

TW NY CABLE HOLDING INC.

Form S-4/A

September 19, 2007

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**As filed with the Securities and Exchange Commission on September 19, 2007**

**Registration No. 333-143580**

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

**Amendment No. 1 to  
FORM S-4  
REGISTRATION STATEMENT  
UNDER  
THE SECURITIES ACT OF 1933**

**TIME WARNER CABLE INC.**

**Delaware**

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

**4841**

*(Primary Standard Industrial  
Classification Code Number)*

**84-1496755**

*(IRS Employer  
Identification No.)*

**One Time Warner Center  
North Tower  
New York, New York 10019  
(212) 364-8200**

*(Address, including zip code, and telephone number, including area code, of  
Registrant's principal executive offices)*

**Marc Lawrence-Apfelbaum, Esq.  
Executive Vice President, General Counsel and Secretary  
Time Warner Cable Inc.  
One Time Warner Center  
North Tower  
New York, New York 10019  
(212) 364-8200**

*(Name, address, including zip code, and telephone number, including area code,  
of agent for service)*

*Copies to:*

**John C. Kennedy, Esq.  
Robert B. Schumer, Esq.  
Paul, Weiss, Rifkind, Wharton & Garrison LLP  
1285 Avenue of the Americas  
New York, New York 10019-6064  
(212) 373-3000**

**Approximate date of commencement of proposed sale to public:** As soon as practicable after this Registration Statement becomes effective.

If the securities being registered on this Form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act of 1933, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act of 1933, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

**The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrants shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until this Registration Statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.**

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**TABLE OF ADDITIONAL REGISTRANTS**

| <b>Name</b>                             | <b>State or Other<br/>Jurisdiction of<br/>Incorporation<br/><br/>or Organization</b> | <b>Primary<br/>Standard<br/>Industrial<br/>Classification<br/>Code<br/><br/>Number</b> | <b>IRS<br/>Employer<br/>Identification<br/><br/>Number</b> |
|---|--|--|--|
| Time Warner Entertainment Company, L.P. | Delaware   | 4841   | 13-3666692   |
| TW NY Cable Holding Inc.                | Delaware   | 4841   | 20-2819687   |

The address of the principal executive offices of each of the additional registrants is One Time Warner Center, North Tower, New York, New York 10019. Their telephone number at that address is (212) 364-8200.

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The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

**SUBJECT TO COMPLETION, DATED SEPTEMBER 19, 2007**

**PROSPECTUS**

**Time Warner Cable Inc.**

**OFFER TO EXCHANGE**

**\$1,500,000,000 in aggregate principal amount of 5.40% Notes due 2012, which have been registered under the Securities Act of 1933, as amended, for any and all outstanding 5.40% Notes due 2012.**

**\$2,000,000,000 in aggregate principal amount of 5.85% Notes due 2017, which have been registered under the Securities Act of 1933, as amended, for any and all outstanding 5.85% Notes due 2017.**

**\$1,500,000,000 in aggregate principal amount of 6.55% Debentures due 2037, which have been registered under the Securities Act of 1933, as amended, for any and all outstanding 6.55% Debentures due 2037.**

**The exchange debt securities will be fully and unconditionally guaranteed on a senior unsecured basis by our subsidiaries Time Warner Entertainment Company, L.P. and TW NY Cable Holding Inc.**

We are conducting the exchange offer in order to provide you with an opportunity to exchange your unregistered outstanding debt securities for freely tradeable exchange debt securities that have been registered under the Securities Act of 1933.

**The Exchange Offer**

We will exchange all outstanding debt securities that are validly tendered and not validly withdrawn for an equal principal amount of exchange debt securities that are freely tradeable.

You may withdraw tenders of outstanding debt securities at any time prior to the expiration date of the exchange offer.

The exchange offer expires at 5:00 p.m., New York City time, on \_\_\_\_\_, 2007, unless we extend it.

The exchange of outstanding debt securities for exchange debt securities in the exchange offer will not be a taxable event for U.S. federal income tax purposes.

The terms of the exchange debt securities to be issued in the exchange offer are substantially identical to the outstanding debt securities, except that the exchange debt securities will be registered under the Securities Act of 1933, as amended, and will not have any transfer restrictions, registration rights or rights to additional interest.

No public market exists for the initial debt securities or exchange debt securities. We do not intend to apply for listing of the exchange debt securities or to arrange for them to be quoted on a quotation system.

We will not receive any proceeds from the exchange offer.

**You should carefully consider the Risk Factors beginning on page 14 of this prospectus before participating in the exchange offer.**

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of the exchange debt securities to be distributed in the exchange offer or passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.**

The date of this prospectus is \_\_\_\_\_, 2007.

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**SUMMARY**

*Except as the context otherwise requires, references in this prospectus to TWC, the Company, we, our or us are Time Warner Cable Inc. and references to Time Warner are to our parent corporation, Time Warner Inc. This summary is qualified in its entirety by, and should be read in conjunction with, the more detailed information and financial statements (including the notes thereto) appearing elsewhere in this prospectus. This summary does not contain all of the information that you should consider before making an investment. You should read the entire prospectus carefully. Please see Forward-Looking Statements for more information regarding these statements.*

*Except as the context otherwise requires, references to information being pro forma or on a pro forma basis assume that the transactions with Adelphia Communications Corporation ( Adelphia ) and its affiliates and subsidiaries and Comcast Corporation ( Comcast ) and its affiliates and the dissolution of Texas and Kansas City Cable Partners, L.P. ( TKCCP ), including the distribution of TKCCP's cable systems in Kansas City, south and west Texas and New Mexico (the Kansas City Pool ), occurred on January 1, 2006, as described in our unaudited pro forma condensed combined financial statements contained herein. See Unaudited Pro Forma Condensed Combined Financial Information. Certain of the subscriber data contained in this prospectus includes subscribers in the Kansas City Pool for all periods presented. Prior to January 1, 2007, we managed, but did not consolidate the financial results of, the Kansas City Pool.*

*The term initial debt securities refers to the 5.40% Notes due 2012 (the 2012 initial notes ), the 5.85% Notes due 2017 (the 2017 initial notes ) and the 6.55% Debentures due 2037 (the 2037 initial debentures ) that were issued on April 9, 2007 in an offering pursuant to Rule 144A and Regulation S under the Securities Act of 1933, as amended (the Securities Act ). The term exchange debt securities refers to the 5.40% Notes due 2012 (the 2012 exchange notes and, together with the 2012 initial notes, the 2012 notes ), the 5.85% Notes due 2017 (the 2017 exchange notes and, together with the 2017 initial notes, the 2017 notes ) and the 6.55% Debentures due 2037 (the 2037 exchange debentures and, together with the 2037 initial debentures, the 2037 debentures ) offered with this prospectus. The term debt securities refers to the initial debt securities and the exchange debt securities, collectively. The term 2007 Bond Offering refers to the issuance of the initial debt securities.*

**Our Company**

We, together with our subsidiaries, are the second-largest cable operator in the U.S. and are an industry leader in developing and launching innovative video, data and voice services. At June 30, 2007, we had cable systems that passed approximately 26 million U.S. homes in well-clustered locations and had approximately 14.7 million customer relationships. Approximately 85% of these homes passed were located in one of five principal geographic areas: New York state, the Carolinas, Ohio, southern California and Texas. As of June 30, 2007, we were the largest cable system operator in a number of large cities, including New York City and Los Angeles.

As part of our strategy to expand our cable footprint and improve the clustering of our cable systems, on July 31, 2006, a subsidiary of ours, Time Warner NY Cable LLC ( TW NY ), and Comcast completed their respective acquisitions of assets comprising in the aggregate substantially all of the cable systems of Adelphia. TW NY paid approximately \$8.9 billion in cash (after giving effect to certain purchase price adjustments) and shares of our Class A common stock, par value \$.01 per share ( Class A common stock ), representing approximately 16% of our outstanding common stock for the portion of the Adelphia assets it acquired. Immediately prior to the Adelphia acquisition, we and our subsidiary, Time Warner Entertainment Company, L.P. ( TWE ), redeemed Comcast's interests in us (the TWC Redemption ) and TWE (the TWE Redemption and, together with the TWC Redemption, the Redemptions ), respectively, with the result that Comcast no longer had an interest in either company. In addition, TW NY exchanged certain cable systems with subsidiaries of Comcast (the Exchange ). As a result of the closing of these transactions



(referred to generally herein as the Transactions ), we acquired systems with approximately 4.0 million basic video subscribers and disposed of systems with approximately 0.8 million basic video subscribers that were transferred to Comcast

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in connection with the Redemptions and the Exchange for a net gain of approximately 3.2 million basic video subscribers.

In addition, effective January 1, 2007, we began consolidating the results of the Kansas City Pool we received upon the distribution of the assets of TKCCP to us and Comcast. Prior to January 1, 2007, our interest in TKCCP was reported as an equity method investment. TKCCP was formally dissolved on May 15, 2007.

For the presentation of subscriber information, cable systems we acquired in and retained after the Transactions are referred to herein as the Acquired Systems, and systems we owned before and retained after the Transactions, as well as the Kansas City Pool, are referred to herein as the Legacy Systems. For the presentation of financial information, however, Legacy Systems refers only to those systems that the Company owned both before and after the Transactions and does not include the Kansas City Pool. The Acquired Systems have the same definition as above.

On February 13, 2007, Adelphia's Chapter 11 reorganization plan became effective and, under applicable securities law regulations and provisions of the U.S. bankruptcy code, we became a public company subject to the requirements of the Securities Exchange Act of 1934, as amended (the Exchange Act). Under the terms of the reorganization plan, most of the 155,913,430 shares of our Class A common stock that Adelphia received in the Adelphia acquisition (representing approximately 16% of our outstanding common stock) are being distributed to Adelphia's creditors. As of June 30, 2007, approximately 91% of these shares had been distributed to Adelphia's creditors. The remaining shares are expected to be distributed during the coming months as the remaining disputes are resolved by the bankruptcy court. On March 1, 2007, our Class A common stock began trading on the New York Stock Exchange (the NYSE) under the symbol TWC.

Time Warner currently owns approximately 84.0% of our common stock (representing a 90.6% voting interest). The financial results of our operations are consolidated by Time Warner.

As the marketplace for basic video services has matured, the cable industry has responded by introducing new services, including enhanced video services like high definition television (HDTV) and video-on-demand (VOD), high-speed Internet access and Internet protocol (IP)-based telephony. As of June 30, 2007, approximately 7.7 million (or 58%) of our 13.4 million basic video customers subscribed to digital video services, 7.2 million (or 28%) of high-speed data service-ready homes subscribed to a residential high-speed data service such as our Road Runner service and 2.3 million (or 12%) of voice service-ready homes subscribed to Digital Phone. We launched Digital Phone broadly in the Legacy Systems during 2004 and as of June 30, 2007, it was available to over 40% of the homes passed in the Acquired Systems. As of June 30, 2007, in the Legacy Systems, approximately 59% of our 9.6 million basic video customers subscribed to digital video services and over 32% of high-speed data service-ready homes subscribed to a residential high-speed data service.

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**SUMMARY OF THE EXCHANGE OFFER**

We are offering to exchange (i) \$1,500,000,000 aggregate principal amount of our 2012 exchange notes for a like aggregate principal amount of our 2012 initial notes, (ii) \$2,000,000,000 aggregate principal amount of our 2017 exchange notes for a like aggregate principal amount of our 2017 initial notes and (iii) \$1,500,000,000 aggregate principal amount of our 2037 exchange debentures for a like aggregate principal amount of our 2037 initial debentures. In order to exchange your initial debt securities, you must properly tender them and we must accept your tender. We will exchange all outstanding initial debt securities that are validly tendered and not validly withdrawn.

|  |  |
|--|--|
| Exchange Offer                                   | We will exchange our exchange debt securities for a like aggregate principal amount at maturity of our initial debt securities.  |
| Expiration Date                                  | This exchange offer will expire at 5:00 p.m., New York City time, on _____, 2007, unless we extend it.   |
| Conditions to the Exchange Offer                 | <p>We will complete this exchange offer only if:</p> <ul style="list-style-type: none"><li>the exchange offer does not violate applicable law or any applicable interpretation of the staff of the Securities and Exchange Commission (the SEC );</li><li>no action or proceeding shall have been instituted or threatened in any court or by any governmental agency which might materially impair our ability to proceed with the exchange offer, and no material adverse development shall have occurred in any existing action or proceeding with respect to us; and</li><li>we obtain all the governmental approvals we deem necessary to complete this exchange offer.</li></ul> <p>Please refer to the section in this prospectus entitled "The Exchange Offer" Conditions to the Exchange Offer.</p> |
| Procedures for Tendering Initial Debt Securities | To participate in this exchange offer, you must complete, sign and date the letter of transmittal or its facsimile and transmit it, together with your initial debt securities to be exchanged and all other documents required by the letter of transmittal, to The Bank of New York, as exchange agent, at its address indicated under "The Exchange Offer" Exchange Agent. In the alternative, you can tender your initial debt securities by book-entry delivery following the procedures described in this prospectus. For more information on tendering your initial debt securities, please refer to the section in this prospectus entitled "The Exchange Offer" Procedures for Tendering Initial Debt Securities.   |
| Special Procedures for Beneficial Owners         | If you are a beneficial owner of initial debt securities that are registered in the name of a broker, dealer, commercial bank, trust company or other nominee and you wish to tender your initial debt securities in the exchange offer, you should contact the registered holder promptly and instruct that person to tender on your behalf.  |

Guaranteed Delivery Procedures

If you wish to tender your initial debt securities and you cannot get the required documents to the exchange agent on time, you may tender your initial debt securities by using the guaranteed delivery procedures described under the section of this prospectus entitled

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|--|---|
|  | <p>The Exchange Offer Procedures for Tendering Initial Debt Securities Guaranteed Delivery Procedure.</p>   |
| Withdrawal Rights  | <p>You may withdraw the tender of your initial debt securities at any time before 5:00 p.m., New York City time, on the expiration date of the exchange offer. To withdraw, you must send a written or facsimile transmission notice of withdrawal to the exchange agent at its address indicated under The Exchange Offer Exchange Agent before 5:00 p.m., New York City time, on the expiration date of the exchange offer.</p>   |
| Acceptance of Initial Debt Securities and Delivery of Exchange Debt Securities | <p>If all the conditions to the completion of this exchange offer are satisfied, we will accept any and all initial debt securities that are properly tendered in this exchange offer on or before 5:00 p.m., New York City time, on the expiration date. We will return to you any initial debt security that we do not accept for exchange without expense promptly after the expiration date. We will deliver the exchange debt securities to you promptly after the expiration date and acceptance of your initial debt securities for exchange. Please refer to the section in this prospectus entitled The Exchange Offer Acceptance of Initial Debt Securities for Exchange; Delivery of Exchange Debt Securities.</p> |
| Federal Income Tax Considerations Relating to the Exchange Offer               | <p>Exchanging your initial debt securities for exchange debt securities will not be a taxable event to you for United States federal income tax purposes. Please refer to the section of this prospectus entitled Certain Material U.S. Federal Income Tax Consequences.</p>  |
| Exchange Agent   | <p>The Bank of New York is serving as exchange agent in the exchange offer.</p>   |
| Fees and Expenses  | <p>We will pay all expenses related to this exchange offer. Please refer to the section of this prospectus entitled The Exchange Offer Fees and Expenses.</p>   |
| Use of Proceeds  | <p>We will not receive any proceeds from the issuance of the exchange debt securities. We are making this exchange offer solely to satisfy certain of our obligations under a registration rights agreement entered into among our company, the guarantors and the initial purchasers of the debt securities (the Registration Rights Agreement ) in connection with the issuance of the initial debt securities.</p>   |
| Consequences to Holders Who Do Not Participate in the Exchange Offer           | <p>If you do not participate in this exchange offer:</p> <p>except as set forth in the next paragraph, you will not be able to require us to register your initial debt securities under the Securities Act;</p> <p>you will not be able to resell, offer to resell or otherwise transfer your initial debt securities unless they are registered under the Securities Act or unless you resell, offer to resell or otherwise transfer them under an exemption from the registration</p>  |



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requirements of, or in a transaction not subject to, the Securities Act; and

the trading market for your initial debt securities will become more limited to the extent other holders of initial debt securities participate in the exchange offer.

