million, respectively, in connection with the acquisitions of the NewWave cable systems and Insight and, for the nine months ended September 30, 2011, NaviSite.

The Company incurred restructuring costs of \$25 million and \$48 million for the three and nine months ended September 30, 2012, respectively, compared to \$17 million and \$28 million for the three and nine months ended September 30, 2011, respectively. These restructuring costs were primarily related to approximately 860 and 210 employee terminations for the nine months ended September 30, 2012 and 2011, respectively, and other exit costs. The Company expects to incur additional restructuring costs during the fourth quarter of 2012 in connection with initiatives intended to improve operating efficiency, primarily related to employee terminations.

**Table of Contents****TIME WARNER CABLE INC.****MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS****OF OPERATIONS AND FINANCIAL CONDITION (Continued)**

**Reconciliation of OIBDA to Operating Income.** The following table reconciles OIBDA to Operating Income. In addition, the table provides the components from Operating Income to net income attributable to TWC shareholders for purposes of the discussions that follow (in millions):

|   | Three Months Ended<br>September 30, |          |          | Nine Months Ended<br>September 30, |          |          |
|---|-------------------------------------|----------|----------|------------------------------------|----------|----------|
|   | 2012                                | 2011     | % Change | 2012                               | 2011     | % Change |
| OIBDA   | \$ 1,914                            | \$ 1,761 | 8.7%     | \$ 5,732                           | \$ 5,301 | 8.1%     |
| Depreciation  | (789)                               | (750)    | 5.2%     | (2,377)                            | (2,238)  | 6.2%     |
| Amortization  | (31)                                | (9)      | 244.4%   | (79)                               | (23)     | 243.5%   |
| Operating Income  | 1,094                               | 1,002    | 9.2%     | 3,276                              | 3,040    | 7.8%     |
| Interest expense, net                                     | (402)                               | (383)    | 5.0%     | (1,204)                            | (1,112)  | 8.3%     |
| Other income (expense), net                               | 496                                 | (22)     | NM       | 493                                | (84)     | NM       |
| Income before income taxes                                | 1,188                               | 597      | 99.0%    | 2,565                              | 1,844    | 39.1%    |
| Income tax provision                                      | (379)                               | (241)    | 57.3%    | (920)                              | (741)    | 24.2%    |
| Net income  | 809                                 | 356      | 127.2%   | 1,645                              | 1,103    | 49.1%    |
| Less: Net income attributable to noncontrolling interests | (1)                                 |          | NM       | (3)                                | (2)      | 50.0%    |
| Net income attributable to TWC shareholders               | \$ 808                              | \$ 356   | 127.0%   | \$ 1,642                           | \$ 1,101 | 49.1%    |

NM Not meaningful.

**OIBDA.** OIBDA increased principally as a result of revenue growth, partially offset by higher costs of revenues, selling, general and administrative expenses and merger-related and restructuring costs.

The Company incurred net expenses of approximately \$20 million and \$50 million during the three and nine months ended September 30, 2012, respectively, related to new initiatives, including advanced home monitoring and security services, the deployment of WiFi access points and the LA RSNs, which launched on October 1, 2012. The Company expects 2012 net expenses from new initiatives to total approximately \$100 million to \$150 million, of which a significant portion is expected to be incurred in the fourth quarter of 2012 due to the timing of the LA RSN launches. The results for the three and nine months ended September 30, 2011 included net expenses from new initiatives of approximately \$20 million and \$50 million, respectively, primarily related to the Company's mobile high-speed data service and advanced home monitoring and security services.

**Depreciation.** Depreciation increased primarily as a result of the property, plant and equipment acquired in connection with the Company's recent acquisitions (primarily Insight), partially offset by certain assets acquired in the July 31, 2006 transactions with Adelphia Communications Corporation and Comcast that were fully depreciated as of July 31, 2012.

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**Amortization.** Amortization increased primarily as a result of the customer relationship intangible assets acquired in connection with the Company's recent acquisitions (primarily Insight).

**Operating Income.** Operating Income increased primarily due to the increase in OIBDA, partially offset by the increases in depreciation and amortization, as discussed above.

**Interest expense, net.** Interest expense, net, increased primarily due to higher average debt outstanding during the three and nine months ended September 30, 2012 compared to 2011 as a result of a public debt issuance in September 2011 and the 2012 Bond Offerings, partially offset by the maturity of TWE's 10.150% senior notes due May 2012 (\$250 million in aggregate principal amount) and TWC's 5.400% senior notes due July 2012 (\$1.5 billion in aggregate principal amount). For the nine months ended September 30, 2012, the higher average debt outstanding was also as a result of a public debt issuance in May 2011.

**Table of Contents****TIME WARNER CABLE INC.****MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS****OF OPERATIONS AND FINANCIAL CONDITION (Continued)**

*Other income (expense), net.* Other income (expense), net, detail is shown in the table below (in millions):

|  | Three Months Ended<br>September 30, |         | Nine Months Ended<br>September 30, |         |
|--|-------------------------------------|---------|------------------------------------|---------|
|  | 2012                                | 2011    | 2012                               | 2011    |
| Income (loss) from equity-method investments, net <sup>(a)(b)</sup>                | \$ 438                              | \$ (30) | \$ 445                             | \$ (87) |
| Gain on sale of investment in Clearwire <sup>(b)</sup>                             | 64                                  |         | 64                                 |         |
| Gain (loss) on equity award reimbursement obligation to Time Warner <sup>(c)</sup> | (7)                                 | 8       | (5)                                | 3       |
| Other investment losses <sup>(d)</sup>   |                                     |         | (12)                               |         |
| Other  | 1                                   |         | 1                                  |         |
| Other income (expense), net  | \$ 496                              | \$ (22) | \$ 493                             | \$ (84) |

(a) Income from equity-method investments, net, for the three and nine months ended September 30, 2012 primarily consists of a pretax gain of \$430 million associated with SpectrumCo's sale of its advanced wireless spectrum licenses to Verizon Wireless (discussed above in Overview Recent Developments Wireless-related Transactions).

(b) Loss from equity-method investments, net, for the three and nine months ended September 30, 2011 primarily consists of losses incurred by Clearwire Communications. As of the end of the third quarter of 2011, the balance of the Company's investment in Clearwire Communications was \$0 and, as discussed above in Overview Recent Developments Wireless-related Transactions, on September 27, 2012, the Company sold all of its interest in Clearwire, resulting in the gain noted above.

(c) See Note 8 to the accompanying consolidated financial statements for a discussion of the Company's accounting for its equity award reimbursement obligation to Time Warner Inc. (Time Warner).