You will not be able to require us to register your initial debt securities under the Securities Act unless:

changes in applicable law or the interpretations of the staff of the SEC do not permit us to effect the exchange offer;

for any reason the exchange offer is not consummated by January 4, 2008;

any holder notifies us prior to the 30<sup>th</sup> day following consummation of this exchange offer that it is prohibited by law or SEC policy from participating in the exchange offer;

in the case of any holder who participates in the exchange offer, such holder notifies us prior to the 30<sup>th</sup> day following the consummation of the exchange offer that it did not receive exchange debt securities that may be sold without restriction under state and federal securities laws (other than due solely to the status of such holder as an affiliate of ours within the meaning of the Securities Act); or

any initial purchaser of the debt securities so requests with respect to initial debt securities that have, or that are reasonably likely to be determined to have, the status of unsold allotments in an initial distribution.

In these cases, the Registration Rights Agreement requires us to file a registration statement for a continuous offering in accordance with Rule 415 under the Securities Act for the benefit of the holders of the initial debt securities described in this paragraph. We do not currently anticipate that we will register under the Securities Act any initial debt securities that remain outstanding after completion of the exchange offer.

Please refer to the section of this prospectus entitled "The Exchange Offer: Your Failure to Participate in the Exchange Offer Will Have Adverse Consequences."

**Resales**

It may be possible for you to resell the debt securities issued in the exchange offer without compliance with the registration and prospectus delivery provisions of the Securities Act, subject to the conditions described under "Obligations of Broker-Dealers" below.

To tender your initial debt securities in this exchange offer and resell the exchange debt securities without compliance with the registration and

prospectus delivery requirements of the Securities Act, you must make the following representations:

you are authorized to tender the initial debt securities and to acquire exchange debt securities, and that we will acquire good and unencumbered title to the initial debt securities,



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the exchange debt securities acquired by you are being acquired in the ordinary course of business,

you have no arrangement or understanding with any person to participate in a distribution of the exchange debt securities and are not participating in, and do not intend to participate in, the distribution of such exchange debt securities,

you are not an affiliate, as defined in Rule 405 under the Securities Act, of ours, or you will comply with the registration and prospectus delivery requirements of the Securities Act to the extent applicable,

if you are not a broker-dealer, you are not engaging in, and do not intend to engage in, a distribution of exchange debt securities, and

if you are a broker-dealer, initial debt securities to be exchanged were acquired by you as a result of market-making or other trading activities and you will deliver a prospectus in connection with any resale, offer to resell or other transfer of such exchange debt securities.

Please refer to the sections of this prospectus entitled The Exchange Offer Procedure for Tendering Initial Debt Securities Proper Execution and Delivery of Letters of Transmittal, Risk Factors Risks Relating to the Exchange Offer Some persons who participate in the exchange offer must deliver a prospectus in connection with resales of the exchange debt securities and Plan of Distribution.

Obligations of Broker-Dealers

If you are a broker-dealer (1) that receives exchange debt securities, you must acknowledge that you will deliver a prospectus in connection with any resales of the exchange debt securities, (2) who acquired the initial debt securities as a result of market-making or other trading activities, you may use the exchange offer prospectus as supplemented or amended, in connection with resales of the exchange debt securities, or (3) who acquired the initial debt securities directly from the issuers in the initial offering and not as a result of market-making and trading activities, you must, in the absence of an exemption, comply with the registration and prospectus delivery requirements of the Securities Act in connection with resales of the exchange debt securities.

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**Summary of Terms of the Exchange Debt Securities**

The following summary is not intended to be complete. For a more detailed description of the debt securities, see Description of the Debt Securities and the Guarantees.

|                          |  |
|--------------------------|--|
| Issuer                   | Time Warner Cable Inc.   |
| Exchange Debt Securities | \$1,500,000,000 aggregate principal amount of 5.40% Notes due 2012; \$2,000,000,000 aggregate principal amount of 5.85% Notes due 2017; and \$1,500,000,000 aggregate principal amount of 6.55% Debentures due 2037. The forms and terms of the exchange debt securities are substantially identical to the forms and terms of the initial debt securities except that the exchange debt securities will be registered under the Securities Act, will not bear legends restricting their transfer and will not be entitled to registration rights under the Registration Rights Agreement or additional interest. The exchange debt securities will evidence the same debt as the initial debt securities, and both the initial debt securities and the exchange debt securities will be governed by the same indenture.     |
| Maturity                 | 2012 notes: July 2, 2012<br>2017 notes: May 1, 2017<br>2037 debentures: May 1, 2037  |
| Interest Payment Dates   | Interest on the 2012 notes is payable semi-annually in arrears on January 2 and July 2 of each year, beginning on July 2, 2007. Interest on the 2017 notes and the 2037 debentures is payable semi-annually in arrears on May 1 and November 1 of each year, beginning on November 1, 2007. Interest began to accrue from April 9, 2007.   |
| Guarantors               | Our subsidiaries, TWE and TW NY Cable Holding Inc. ( TW NY Holding and, together with TWE, the guarantors ).   |
| Guarantees               | The debt securities are fully, irrevocably and unconditionally guaranteed by the guarantors.   |
| Ranking                  | The debt securities are our unsecured senior obligations and rank equally with our other unsecured and unsubordinated obligations.<br><br>The guarantees are unsecured senior obligations of the guarantors and rank equally with other unsecured and unsubordinated obligations of the guarantors.<br><br>The debt securities and the guarantees effectively rank junior in right of payment to any obligations, including trade payables, of all of our other subsidiaries that do not guarantee the debt securities. Please read Description of the Debt Securities and the Guarantees Ranking and Description of the Debt Securities and the Guarantees Guarantees in this prospectus for a discussion of the structural subordination of the debt securities with respect to the assets of certain of our subsidiaries. |

Optional Redemption

We may redeem some or all of the debt securities at any time or from time to time, at our option, at the redemption prices described in this prospectus. See Description of the Debt Securities and the Guarantees Optional Redemption.

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|   |  |
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| Absence of Public Market for the Exchange Debt Securities | The exchange debt securities are new securities with no established market for them. We cannot assure you that a market for these exchange debt securities will develop or that this market will be liquid.  |
| Form of the Exchange Debt Securities                      | The exchange debt securities will be represented by one or more permanent global securities in registered form deposited on behalf of The Depository Trust Company with The Bank of New York, as custodian. You will not receive exchange debt securities in certificated form unless one of the events described in the section of this prospectus entitled <b>Book-Entry, Delivery and Form Exchange of Book-Entry Notes for Certificated Debt Securities</b> occurs. Instead, beneficial interests in the exchange debt securities will be shown on, and transfers of these exchange debt securities will be effected only through, records maintained in book-entry form by The Depository Trust Company with respect to its participants. |
| No Listing  | We do not intend to apply for the listing of the debt securities on any securities exchange or for the quotation of the debt securities in any dealer quotation system.  |
| Governing Law   | New York.  |
| Risk Factors  | Investing in the debt securities involves risk. You should carefully consider the risks, uncertainties and assumptions discussed under the section <b>Risk Factors</b> in this prospectus, together with all the other information contained in this prospectus.   |

**Corporate Information**

Although we and our predecessors have been in the cable business for over 30 years in various legal forms, Time Warner Cable Inc. was incorporated as a Delaware corporation in March 2003. Our principal executive offices are located at One Time Warner Center, North Tower, New York, New York 10019. Our telephone number is (212) 364-8200 and our corporate website is [www.timewarnercable.com](http://www.timewarnercable.com). Information included on or accessible through our website does not constitute a part of this prospectus.

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**Summary Financial and Subscriber Data**

Our summary financial and subscriber data are set forth on the following tables. The summary historical balance sheet data as of December 31, 2005 and 2006 and statement of operations data for each of the years ended December 31, 2004, 2005 and 2006 have been derived from our audited financial statements included elsewhere in this prospectus. The summary historical balance sheet data as of December 31, 2004 have been derived from our audited financial statements not included in this prospectus. The summary balance sheet data as of June 30, 2007 and the statement of operations data for the six months ended June 30, 2006 and 2007 have been derived from our unaudited consolidated financial statements contained elsewhere in this prospectus. The summary historical balance sheet data as of June 30, 2006 have been derived from our unaudited financial statements not included in this prospectus. In the opinion of management, the unaudited financial data reflect all adjustments, consisting of normal and recurring adjustments, necessary for a fair statement of our results of operations for those periods. Our results of operations for the six months ended June 30, 2007 are not necessarily indicative of the results that can be expected for the full year or for any future period.

The summary unaudited pro forma statement of operations data set forth below give effect to the Transactions, the dissolution of TKCCP, including TKCCP's distribution of the Kansas City Pool to us, and the other matters described under Unaudited Pro Forma Condensed Combined Financial Information, as if the Transactions and the dissolution of TKCCP occurred on January 1, 2006. The unaudited pro forma information does not purport to represent what our results of operations or financial position would have been if the Transactions, the dissolution of TKCCP and such other matters had occurred as of the dates indicated or what those results will be for future periods.

The subscriber data set forth below covers cable systems serving 13.4 million basic video subscribers as of June 30, 2007. Subscriber numbers for all periods presented have been recast to include the subscribers in the Kansas City Pool and to exclude the subscribers that were transferred to Comcast in connection with the Transactions.

The following information should be read in conjunction with Unaudited Pro Forma Condensed Combined Financial Information, Capitalization, Use of Proceeds, Management's Discussion and Analysis of Results of Operations and Financial Condition, our consolidated financial statements and related notes, Adelphia's consolidated financial statements and related notes and Comcast's special purpose combined carve-out financial statements of the former Comcast Los Angeles, Dallas and Cleveland cable system operations and related notes, each of which is included elsewhere in this prospectus.

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|   | Year Ended<br>December 31,           |          |          | Six Months Ended<br>June 30, |          |                      |          |
|---|--------------------------------------|----------|----------|------------------------------|----------|----------------------|----------|
|   | 2004                                 | 2005     | 2006     | Pro<br>Forma<br>2006         | 2006     | Pro<br>Forma<br>2006 | 2007     |
|   | (in millions, except per share data) |          |          |                              |          |                      |          |
| <b>Statement of Operations</b>  |                                      |          |          |                              |          |                      |          |
| <b>Data:<sup>(1)</sup></b>  |                                      |          |          |                              |          |                      |          |
| Revenues:   |                                      |          |          |                              |          |                      |          |
| Video   | \$ 5,706                             | \$ 6,044 | \$ 7,632 | \$ 9,821                     | \$ 3,199 | \$ 4,881             | \$ 5,083 |
| High-speed data   | 1,642                                | 1,997    | 2,756    | 3,271                        | 1,169    | 1,574                | 1,818    |
| Voice <sup>(2)</sup>  | 29                                   | 272      | 715      | 818                          | 297      | 361                  | 549      |
| Advertising   | 484                                  | 499      | 664      | 850                          | 242      | 384                  | 415      |
| Total revenues  | 7,861                                | 8,812    | 11,767   | 14,760                       | 4,907    | 7,200                | 7,865    |
| Costs and expenses:   |                                      |          |          |                              |          |                      |          |
| Costs of revenues   | 3,456                                | 3,918    | 5,356    | 6,974                        | 2,202    | 3,430                | 3,755    |
| Selling, general and<br>administrative  | 1,450                                | 1,529    | 2,126    | 2,569                        | 883      | 1,242                | 1,343    |
| Depreciation  | 1,329                                | 1,465    | 1,883    | 2,360                        | 768      | 1,144                | 1,318    |
| Amortization  | 72                                   | 72       | 167      | 317                          | 37       | 157                  | 143      |
| Merger-related and<br>restructuring costs   |                                      | 42       | 56       | 56                           | 21       | 21                   | 16       |
| Impairment of long-lived<br>assets  |                                      |          |          | 9                            |          | 9                    |          |
| Total costs and expenses  | 6,307                                | 7,026    | 9,588    | 12,285                       | 3,911    | 6,003                | 6,575    |
| Operating Income  | 1,554                                | 1,786    | 2,179    | 2,475                        | 996      | 1,197                | 1,290    |
| Interest expense, net   | (465)                                | (464)    | (646)    | (909)                        | (225)    | (451)                | (454)    |
| Income from equity<br>investments, net  | 41                                   | 43       | 129      |                              | 42       |                      | 7        |
| Minority interest expense,<br>net   | (56)                                 | (64)     | (108)    | (122)                        | (43)     | (51)                 | (79)     |
| Other income (expense), net   | 11                                   | 1        | 2        | (4)                          | 1        | (4)                  | 143      |
| Income before income<br>taxes, discontinued<br>operations and cumulative<br>effect of accounting change | 1,085                                | 1,302    | 1,556    | 1,440                        | 771      | 691                  | 907      |
| Income tax provision  | (454)                                | (153)    | (620)    | (579)                        | (307)    | (280)                | (359)    |
| Income before discontinued<br>operations and cumulative<br>effect of accounting change                  | 631                                  | 1,149    | 936      | \$ 861                       | 464      | \$ 411               | 548      |
|   | 95                                   | 104      | 1,038    |                              | 64       |                      |          |

|   |    |         |    |         |    |       |    |       |      |         |    |       |    |       |
|---|----|---------|----|---------|----|-------|----|-------|------|---------|----|-------|----|-------|
| Discontinued operations,<br>net of tax<br>Cumulative effect of<br>accounting change, net of<br>tax                    |    |         |    | 2       |    | 2     |    |       |      |         |    |       |    |       |
| Net income  | \$ | 726     | \$ | 1,253   | \$ | 1,976 | \$ | 530   | \$   | 548     |    |       |    |       |
| Basic income per common<br>share before discontinued<br>operations and cumulative<br>effect of accounting change      | \$ | 0.63    | \$ | 1.15    | \$ | 0.95  | \$ | 0.88  | \$   | 0.47    | \$ | 0.42  | \$ | 0.56  |
| Discontinued operations<br>Cumulative effect of<br>accounting change  |    | 0.10    |    | 0.10    |    | 1.05  |    |       |      | 0.06    |    |       |    |       |
| Basic net income per<br>common share  | \$ | 0.73    | \$ | 1.25    | \$ | 2.00  |    | \$    | 0.53 |         | \$ | 0.56  |    |       |
| Average basic common<br>shares  |    | 1,000.0 |    | 1,000.0 |    | 990.4 |    | 976.9 |      | 1,000.0 |    | 976.9 |    | 976.9 |
| Diluted income per<br>common share before<br>discontinued operations and<br>cumulative effect of<br>accounting change | \$ | 0.63    | \$ | 1.15    | \$ | 0.95  | \$ | 0.88  | \$   | 0.47    | \$ | 0.42  | \$ | 0.56  |
| Discontinued operations<br>Cumulative effect of<br>accounting change  |    | 0.10    |    | 0.10    |    | 1.05  |    |       |      | 0.06    |    |       |    |       |
| Diluted net income per<br>common share  | \$ | 0.73    | \$ | 1.25    | \$ | 2.00  |    | \$    | 0.53 |         | \$ | 0.56  |    |       |
| Average diluted common<br>shares  |    | 1,000.0 |    | 1,000.0 |    | 990.4 |    | 976.9 |      | 1,000.0 |    | 976.9 |    | 977.1 |
| OIBDA <sup>(3)</sup>  | \$ | 2,955   | \$ | 3,323   | \$ | 4,229 | \$ | 5,152 | \$   | 1,801   | \$ | 2,498 | \$ | 2,751 |

|  | 2004 | December 31,<br>2005 | 2006          | June 30,<br>2006 | 2007 |
|--|------|----------------------|---------------|------------------|------|
|  |      |                      | (in millions) |                  |      |

**Balance Sheet Data:**<sup>(1)</sup>

|  |    |        |    |        |    |        |    |        |    |        |
|--|----|--------|----|--------|----|--------|----|--------|----|--------|
| Cash and equivalents                           | \$ | 102    | \$ | 12     | \$ | 51     | \$ | 26     | \$ | 70     |
| Total assets                                   |    | 43,138 |    | 43,677 |    | 55,743 |    | 44,010 |    | 55,873 |
| Total debt and preferred equity <sup>(4)</sup> |    | 7,299  |    | 6,863  |    | 14,732 |    | 6,523  |    | 14,171 |





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|   | Year Ended<br>December 31, |          |          | Six Months<br>Ended June 30, |          |
|---|----------------------------|----------|----------|------------------------------|----------|
|   | 2004                       | 2005     | 2006     | 2006                         | 2007     |
|   | (in millions)              |          |          |                              |          |
| <b>Other Operating Data:</b> <sup>(1)</sup>     |                            |          |          |                              |          |
| Cash provided by operating activities           | \$ 2,661                   | \$ 2,540 | \$ 3,595 | \$ 1,541                     | \$ 2,204 |
| Free Cash Flow <sup>(5)</sup>                   | 851                        | 435      | 735      | 388                          | 591      |
| Capital expenditures from continuing operations | (1,559)                    | (1,837)  | (2,718)  | (1,018)                      | (1,551)  |

|   | December 31,                       |        |        | June 30, |        |
|---|------------------------------------|--------|--------|----------|--------|
|   | 2004                               | 2005   | 2006   | 2006     | 2007   |
|   | (in thousands, except percentages) |        |        |          |        |
| <b>Subscriber Data:</b> <sup>(1)(6)</sup>               |                                    |        |        |          |        |
| Customer relationships <sup>(7)</sup>                   | 9,904                              | 10,088 | 14,565 | 10,260   | 14,677 |
| Revenue generating units <sup>(8)</sup>                 | 17,128                             | 19,301 | 29,527 | 20,750   | 30,983 |
| Video:  |                                    |        |        |          |        |
| Homes passed <sup>(9)</sup>                             | 15,977                             | 16,338 | 26,062 | 16,613   | 26,335 |
| Basic subscribers <sup>(10)</sup>                       | 9,336                              | 9,384  | 13,402 | 9,469    | 13,391 |
| Basic penetration <sup>(11)</sup>                       | 58.4%                              | 57.4%  | 51.4%  | 57.0%    | 50.8%  |
| Digital subscribers <sup>(12)</sup>                     | 4,067                              | 4,595  | 7,270  | 4,971    | 7,732  |
| Digital penetration <sup>(13)</sup>                     | 43.6%                              | 49.0%  | 54.2%  | 52.5%    | 57.7%  |
| High-speed data:  |                                    |        |        |          |        |
| Service-ready homes passed <sup>(14)</sup>              | 15,870                             | 16,227 | 25,691 | 16,399   | 26,033 |
| Residential subscribers <sup>(15)</sup>                 | 3,368                              | 4,141  | 6,644  | 4,649    | 7,188  |
| Residential high-speed data penetration <sup>(16)</sup> | 21.2%                              | 25.5%  | 25.9%  | 28.3%    | 27.6%  |
| Commercial accounts <sup>(15)</sup>                     | 151                                | 183    | 245    | 199      | 263    |
| Voice:  |                                    |        |        |          |        |
| Service-ready homes passed <sup>(17)</sup>              | 8,814                              | 14,308 | 16,623 | 15,140   | 19,863 |
| Subscribers <sup>(18)</sup>                             | 206                                | 998    | 1,860  | 1,462    | 2,335  |
| Penetration <sup>(19)</sup>                             | 2.3%                               | 7.0%   | 11.2%  | 9.7%     | 11.8%  |

(1) Our 2006 and 2007 financial and subscriber results include the impact of the Transactions for periods subsequent to the closing of the Transactions on July 31, 2006. Our 2007 financial results include the impact of the consolidation of the Kansas City Pool on January 1, 2007.

(2) Pro forma voice revenues include revenues of \$71 million and \$38 million for the year ended December 31, 2006 and the six months ended June 30, 2006, respectively, associated with subscribers acquired from Comcast who receive traditional, circuit-switched telephone service (approximately 106,000 and 136,000 subscribers at December 31, 2006 and June 30, 2006, respectively). Additionally, voice revenues for the year ended December 31, 2006 and the six months ended June 30, 2007 include approximately \$27 million and \$25 million, respectively, of revenues associated with approximately 106,000 subscribers and 74,000 subscribers as of December 31, 2006 and June 30, 2007, respectively, receiving traditional, circuit-switched telephone service. We continue to provide traditional, circuit-switched services to some of those subscribers and, in some areas, have begun the process of discontinuing the circuit-switched offering in accordance with regulatory requirements. In those areas where the circuit-switched offering is discontinued, Digital Phone will be the only voice service we provide.

- (3) Operating Income before Depreciation and Amortization ( OIBDA ) is a financial measure not calculated and presented in accordance with U.S. generally accepted accounting principles ( GAAP ). We define OIBDA as Operating Income before depreciation of tangible assets and amortization of intangible assets. Management utilizes OIBDA, among other measures, in evaluating the performance of our business because OIBDA eliminates the uneven effect across our business of considerable amounts of depreciation of tangible assets and amortization of intangible assets recognized in business combinations. Additionally, management utilizes OIBDA because it believes this measure provides valuable insight into the underlying performance of our individual cable systems by removing the effects of items that are not within the control of local personnel charged with managing these systems such as income tax provision, other income (expense), net, minority interest expense, net, income from equity investments, net, and interest expense, net. In this regard, OIBDA is a significant measure used in our annual incentive compensation programs. OIBDA also is a metric used by our parent, Time Warner, to evaluate our performance and is an important measure in the Time Warner reportable segment disclosures. Management also uses OIBDA because it believes it provides an indication of our ability to service debt and fund capital expenditures, as OIBDA removes the impact of depreciation and amortization. A limitation of this measure, however, is that it does not reflect the periodic costs of certain capitalized tangible and intangible assets used in generating revenues in our business. To compensate for this limitation, management evaluates the investments in such tangible and intangible assets through other financial measures, such as capital expenditure budget variances, investment spending levels and return on capital analyses. Another limitation of this measure is that it does not reflect the significant costs borne by us for income taxes, debt servicing costs, the share of OIBDA related to the minority ownership, the results of our equity investments or other non-operational income or expense. Management compensates for this limitation through other financial measures such as a review of net income and earnings per share. Additionally, OIBDA should be considered in addition to, and not as a substitute for, Operating Income, net income and other measures of financial performance reported in accordance with GAAP and may not be comparable to similarly titled measures used by other companies.

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The following is a reconciliation of Net income and Operating Income to OIBDA:

|  | <b>Year Ended<br/>December 31,</b> |              |              | <b>Six Months<br/>Ended<br/>June 30,</b> |              |
|--|------------------------------------|--------------|--------------|--|--------------|
|  | <b>2004</b>                        | <b>2005</b>  | <b>2006</b>  | <b>2006</b>                              | <b>2007</b>  |
|  | <b>(in millions)</b>               |              |              |  |              |
| Net income   | \$ 726                             | \$ 1,253     | \$ 1,976     | \$ 530                                   | \$ 548       |
| Reconciling items:                                 |                                    |              |              |  |              |
| Discontinued operations, net of tax                | (95)                               | (104)        | (1,038)      | (64)                                     |              |
| Cumulative effect of accounting change, net of tax |                                    |              | (2)          | (2)                                      |              |
| Income tax provision                               | 454                                | 153          | 620          | 307                                      | 359          |
| Other income, net                                  | (11)                               | (1)          | (2)          | (1)                                      | (143)        |
| Minority interest expense, net                     | 56                                 | 64           | 108          | 43                                       | 79           |
| Income from equity investments, net                | (41)                               | (43)         | (129)        | (42)                                     | (7)          |
| Interest expense, net                              | 465                                | 464          | 646          | 225                                      | 454          |
| <br>Operating Income                               | <br>1,554                          | <br>1,786    | <br>2,179    | <br>996                                  | <br>1,290    |
| Depreciation                                       | 1,329                              | 1,465        | 1,883        | 768                                      | 1,318        |
| Amortization                                       | 72                                 | 72           | 167          | 37                                       | 143          |
| <br>OIBDA  | <br>\$ 2,955                       | <br>\$ 3,323 | <br>\$ 4,229 | <br>\$ 1,801                             | <br>\$ 2,751 |

The following is a reconciliation of pro forma Income before discontinued operations and cumulative effect of accounting change and pro forma Operating Income to pro forma OIBDA:

|  | <b>Pro Forma<br/>Year<br/>Ended<br/>December 31,<br/>2006</b> | <b>Pro Forma<br/>Six Months<br/>Ended<br/>June 30,<br/>2006</b> |
|--|---|---|
|  | <b>(in millions)</b>  |   |
| Income before discontinued operations and cumulative effect of accounting change | \$ 861  | \$ 411  |
| Reconciling items:   |   |   |
| Income tax provision   | 579   | 280   |
| Other expense, net   | 4   | 4   |
| Minority interest expense, net   | 122   | 51  |
| Interest expense, net  | 909   | 451   |
| <br>Operating Income   | <br>2,475   | <br>1,197   |

|              |          |          |
|--------------|----------|----------|
| Depreciation | 2,360    | 1,144    |
| Amortization | 317      | 157      |
| OIBDA        | \$ 5,152 | \$ 2,498 |

- (4) Total debt and preferred equity includes debt due within one year of \$2 million at June 30, 2007 (none at June 30, 2006) and \$4 million and \$1 million at December 31, 2006 and December 31, 2004, respectively (none at December 31, 2005), long-term debt, mandatorily redeemable preferred membership units issued by a subsidiary and mandatorily redeemable preferred equity issued by a subsidiary.
- (5) Free Cash Flow is a non-GAAP financial measure. We define Free Cash Flow as cash provided by operating activities (as defined under GAAP) plus excess tax benefits from the exercise of stock options, less cash provided by (used by) discontinued operations, capital expenditures, partnership distributions and principal payments on capital leases. Management uses Free Cash Flow to evaluate our business. It is also a significant component of our annual incentive compensation programs. We believe this measure is an important indicator of our liquidity, including our ability to reduce net debt (defined as total debt less cash and equivalents) and make strategic investments, because it reflects our operating cash flow after considering the significant capital expenditures required to operate our business. A limitation of this measure, however, is that it does not reflect payments made in connection with investments and acquisitions, which reduce liquidity. To compensate for this limitation, management evaluates such expenditures through other financial measures such as return on investment analyses. Free Cash Flow should not be considered as an alternative to net cash provided by operating activities as a measure of liquidity, and may not be comparable to similarly titled measures used by other companies.

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The following is a reconciliation of Cash provided by operating activities to Free Cash Flow:

|   | <b>Year Ended<br/>December 31,</b> |             |             | <b>Six Months<br/>Ended<br/>June 30,</b> |             |
|---|------------------------------------|-------------|-------------|--|-------------|
|   | <b>2004</b>                        | <b>2005</b> | <b>2006</b> | <b>2006</b>                              | <b>2007</b> |
|   | (in millions)                      |             |             |  |             |
| Cash provided by operating activities   | \$ 2,661                           | \$ 2,540    | \$ 3,595    | \$ 1,541                                 | \$ 2,204    |
| Reconciling items:  |                                    |             |             |  |             |
| Discontinued operations, net of tax   | (95)                               | (104)       | (1,038)     | (64)                                     |             |
| Adjustments relating to the operating cash flow of discontinued operations  | (145)                              | (133)       | 926         | (55)                                     | (46)        |
| Cash provided by continuing operating activities  | 2,421                              | 2,303       | 3,483       | 1,422                                    | 2,158       |
| Add: Excess tax benefit from exercise of stock options  |                                    |             | 4           |  | 5           |
| Less:   |                                    |             |             |  |             |
| Capital expenditures from continuing operations   | (1,559)                            | (1,837)     | (2,718)     | (1,018)                                  | (1,551)     |
| Partnership tax distributions, stock option distributions and principal payments on capital leases of continuing operations | (11)                               | (31)        | (34)        | (16)                                     | (21)        |
| Free Cash Flow  | \$ 851                             | \$ 435      | \$ 735      | \$ 388                                   | \$ 591      |

- (6) As a result of the closing of the Transactions, we acquired systems with approximately 4.0 million basic video subscribers and disposed of systems with approximately 0.8 million basic video subscribers that were transferred to Comcast in connection with the Redemptions and the Exchange for a net gain of approximately 3.2 million basic video subscribers.
- (7) Customer relationships represent the number of subscribers that receive at least one level of service, including circuit-switched telephone service, encompassing video, high-speed data and voice services, without regard to the service(s) purchased. 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 high-speed data services will also count as only one customer relationship.
- (8) Revenue generating units represent the total of all basic video, digital video, high-speed data, Digital Phone and circuit-switched telephone service customers. Therefore, a subscriber who purchases basic video, digital video, high-speed data and Digital Phone services will count as four revenue generating units.
- (9) Homes passed represent the estimated number of service-ready single residence homes, apartment and condominium units and commercial establishments passed by our cable systems without further extending our transmission lines.
- (10) Basic video subscriber numbers reflect billable subscribers who receive basic video service.
- (11) Basic video penetration represents basic video subscribers as a percentage of homes passed.
- (12) Digital video subscriber numbers reflect billable subscribers who receive any level of video service via digital technology.

- (13) Digital video penetration represents digital video subscribers as a percentage of basic video subscribers.
- (14) High-speed data service-ready homes passed represent the estimated number of high-speed data service-ready single residence homes, apartment and condominium units and commercial establishments passed by our cable systems without further extending our transmission lines.
- (15) High-speed data subscriber numbers reflect billable subscribers who receive Road Runner high-speed data service or any of the other high-speed data services offered by us.
- (16) Residential high-speed data penetration represents residential high-speed data subscribers as a percentage of high-speed data service-ready homes passed.
- (17) Voice service-ready homes passed represent the estimated number of voice service-ready single residence homes, apartment and condominium units and commercial establishments passed by our cable systems without further extending our transmission lines.
- (18) Voice subscriber numbers reflect billable subscribers who receive IP-based telephony service and exclude subscribers acquired from Comcast who receive traditional, circuit-switched telephone service (approximately 106,000 and 74,000 subscribers at December 31, 2006 and June 30, 2007, respectively).
- (19) Voice penetration represents voice subscribers as a percentage of voice service-ready homes passed.

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**RISK FACTORS**

*You should carefully consider the risks described below and the other information in this prospectus before deciding to invest in these debt securities. If any of the following risks or uncertainties actually occur, our business, financial condition and operating results would likely suffer. Certain statements in Risk Factors are forward-looking statements. See Forward-Looking Statements.*

**Risks Related to Competition**

*We face a wide range of competition, which could affect our future results of operations.*

Our industry is and will continue to be highly competitive. Some of our principal competitors in particular, direct broadcast satellite operators and incumbent local telephone companies either offer or are making significant capital investments that will allow them to offer services that provide directly comparable features and functions to those we offer, and they are aggressively seeking to offer them in bundles similar to ours.

Incumbent local telephone companies have recently increased their efforts to provide video services. The two major incumbent local telephone companies AT&T Inc. ( AT&T ) and Verizon Communications Inc. ( Verizon ) have both announced that they intend to make fiber upgrades of their networks, although each is using a different architecture. AT&T is expected to utilize one of a number of fiber architectures, including fiber-to-the-node ( FTTN ), and Verizon utilizes a fiber architecture known as fiber-to-the-home ( FTTH ). Some upgraded portions of these networks are or will be capable of carrying video services that are technically comparable to ours, high-speed data services that operate at speeds as high or higher than those we make available to customers in these areas and digital voice services that are similar to ours. In addition, these companies continue to offer their traditional phone services as well as bundles that include wireless voice services provided by them or affiliated companies. In areas where they have launched video services, these parties are aggressively marketing video, voice and data bundles.

Our video business faces intense competition from direct broadcast satellite providers. These providers compete with us based on aggressive promotional pricing and exclusive programming (e.g., NFL Sunday Ticket, which is not available to cable operators). Direct broadcast satellite services are comparable in many respects to our analog and digital video services, including our digital video recorder ( DVR ) service. In addition, the two largest direct broadcast satellite providers are launching DVR services intended to provide a VOD-like user experience, and they offer some interactive programming features. These providers are working to increase the number of HDTV channels they offer in order to differentiate their service from services offered by cable operators.

In some areas, incumbent local telephone companies and direct broadcast satellite operators have entered into co-marketing arrangements that allow both parties to offer synthetic bundles (i.e., video services provided principally by the direct broadcast satellite operator, and digital subscriber line ( DSL ) and traditional phone service offered by the telephone companies). From a consumer standpoint, the synthetic bundles appear similar to our bundles and result in a single bill. AT&T is offering a service in some areas that utilizes direct broadcast satellite video but in an integrated package with AT&T's DSL product, which enables an Internet-based return path that allows the user to order a video-on-demand-like product and other services that we provide using our two-way network.