(d) Other investment losses for 2012 represents impairments of the Company's investment in Canoe Ventures LLC (Canoe), an equity-method investee engaged in the development of advanced advertising platforms. The impairments were recognized as a result of Canoe's announcement during the first quarter of 2012 of a restructuring that significantly curtailed its operations.

**Income tax provision.** For the three months ended September 30, 2012 and 2011, the Company recorded income tax provisions of \$379 million and \$241 million, respectively. For the nine months ended September 30, 2012 and 2011, the Company recorded income tax provisions of \$920 million and \$741 million, respectively. The effective tax rates were 31.9% and 40.4% for the three months ended September 30, 2012 and 2011, respectively, and 35.9% and 40.2% for the nine months ended September 30, 2012 and 2011, respectively.

The income tax provisions and the effective tax rates for the three and nine months ended September 30, 2012 include (i) a benefit of \$63 million related to a change in the tax rate applied to calculate the Company's net deferred income tax liability as a result of an internal reorganization effective on September 30, 2012 (discussed further in Note 16 to the accompanying consolidated financial statements); (ii) a benefit of \$46 million related to the reversal of a valuation allowance against a deferred income tax asset associated with the Company's investment in Clearwire (discussed further in Overview Recent Developments Wireless-related Transactions); and (iii) a charge of \$15 million related to the recording of a deferred income tax liability associated with a partnership basis difference. The income tax provision and the effective tax rate for the nine months ended September 30, 2011 include a benefit related to 2010 of \$9 million from the domestic production activities deduction under Section 199 of the Internal Revenue Code of 1986, as amended.

Additionally, the income tax provisions and the effective tax rates for the three and nine months ended September 30, 2012 and 2011 include the impact of the reversal of deferred income tax assets associated with Time Warner stock option awards held by TWC employees, net of excess tax benefits realized upon the exercise of TWC stock options or vesting of TWC restricted stock units (RSUs), as follows (in millions):

|  | Three Months Ended<br>September 30, |        | Nine Months Ended<br>September 30, |         |
|--|-------------------------------------|--------|------------------------------------|---------|
|  | 2012                                | 2011   | 2012                               | 2011    |
| Time Warner stock option activity        | \$ (2)                              | \$ (7) | \$ (16)                            | \$ (56) |
| TWC equity award activity <sup>(a)</sup> | 2                                   | 5      | 16                                 | 42      |
| Net income tax benefit (expense)         | \$                                  | \$ (2) | \$                                 | \$ (14) |

<sup>(a)</sup> Amounts reflect the impact of TWC equity award activity on income tax provision. Additional TWC equity award activity in excess of Time Warner stock option award activity is recorded as additional paid-in capital on the accompanying consolidated balance sheet.

Refer to the 2011 Form 10-K for additional information on the income tax impacts of Time Warner stock option and TWC equity award activity. Absent the impacts of the above items, the effective tax rates would have been 39.8% and 40.0% for the three months ended September 30, 2012 and 2011, respectively, and 39.5% and 39.9% for the nine months ended September 30, 2012 and 2011, respectively.

**Table of Contents****TIME WARNER CABLE INC.****MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS****OF OPERATIONS AND FINANCIAL CONDITION (Continued)**

*Net income attributable to TWC shareholders and net income per common share attributable to TWC common shareholders.* Net income attributable to TWC shareholders and net income per common share attributable to TWC common shareholders were as follows for the three and nine months ended September 30, 2012 and 2011 (in millions, except per share data):

|  | Three Months Ended<br>September 30, |         |          | Nine Months Ended<br>September 30, |          |          |
|--|-------------------------------------|---------|----------|------------------------------------|----------|----------|
|  | 2012                                | 2011    | % Change | 2012                               | 2011     | % Change |
| Net income attributable to TWC shareholders                          | \$ 808                              | \$ 356  | 127.0%   | \$ 1,642                           | \$ 1,101 | 49.1%    |
| Net income per common share attributable to TWC common shareholders: |                                     |         |          |                                    |          |          |
| Basic  | \$ 2.64                             | \$ 1.09 | 142.2%   | \$ 5.27                            | \$ 3.28  | 60.7%    |
| Diluted  | \$ 2.60                             | \$ 1.08 | 140.7%   | \$ 5.22                            | \$ 3.24  | 61.1%    |

Net income attributable to TWC shareholders for the three and nine months ended September 30, 2012 increased primarily due to the change in other income (expense), net, and an increase in Operating Income, partially offset by increases in income tax provision and interest expense, net. Net income per common share attributable to TWC common shareholders for the three and nine months ended September 30, 2012 benefited from lower average common shares outstanding as a result of share repurchases under the Stock Repurchase Program.

**FINANCIAL CONDITION AND LIQUIDITY**

Management believes that cash generated by or available to TWC should be sufficient to fund its capital and liquidity needs for the next twelve months and for the foreseeable future thereafter, including quarterly dividend payments, common stock repurchases and maturities of long-term debt and the TW NY Cable Preferred Membership Units (defined below). TWC's sources of cash include cash and equivalents on hand, cash provided by operating activities and borrowing capacity under its committed credit facility and commercial paper program, as well as access to capital markets.

The Company generally invests its cash and equivalents in a combination of money market, government and treasury funds, as well as other similar instruments, in accordance with the Company's investment policy of diversifying its investments and limiting the amount of its investments in a single entity or fund. As of September 30, 2012, nearly all of the Company's cash and equivalents was invested in money market funds and income earning bank deposits, including certificates of deposit.

TWC's unused committed financial capacity was \$7.288 billion as of September 30, 2012, reflecting \$3.853 billion of cash and equivalents and \$3.435 billion of available borrowing capacity under the Revolving Credit Facility.

**Current Financial Condition**

As of September 30, 2012, the Company had \$27.063 billion of debt, \$3.853 billion of cash and equivalents (net debt of \$23.210 billion, defined as total debt less cash and equivalents), \$300 million of mandatorily redeemable non-voting Series A Preferred Equity Membership Units (the TW NY Cable Preferred Membership Units) issued by a subsidiary of TWC, Time Warner NY Cable LLC (TW NY Cable), and \$7.609 billion of total TWC shareholders' equity. As of December 31, 2011, the Company had \$26.442 billion of debt, \$5.177 billion of cash and equivalents



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(net debt of \$21.265 billion), \$300 million of TW NY Cable Preferred Membership Units and \$7.530 billion of total TWC shareholders' equity.