We operate our cable systems under non-exclusive franchises granted by state or local authorities. The existence of more than one cable system operating in the same territory is referred to as an overbuild. In some of our operating areas, other operators have overbuilt our systems and offer video, data and/or voice services in competition with us.

In addition to these competitors, we face competition on individual services from a range of competitors. For instance, our video service faces competition from providers of paid television services (such as satellite master antenna services) and from video delivered over the Internet. Our high-speed data service faces competition from, among others, incumbent local telephone companies utilizing their newly-upgraded fiber networks and/or DSL lines, Wi-Fi, Wi-Max and 3G wireless broadband services provided by mobile carriers



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such as Verizon Wireless, broadband over power line providers, municipal Wi-Fi services and from providers of traditional dial-up Internet access. Our voice service faces competition for voice customers from incumbent local telephone companies, cellular telephone service providers, Internet phone providers, such as Vonage, and others.

Any inability to compete effectively or an increase in competition with respect to video, voice or high-speed data services could have an adverse effect on our financial results and return on capital expenditures due to possible increases in the cost of gaining and retaining subscribers and lower per subscriber revenue, could slow or cause a decline in our growth rates, reduce our revenues, reduce the number of our subscribers or reduce our ability to increase penetration rates for services. As we expand and introduce new and enhanced products and services, we may be subject to competition from other providers of those products and services, such as telecommunications providers, Internet service providers ( ISP ) and consumer electronics companies, among others. We cannot predict the extent to which this competition will affect our future financial results or return on capital expenditures.

Future advances in technology, as well as changes in the marketplace and in the regulatory and legislative environments, may result in changes to the competitive landscape. For additional information regarding the regulatory and legal environment, see Risks Related to Government Regulation and Business Regulatory Matters.

***We operate our cable systems under franchises that are non-exclusive. State and local franchising authorities can grant additional franchises and foster additional competition.***

Our cable systems are constructed and operated under non-exclusive franchises granted by state or local governmental authorities. Federal law prohibits franchising authorities from unreasonably denying requests for additional franchises. Consequently, competing operators may build systems in areas in which we hold franchises. In the past, competing operators most of them relatively small have obtained such franchises and offered competing services in some areas in which we hold franchises. More recently, incumbent local telephone companies with significant resources, particularly Verizon and AT&T, have obtained or have sought to obtain such franchises in connection with or in preparation for offering of video, high-speed data and digital voice services in some of our service areas. See We face a wide range of competition, which could affect our future results of operations above. The existence of more than one cable system operating in the same territory is referred to as an overbuild.

We face competition from incumbent local telephone companies and other overbuilders in many of the areas we serve, including within each of our five major geographic operating areas. In New York City, we face competition from Verizon and another overbuilder, RCN Corporation ( RCN ). In upstate New York, overbuild activity is focused primarily in the Binghamton and Rochester areas, where competitors include Delhi Telephone in Binghamton and Empire Video Corporation and Frontier in Rochester. In the Carolinas, a number of local telephone companies, including Horry Telephone Cooperative, Southern Coastal Cable and Knology, are offering competing services, principally in South Carolina. Our Ohio operations face competition from local telephone companies such as Cincinnati Bell, New Knoxville Telephone Company, Wide Open West, Telephone Service Company and Columbus Grove Telephone Company. Recently, AT&T was granted franchises in the Cleveland, Columbus and Milwaukee areas. There is also local telephone company and other overbuild competition in our Texas region in the areas of Dallas, San Antonio, Waco, Austin and other areas in south and west Texas that we serve. Competing providers include FISION, Grande Communications, Wide Open West, and Western Integrated Networks. AT&T and Verizon have also been granted state-issued franchises in Texas. In southern California, we face competition from RCN, AT&T and Verizon. Verizon also has a statewide franchise in California.

Additional overbuild situations may occur in these and our other operating areas. In particular, Verizon and AT&T have both indicated that they will continue to upgrade their networks to enable the delivery of video and high-speed data services, in addition to their existing telephone services. In addition, companies that traditionally have not provided cable services and that have substantial financial resources may also decide to obtain franchises and seek to

provide competing services.

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Increased competition from any source, including overbuilders, could require us to charge lower prices for existing or future services than we otherwise might or require us to invest in or otherwise obtain additional services more quickly or at higher costs than we otherwise might. These actions, or the failure to take steps to allow us to compete effectively, could adversely affect our growth, financial condition and results of operations.

***We face risks relating to competition for the leisure and entertainment time of audiences, which has intensified in part due to advances in technology.***

In addition to the various competitive factors discussed above, our business is subject to risks relating to increasing competition for the leisure and entertainment time of consumers. Our business competes with all other sources of entertainment and information delivery, including broadcast television, movies, live events, radio broadcasts, home video products, console games, print media and the Internet. Technological advancements, such as VOD, new video formats, and Internet streaming and downloading, many of which have been beneficial to our business, have nonetheless increased the number of entertainment and information delivery choices available to consumers and intensified the challenges posed by audience fragmentation. The increasing number of choices available to audiences could negatively impact not only consumer demand for our products and services, but also advertisers' willingness to purchase advertising from us. If we do not respond appropriately to further increases in the leisure and entertainment choices available to consumers, our competitive position could deteriorate, and our financial results could suffer.

***Our competitive position could suffer if we are unable to develop a compelling wireless offering.***

We offer high-quality information, entertainment and communication services over sophisticated broadband cable networks. We believe these networks currently provide the most efficient means to provide such services to consumers' homes. However, consumers are increasingly interested in accessing information, entertainment and communication services outside the home as well.

We are exploring various means by which we can offer our customers mobile services but there can be no assurance that we will be successful in doing so or that any such services we offer will appeal to consumers. In November 2005, we and several other cable operators, together with Sprint Nextel Corporation (Sprint), announced the formation of a joint venture that would develop integrated cable and wireless products that the venture's owners could offer to customers bundled with cable services. In 2006, we began offering under the Pivot brand name a service bundle that includes Sprint wireless voice service in limited operating areas and will continue to roll this product out in 2007. There can be no assurance that these offerings will be accepted by consumers or, even if accepted, that the offerings will be profitable. A separate joint venture formed by the same cable operators was the winning bidder of 137 licenses in the Federal Communications Commission (FCC) Auction 66 for Advanced Wireless Spectrum. The FCC awarded these licenses to the venture on November 29, 2006. There can be no assurance that the venture will successfully develop mobile voice and related wireless services or otherwise benefit from the acquired spectrum.

Until recently, our telephone competitors have only been able to include mobile services in their offerings through co-marketing relationships with affiliated wireless providers, which we do not believe have proven particularly compelling to consumers. However, we anticipate that, in the future, our competitors will either gain greater ownership of, or enter into more effective marketing arrangements with, these wireless providers. For instance, AT&T has acquired 100% ownership of Cingular Wireless, LLC, a wireless provider of which it previously owned only 60%. In addition, if our competitors begin to expand their service bundles to include compelling mobile features before we have developed and rolled out an equivalent or more compelling offering, we may not be in a position to provide a competitive product offering and our business and financial results could suffer.

If we pursue wireless strategies intended to provide us with a competitive response to offerings such as those described above, there can be no assurance that such strategies will succeed. For instance, we could, in pursuing such

a strategy, select technologies, products and services that fail to appeal to consumers. In addition, we could incur significant costs in gaining access to, developing and marketing, such services. If we

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incurred such costs, and the resulting products and services were not competitive with other parties' products or appealing to our customers, our business and financial results could suffer.

### **Additional Risks of our Operations**

***Our business is characterized by rapid technological change, and if we do not respond appropriately to technological changes, our competitive position may be harmed.***

We operate in a highly competitive, consumer-driven and rapidly changing environment and are, to a large extent, dependent on our ability to acquire, develop, adopt and exploit new and existing technologies to distinguish our services from those of our competitors. This may take long periods of time and require significant capital investments. In addition, we may be required to anticipate far in advance which technologies and equipment we should adopt for new products and services or for future enhancements of or upgrades to our existing products and services. If we choose technologies or equipment that are less effective, cost-efficient or attractive to our customers than those chosen by our competitors, or if we offer products or services that fail to appeal to consumers, are not available at competitive prices or that do not function as expected, our competitive position could deteriorate, and our business and financial results could suffer.

Our competitive position also may be adversely affected by various timing factors, such as the ability of our competitors to acquire or develop and introduce new technologies, products and services more quickly than we do. Furthermore, advances in technology, decreases in the cost of existing technologies or changes in competitors' product and service offerings also may require us in the future to make additional research and development expenditures or to offer at no additional charge or at a lower price certain products and services we currently offer to customers separately or at a premium. In addition, the uncertainty of the costs for obtaining intellectual property rights from third parties could impact our ability to respond to technological advances in a timely manner.

The combination of increased competition, more technologically advanced platforms, products and services, the increasing number of choices available to consumers and the overall rate of change in media and entertainment industries requires companies such as us to become more responsive to consumer needs and to adapt more quickly to market conditions than has been necessary in the past. We could have difficulty managing these changes while at the same time maintaining our rates of growth and profitability.

***We face certain challenges relating to the integration of the systems acquired in the Transactions into our existing systems and we may not realize the anticipated benefits of the Transactions.***

The Transactions have combined cable systems that were previously owned and operated by three different companies. The successful integration of the Acquired Systems will depend primarily on our ability to manage the combined operations and integrate into our operations the Acquired Systems (including management information, marketing, purchasing, accounting and finance, sales, billing, customer support and product distribution infrastructure, personnel, payroll and benefits, regulatory compliance and technology systems). The integration of these systems, including the upgrade of certain portions of the Acquired Systems, requires significant capital expenditures and may require us to use financial resources we would otherwise devote to other business initiatives, including marketing, customer care, the development of new products and services and the expansion of our existing cable systems. While we have planned for certain capital expenditures for, among other things, improvements to plant and technical performance and upgrading system capacity of the Acquired Systems, we may be required to spend more than anticipated for those purposes. Furthermore, these integration efforts may require more attention from our management and impose greater strains on our technical resources than anticipated. If we fail to successfully integrate the Acquired Systems, it could limit our ability to introduce our advanced services, which we believe is critical to improving the performance of certain of the Acquired Systems, and could have a material adverse effect on our

business and financial results.

Additionally, to the extent we encounter significant difficulties in integrating systems or other operations, our customer care efforts may be hampered. For instance, we may experience higher-than-normal call volumes under such circumstances, which might interfere with our ability to take orders, assist customers not impacted

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by the integration difficulties, and conduct other ordinary course activities. In addition, depending on the scope of the difficulties, we may be the subject of negative press reports or customer perception.

We have transitional services arrangements with Comcast under which Comcast has agreed to assist us by providing certain services to applicable Acquired Systems as we integrate those systems into our existing systems. Any failure by Comcast to perform under our agreements may cause the integration of the applicable Acquired Systems to be delayed and may increase the amount of time and money we need to devote to the integration of the applicable Acquired Systems.

We expect that we will realize cost savings and other financial and operating benefits as a result of the Transactions. However, due to the complexity of and risks relating to the integration of these systems, among other factors, we cannot predict with certainty when these cost savings and benefits will occur or the extent to which they actually will be achieved, if at all.

***We face risks inherent to our voice services business.***

We may encounter unforeseen difficulties as we introduce our voice services in new operating areas, including the Acquired Systems, and/or increase the scale of our voice service offerings in areas in which they have already been launched. First, we face heightened customer expectations for the reliability of voice services as compared with our video and high-speed data services. We have undertaken significant training of customer service representatives and technicians, and we will continue to need a highly trained workforce. To ensure reliable service, we may need to increase our expenditures, including spending on technology, equipment and personnel. If the service is not sufficiently reliable or we otherwise fail to meet customer expectations, our voice services business could be adversely affected. Second, the competitive landscape for voice services is intense; we face competition from providers of Internet phone services, as well as incumbent local telephone companies, cellular telephone service providers and others. See Risks Related to Competition We face a wide range of competition, which could affect our future results of operations. Third, our voice services depend on interconnection and related services provided by certain third parties. As a result, our ability to implement changes as the service grows may be limited. Finally, we expect advances in communications technology, as well as changes in the marketplace and the regulatory and legislative environment. Consequently, we are unable to predict the effect that ongoing or future developments in these areas might have on our voice services business and operations.

In addition, our launch of voice services in the Acquired Systems may pose certain risks. We will be unable to provide our voice services in some of the Acquired Systems without first upgrading the facilities. Additionally, we may need to obtain certain services from third parties prior to deploying voice services in the Acquired Systems. If we encounter difficulties or significant delays in launching voice services in the Acquired Systems, our business and financial results may be adversely affected.

***Significant increases in the use of bandwidth-intensive Internet-based services could increase our costs.***

The rising popularity of bandwidth-intensive Internet-based services poses special risks for our high-speed data business. Examples of such services include peer-to-peer file sharing services, gaming services, the delivery of video via streaming technology and by download, as well as Internet phone services. If heavy usage of bandwidth-intensive services grows beyond our current expectations, we may need to invest more capital than currently anticipated to expand the bandwidth capacity of our systems or our customers may have a suboptimal experience when using our high-speed data service. In addition, in order to continue to provide quality service at attractive prices, we need the continued flexibility to develop and refine business models that respond to changing consumer uses and demands, to manage bandwidth usage efficiently and to make upgrades to our broadband facilities. Our ability to do these things could be restricted by legislative efforts to impose so-called net neutrality requirements on cable operators. See Risks

Related to Government Regulation Our business is subject to extensive governmental regulation, which could adversely affect our business.



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***Our ability to attract new basic video subscribers is dependent in part on growth in new housing in our service areas.***

Providing basic video services is an established and highly penetrated business. As a result, our ability to achieve incremental growth in basic video subscribers is dependent in part on growth in new housing in our service areas, which is influenced by various factors outside of our control, including both national and local economic conditions. If growth in new housing falls or if there are population declines in our operating areas, opportunities to gain new basic subscribers will decrease, which may have a material adverse effect on our growth, business and financial results or financial condition.

***We rely on network and information systems and other technology, and a disruption or failure of such networks, systems or technology as a result of computer viruses, misappropriation of data or other malfeasance, as well as outages, natural disasters, accidental releases of information or similar events, may disrupt our business.***

Because network and information systems and other technologies are critical to our operating activities, network or information system shutdowns caused by events such as computer hacking, dissemination of computer viruses, worms and other destructive or disruptive software, denial of service attacks and other malicious activity, as well as power outages, natural disasters, terrorist attacks and similar events, pose increasing risks. Such an event could have an adverse impact on us and our customers, including degradation of service, service disruption, excessive call volume to call centers and damage to equipment and data. Such an event also could result in large expenditures necessary to repair or replace such networks or information systems or to protect them from similar events in the future. Significant incidents could result in a disruption of our operations, customer dissatisfaction, or a loss of customers and revenues.

Furthermore, our operating activities could be subject to risks caused by misappropriation, misuse, leakage, falsification and accidental release or loss of information maintained in our information technology systems and networks, including customer, personnel and vendor data. We could be exposed to significant costs if such risks were to materialize, and such events could damage our reputation and credibility. We also could be required to expend significant capital and other resources to remedy any such security breach. As a result of the increasing awareness concerning the importance of safeguarding personal information, the potential misuse of such information and legislation that has been adopted or is being considered regarding the protection and security of personal information, information-related risks are increasing, particularly for businesses like ours that handle a large amount of personal customer data.

***If we are unable to retain senior executives and attract and retain other qualified employees, our growth might be hindered, which could impede our ability to run our business and potentially reduce our revenues and profitability.***

Our success depends in part on our ability to attract, hire, train and retain qualified managerial, sales, customer service and marketing personnel. We face significant competition for these types of personnel. We may be unsuccessful in attracting and retaining the required personnel to conduct and expand our operations successfully and, in such an event, our revenues and profitability could decline. Our success also depends to a significant extent on the continued service of our senior management team, including Messrs. Britt and Hobbs, with whom we have employment agreements. The loss of any member of our senior management team or other qualified employees could impair our ability to execute our business plan and growth strategy, cause us to lose subscribers and reduce our net sales, or lead to employee morale problems and/or the loss of key employees. In addition, key personnel may leave us and compete against us.