**Table of Contents****TIME WARNER CABLE INC.****MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS****OF OPERATIONS AND FINANCIAL CONDITION (Continued)**

The following table shows the significant items contributing to the change in net debt from December 31, 2011 to September 30, 2012 (in millions):

|  |               |
|--|---------------|
| Balance as of December 31, 2011                      | \$ 21,265     |
| Cash provided by operating activities                | (4,115)       |
| Capital expenditures                                 | 2,191         |
| Insight acquisition <sup>(a)</sup>                   | 3,073         |
| Proceeds from SpectrumCo's sale of spectrum licenses | (1,112)       |
| Repurchases of common stock                          | 1,287         |
| Dividends paid                                       | 529           |
| Proceeds from exercise of stock options              | (124)         |
| All other, net                                       | 216           |
| <br>Balance as of September 30, 2012                 | <br>\$ 23,210 |

<sup>(a)</sup> Amount includes the Insight purchase price and repayment of Insight's debt.

On April 28, 2011, TWC filed a shelf registration statement on Form S-3 with the Securities and Exchange Commission (the "SEC") that allows TWC to offer and sell from time to time a variety of securities.

On October 1, 2012, TWCE's 8.875% senior notes due 2012 matured and all \$350 million in aggregate principal amount was repaid. Refer to Outstanding Debt and Mandatorily Redeemable Preferred Equity and Available Financial Capacity for additional information on TWCE's succession to, and assumption of, all of the rights and obligations of TWE as issuer of its debt securities.

On October 3, 2012, the Company received cash proceeds of \$64 million from the September 27, 2012 sale of all of its interest in Clearwire.

On October 25, 2012, the Company's Board of Directors declared a quarterly cash dividend of \$0.56 per share of TWC common stock, payable in cash on December 17, 2012 to stockholders of record at the close of business on November 30, 2012.

From the inception of the Stock Repurchase Program in the fourth quarter of 2010 through October 31, 2012, the Company repurchased 63.0 million shares of TWC common stock for \$4.602 billion. As of October 31, 2012, the Company had \$2.640 billion remaining under the Stock Repurchase Program.

**Cash Flows**

Cash and equivalents decreased \$1.324 billion for the nine months ended September 30, 2012 and increased \$2.526 billion for the nine months ended September 30, 2011. Components of these changes are discussed below in more detail.

**Table of Contents****TIME WARNER CABLE INC.****MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS****OF OPERATIONS AND FINANCIAL CONDITION (Continued)****Operating Activities**

Details of cash provided by operating activities are as follows (in millions):

|  | <b>Nine Months Ended<br/>September 30,</b> |             |
|--|--|-------------|
|  | <b>2012</b>                                | <b>2011</b> |
| OIBDA  | \$ 5,732                                   | \$ 5,301    |
| Noncash equity-based compensation                        | 104  | 88          |
| Net interest payments <sup>(a)</sup>                     | (1,302)                                    | (1,128)     |
| Net income tax refunds (payments) <sup>(b)</sup>         | (291)                                      | 167         |
| Pension plan contributions                               | (152)                                      | (79)        |
| Net merger-related and restructuring accruals (payments) | 6  | (5)         |
| All other, net, including working capital changes        | 18   |             |
| Cash provided by operating activities                    | \$ 4,115                                   | \$ 4,344    |

<sup>(a)</sup> Amounts include interest income received (including amounts received under interest rate swap contracts) of \$131 million and \$118 million for the nine months ended September 30, 2012 and 2011, respectively.

<sup>(b)</sup> Amounts include income tax refunds received of \$9 million and \$271 million for the nine months ended September 30, 2012 and 2011, respectively.

Cash provided by operating activities decreased from \$4.344 billion for the nine months ended September 30, 2011 to \$4.115 billion for the nine months ended September 30, 2012. This decrease was primarily related to a decrease in income tax refunds and increases in income tax payments, net interest payments and pension plan contributions (discussed below), partially offset by an increase in OIBDA.

On September 27, 2010, the Small Business Jobs Act was enacted, which provided for a bonus depreciation deduction of 50% of the cost of the Company's qualified capital expenditures retroactive to the beginning of 2010. Additionally, on December 17, 2010, the Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act of 2010 was enacted, which provided for a bonus depreciation deduction of 100% of the cost of the Company's qualified capital expenditures from September 8, 2010 through December 31, 2011, which was reduced to 50% for 2012. As a result of these Acts, the Company received an income tax refund of \$270 million in the first quarter of 2011. Due to the decline in the bonus depreciation deduction and the continued reversal of bonus depreciation benefits recorded in prior years, as well as the expected fourth-quarter 2012 income tax payments on the gain on the sale of SpectrumCo's licenses, the Company expects net income tax payments to increase significantly in 2012. The Company expects that this increase will be partially offset by the usage of Insight's net operating loss carryforwards, other Insight-related items, a taxable loss on the sale of the Clearwire investment and a tax deduction related to reserves from the formation of an insurance subsidiary in connection with the internal reorganization discussed in Note 16 to the accompanying consolidated financial statements.

Net interest payments for the nine months ended September 30, 2012 increased primarily as a result of interest payments related to public debt issuances in May and September 2011 (the 2011 Bond Offerings) and, as a result, the Company expects that its net interest payments will increase in 2012 compared to 2011.

The Company contributed \$152 million to its qualified and nonqualified noncontributory defined benefit pension plans (the pension plans) during the nine months ended September 30, 2012. As of September 30, 2012, the pension plans were underfunded by \$500 million, primarily due to historically low interest rates. The Company expects to make additional discretionary cash contributions to the pension plans during the

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fourth quarter of 2012; however, the Company does not anticipate that the pension plans will be fully funded as of December 31, 2012. Such contributions will be dependent on a variety of factors, including current and expected interest rates, asset performance, the funded status of the pension plans and management's judgment. See Note 12 to the accompanying consolidated financial statements for additional discussion of the pension plans.

**Table of Contents**

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

**Investing Activities**

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

|  | Nine Months Ended<br>September 30, |            |
|--|------------------------------------|------------|
|  | 2012                               | 2011       |
| Acquisitions and investments, net of cash acquired and distributions received: |                                    |            |
| Insight acquisition  | \$ (1,339)                         | \$         |
| NaviSite acquisition   |                                    | (263)      |
| Sterling Entertainment Enterprises, LLC <sup>(a)</sup>                         | (40)                               |            |
| All other  | (47)                               | (70)       |
| Proceeds from SpectrumCo's sale of spectrum licenses                           | 1,112                              |            |
| Capital expenditures   | (2,191)                            | (1,995)    |
| Other investing activities   | 23                                 | 21         |
| Cash used by investing activities  | \$ (2,482)                         | \$ (2,307) |

<sup>(a)</sup> 2012 amount represents a loan made to Sterling Entertainment Enterprises, LLC (doing business as SportsNet New York), an equity-method investee. Cash used by investing activities increased from \$2.307 billion for the nine months ended September 30, 2011 to \$2.482 billion for the nine months ended September 30, 2012, principally due to increases in acquisitions and investments, net, and capital expenditures, partially offset by the proceeds from the sale of SpectrumCo licenses. Acquisitions and investments, net, in 2012 primarily included the Insight acquisition, while acquisitions and investments, net, in 2011 primarily included the NaviSite acquisition.