***Our business may be adversely affected if we cannot continue to license or enforce the intellectual property rights on which our business depends.***

We rely on patent, copyright, trademark and trade secret laws and licenses and other agreements with our employees, customers, suppliers, and other parties, to establish and maintain our intellectual property rights in technology and the products and services used in our operations. However, any of our intellectual property

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rights could be challenged or invalidated, or such intellectual property rights may not be sufficient to permit us to take advantage of current industry trends or otherwise to provide competitive advantages, which could result in costly redesign efforts, discontinuance of certain product or service offerings or other competitive harm. Additionally, from time to time we receive notices from others claiming that we infringe their intellectual property rights, and the number of these claims could increase in the future. Claims of intellectual property infringement could require us to enter into royalty or licensing agreements on unfavorable terms, incur substantial monetary liability or be enjoined preliminarily or permanently from further use of the intellectual property in question, which could require us to change our business practices and limit our ability to compete effectively. Even if we believe that the claims are without merit, the claims can be time-consuming and costly to defend and divert management's attention and resources away from our businesses. Also, because of the rapid pace of technological change, we rely on technologies developed or licensed by third parties, and we may not be able to obtain or continue to obtain licenses from these third parties on reasonable terms, if at all. See also **Risks Related to our Relationship with Time Warner** We are party to agreements with Time Warner governing the use of our brand names, including the Time Warner Cable brand name, that may be terminated by Time Warner if we fail to perform our obligations under those agreements or if we undergo a change of control.

***The accounting treatment of goodwill and other identified intangibles could result in future asset impairments, which would be recorded as operating losses.***

Financial Accounting Standards Board ( FASB ) Statement No. 142, *Goodwill and Other Intangible Assets* ( FAS 142 ) requires that goodwill, including the goodwill included in the carrying value of investments accounted for using the equity method of accounting, and other intangible assets deemed to have indefinite useful lives, such as franchise agreements, cease to be amortized. FAS 142 requires that goodwill and certain intangible assets be tested at least annually for impairment. If we find that the carrying value of goodwill or a certain intangible asset exceeds its fair value, it will reduce the carrying value of the goodwill or intangible asset to the fair value, and we will recognize an impairment loss. Any such impairment losses are required to be recorded as noncash operating losses.

Our 2006 annual impairment analysis, which was performed during the fourth quarter, did not result in an impairment charge. For one reporting unit, the 2006 estimated fair value was within 10% of the respective book value. Applying a hypothetical 10% decrease to the fair value of this reporting unit would result in a greater book value than fair value for cable franchises in the amount of approximately \$20 million. Other intangible assets not subject to amortization are tested for impairment annually, or more frequently if events or circumstances indicate that the asset might be impaired. See **Management's Discussion and Analysis of Results of Operations and Financial Condition** **Critical Accounting Policies** **Asset Impairments** **Goodwill and Indefinite-lived Intangible Assets** and **Finite-lived Intangible Assets**.

The impairment tests require us to make an estimate of the fair value of intangible assets, which is primarily determined using discounted cash flow methodologies, research analyst estimates, market comparisons and a review of recent transactions. Since a number of factors may influence determinations of fair value of intangible assets, including those set forth in this discussion of **Risk Factors**, we are unable to predict whether impairments of goodwill or other indefinite-lived intangibles will occur in the future. Any such impairment would result in us recognizing a corresponding operating loss.

***The IRS and state and local tax authorities may challenge the tax characterizations of the Adelpia acquisition, the Redemptions and the Exchange, or our related valuations, and any successful challenge by the IRS or state or local tax authorities could materially adversely affect our tax profile, significantly increase our future cash tax payments and significantly reduce our future earnings and cash flow.***

The Adelpia acquisition was designed to be a fully taxable asset sale, the TWC Redemption was designed to qualify as a tax-free split-off under section 355 of the Internal Revenue Code of 1986, as amended (the Tax Code ), the TWE

Redemption was designed as a redemption of Comcast's partnership interest in TWE, and the Exchange was designed as an exchange of designated cable systems. There can be no assurance, however, that the Internal Revenue Service (the IRS) or state or local tax authorities (collectively with the

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IRS, the Tax Authorities ) will not challenge one or more of such characterizations or our related valuations. Such a successful challenge by the Tax Authorities could materially adversely affect our tax profile (including our ability to recognize the intended tax benefits from the Transactions), significantly increase our future cash tax payments and significantly reduce our future earnings and cash flow. The tax consequences of the Adelpia acquisition, the Redemptions and the Exchange are complex and, in many cases, subject to significant uncertainties, including, but not limited to, uncertainties regarding the application of federal, state and local income tax laws to various transactions and events contemplated therein and regarding matters relating to valuation.

***As a result of the indebtedness incurred in connection with the Transactions, we will be required to use an increased amount of the cash provided by our operating activities to service our debt obligations, which could limit our flexibility to grow our business and take advantage of new business opportunities.***

As a result of our funding needs for the Transactions, our obligations to make principal and interest payments related to our indebtedness have increased. Our increased amount of indebtedness and debt servicing obligations will require us to dedicate a larger amount of our cash flow from operations to making payments on our indebtedness than we have in the past. This reduces the availability of our cash flow to fund working capital and capital expenditures and for other general corporate purposes, may increase our vulnerability to general adverse economic and industry conditions, may limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate, may limit our ability to make strategic acquisitions or pursue other business opportunities and may limit our ability to borrow additional funds and may increase the cost of any such borrowings.

## **Risks Related to Dependence on Third Parties**

***Increases in programming costs could adversely affect our operations, business or financial results.***

Video programming costs represent a major component of our expenses and are expected to continue to increase, reflecting contractual rate increases, subscriber growth and the expansion of service offerings, and it is expected that our video service margins will decline over the next few years as programming cost increases outpace growth in video revenues.

In addition, increased demands by owners of some broadcast stations for carriage of other services or payments to those broadcasters for retransmission consent could further increase our programming costs. Federal law allows commercial television broadcast stations to make an election between must-carry rights and an alternative retransmission-consent regime. When a station opts for the latter, cable operators are not allowed to carry the station's signal without the station's permission. We currently have multi-year agreements with most of the retransmission consent stations that we carry. In some cases, we carry stations under short-term arrangements while we attempt to negotiate new long-term retransmission agreements. If negotiations with these programmers prove unsuccessful, they could require us to cease carrying their signals, possibly for an indefinite period. Any loss of stations could make our video service less attractive to subscribers, which could result in less subscription and advertising revenue. In retransmission-consent negotiations, broadcasters often condition consent with respect to one station on carriage of one or more other stations or programming services in which they or their affiliates have an interest. Carriage of these other services may increase our programming expenses and diminish the amount of capacity we have available to introduce new services, which could have an adverse effect on our business and financial results.

Current and future programming providers that provide content that is desirable to our subscribers may enter into exclusive affiliation agreements with our cable and non-cable competitors and may be unwilling to enter into affiliation agreements with us on acceptable terms, if at all.

***We may not be able to obtain necessary hardware, software and operational support.***

We depend on third party suppliers and licensors to supply some of the hardware, software and operational support necessary to provide some of our services. We obtain these items from a limited number of vendors, some of which do not have a long operating history. Some of our hardware, software and

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operational support vendors represent our sole source of supply or have, either through contract or as a result of intellectual property rights, a position of some exclusivity. If demand exceeds these vendors' capacity or if these vendors experience operating or financial difficulties, our ability to provide some services might be materially adversely affected, or the need to procure or develop alternative sources of the affected materials might delay the provision of services. These events could materially and adversely affect our ability to retain and attract subscribers, and have a material negative impact on our operations, business, financial results and financial condition.

A limited number of vendors of key technologies can lead to less product innovation and higher costs. For these reasons, we generally endeavor to establish alternative vendors for materials we consider critical, but may not be able to establish these relationships or be able to obtain required materials on favorable terms. For example, each of our systems currently purchase set-top boxes from a limited number of vendors. This is due to the fact that each of our cable systems use one of two proprietary conditional access security schemes, which allows us to regulate subscriber access to some services, such as premium channels. We believe that the proprietary nature of these conditional access schemes makes other manufacturers reluctant to produce set-top boxes. Future innovation in set-top boxes may be restricted until these issues are resolved. In addition, we believe that the general lack of compatibility among set-top box operating systems has slowed the industry's development and deployment of digital set-top box applications. We have developed a user interface and interactive programming guide, designed to operate across different manufacturers' set-top boxes and other devices, that we expect to introduce during 2007. No assurance can be given that our user interface and guide will operate correctly, will be popular with consumers or will be compatible with other products and services that our customers value.

In addition, we have agreements with Verizon and Sprint under which these companies assist us in providing Digital Phone service to customers by routing voice traffic to the public switched network, delivering enhanced 911 service and assisting in local number portability and long distance traffic carriage. In July 2006, we agreed to expand our multi-year relationship with Sprint, selecting Sprint as our primary provider of these services, including in the Acquired Systems. Our transition to and reliance on a single provider for the bulk of these services may render us vulnerable to service disruptions and other operational difficulties, which could have an adverse effect on our business and financial results.

### ***We may encounter substantially increased pole attachment costs.***

Under federal law, we have the right to attach cables carrying video services to telephone and similar poles of investor-owned utilities at regulated rates. However, because these cables carry services other than video services, such as high-speed data services or new forms of voice services, some utility pole owners have sought to impose additional fees for pole attachment. The U.S. Supreme Court has rejected the efforts of some utility pole owners to make cable attachments carrying Internet traffic ineligible for regulatory protection. Pole owners have, however, made arguments in other areas of pole regulation that, if successful, could significantly increase our costs. In addition, our pole attachment rates may increase insofar as our systems are providing voice services.

Some of the poles we use are exempt from federal regulation because they are owned by utility cooperatives and municipal entities. These entities may not renew our existing agreements when they expire, and they may require us to pay substantially increased fees. A number of these entities are currently seeking to impose substantial rate increases. Any inability to secure continued pole attachment agreements with these cooperatives or municipal utilities on commercially reasonable terms could cause our business, financial results or financial condition to suffer.

### ***The adoption of, or the failure to adopt, certain consumer electronics devices or computers may negatively impact our offerings of new and enhanced services.***

Customer acceptance and use of new and enhanced services depend, to some extent, on customers having ready access and exposure to these services. One of the ways this access is facilitated is through the user interface included in our digital set-top boxes. The consumer electronics industry's provision of cable ready and digital cable ready televisions and other devices, as well as the IT industry's provision of computing



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devices capable of tuning, storing and displaying cable video signals, means customers owning these devices may use a different user interface from the one we provide and/or may not be able to access services requiring two-way transmission capabilities unless they also have a set-top box. Accordingly, customers using these devices without set-top boxes may have limited exposure and access to our advanced video services, including our interactive program guide and VOD and subscription-video-on-demand ( SVOD ). If such devices attain wide consumer acceptance, our revenue from equipment rental and two-way transmission-based services could decrease, and there could be a negative impact on our ability to sell advanced services to customers. We cannot predict the extent to which different interfaces will affect our future business and operations. See Business Regulatory Matters Communications Act and FCC Regulation.

We and other cable operators are involved in various efforts to ensure that consumer electronics and IT industry devices are capable of utilizing our two-way services, including: direct arrangements with a handful of consumer electronics companies that will lead to the deployment of a limited number of two-way capable televisions and other devices; continuing efforts (unsuccessful to date) to negotiate two-way interoperability standards with the broad consumer electronics industry; the development of an open software architecture layer that such devices could use to accept two-way applications; and an effort to develop a downloadable security system for consumer electronics devices. No assurances can be given that these or other efforts will be successful or that, if successful, consumers will widely adopt devices utilizing these technologies.

## **Risks Related to Government Regulation**

***Our business is subject to extensive governmental regulation, which could adversely affect our business.***

Our video and voice services are subject to extensive regulation at the federal, state, and local levels. In addition, the federal government also has been exploring possible regulation of high-speed data services. Additional regulation, including regulation relating to rates, equipment, technologies, programming, levels and types of services, taxes and other charges, could have an adverse impact on our services. Among the regulatory risks, if Congress or regulators were to disallow the use of certain technologies we use today or to mandate the implementation of other technologies, our services and results of operations could suffer. We expect that legislative enactments, court actions, and regulatory proceedings will continue to clarify and in some cases change the rights of cable companies and other entities providing video, data and voice services under the Communications Act of 1934, as amended (the Communications Act ) and other laws, possibly in ways that we have not foreseen. The results of these legislative, judicial, and administrative actions may materially affect our business operations in areas such as:

*Cable Franchising.* At the federal level, various provisions have been introduced in connection with broader Communications Act reform that would streamline the video franchising process to facilitate entry by new competitors. To date, no such measures have been adopted by the United States Congress ( Congress ). In December 2006, the FCC adopted an order in which the agency concluded that the current franchise approval process constitutes an unreasonable barrier to entry that impedes the development of cable competition and broadband deployment. As a result, the agency adopted new rules intended to limit the ability of county- and municipal-level franchising authorities to delay or refuse the grant of competitive franchises. Among other things, the new rules: establish deadlines for franchising authorities to act on applications; prohibit franchising authorities from placing unreasonable build-out demands on applicants; specify that certain fees, costs, and other compensation to franchising authorities will count towards the statutory five-percent cap on franchise fees; prohibit franchising authorities from requiring applicants to undertake certain obligations concerning the provision of public, educational, and governmental access programming and institutional networks; and preempt local level-playing-field regulations, and similar provisions, to the extent they impose restrictions on applicants greater than those in the FCC s new rules.

At the state level, several states, including California, New Jersey, North Carolina, South Carolina and Texas, have enacted statutes intended to streamline entry by additional video competitors. Some of these statutes provide more favorable treatment to new entrants than to existing providers. Similar bills are pending or may be enacted in additional states. To the extent federal or state laws or regulations

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facilitate additional competitive entry or create more favorable regulatory treatment for new entrants, our operations could be materially and adversely affected. The FCC is currently considering whether, and to what extent, to adopt similar rules for incumbent cable operators.

*A la carte Video Services.* There has from time to time been federal legislative interest in requiring cable operators to offer historically bundled programming services on an à la carte basis. Currently, no such legislation is pending. In November 2004, the FCC released a study concluding that à la carte would raise costs for consumers and reduce programming choices. In February 2006, the FCC's Media Bureau issued a revised report that concluded, contrary to the findings of the earlier study, that à la carte could be beneficial in some instances. There are no pending proceedings related to à la carte at the FCC.

*Carriage Regulations.* In 2005, the FCC reaffirmed its earlier decision rejecting multi-casting (i.e., carriage of more than one program stream per broadcaster) requirements with respect to carriage of broadcast signals pursuant to must-carry rules. Certain parties filed petitions for reconsideration. To date, no action has been taken on these reconsideration petitions, and we are unable to predict what requirements, if any, the FCC might adopt. On September 11, 2007, the FCC adopted an order that will require cable operators to provide to subscribers both analog and digital feeds of must-carry broadcast stations beginning February 18, 2009. This obligation, subject to FCC review, will end after three years. In addition, the FCC has launched proceedings related to leased access and program carriage. With respect to leased access, the FCC is seeking comment on how leased access is being used in the marketplace, and whether any rule changes are necessary to better effectuate statutory objectives. With respect to program carriage, the FCC is re-examining both its substantive and procedural rules. We are unable to predict whether any such proceedings will lead to any changes in existing regulations.

*Voice Communications.* Traditional providers of voice services generally are subject to significant regulations. It is unclear to what extent those regulations (or other regulations) apply to providers of nontraditional voice services, including ours. In 2004, the FCC broadly inquired how Voice-over Internet Protocol should be classified for purposes of the Communications Act, and how it should be regulated. To date, however, the FCC has not issued an order comprehensively resolving that inquiry. Instead, the FCC has addressed certain individual issues on a piecemeal basis. In particular, the FCC declared in 2004 that certain nontraditional voice services are not subject to state certification or tariffing obligations. The full extent of this preemption is unclear. In orders over the past several years, the FCC subjected nontraditional voice service providers to a number of obligations applicable to traditional voice service, including to provide 911 emergency service, to accommodate law enforcement requests for information and wiretapping, to contribute to the federal universal service fund and to comply with customer privacy rules. We were already operating in accordance with these requirements when they were adopted. To the extent that the FCC (or Congress) imposes additional burdens, our operations could be adversely affected. See Business Regulatory Matters Regulation of Telephony.