Capital expenditures by major category were as follows (in millions):

|   | Nine Months Ended<br>September 30, |          |
|---|------------------------------------|----------|
|   | 2012                               | 2011     |
| Customer premise equipment <sup>(a)</sup> | \$ 832                             | \$ 779   |
| Scalable infrastructure <sup>(b)</sup>    | 537                                | 503      |
| Line extensions <sup>(c)</sup>            | 280                                | 223      |
| Upgrades/rebuilds <sup>(d)</sup>          | 69                                 | 73       |
| Support capital <sup>(e)</sup>            | 473                                | 417      |
| Total capital expenditures                | \$ 2,191                           | \$ 1,995 |

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- (a) Amounts represent costs incurred in the purchase and installation of equipment that resides at a customer's home or business for the purpose of receiving/sending video, high-speed data and/or voice signals. Such equipment includes set-top boxes, remote controls, high-speed data modems (including wireless), telephone modems and the costs of installing such new equipment. Customer premise equipment also includes materials and labor costs incurred to install the drop cable that connects a customer's dwelling or business to the closest point of the main distribution network.
- (b) Amounts represent costs incurred in the purchase and installation of equipment that controls signal reception, processing and transmission throughout TWC's distribution network, as well as controls and communicates with the equipment residing at a customer's home or business. Also included in scalable infrastructure is certain equipment necessary for content aggregation and distribution (video-on-demand equipment) and equipment necessary to provide certain video, high-speed data and voice service features (voicemail, e-mail, etc.).
- (c) Amounts represent costs incurred to extend TWC's distribution network into a geographic area previously not served. These costs typically include network design, the purchase and installation of fiber optic and coaxial cable and certain electronic equipment.
- (d) Amounts primarily represent costs incurred to upgrade or replace certain existing components or an entire geographic area of TWC's distribution network. These costs typically include network design, the purchase and installation of fiber optic and coaxial cable and certain electronic equipment.
- (e) Amounts represent all other capital purchases required to run day-to-day operations. These costs typically include vehicles, land and buildings, computer hardware/software, office equipment, furniture and fixtures, tools and test equipment. Amounts include capitalized software costs of \$205 million and \$213 million for the nine months ended September 30, 2012 and 2011, respectively.

Excluding Insight-related capital expenditures, which the Company expects will be approximately \$150 million in 2012, the Company expects that capital expenditures in 2012 will be similar to 2011 and 2010.

**Table of Contents****TIME WARNER CABLE INC.****MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS****OF OPERATIONS AND FINANCIAL CONDITION (Continued)****Financing Activities**

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

|   | <b>Nine Months Ended<br/>September 30,</b> |               |
|---|--|---------------|
|   | <b>2012</b>                                | <b>2011</b>   |
| Proceeds from issuance of long-term debt                                  | \$ 2,258                                   | \$ 3,227      |
| Repayments of long-term debt  | (1,750)                                    |               |
| Repayments of long-term debt assumed in acquisitions                      | (1,730)                                    | (44)          |
| Debt issuance costs   | (25)                                       | (24)          |
| Proceeds from exercise of stock options                                   | 124  | 109           |
| Taxes paid in cash in lieu of shares issued for equity-based compensation | (43)                                       | (29)          |
| Excess tax benefit from equity-based compensation                         | 73   | 46            |
| Dividends paid  | (529)                                      | (488)         |
| Repurchases of common stock   | (1,287)                                    | (2,291)       |
| Other financing activities  | (48)                                       | (17)          |
| <b>Cash provided (used) by financing activities</b>                       | <b>\$ (2,957)</b>                          | <b>\$ 489</b> |

Cash used by financing activities was \$2.957 billion for the nine months ended September 30, 2012 compared to cash provided by financing activities of \$489 million for the nine months ended September 30, 2011. Cash used by financing activities for the nine months ended September 30, 2012 primarily consisted of the repayments of TWE's 10.150% senior notes due May 2012 (\$250 million in aggregate principal amount) and TWC's 5.400% senior notes due July 2012 (\$1.5 billion in aggregate principal amount), the repayment of Insight's senior credit facility and senior notes, repurchases of TWC common stock and the payment of quarterly cash dividends, partially offset by the net proceeds of the 2012 Bond Offerings. Cash provided by financing activities for the nine months ended September 30, 2011 primarily consisted of the net proceeds from the 2011 Bond Offerings, partially offset by repurchases of TWC common stock and the payment of quarterly cash dividends.

**Table of Contents****TIME WARNER CABLE INC.****MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS****OF OPERATIONS AND FINANCIAL CONDITION (Continued)****Outstanding Debt and Mandatorily Redeemable Preferred Equity and Available Financial Capacity**

Debt and mandatorily redeemable preferred equity as of September 30, 2012 and December 31, 2011 were as follows:

|  | Maturity  | Interest Rate         | Outstanding Balance as of |                      |
|--|-----------|-----------------------|---------------------------|----------------------|
|  |           |                       | September 30,<br>2012     | December 31,<br>2011 |
| (in millions)  |           |                       |                           |                      |
| TWC notes and debentures <sup>(a)</sup>                | 2013-2042 | 5.751% <sup>(b)</sup> | \$ 24,616                 | \$ 23,744            |
| TWCE notes and debentures <sup>(c)</sup>               | 2012-2033 | 7.639% <sup>(b)</sup> | 2,421                     | 2,683                |
| Revolving credit facility <sup>(d)</sup>               | 2017      |                       |                           |                      |
| Commercial paper program                               | 2017      |                       |                           |                      |
| Capital leases   | 2012-2032 |                       | 26                        | 15                   |
| Total debt <sup>(e)</sup>                              |           |                       | 27,063                    | 26,442               |
| TW NY Cable Preferred Membership Units <sup>(e)</sup>  | 2013      | 8.210%                | 300                       | 300                  |
| Total debt and mandatorily redeemable preferred equity |           |                       | \$ 27,363                 | \$ 26,742            |

(a) Outstanding balance amounts of the TWC notes and debentures as of September 30, 2012 and December 31, 2011 include £1.266 billion and £623 million, respectively, of senior unsecured notes valued at \$2.047 billion and \$968 million, respectively, using the exchange rates at each date.

(b) Rate represents a weighted-average effective interest rate as of September 30, 2012 and includes the effects of interest rate swaps and, for the TWC notes and debentures, cross-currency swaps.

(c) In connection with the internal reorganization discussed in Note 16 to the accompanying consolidated financial statements, TWCE succeeded to, and assumed, all of the rights and obligations of TWE as issuer of its debt securities. Outstanding balance amounts of the TWCE notes and debentures as of September 30, 2012 and December 31, 2011 include an unamortized fair value adjustment of \$71 million and \$79 million, respectively, primarily consisting of the fair value adjustment recognized as a result of the 2001 merger of America Online, Inc. (now known as AOL Inc.) and Time Warner Inc. (now known as Historic TW Inc.).

(d) TWC's unused committed financial capacity was \$7.288 billion as of September 30, 2012, reflecting \$3.853 billion of cash and equivalents and \$3.435 billion of available borrowing capacity under the Revolving Credit Facility (which reflects a reduction of \$65 million for outstanding letters of credit backed by the Revolving Credit Facility).

(e) Outstanding balance amounts of total debt as of September 30, 2012 and December 31, 2011 include current maturities of \$1.876 billion and \$2.122 billion, respectively. Additionally, as of September 30, 2012, the TW NY Cable Preferred Membership Units, which mature on August 1, 2013, are classified as a current liability in the accompanying consolidated balance sheet.

See Overview Recent Developments 2012 Bond Offerings and Revolving Credit Facility and Commercial Paper Program and the 2011 Form 10-K for further details regarding the Company's outstanding debt and mandatorily redeemable preferred equity and other financing arrangements, including certain information about maturities, covenants and rating triggers related to such debt and financing arrangements. At September 30, 2012, TWC was in compliance with the leverage ratio covenant of the Revolving Credit Facility, with a ratio of consolidated total debt as of September 30, 2012 to consolidated EBITDA for the twelve months ended September 30, 2012 of approximately 3.0 times. In accordance with the Revolving Credit Facility agreement, consolidated total debt as of September 30, 2012 was calculated as (a) total debt per the accompanying consolidated balance sheet less the TWCE unamortized fair value adjustment (discussed above) and the fair value of debt subject to interest rate swaps, less (b) total cash per the accompanying consolidated balance sheet in excess of \$25 million. In accordance with the Revolving Credit Facility agreement, consolidated EBITDA for the twelve months ended September 30, 2012 was calculated as OIBDA plus asset impairments and equity-based compensation expense.



**CAUTION CONCERNING FORWARD-LOOKING STATEMENTS**

This document contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, particularly statements anticipating future growth in revenues, OIBDA, cash provided by operating activities and other financial measures. Words such as anticipates, estimates, expects, projects, intends, plans, believes and words and terms of similar substance used in connection with discussion of future operating or financial performance identify forward-looking statements. These forward-looking statements are included throughout this report and are based on management's current expectations and beliefs about future events. As with any projection or forecast, they are susceptible to uncertainty and changes in circumstances.

The Company operates in a highly competitive, consumer and technology driven and rapidly changing business that is affected by government regulation and economic, strategic, political and social conditions. Various factors could adversely affect the operations, business or financial results of TWC in the future and cause TWC's actual results to differ materially

**Table of Contents**

**TIME WARNER CABLE INC.**

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS**

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

from those contained in the forward-looking statements, including those factors discussed in detail in Item 1A, Risk Factors, in the 2011 Form 10-K, and in TWC's other filings made from time to time with the SEC after the date of this report. In addition, important factors that could cause the Company's actual results to differ materially from those in its forward-looking statements include:

increased competition from video, high-speed data, networking and voice providers, particularly direct broadcast satellite operators, local telephone companies (ILECs and CLECs), interexchange carriers, companies that deliver programming over broadband Internet connections, and wireless broadband and phone providers;

the Company's ability to deal effectively with the current challenging economic environment or further deterioration in the economy, which may negatively impact customers' demand for the Company's services and also result in a reduction in the Company's advertising revenues;

the Company's continued ability to exploit new and existing technologies that appeal to residential and business services customers and advertisers;

changes in the regulatory and tax environments in which the Company operates, including, among others, regulation of broadband Internet services, net neutrality legislation or regulation and federal, state and local taxation;

increased difficulty negotiating programming and retransmission agreements on favorable terms, resulting in increased costs to the Company and/or the loss of popular programming; and

changes in the Company's plans, initiatives and strategies.

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

**Table of Contents**

**TIME WARNER CABLE INC.**

**ITEM 4. CONTROLS AND PROCEDURES**

**Item 4. Controls and Procedures.**

**Evaluation of Disclosure Controls and Procedures**

The Company, under the supervision and with the participation of its management, including the Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures (as such term is defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)) as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed in reports filed or submitted by the Company under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that information required to be disclosed by the Company is accumulated and communicated to the Company's management to allow timely decisions regarding the required disclosure.

**Changes in Internal Control Over Financial Reporting**

There have not been any changes in the Company's internal control over financial reporting during the quarter ended September 30, 2012 that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

**Table of Contents**

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

(Unaudited)

|   | September 30,<br>2012 | December 31,<br>2011 |
|---|-----------------------|----------------------|
|   | (in millions)         |                      |
| <b>ASSETS</b>   |                       |                      |
| Current assets:   |                       |                      |
| Cash and equivalents  | \$ 3,853              | \$ 5,177             |
| Receivables, less allowances of \$82 million and \$62 million<br>as of September 30, 2012 and December 31, 2011, respectively                                 | 899                   | 767                  |
| Deferred income tax assets  | 372                   | 267                  |
| Other current assets  | 238                   | 187                  |
| <b>Total current assets</b>   | <b>5,362</b>          | <b>6,398</b>         |
| Investments   | 88                    | 774                  |
| Property, plant and equipment, net  | 14,510                | 13,905               |
| Intangible assets subject to amortization, net  | 666                   | 228                  |
| Intangible assets not subject to amortization   | 26,011                | 24,272               |
| Goodwill  | 2,893                 | 2,247                |
| Other assets  | 555                   | 452                  |
| <b>Total assets</b>   | <b>\$ 50,085</b>      | <b>\$ 48,276</b>     |
| <b>LIABILITIES AND EQUITY</b>   |                       |                      |
| Current liabilities:  |                       |                      |
| Accounts payable  | \$ 458                | \$ 545               |
| Deferred revenue and subscriber-related liabilities   | 191                   | 169                  |
| Accrued programming expense   | 875                   | 807                  |
| Current maturities of long-term debt  | 1,876                 | 2,122                |
| Mandatorily redeemable preferred equity issued by a subsidiary  | 300                   |                      |
| Other current liabilities   | 1,834                 | 1,727                |
| <b>Total current liabilities</b>  | <b>5,534</b>          | <b>5,370</b>         |
| Long-term debt  | 25,187                | 24,320               |
| Mandatorily redeemable preferred equity issued by a subsidiary  |                       | 300                  |
| Deferred income tax liabilities, net  | 11,262                | 10,198               |
| Other liabilities   | 485                   | 551                  |
| Commitments and contingencies (Note 14)   |                       |                      |
| TWC shareholders' equity:   |                       |                      |
| Common stock, \$0.01 par value, 303.3 million and 315.0 million shares issued and outstanding as of<br>September 30, 2012 and December 31, 2011, respectively | 3                     | 3                    |
| Additional paid-in capital  | 7,707                 | 8,018                |
| Retained earnings   | 440                   | 68                   |
| Accumulated other comprehensive loss, net   | (541)                 | (559)                |
| <b>Total TWC shareholders' equity</b>   | <b>7,609</b>          | <b>7,530</b>         |
| Noncontrolling interests  | 8                     | 7                    |

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|                              |  |           |    |        |
|------------------------------|--|-----------|----|--------|
| Total equity                 |  | 7,617     |    | 7,537  |
| Total liabilities and equity |  | \$ 50,085 | \$ | 48,276 |

See accompanying notes.