***Net neutrality legislation or regulation could limit our ability to operate our high-speed data business profitably, to manage our broadband facilities efficiently and to make upgrades to those facilities sufficient to respond to growing bandwidth usage by our high-speed data customers.***

Several disparate groups have adopted the term "net neutrality" in connection with their efforts to persuade Congress and regulators to adopt rules that could limit the ability of broadband providers to manage their networks efficiently and profitably. Although the positions taken by these groups are not well defined and are sometimes inconsistent with one another, most would directly or indirectly limit the ability of broadband providers to apply differential pricing or network management policies to different uses of the Internet. Proponents of such regulation also seek to prohibit broadband providers from recovering the costs of rising bandwidth usage from any parties other than retail customers. The average bandwidth usage of our high-speed data customers has been increasing significantly in recent years as the

amount of high-bandwidth content and the number of applications available on the Internet continues to grow. In order to continue to provide quality service at attractive prices, we need the continued flexibility to develop and refine business models that respond to changing consumer uses and demands, to manage bandwidth usage efficiently and to make

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upgrades to our broadband facilities. As a result, depending on the form it might take, net neutrality legislation or regulation could impact our ability to operate our high-speed data network profitably and to undertake the upgrades that may be needed to continue to provide high quality high-speed data services. We are unable to predict the likelihood that such regulatory proposals will be adopted. For a description of current regulatory proposals, see Business Regulatory Matters Communications Act and FCC Regulation.

### ***Rate regulation could materially adversely impact our operations, business, financial results or financial condition.***

Under current FCC regulations, rates for basic video service and associated equipment are permitted to be regulated. In many localities, we are not subject to basic video rate regulation, either because the local franchising authority has not asked the FCC for permission to regulate rates or because the FCC has found that there is effective competition. Also, there is currently no rate regulation for our other services, including high-speed data services. It is possible, however, that the FCC or Congress will adopt more extensive rate regulation for our video services or regulate other services, such as high-speed data and voice services, which could impede our ability to raise rates, or require rate reductions, and therefore could cause our business, financial results or financial condition to suffer.

### ***Changes in carriage regulations could impose significant additional costs on us.***

Although we would likely choose to carry almost all local full power analog broadcast signals voluntarily, so called must carry rules require us to carry video programming that we might not otherwise carry, including some local broadcast television signals on some of our cable systems. In addition, we are required to carry unaffiliated commercial leased access video programming and, under some of our franchises, public, educational and government access video programming. These regulations require us to use a substantial part of our capacity for this video programming and, for the most part, we must carry this programming without payment or compensation from the programmer.

Our carriage burden might increase due to changes in regulation in connection with the transition to digital broadcasting, which is scheduled for February 17, 2009. FCC regulations require most television broadcast stations to broadcast in digital format as well as in analog format during the transition period leading up to that date. The FCC has concluded that, during the transition period, cable operators will not be required to carry the digital signals of broadcasters that are broadcasting in both analog and digital format. The few stations that broadcast solely in digital format are entitled to carriage of a single digital program stream during the transition period. Some broadcast parties have asked that the FCC reconsider these determinations. If the FCC does so and changes the decision, our carriage burden could become more onerous.

If our carriage burden becomes more onerous, we could be compelled to carry more programming over which we are not able to assert editorial control. Consequently, our mix of programming could become less attractive to subscribers. Moreover, if the FCC adopts rules that are not competitively neutral, cable operators could be placed at a disadvantage versus other multi-channel video providers.

### ***We may have to pay fees in connection with our cable modem service.***

Local franchising authorities generally require cable operators to pay a franchise fee of five percent of revenue, which cable operators collect in turn from their subscribers. We have taken the position that under the Communications Act, local franchising authorities are allowed to impose a franchise fee only on revenue from cable services. Following the FCC's March 2002 determination that cable modem service does not constitute a cable service, we and most other multiple system operators stopped collecting and paying franchise fees on cable modem revenue.

The FCC has initiated a rulemaking proceeding to explore the consequences of its March 2002 order. If either the FCC or a court were to determine that, despite the March 2002 order, we are required to pay franchise fees on cable modem revenue, our franchise fee burden could increase going forward. We would be permitted to collect those increased fees from our subscribers, but doing so could impair our competitive position as compared to high-speed data service providers who are not required to collect and pay franchise

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fees. We could also become liable for franchise fees back to the time we stopped paying them. We may not be able to recover those fees from subscribers. Most courts interpreting the rules, including several involving our company, have determined that cable operators are not required to pay these fees on cable modem service. Recently, an intermediate state appellate court decided, in a case not involving our company, that cable operators can be required to pay franchise fees on cable modem service. This decision may encourage other franchise authorities to seek such fees.

### ***Our competitors may not be required to comply with certain FCC set-top box rules to which we are subject.***

Currently, many cable subscribers rent set-top boxes from us that perform both signal-reception functions and conditional-access security functions, as well as enable delivery of advanced services. In 1996, Congress enacted a statute seeking to allow cable subscribers to use set-top boxes obtained from certain third parties, including third-party retailers. Effective July 1, 2007, cable operators must offer separate equipment that provides only the security functions and not the signal-reception functions (so that cable subscribers can purchase set-top boxes or other navigational devices from third parties) and cease placing into service new set-top boxes that have integrated security and signal-reception functions. The FCC has indicated that direct broadcast satellite operators and certain telephone companies are not required to comply with certain FCC set-top box rules. We may be at a competitive disadvantage insofar as our competitors are not required to comply with the rule prohibiting set-top boxes with integrated security.

### ***Applicable law is subject to change.***

The exact requirements of applicable law are not always clear, and the rules affecting our businesses are always subject to change. For example, the FCC may interpret its rules and regulations in enforcement proceedings in a manner that is inconsistent with the judgments we have made. Likewise, regulators and legislators at all levels of government may sometimes change existing rules or establish new rules. Congress, for example, considers new legislative requirements for cable operators virtually every year, and there is always a risk that such proposals will ultimately be enacted. See Business Regulatory Matters.

## **Risks Related to our Relationship with Time Warner**

### ***Some of our officers and directors may have interests that diverge from ours in favor of Time Warner because of past and ongoing relationships with Time Warner and its affiliates.***

Some of our officers and directors may experience conflicts of interest with respect to decisions involving business opportunities and similar matters that may arise in the ordinary course of our business or the business of Time Warner and its affiliates. One of our directors is also an executive officer of Time Warner, another is an executive officer of a subsidiary of Time Warner that is a sister company of ours and four of our directors (including Glenn A. Britt, our President and Chief Executive Officer) served as executive officers of Time Warner or its predecessors in the past. A number of our directors and all of our executive officers also have restricted shares, restricted stock units and/or options to purchase shares of Time Warner common stock. In addition, many of our directors and executive officers have invested in Time Warner common stock through their participation in Time Warner's and our savings plans. These past and ongoing relationships with Time Warner and any significant financial interest in Time Warner by these persons may present conflicts of interest that could materially adversely affect our business, financial results or financial condition. For example, these decisions could be materially related to:

the nature, quality and cost of services rendered to us by Time Warner;

the desirability of corporate opportunities, such as the entry into new businesses or pursuit of potential acquisitions, particularly those that might allow us to compete with Time Warner; and

employee retention or recruiting.

Our amended and restated certificate of incorporation (our Certificate of Incorporation ) requires that our board of directors include independent members, subject to certain limitations, and our amended and



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re stated by-laws (our By-Laws ) require that certain related party transactions be approved by a majority of these independent directors.

***Time Warner and its affiliates may compete with us in one or more lines of business and may provide some services under the Time Warner brand or similar brand names.***

Time Warner and its affiliates are engaged in a diverse range of entertainment and media-related businesses, including filmed entertainment, home video and Internet-related businesses, and these businesses may have interests that conflict with or compete in some manner with our business. Time Warner and its affiliates are generally under no obligation to share any future business opportunities available to it with us and our Certificate of Incorporation contains provisions that release Time Warner and its affiliates, including our directors who are also Time Warner s employees or executive officers, from this obligation and any liability that would result from breach of this obligation. Time Warner may deliver video, high-speed data, voice and wireless services over DSL, satellite or other means using the Time Warner brand name or similar brand names, potentially causing confusion among customers and complicating our marketing efforts. For instance, Time Warner has licensed the use of Time Warner Telecom, until July 2008, and TW Telecom and TWTC to Time Warner Telecom Inc., a former affiliate of Time Warner and a provider of managed voice and data networking solutions to enterprise organizations, which may compete with our commercial offerings. Any competition directly with Time Warner or its affiliates could materially adversely impact our business, financial results or financial condition.

***We are party to agreements with Time Warner governing the use of our brand names, including the Time Warner Cable brand name that may be terminated by Time Warner if we fail to perform our obligations under those agreements or if we undergo a change of control.***

Some of the agreements governing the use of our brand names may be terminated by Time Warner if we:

commit a significant breach of our obligations under such agreements;

undergo a change of control, even if Time Warner causes that change of control by selling some or all of its interest in us; or

materially fail to maintain the quality standards established for the use of these brand names and the products and services related to these brand names.

We license our brand name, Time Warner Cable, and the trademark Road Runner from affiliates of Time Warner. We believe the Time Warner Cable and Road Runner brand names are valuable, and their loss could materially adversely affect our business, financial results or financial condition.

If Time Warner terminates these brand name license agreements, we would lose the goodwill associated with our brand names and be forced to develop new brand names, which would likely require substantial expenditures, and our business, financial results or financial condition would likely be materially adversely affected.

***Time Warner controls approximately 90.6% of the voting power of our outstanding common stock and has the ability to elect a majority of our directors, and its interest may conflict with the interests of our other stockholders.***

Time Warner indirectly holds all of our outstanding Class B common stock and approximately 82.7% of our outstanding Class A common stock. The common stock held by Time Warner represents approximately 90.6% of our combined voting power and 84.0% of the total number of shares of capital stock outstanding of all classes of our voting stock. Accordingly, Time Warner can control the outcome of most matters submitted to a vote of our

stockholders. In addition, Time Warner, because it is the indirect holder of all of our outstanding Class B common stock, and because it also indirectly holds more than a majority of our outstanding Class A common stock, is able to elect all of our directors and will continue to be able to do so as long as it owns a majority of our Class A common stock and Class B common stock. As a result of Time Warner's share ownership and representation on our board of directors, Time Warner is able to influence all of

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our affairs and actions, including matters requiring stockholder approval such as the election of directors and approval of significant corporate transactions. The interests of Time Warner may differ from the interests of our other stockholders. Our Certificate of Incorporation requires that our board of directors include independent members, subject to certain limitations, and our By-Laws require that certain related party transactions be approved by a majority of these independent directors.

***Time Warner's approval right over our ability to incur indebtedness may harm our liquidity and operations and restrict our growth.***

Under a shareholder agreement entered into between us and Time Warner on April 20, 2005 (the Shareholder Agreement), which became effective in July 2006, until Time Warner no longer considers us to have an impact on its credit profile, we must obtain the approval of Time Warner prior to incurring additional debt or rental expense (other than with respect to certain approved leases) or issuing preferred equity, if our consolidated ratio of debt, including preferred equity, plus six times our annual rental expense to consolidated earnings before interest, taxes, depreciation and amortization (each as defined in the Shareholder Agreement) (EBITDA) plus rental expense, or EBITDAR, then exceeds, or would as a result of that incurrence exceed, 3:1, calculated without including any of our indebtedness or preferred equity held by Time Warner and its wholly owned subsidiaries. As of June 30, 2007, this ratio did not exceed 3:1. Although Time Warner has consented to ordinary course issuances of commercial paper or borrowings under our current revolving credit facility up to the limit of that credit facility, if the ratio were exceeded, any other incurrence of debt or rental expense (other than with respect to certain approved leases) or the issuance of preferred stock would require Time Warner's approval. As a result, we may in the future have a limited ability to incur future debt and rental expense (other than with respect to certain approved leases) and issue preferred equity without the consent of Time Warner, which if needed to raise additional capital, could limit our flexibility in exploring and pursuing financing alternatives and could have a material adverse effect on our liquidity and operations and restrict our growth.

***Time Warner's capital markets and debt activity could adversely affect capital resources available to us.***

Our ability to obtain financing in the capital markets and from other private sources may be adversely affected by future capital markets activity undertaken by Time Warner and its other subsidiaries. Capital raised by or committed to Time Warner for matters unrelated to us may reduce the supply of capital available for us as a result of increased leverage of Time Warner on a consolidated basis or reluctance in the market to incur additional credit exposure to Time Warner on a consolidated basis. In addition, our ability to undertake significant capital raising activities may be constrained by competing capital needs of other Time Warner businesses unrelated to us. As of June 30, 2007, Time Warner had unused committed capacity of \$4.0 billion, including approximately \$890 million of cash and equivalents, under its \$7.0 billion committed credit facility, and we had approximately \$3.4 billion of available borrowing capacity, including approximately \$70 million of cash and equivalents, under our \$14.0 billion committed credit facilities.

***We are exempt from certain corporate governance requirements since we are a controlled company within the meaning of the NYSE rules and, as a result, our stockholders do not have the protections afforded by these corporate governance requirements.***

Time Warner controls more than 50% of the voting power of our outstanding common stock. As a result, we are considered to be a controlled company for the purposes of the NYSE listing requirements and therefore are permitted to, and have, opted out of the NYSE listing requirements that would otherwise require our board of directors to have a majority of independent directors and our compensation and nominating and governance committees to be comprised entirely of independent directors. Accordingly, our stockholders do not have the same protections afforded to stockholders of companies that are subject to all of the NYSE corporate governance requirements. However, our

Certificate of Incorporation contains provisions requiring that independent directors constitute at least 50% of our board of directors and our By-Laws require that certain related party transactions be approved by a majority of these independent directors.

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As a condition to the consummation of the Adelphia acquisition, our Certificate of Incorporation provides that this provision may not be amended, altered or repealed, and no provision inconsistent with this requirement may be adopted, until August 1, 2009 (three years following the closing of the Adelphia acquisition) without, among other things, the consent of a majority of the holders of the Class A common stock other than Time Warner and its affiliates.

**Risks Related to the Exchange Offer**

*The issuance of the exchange debt securities may adversely affect the market for the initial debt securities.*

To the extent the initial debt securities are tendered and accepted in the exchange offer, the trading market for the untendered and tendered but unaccepted initial debt securities could be adversely affected. Because we anticipate that most holders of the initial debt securities will elect to exchange their initial debt securities for exchange debt securities due to the absence of restrictions on the resale of exchange debt securities under the Securities Act, we anticipate that the liquidity of the market for any initial debt securities remaining after the completion of this exchange offer may be substantially limited. Please refer to the section in this prospectus entitled "The Exchange Offer: Your Failure to Participate in the Exchange Offer Will Have Adverse Consequences."

*Some persons who participate in the exchange offer must deliver a prospectus in connection with resales of the exchange debt securities.*

Based on interpretations of the staff of the SEC contained in Exxon Capital Holdings Corp., SEC no-action letter (April 13, 1988), Morgan Stanley & Co. Inc., SEC no-action letter (June 5, 1991) and Shearman & Sterling LLP, SEC no-action letter (July 2, 1983), we believe that you may offer for resale, resell or otherwise transfer the exchange debt securities without compliance with the registration and prospectus delivery requirements of the Securities Act. However, in some instances described in this prospectus under "Plan of Distribution," you will remain obligated to comply with the registration and prospectus delivery requirements of the Securities Act to transfer your exchange debt securities. In these cases, if you transfer any exchange debt securities without delivering a prospectus meeting the requirements of the Securities Act or without an exemption from registration of your exchange debt securities under the Securities Act, you may incur liability under the Securities Act. We do not and will not assume, or indemnify you against, this liability.

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**FORWARD-LOOKING STATEMENTS**

This prospectus 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, and words and terms of similar substance used in connection with any discussion of future operating or financial performance identify forward-looking statements. These forward-looking statements are based on management's current expectations and beliefs about future events. As with any projection or forecast, they are inherently susceptible to uncertainty and changes in circumstances, and we are under no obligation to, and expressly disclaim any obligation to, update or alter our forward-looking statements whether as a result of such changes, new information, subsequent events or otherwise.

Various factors could adversely affect our operations, business or financial results in the future and cause our actual results to differ materially from those contained in the forward-looking statements, including those factors discussed in detail in Risk Factors and in our other filings made from time to time with the SEC after the date of this prospectus. In addition, we operate in a highly competitive, consumer and technology-driven and rapidly changing business. Our business is affected by government regulation, economic, strategic, political and social conditions, consumer response to new and existing products and services, technological developments and, particularly in view of new technologies, our continued ability to protect and secure any necessary intellectual property rights. Our actual results could differ materially from management's expectations because of changes in such factors.

Further, lower than expected valuations associated with our cash flows and revenues may result in our inability to realize the value of recorded intangibles and goodwill. Additionally, achieving our financial objectives could be adversely affected by the factors discussed in detail in Risk Factors above, as well as:

economic slowdowns;

the impact of terrorist acts and hostilities;

changes in our plans, strategies and intentions;

the impacts of significant acquisitions, dispositions and other similar transactions;

the failure to meet earnings expectations; and

decreased liquidity in the capital markets, including any reduction in our ability to access the capital markets for debt securities or bank financings.

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**USE OF PROCEEDS**

We will not receive any cash proceeds from the issuance of the exchange debt securities in exchange for the outstanding initial debt securities. We are making this exchange solely to satisfy our obligations under the Registration Rights Agreement. In consideration for issuing the exchange debt securities, we will receive initial debt securities in like aggregate principal amount. The initial debt securities surrendered in the exchange for the exchange debt securities will be cancelled and cannot be reissued. Accordingly, issuance of the exchange debt securities will not result in any change in our indebtedness.

The net proceeds from the 2007 Bond Offering were \$4.955 billion, after deducting the private placement discount and our estimated offering expenses. We used the net proceeds from the 2007 Bond Offering to repay all of the outstanding indebtedness under our \$4.0 billion three-year term loan facility (\$2.0 billion was repaid on each of April 11, 2007 and April 13, 2007) and a portion of the outstanding indebtedness under our \$4.0 billion five-year term loan facility (on April 27, 2007), each of which bore interest at a rate of LIBOR plus 0.40% as of the date of the respective repayment.

**Table of Contents****CAPITALIZATION**

The following table sets forth our cash position and capitalization as of June 30, 2007. You should read this information in conjunction with Summary Financial and Subscriber Data, Management's Discussion and Analysis of Results of Operations and Financial Condition and our historical financial statements and related notes, each of which is included elsewhere in this prospectus.

|   | <b>June 30, 2007</b><br><b>(in millions)</b> |
|---|--|
| Cash and equivalents  | \$ 70  |
| Debt:   |  |
| Bank credit agreements and commercial paper program <sup>(1)</sup>  | \$ 5,542                                     |
| TWE notes and debentures: <sup>(2)</sup>  |  |
| \$600 million 7.250% senior debentures due 2008   | 602  |
| \$250 million 10.150% senior notes due 2012   | 269  |
| \$350 million 8.875% senior notes due 2012  | 367  |
| \$1.0 billion 8.375% senior debentures due 2023   | 1,042  |
| \$1.0 billion 8.375% senior debentures due 2033   | 1,054  |
| TWC notes and debentures:   |  |
| \$1.5 billion 5.40% notes due 2012  | 1,497  |
| \$2.0 billion 5.85% notes due 2017  | 1,996  |
| \$1.5 billion 6.55% debentures due 2037   | 1,490  |
| Capital leases and other  | 12   |
| Total debt  | 13,871                                       |
| Mandatorily redeemable preferred membership units issued by a subsidiary <sup>(3)</sup>   | 300  |
| Minority interests  | 1,674  |
| Shareholders' equity:   |  |
| Class A common stock, par value \$0.01 per share; 20 billion shares authorized, 902 million shares issued and outstanding, actual and as adjusted | 9  |
| Class B common stock, par value \$0.01 per share; 5 billion shares authorized, 75 million shares issued and outstanding, actual and as adjusted   | 1  |
| Additional paid-in capital  | 19,307                                       |
| Accumulated other comprehensive loss, net   | (143)  |
| Retained earnings   | 4,884  |
| Total shareholders' equity  | 24,058                                       |
| Total capitalization  | \$ 39,903                                    |

(1) Represents amounts borrowed under our credit facilities and commercial paper program. For more information, please see Management's Discussion and Analysis of Results of Operations and Financial Condition Financial Condition and Liquidity Bank Credit Agreements and Commercial Paper Program.

(2)



The recorded value of each series of TWE's debt securities exceeds that series' face value because it includes an unamortized fair value adjustment recorded in connection with the 2001 merger of AOL LLC (formerly America Online, Inc.) (AOL) and Historic TW Inc., which is being amortized as a reduction of the weighted-average interest expense over the term of the indebtedness. The aggregate amount of the fair value adjustment for all classes of debt securities was approximately \$134 million as of June 30, 2007. For more information regarding our outstanding debt, please see Management's Discussion and Analysis of Results of Operations and Financial Condition Financial Condition and Liquidity.

- (3) The mandatorily redeemable preferred membership units issued by a subsidiary represent mandatorily redeemable non-voting Series A Preferred Equity Membership Units (the TW NY Series A Preferred Membership Units) issued by TW NY in connection with the Transactions, which pay quarterly cash distributions at an annual rate equal to 8.21% of the sum of the liquidation preference thereof and any accrued but unpaid dividends thereon. The TW NY Series A Preferred Membership Units mature and are redeemable on August 1, 2013.

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**UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION**

The accompanying unaudited pro forma condensed combined statement of operations of our company for the year ended December 31, 2006 and for the six months ended June 30, 2006 is presented as if the Transactions and the dissolution of TKCCP, including TKCCP's distribution to us of the Kansas City Pool, had occurred on January 1, 2006. The unaudited pro forma condensed combined financial information is presented based on information available, is intended for informational purposes only and is not necessarily indicative of and does not purport to represent what our future financial condition or operating results will be after giving effect to the Transactions and the dissolution of TKCCP and does not reflect actions that may be undertaken by management in integrating these businesses (e.g., the cost of incremental capital expenditures). Additionally, this information does not reflect financial and operating benefits we expect to realize as a result of the Transactions and the dissolution of TKCCP, including TKCCP's distribution to us of the Kansas City Pool. For additional information on the Transactions and the dissolution of TKCCP, see Summary Our Company.

Comcast's and Adelphia's independent registered public accounting firms have not examined, reviewed, compiled or applied agreed upon procedures to the unaudited pro forma condensed combined financial information presented herein and, accordingly, assume no responsibility for them. Our independent registered public accounting firm has not examined, reviewed, compiled or applied agreed upon procedures to the unaudited pro forma condensed combined financial information presented herein. The unaudited pro forma condensed combined financial information for the systems acquired by us includes certain allocated assets, liabilities, revenues and expenses. We believe such allocations are made on a reasonable basis.

The unaudited pro forma condensed combined financial information set forth below should be read in conjunction with Summary Summary Financial and Subscriber Data, the notes to these unaudited pro forma condensed combined financial statements, Management's Discussion and Analysis of Results of Operations and Financial Condition, our consolidated financial statements and the notes thereto, Adelphia's consolidated financial statements and the notes thereto and Comcast's Special Purpose Combined Carve-Out Financial Statements of the Los Angeles, Dallas & Cleveland Cable System Operations (A Carve-Out of Comcast Corporation) and the notes thereto, each of which is included elsewhere in this prospectus.

The following is a brief description of the amounts recorded under each of the column headings in the unaudited pro forma condensed combined statements of operations:

**Historical TWC**

This column reflects our historical operating results for the year ended December 31, 2006, which are derived from our audited financial statements, and for the six months ended June 30, 2006, which are derived from our unaudited interim financial statements, prior to any adjustments for the Transactions, the dissolution of TKCCP and TKCCP's distribution of the Kansas City Pool to us. In addition, our historical results reflect the presentation of certain cable systems transferred to Comcast in the Redemptions and the Exchange as discontinued operations, and our operating results for the year ended December 31, 2006 include five months of activity from systems acquired and retained after the Transactions.

**Historical Adelphia**

This column reflects Adelphia's historical operating results for the seven months ended July 31, 2006 and six months ended June 30, 2006 and represents Adelphia's unaudited interim financial statements as reported by Adelphia in its Quarterly Reports on Form 10-Q for the nine months ended September 30, 2006 and six months ended June 30, 2006,

which were prepared by Adelphia. This column includes amounts relating to systems that were not acquired and retained by us, but instead were acquired by Comcast (as part of the Adelphia acquisition or the Exchange) or that were retained by Adelphia and, thus, are excluded from our unaudited pro forma condensed combined financial information through the adjustments made in the Less Items Not Acquired column described below.

**Table of Contents****Comcast Historical Systems**

This column represents the historical operating results for the seven months ended July 31, 2006 and six months ended June 30, 2006 of the cable systems previously owned by Comcast in Dallas, Cleveland and Los Angeles, which were transferred to us in the Exchange (the Comcast Historical Systems ). The operating results for the first six months of 2006 were derived from Comcast's unaudited interim Special Purpose Combined Carve-Out Financial Statements of the Los Angeles, Dallas & Cleveland Cable System Operations (A Carve-Out of Comcast Corporation), which were prepared by Comcast, prior to any adjustments for the Transactions. The operating results for the month ended July 31, 2006 were prepared by and provided to us by Comcast, prior to any adjustments for the Transactions. See Note 6 to our unaudited pro forma condensed combined financial information for additional information on the historical operating results for the seven months ended July 31, 2006. This column includes certain allocated assets, liabilities, revenues and expenses. This column also includes allocated amounts that were retained by Comcast and, thus, were not transferred to us in the Exchange and therefore, are excluded from our unaudited pro forma condensed combined financial information through the adjustments made in the Less Items Not Acquired column described below.

**Less Items Not Acquired**

This column represents the unaudited historical operating results of the Adelphia systems up to the closing of the Transactions that were (i) received by us in the Adelphia acquisition and then transferred to Comcast in the Exchange, (ii) acquired by Comcast in the Adelphia acquisition and not transferred to us in the Exchange or (iii) retained by Adelphia after the Transactions. This column also includes certain items and allocated costs that were included in the Comcast Historical Systems financial information and the Adelphia acquired systems that were not ultimately acquired by us (collectively with the items in (i), (ii) and (iii) above, the Items Not Acquired ). Specifically, the following items relate to the Comcast Historical Systems and the Adelphia acquired systems that were not ultimately transferred to us and, therefore, are included as part of this column:

Adelphia's and Comcast's parent and subsidiary interest expense;

Intercompany management fees related to the Comcast Historical Systems;

Adelphia investigation and re-audit related fees;

Reorganization expenses due to the bankruptcy of Adelphia;

Intercompany charges between Adelphia cable systems that we acquired and Adelphia cable systems that Comcast acquired that were discontinued as a result of the Transactions;

The gain on sale recognized by Adelphia in connection with the Transactions; and

Income tax provisions for the Historical Adelphia and Comcast Historical Systems.

For additional information on the Items Not Acquired, see Note 5 to our unaudited pro forma condensed combined financial information.

**Subtotal of Net Acquired Systems**

This column represents the unaudited historical operating results of the Net Acquired Systems. This column includes the operating results of Historical Adelphia and the Comcast Historical Systems less the historical operating results of

the Items Not Acquired. This column does not include our historical operating results and does not reflect the impact of pro forma adjustments.

**Pro Forma Adjustments The Transactions**

This column represents pro forma adjustments related to the consummation of the Transactions, as more fully described in the notes to the unaudited pro forma condensed combined financial information.

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**Consolidation of the Kansas City Pool/Pro Forma Adjustments TKCCP**

These columns reflect the consolidation of the Kansas City Pool of TKCCP's cable systems. We began consolidating the Kansas City Pool on January 1, 2007, as a result of the distribution of these assets to us. Prior to January 1, 2007, we accounted for our interest in TKCCP under the equity method of accounting. The Consolidation of the Kansas City Pool column reflects the reversal of historical equity income and the consolidation of the operations of the Kansas City Pool. The Pro Forma Adjustments TKCCP column reflects the elimination of intercompany transactions between us and TKCCP and adjustments to depreciation and amortization based upon the preliminary allocation of purchase price. For additional information on the dissolution of TKCCP, see Note 4 to our unaudited pro forma condensed combined financial information.

Table of Contents**Unaudited Pro Forma Condensed Combined Statement of Operations**

|   | Year Ended December 31, 2006         |                                       |                                      |  |  |  |   |                                      |                     |
|---|--------------------------------------|---------------------------------------|--------------------------------------|--|--|--|---|--------------------------------------|---------------------|
|   | Historical<br>TWC                    | Historical<br>Adelphia <sup>(1)</sup> | Historical<br>Systems <sup>(1)</sup> | Less<br>Comcast<br>Items<br>Not<br>Acquired <sup>(1)</sup> | Subtotal<br>of Net<br>Acquired<br>Systems <sup>(1)</sup> | Pro<br>Forma<br>Adjustments<br>The<br>Transactions | Consolidation<br>of the<br>Kansas<br>City<br>Pool | Pro<br>Forma<br>Adjustments<br>TKCCP | Pro<br>Forma<br>TWC |
|   | (in millions, except per share data) |                                       |                                      |  |  |  |   |                                      |                     |
| Total revenues                                  | \$ 11,767                            | \$ 2,745                              | \$ 740                               | \$ (1,203)   | \$ 2,282   | \$   | \$ 795  | \$ (84) <sup>(i)</sup>               | \$ 14,760           |
| Costs of revenues                               | 5,356                                | 1,641                                 | 289                                  | (660)  | 1,270  |  | 399   | (51) <sup>(i)</sup>                  | 6,974               |
| Selling, general and administrative expenses    | 2,126                                | 204                                   | 238                                  | (135)  | 307  |  | 121   | 15 <sup>(j)</sup>                    | 2,569               |
| Depreciation                                    | 1,883                                | 443                                   | 124                                  | (194)  | 373  | 21 <sup>(a)</sup>                                  | 119   | (36) <sup>(k)</sup>                  | 2,360               |
| Amortization                                    | 167                                  | 77                                    | 6                                    | (21)   | 62   | 68 <sup>(a)</sup>                                  | 1   | 19 <sup>(k)</sup>                    | 317                 |
| Merger-related and restructuring costs          | 56                                   |                                       |                                      |  |  |  |   |                                      | 56                  |
| Impairment of long-lived assets                 |                                      | 17                                    | 9                                    | (17)   | 9  |  |   |                                      | 9                   |
| (Gain) loss on disposition of long-lived assets |                                      | (2)                                   |                                      | 2  |  |  |   |                                      |                     |
| Investigation and re-audit related fees         |                                      | 32                                    |                                      | (32)   |  |  |   |                                      |                     |
| Operating Income (Loss)                         | 2,179                                | 333                                   | 74                                   | (146)  | 261  | (89)   | 155   | (31)                                 | 2,475               |
| Interest expense, net                           | (646)                                | (438)                                 | (4)                                  | 442  |  | (263) <sup>(b)</sup>                               |   |                                      | (909)               |
| Income (loss) from equity investments, net      | 129                                  | (2)                                   | (3)                                  |  | (5)  |  | (124) <sup>(i)</sup>                              |                                      |                     |
| Minority interest (expense)                     | (108)                                | 13                                    |                                      | (13)   |  | (14) <sup>(c)</sup>                                |   |                                      | (122)               |

|                 |         |          |       |            |        |                   |       |                   |         |
|-----------------|---------|----------|-------|------------|--------|-------------------|-------|-------------------|---------|
| income, net     |         |          |       |            |        |                   |       |                   |         |
| Other income    |         |          |       |            |        |                   |       |                   |         |
| (expense), net  | 2       | (109)    | (2)   | 105        | (6)    |                   |       |                   | (4)     |
| Reorganization  |         |          |       |            |        |                   |       |                   |         |
| expenses due to |         |          |       |            |        |                   |       |                   |         |
| bankruptcy      |         | 53       |       | (53)       |        |                   |       |                   |         |
| Gain on the     |         |          |       |            |        |                   |       |                   |         |
| Transactions    |         | 6,130    |       | (6,130)    |        |                   |       |                   |         |
| Income (loss)   |         |          |       |            |        |                   |       |                   |         |
| before income   |         |          |       |            |        |                   |       |                   |         |
| taxes,          |         |          |       |            |        |                   |       |                   |         |
| discontinued    |         |          |       |            |        |                   |       |                   |         |
| operations and  |         |          |       |            |        |                   |       |                   |         |
| cumulative      |         |          |       |            |        |                   |       |                   |         |
| effect of       |         |          |       |            |        |                   |       |                   |         |
| accounting      |         |          |       |            |        |                   |       |                   |         |
| change          | 1,556   | 5,980    | 65    | (5,795)    | 250    | (366)             | 31    | (31)              | 1,440   |
| Income tax      |         |          |       |            |        |                   |       |                   |         |
| (provision)     |         |          |       |            |        |                   |       |                   |         |
| benefit         | (620)   | (273)    | 2     | 271        |        | 41 <sup>(d)</sup> | (12)  | 12 <sup>(l)</sup> | (579)   |
| Income (loss)   |         |          |       |            |        |                   |       |                   |         |
| before          |         |          |       |            |        |                   |       |                   |         |
| discontinued    |         |          |       |            |        |                   |       |                   |         |
| operations and  |         |          |       |            |        |                   |       |                   |         |
| cumulative      |         |          |       |            |        |                   |       |                   |         |
| effect of       |         |          |       |            |        |                   |       |                   |         |
| accounting      |         |          |       |            |        |                   |       |                   |         |
| change          | \$ 936  | \$ 5,707 | \$ 67 | \$ (5,524) | \$ 250 | \$ (325)          | \$ 19 | \$ (19)           | \$ 861  |
| Basic and       |         |          |       |            |        |                   |       |                   |         |
| diluted income  |         |          |       |            |        |                   |       |                   |         |
| per common      |         |          |       |            |        |                   |       |                   |         |
| share before    |         |          |       |            |        |                   |       |                   |         |
| discontinued    |         |          |       |            |        |                   |       |                   |         |
| operations and  |         |          |       |            |        |                   |       |                   |         |
| cumulative      |         |          |       |            |        |                   |       |                   |         |
| effect of       |         |          |       |            |        |                   |       |                   |         |
| accounting      |         |          |       |            |        |                   |       |                   |         |
| change          | \$ 0.95 | \$       | \$    | \$         | \$     | \$                | \$    | \$                | \$ 0.88 |
| Basic and       |         |          |       |            |        |                   |       |                   |         |
| diluted         |         |          |       |            |        |                   |       |                   |         |
| common shares   | 990     |          |       |            |        | (13)              |       |                   | 977     |

<sup>(1)</sup> Reflects operating results for the seven months ended July 31, 2006.