**Table of Contents****TIME WARNER CABLE INC.****CONSOLIDATED STATEMENT OF OPERATIONS**

(Unaudited)

|  | Three Months Ended<br>September 30,  |          | Nine Months Ended<br>September 30, |           |
|--|--------------------------------------|----------|------------------------------------|-----------|
|  | 2012                                 | 2011     | 2012                               | 2011      |
|  | (in millions, except per share data) |          |                                    |           |
| Revenues   | \$ 5,363                             | \$ 4,911 | \$ 15,901                          | \$ 14,682 |
| Costs and expenses:  |                                      |          |                                    |           |
| Costs of revenues <sup>(a)</sup>                                     | 2,499                                | 2,286    | 7,377                              | 6,855     |
| Selling, general and administrative <sup>(a)</sup>                   | 918                                  | 843      | 2,694                              | 2,490     |
| Depreciation   | 789                                  | 750      | 2,377                              | 2,238     |
| Amortization   | 31                                   | 9        | 79                                 | 23        |
| Merger-related and restructuring costs                               | 32                                   | 21       | 98                                 | 36        |
| Total costs and expenses   | 4,269                                | 3,909    | 12,625                             | 11,642    |
| Operating Income   | 1,094                                | 1,002    | 3,276                              | 3,040     |
| Interest expense, net  | (402)                                | (383)    | (1,204)                            | (1,112)   |
| Other income (expense), net  | 496                                  | (22)     | 493                                | (84)      |
| Income before income taxes   | 1,188                                | 597      | 2,565                              | 1,844     |
| Income tax provision   | (379)                                | (241)    | (920)                              | (741)     |
| Net income   | 809                                  | 356      | 1,645                              | 1,103     |
| Less: Net income attributable to noncontrolling interests            | (1)                                  |          | (3)                                | (2)       |
| Net income attributable to TWC shareholders                          | \$ 808                               | \$ 356   | \$ 1,642                           | \$ 1,101  |
| Net income per common share attributable to TWC common shareholders: |                                      |          |                                    |           |
| Basic  | \$ 2.64                              | \$ 1.09  | \$ 5.27                            | \$ 3.28   |
| Diluted  | \$ 2.60                              | \$ 1.08  | \$ 5.22                            | \$ 3.24   |
| Average common shares outstanding:                                   |                                      |          |                                    |           |
| Basic  | 305.7                                | 323.8    | 310.2                              | 333.7     |
| Diluted  | 310.2                                | 329.1    | 314.8                              | 339.4     |
| Cash dividends declared per share of common stock                    | \$ 0.56                              | \$ 0.48  | \$ 1.68                            | \$ 1.44   |

<sup>(a)</sup> Costs of revenues and selling, general and administrative expenses exclude depreciation. See accompanying notes.



**Table of Contents****TIME WARNER CABLE INC.****CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

(Unaudited)

|  | <b>Three Months Ended<br/>September 30,</b> |               | <b>Nine Months Ended<br/>September 30,</b> |                 |
|--|---|---------------|--|-----------------|
|  | <b>2012</b>                                 | <b>2011</b>   | <b>2012</b>                                | <b>2011</b>     |
|  | <b>(in millions)</b>                        |               |  |                 |
| Net income   | \$ 809                                      | \$ 356        | \$ 1,645                                   | \$ 1,103        |
| Change in unrealized losses on pension benefit obligation,<br>net of tax | 7   | 4             | 10   | 2               |
| Change in deferred gains (losses) on cash flow hedges,<br>net of tax     | 46  | (57)          | 9  | (81)            |
| Other comprehensive income (loss)  | 53  | (53)          | 19   | (79)            |
| <b>Comprehensive income</b>  | <b>862</b>                                  | <b>303</b>    | <b>1,664</b>                               | <b>1,024</b>    |
| Less: Comprehensive income attributable to noncontrolling<br>interests   | (1)   |               | (3)  | (2)             |
| <b>Comprehensive income attributable to TWC shareholders</b>             | <b>\$ 861</b>                               | <b>\$ 303</b> | <b>\$ 1,661</b>                            | <b>\$ 1,022</b> |

See accompanying notes.



**Table of Contents****TIME WARNER CABLE INC.****CONSOLIDATED STATEMENT OF CASH FLOWS**

(Unaudited)

|  | <b>Nine Months Ended<br/>September 30,</b> |             |
|--|--|-------------|
|  | <b>2012</b>                                | <b>2011</b> |
|  | <b>(in millions)</b>                       |             |
| <b>OPERATING ACTIVITIES</b>  |  |             |
| Net income   | \$ 1,645                                   | \$ 1,103    |
| Adjustments for noncash and nonoperating items:                                    |  |             |
| Depreciation   | 2,377                                      | 2,238       |
| Amortization   | 79   | 23          |
| Pretax gain on sale of investment in Clearwire                                     | (64)                                       |             |
| (Income) loss from equity-method investments, net of cash distributions            | (433)                                      | 98          |
| Deferred income taxes  | 409  | 575         |
| Equity-based compensation expense  | 104  | 88          |
| Excess tax benefit from equity-based compensation                                  | (73)                                       | (46)        |
| Changes in operating assets and liabilities, net of acquisitions and dispositions: |  |             |
| Receivables  | (31)                                       | 34          |
| Accounts payable and other liabilities   | 105  | 8           |
| Other changes  | (3)  | 223         |
| Cash provided by operating activities  | 4,115                                      | 4,344       |
| <b>INVESTING ACTIVITIES</b>  |  |             |
| Acquisitions and investments, net of cash acquired and distributions received      | (1,426)                                    | (333)       |
| Proceeds from SpectrumCo's sale of spectrum licenses                               | 1,112                                      |             |
| Capital expenditures   | (2,191)                                    | (1,995)     |
| Other investing activities   | 23   | 21          |
| Cash used by investing activities  | (2,482)                                    | (2,307)     |
| <b>FINANCING ACTIVITIES</b>  |  |             |
| Proceeds from issuance of long-term debt   | 2,258                                      | 3,227       |
| Repayments of long-term debt   | (1,750)                                    |             |
| Repayments of long-term debt assumed in acquisitions                               | (1,730)                                    | (44)        |
| Debt issuance costs  | (25)                                       | (24)        |
| Proceeds from exercise of stock options  | 124  | 109         |
| Taxes paid in cash in lieu of shares issued for equity-based compensation          | (43)                                       | (29)        |
| Excess tax benefit from equity-based compensation                                  | 73   | 46          |
| Dividends paid   | (529)                                      | (488)       |
| Repurchases of common stock  | (1,287)                                    | (2,291)     |
| Other financing activities   | (48)                                       | (17)        |
| Cash provided (used) by financing activities                                       | (2,957)                                    | 489         |
| Increase (decrease) in cash and equivalents  | (1,324)                                    | 2,526       |
| Cash and equivalents at beginning of period  | 5,177                                      | 3,047       |

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|                                       |    |       |    |       |
|---------------------------------------|----|-------|----|-------|
| Cash and equivalents at end of period | \$ | 3,853 | \$ | 5,573 |
|---------------------------------------|----|-------|----|-------|

See accompanying notes.

**Table of Contents****TIME WARNER CABLE INC.****CONSOLIDATED STATEMENT OF EQUITY**

(Unaudited)

|  | <b>TWC<br/>Shareholders<br/>Equity</b> | <b>Non-<br/>controlling<br/>Interests<br/>(in millions)</b> | <b>Total<br/>Equity</b> |
|--|--|---|-------------------------|
| Balance as of December 31, 2010  | \$ 9,210                               | \$ 7  | \$ 9,217                |
| Net income   | 1,101                                  | 2   | 1,103                   |
| Change in unrealized losses on pension benefit obligation,<br>net of income tax provision of \$1 million | 2                                      |   | 2                       |
| Change in deferred gains (losses) on cash flow hedges,<br>net of income tax benefit of \$53 million      | (81)                                   |   | (81)                    |
| <b>Comprehensive income</b>  | <b>1,022</b>                           | <b>2</b>  | <b>1,024</b>            |
| Equity-based compensation expense  | 88                                     |   | 88                      |
| Taxes paid in lieu of shares issued for equity-based compensation  | (29)                                   |   | (29)                    |
| Shares issued upon exercise of stock options   | 109                                    |   | 109                     |
| Repurchase and retirement of common stock  | (2,265)                                |   | (2,265)                 |
| Cash dividends declared (\$1.44 per common share)  | (488)                                  |   | (488)                   |
| Other changes  |  | (2)   | (2)                     |
| Balance as of September 30, 2011   | \$ 7,647                               | \$ 7  | \$ 7,654                |
| Balance as of December 31, 2011  | \$ 7,530                               | \$ 7  | \$ 7,537                |
| Net income   | 1,642                                  | 3   | 1,645                   |
| Change in unrealized losses on pension benefit obligation,<br>net of income tax provision of \$8 million | 10                                     |   | 10                      |
| Change in deferred gains (losses) on cash flow hedges,<br>net of income tax provision of \$6 million     | 9                                      |   | 9                       |
| <b>Comprehensive income</b>  | <b>1,661</b>                           | <b>3</b>  | <b>1,664</b>            |
| Equity-based compensation expense  | 104                                    |   | 104                     |
| Excess tax benefit realized from equity-based compensation   | 55                                     |   | 55                      |
| Taxes paid in lieu of shares issued for equity-based compensation  | (43)                                   |   | (43)                    |
| Shares issued upon exercise of stock options   | 124                                    |   | 124                     |
| Repurchase and retirement of common stock  | (1,293)                                |   | (1,293)                 |
| Cash dividends declared (\$1.68 per common share)  | (529)                                  |   | (529)                   |
| Other changes  |  | (2)   | (2)                     |
| Balance as of September 30, 2012   | \$ 7,609                               | \$ 8  | \$ 7,617                |

See accompanying notes.

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**Table of Contents**

**TIME WARNER CABLE INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(Unaudited)

**1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION**

**Description of Business**

Time Warner Cable Inc. (together with its subsidiaries, TWC or the Company) is among the largest providers of video, high-speed data and voice services in the U.S., with technologically advanced, well-clustered cable systems located mainly in five geographic areas: New York State (including New York City), the Carolinas, the Midwest (including Ohio, Kentucky and Wisconsin), Southern California (including Los Angeles) and Texas. TWC offers its residential and business services customers video, high-speed data and voice services over its broadband cable systems. TWC's business services also include networking and transport services (including cell tower backhaul services) and, through its wholly owned subsidiary, NaviSite, Inc. (NaviSite), managed and outsourced information technology solutions and cloud services. TWC also sells advertising to a variety of national, regional and local customers.

**Basis of Presentation**

*Basis of Consolidation*

The consolidated financial statements include all of the assets, liabilities, revenues, expenses and cash flows of TWC and all entities in which TWC has a controlling voting interest. In accordance with authoritative guidance issued by the Financial Accounting Standards Board (FASB) related to consolidation, the consolidated financial statements include the results of the Time Warner Entertainment-Advance/Newhouse Partnership (TWE-A/N) only for the TWE-A/N cable systems that are controlled by TWC and for which TWC holds an economic interest. Intercompany accounts and transactions between consolidated companies have been eliminated in consolidation.

*Use of Estimates*

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

Significant estimates inherent in the preparation of the consolidated financial statements include accounting for asset impairments, allowances for doubtful accounts, investments, depreciation and amortization, business combinations, derivative financial instruments, pension benefits, equity-based compensation, income taxes, contingencies and certain programming arrangements. Allocation methodologies used to prepare the consolidated financial statements are based on estimates and have been described in the notes, where appropriate.

*Reclassifications*

Certain reclassifications have been made to the prior year financial information to conform to the current year presentation.

*Interim Financial Statements*

The consolidated financial statements are unaudited; however, in the opinion of management, they contain all the adjustments (consisting of those of a normal recurring nature) considered necessary to present fairly the financial position, results of operations and cash flows for the periods presented in conformity with GAAP applicable to interim periods. The consolidated financial statements should be read in conjunction with the audited consolidated financial statements of TWC included in the Company's Annual Report on Form 10-K for the year ended December 31, 2011.

*Hurricane Sandy*

In late October 2012, Hurricane Sandy caused damage and business interruption to the Company's cable systems from the Carolinas to Maine and into Ohio, with the most significant impact in the New York metropolitan area. The Company is in the early stages of assessing the

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financial, operational and subscriber impacts of the storm and is, therefore, unable to estimate its full financial and operational impact. However, it is not expected to be significant to the Company's overall fourth-quarter 2012 financial results.

**Table of Contents**

**TIME WARNER CABLE INC.**

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

(Unaudited)

**2. RECENT ACCOUNTING STANDARDS**

**Accounting Standards Adopted in 2012**

*Fair Value Measurements and Related Disclosures*

In May 2011, the FASB issued authoritative guidance that provides a uniform framework for fair value measurements and related disclosures between GAAP and International Financial Reporting Standards. Additional disclosure requirements under this guidance include: (1) for Level 3 fair value measurements, quantitative information about unobservable inputs used, a description of the valuation processes used by the entity, and a qualitative discussion about the sensitivity of the measurements to changes in the unobservable inputs; (2) for an entity's use of a nonfinancial asset that is different from the asset's highest and best use, the reason for the difference; (3) for financial instruments not measured at fair value but for which disclosure of fair value is required, the fair value hierarchy level in which the fair value measurements were determined; and (4) the disclosure of all transfers between Level 1 and Level 2 of the fair value hierarchy. This guidance became effective for TWC on January 1, 2012 and did not have a material impact on the Company's consolidated financial statements.

*Testing Goodwill for Impairment*

In September 2011, the FASB issued authoritative guidance that allows an entity to use a qualitative approach to test goodwill for impairment. Under this guidance, an entity has the option 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. If, after assessing the totality of events or circumstances, an entity determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test is unnecessary. In addition, an entity has the option to bypass the qualitative assessment for any reporting unit in any period and proceed directly to performing the first step of the two-step goodwill impairment test. This guidance became effective for TWC's goodwill impairment test performed as of July 1, 2012 and did not have a material impact on the Company's consolidated financial statements. Refer to Note 6 for further details regarding the results of the Company's annual impairment test.

*Testing Indefinite-Lived Intangible Assets for Impairment*

In July 2012, the FASB issued authoritative guidance that allows companies the option to perform a qualitative assessment to determine whether further impairment testing of indefinite-lived intangible assets is necessary. Under this guidance, an entity is required to perform a quantitative impairment test if qualitative factors indicate that it is more likely than not that indefinite-lived intangible assets are impaired. The qualitative factors are similar to the guidance established for goodwill impairment testing and include identifying and assessing events and circumstances that would most significantly impact, individually or in the aggregate, the carrying value of the indefinite-lived intangible assets. TWC elected to early adopt this guidance, which became effective for TWC's indefinite-lived intangible asset impairment tests performed as of July 1, 2012 and did not have a material impact on the Company's consolidated financial statements. Refer to Note 6 for further details regarding the results of the Company's annual impairment test.

**3. EARNINGS PER SHARE**

Basic net income per common share attributable to TWC common shareholders is determined using the two-class method and is computed by dividing net income attributable to TWC common shareholders by the weighted average of common shares outstanding during the period. The two-class method is an earnings allocation formula that determines income per share for each class of common stock and participating security according to dividends declared and participation rights in undistributed earnings. Diluted net income per common share attributable to TWC common shareholders reflects the more dilutive earnings per share amount calculated using the treasury stock method or the two-class method.



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

(Unaudited)

Set forth below is a reconciliation of net income attributable to TWC common shareholders per basic and diluted common share (in millions, except per share data):

|   | Three Months Ended<br>September 30, |               | Nine Months Ended<br>September 30, |                 |
|---|-------------------------------------|---------------|------------------------------------|-----------------|
|   | 2012                                | 2011          | 2012                               | 2011            |
| Net income attributable to TWC shareholders                           | \$ 808                              | \$ 356        | \$ 1,642                           | \$ 1,101        |
| Less: Net income allocated to participating securities <sup>(a)</sup> | (2)                                 | (2)           | (8)                                | (7)             |
| <b>Net income attributable to TWC common shareholders</b>             | <b>\$ 806</b>                       | <b>\$ 354</b> | <b>\$ 1,634</b>                    | <b>\$ 1,094</b> |
| Average basic common shares outstanding                               | 305.7                               | 323.8         | 310.2                              | 333.7           |
| Dilutive effect of nonparticipating equity awards                     | 2.0                                 | 2.4           | 2.0                                | 2.7             |
| Dilutive effect of participating equity awards <sup>(a)</sup>         | 2.5                                 | 2.9           | 2.6                                | 3.0             |
| <b>Average diluted common shares outstanding</b>                      | <b>310.2</b>                        | <b>329.1</b>  | <b>314.8</b>                       | <b>339.4</b>    |
| Net income per common share attributable to TWC common shareholders:  |                                     |               |                                    |                 |
| Basic   | \$ 2.64                             | \$ 1.09       | \$ 5.27                            | \$ 3.28         |
| Diluted   | \$ 2.60                             | \$ 1.08       | \$ 5.22                            | \$ 3.24         |

<sup>(a)</sup> The Company's restricted stock units granted to employees and non-employee directors are considered participating securities with respect to regular quarterly cash dividends.

Diluted net income per common share attributable to TWC common shareholders for the three and nine months ended September 30, 2011 excludes 1.9 million common shares that may be issued under the Company's equity-based compensation plans because they do not have a dilutive effect. For the three and nine months ended September 30, 2012, antidilutive common shares related to equity-based compensation plans were insignificant.

**4. INSIGHT ACQUISITION**

On February 29, 2012, TWC completed its acquisition of Insight Communications Company, Inc. and its subsidiaries ( Insight ) for \$1.339 billion in cash, net of cash acquired and including a third-quarter 2012 post-closing purchase price adjustment of \$4 million, and repaid \$1.164 billion outstanding under Insight's senior secured credit facility (including accrued interest), and terminated the facility. Additionally, during 2012, Insight's \$495 million in aggregate principal amount of senior notes due 2018 were redeemed for \$579 million in cash (including premiums and accrued interest). The financial results for Insight, which served subscribers in Kentucky, Indiana and Ohio representing approximately 1.6 million primary service units as of the acquisition date, have been included in the Company's consolidated financial statements from the acquisition date and did not significantly impact the Company's consolidated financial results for the three and nine months ended September 30, 2012.



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The preliminary purchase price allocation is as follows (in millions):

|   |         |
|---|---------|
| Property, plant and equipment (primarily distribution systems)                              | \$ 857  |
| Intangible assets subject to amortization (primarily customer relationships) <sup>(a)</sup> | 477     |
| Intangible assets not subject to amortization (cable franchise rights)                      | 1,747   |
| Goodwill  | 642     |
| Other current and noncurrent assets   | 181     |
| Long-term debt  | (1,734) |
| Deferred income tax liabilities, net  | (668)   |
| Other current and noncurrent liabilities  | (163)   |