See accompanying notes.





**Table of Contents****Unaudited Pro Forma Condensed Combined Statement of Operations**

|   | Six Months Ended June 30, 2006 |                        |                       |                                  |   |  |   |                                      |                     |
|---|--------------------------------|------------------------|-----------------------|----------------------------------|---|--|---|--------------------------------------|---------------------|
|   | Historical<br>TWC              | Historical<br>Adelphia | Historical<br>Systems | Less<br>Items<br>Not<br>Acquired | Subtotal<br>of Net<br>Acquired<br>Systems | Pro<br>Forma<br>Adjustments<br>The<br>Transactions | Consolidation<br>of the<br>Kansas<br>City<br>Pool | Pro<br>Forma<br>Adjustments<br>TKCCP | Pro<br>Forma<br>TWC |
| Total revenues                                  | \$ 4,907                       | \$ 2,348               | \$ 630                | \$ (1,030)                       | \$ 1,948                                  | \$   | \$ 384  | \$ (39) <sup>(i)</sup>               | \$ 7,200            |
| Costs of revenues                               | 2,202                          | 1,394                  | 248                   | (587)                            | 1,055                                     |  | 196   | (23) <sup>(j)</sup>                  | 3,430               |
| Selling, general and administrative expenses    | 883                            | 177                    | 205                   | (96)                             | 286                                       |  | 60  | 13 <sup>(j)</sup>                    | 1,242               |
| Depreciation                                    | 768                            | 380                    | 106                   | (167)                            | 319                                       | 17 <sup>(e)</sup>                                  | 58  | (18) <sup>(k)</sup>                  | 1,144               |
| Amortization                                    | 37                             | 67                     | 5                     | (18)                             | 54  | 56 <sup>(e)</sup>                                  |   | 10 <sup>(k)</sup>                    | 157                 |
| Merger-related and restructuring costs          | 21                             |                        |                       |                                  |   |  |   |                                      | 21                  |
| Impairment of long-lived assets                 |                                |                        | 9                     |                                  | 9   |  |   |                                      | 9                   |
| (Gain) loss on disposition of long-lived assets |                                | (1)                    |                       | 1                                |   |  |   |                                      |                     |
| Investigation and re-audit related fees         |                                | 30                     |                       | (30)                             |   |  |   |                                      |                     |
| Operating Income (Loss)                         | 996                            | 301                    | 57                    | (133)                            | 225                                       | (73)   | 70  | (21)                                 | 1,197               |
| Interest expense, net                           | (225)                          | (377)                  | (4)                   | 381                              |   | (226) <sup>(f)</sup>                               |   |                                      | (451)               |
| Income (loss) from equity investments, net      | 42                             | (1)                    | (3)                   |                                  | (4)                                       |  | (38) <sup>(i)</sup>                               |                                      |                     |
| Minority interest (expense)                     | (43)                           | 11                     |                       | (11)                             |   | (8) <sup>(g)</sup>                                 |   |                                      | (51)                |

|                 |         |          |       |        |        |                   |       |                  |         |
|-----------------|---------|----------|-------|--------|--------|-------------------|-------|------------------|---------|
| income, net     |         |          |       |        |        |                   |       |                  |         |
| Other income    |         |          |       |        |        |                   |       |                  |         |
| (expense), net  | 1       | (108)    | (1)   | 104    | (5)    |                   |       |                  | (4)     |
| Reorganization  |         |          |       |        |        |                   |       |                  |         |
| expenses due to |         |          |       |        |        |                   |       |                  |         |
| bankruptcy      |         | 63       |       | (63)   |        |                   |       |                  |         |
| Income (loss)   |         |          |       |        |        |                   |       |                  |         |
| before income   |         |          |       |        |        |                   |       |                  |         |
| taxes,          |         |          |       |        |        |                   |       |                  |         |
| discontinued    |         |          |       |        |        |                   |       |                  |         |
| operations and  |         |          |       |        |        |                   |       |                  |         |
| cumulative      |         |          |       |        |        |                   |       |                  |         |
| effect of       |         |          |       |        |        |                   |       |                  |         |
| accounting      |         |          |       |        |        |                   |       |                  |         |
| change          | 771     | (111)    | 49    | 278    | 216    | (307)             | 32    | (21)             | 691     |
| Income tax      |         |          |       |        |        |                   |       |                  |         |
| (provision)     |         |          |       |        |        |                   |       |                  |         |
| benefit         | (307)   | (71)     | 8     | 63     |        | 32 <sup>(h)</sup> | (13)  | 8 <sup>(l)</sup> | (280)   |
| Income (loss)   |         |          |       |        |        |                   |       |                  |         |
| before          |         |          |       |        |        |                   |       |                  |         |
| discontinued    |         |          |       |        |        |                   |       |                  |         |
| operations and  |         |          |       |        |        |                   |       |                  |         |
| cumulative      |         |          |       |        |        |                   |       |                  |         |
| effect of       |         |          |       |        |        |                   |       |                  |         |
| accounting      |         |          |       |        |        |                   |       |                  |         |
| change          | \$ 464  | \$ (182) | \$ 57 | \$ 341 | \$ 216 | \$ (275)          | \$ 19 | \$ (13)          | \$ 411  |
| Basic and       |         |          |       |        |        |                   |       |                  |         |
| diluted income  |         |          |       |        |        |                   |       |                  |         |
| per common      |         |          |       |        |        |                   |       |                  |         |
| share before    |         |          |       |        |        |                   |       |                  |         |
| discontinued    |         |          |       |        |        |                   |       |                  |         |
| operations and  |         |          |       |        |        |                   |       |                  |         |
| cumulative      |         |          |       |        |        |                   |       |                  |         |
| effect of       |         |          |       |        |        |                   |       |                  |         |
| accounting      |         |          |       |        |        |                   |       |                  |         |
| change          | \$ 0.46 | \$       | \$    | \$     | \$     | \$                | \$    | \$               | \$ 0.42 |
| Basic and       |         |          |       |        |        |                   |       |                  |         |
| diluted         |         |          |       |        |        |                   |       |                  |         |
| common shares   | 1,000   |          |       |        |        | (23)              |       |                  | 977     |

See accompanying notes.

**Table of Contents****Notes to Unaudited Pro Forma Condensed Combined Financial Information****Note 1: Description of the Transactions*****Contractual Purchase Price***

On July 31, 2006, TW NY, a subsidiary of ours, purchased certain assets and assumed certain liabilities from Adelphia for a total of \$8.935 billion in cash and shares representing 17.3% of our Class A common stock and 16% of our total outstanding common stock. The 16% interest reflects 155,913,430 shares of Class A common stock issued to Adelphia, which were valued at \$35.28 per share for purposes of the Adelphia acquisition. The original cash cost of \$9.154 billion was preliminarily reduced at closing by \$219 million as a result of contractual adjustments, which resulted in a net cash payment by TW NY of \$8.935 billion for the Adelphia acquisition. A summary of the purchase price is set forth below (in millions):

|                                    |           |
|------------------------------------|-----------|
| Cash                               | \$ 8,935  |
| 16% interest in TWC <sup>(1)</sup> | 5,500     |
| Total                              | \$ 14,435 |

- (1) The valuation of \$5.5 billion for the 16% interest in us as of July 31, 2006 was determined by management using a discounted cash flow and market comparable valuation model. The discounted cash flow valuation model was based upon our estimated future cash flows derived from our business plan and utilized a discount rate consistent with the inherent risk in the business.

***Redemptions***

Immediately prior to the Adelphia acquisition on July 31, 2006, we and our subsidiary, TWE, respectively, redeemed Comcast's interests in us and TWE, each of which was accounted for as an acquisition of a minority interest. Specifically, in the TWC Redemption, we redeemed Comcast's 17.9% interest in us for 100% of the capital stock of a subsidiary of ours that held both cable systems serving approximately 589,000 subscribers, with an approximate fair value of \$2.470 billion, as determined using a discounted cash flow and market comparable valuation model, and approximately \$1.857 billion in cash. The discounted cash flow valuation model was based upon our estimated future cash flows derived from our business plan and utilized a discount rate consistent with the inherent risk in the business. In addition, in the TWE Redemption, TWE redeemed Comcast's 4.7% residual equity interest in TWE for 100% of the equity interests in a subsidiary of TWE that held both cable systems serving approximately 162,000 subscribers, with an approximate fair value of \$630 million, as determined using a discounted cash flow and market comparable valuation model, and approximately \$147 million in cash. The transfer of cable systems as part of the Redemptions is a sale of cable systems for accounting purposes, and a \$131 million pretax gain was recognized representing the excess of the estimated fair value of these cable systems over their book value. This gain is not reflected in the accompanying unaudited pro forma condensed combined statement of operations.

***Exchange***

Immediately after the Adelphia acquisition on July 31, 2006, we and Comcast exchanged certain cable systems, with an estimated fair value on each side of approximately \$8.7 billion, as determined using a discounted cash flow valuation model, to enhance our company's and Comcast's respective geographic clusters of subscribers. The discounted cash flow valuation model was based upon our estimated future cash flows derived from our business plan

and utilized a discount rate consistent with the inherent risk in the business. We paid Comcast a contractual closing adjustment totaling \$67 million related to the Exchange. We accounted for the Exchange as a purchase of cable systems from Comcast and a sale of our cable systems to Comcast. We recorded a pretax gain of \$34 million on the Exchange related to the disposition of Urban Cable Works of Philadelphia, L.P. This gain is not reflected in the accompanying unaudited pro forma condensed combined statement of operations.

**Table of Contents*****ATC Contribution***

On July 28, 2006, American Television and Communications Corporation ( ATC ), a subsidiary of Time Warner, contributed its 1% equity interest and \$2.4 billion preferred equity interest in TWE to TW NY Holding, a newly created subsidiary of ours that is the parent of TW NY, in exchange for a 12.4% non-voting common equity interest in TW NY Holding having an equivalent fair value (the ATC Contribution ).

***Financing Arrangements***

We incurred incremental debt and redeemable preferred equity of approximately \$11.1 billion associated with the cash used in executing the Transactions. In connection with the dissolution of TKCCP, in October 2006, we received approximately \$631 million of cash in repayment of outstanding loans we had made to TKCCP (which were allocated to the assets distributed to Comcast). The cash that was received was used to pay down amounts outstanding under our existing credit facilities.

For additional information, see Management's Discussion and Analysis of Results of Operations and Financial Condition.

**Note 2: Unaudited Pro Forma Condensed Combined Statement of Operations Adjustments Year Ended December 31, 2006 The Transactions**

The pro forma adjustments to the statement of operations for the year ended December 31, 2006 relating to the Transactions are as follows:

(a) The adjustments to historical depreciation and amortization expense reflect the impact of using the fair values and useful lives of the underlying assets based on a valuation analysis performed by management. The discounted cash flow approach was based upon management's estimated future cash flows from the acquired assets and utilized a discount rate consistent with the inherent risk of each of the acquired assets.

(b) The increase in interest expense reflects incremental borrowings to finance our portion of the Adelphia acquisition and the Redemptions, net of the impact of the ATC Contribution. The following tables illustrate the allocation of borrowings to various financing arrangements and the computation of incremental interest expense.

***Adelphia Acquisition***

|  | <b>Long-term<br/>Debt<br/>(in millions)</b> | <b>Annual<br/>Rate</b> | <b>Interest<br/>Expense for<br/>the<br/>Seven Months<br/>Ended<br/>July 31, 2006<br/>(in millions)</b> |
|--|---|------------------------|--|
| TW NY Series A Preferred Membership Units <sup>(1)</sup> | \$ 300                                      | 8.21%                  | \$ 14  |
| Other debt <sup>(1)</sup>                                | 8,822                                       | 5.74%                  | 295  |
| Total incremental borrowing                              | 9,122                                       |                        | 309  |
| Redemption of mandatorily redeemable preferred equity    | (2,400)                                     | 8.06%                  | (113)  |

|  |    |       |    |     |
|--|----|-------|----|-----|
| Net increase in debt/redeemable preferred equity | \$ | 6,722 | \$ | 196 |
|--|----|-------|----|-----|

- (1) This table reflects borrowings under our revolving credit facility and term loans and the issuance of commercial paper. The interest rate utilized in the pro forma information for Other debt is a weighted-average rate based on the borrowings used to finance our portion of the Adelphia acquisition. The rates for Other debt and the TW NY Series A Preferred Membership Units are based on actual borrowing rates when the loans were made and the TW NY Series A Preferred Membership Units were issued. A 1/8% change in the annual interest rate for the Other debt noted above would change interest expense by \$11 million per year.

**Table of Contents****Redemptions**

|                           | <b>Long-term<br/>Debt<br/>(in millions)</b> | <b>Annual<br/>Rate</b> | <b>Interest<br/>Expense for<br/>the<br/>Seven Months<br/>Ended<br/>July 31, 2006<br/>(in millions)</b> |
|---------------------------|---|------------------------|--|
| Other debt <sup>(1)</sup> | \$ 2,004                                    | 5.74%                  | \$ 67  |

(1) This table reflects borrowings under our revolving credit facility and term loans and the issuance of commercial paper. The interest rate utilized in the pro forma information for Other debt is a weighted-average rate based on the borrowings under these financing arrangements. The rates for Other debt are based on actual borrowing rates when the loans were made. A 1/8% change in the annual interest rate for the Other debt noted above would change interest expense by \$3 million per year.

(c) The net increase in minority interest expense reflects an adjustment to record ATC's direct non-voting common ownership interest in TW NY Holding of approximately 12.4%, the elimination of ATC's historical minority interest in TWE and the elimination of Comcast's residual equity interest in TWE.

|   | <b>(in millions)</b> |
|---|----------------------|
| Eliminate ATC's historical minority interest in TWE | \$ 9                 |
| Record ATC's minority interest in TW NY Holding     | (62)                 |
| Eliminate Comcast's residual equity interest in TWE | 39                   |
| Net adjustment                                      | \$ (14)              |

(d) The adjustment to the income tax provision is required to adjust the historical income taxes on both the Subtotal of Net Acquired Systems and the Pro Forma Adjustments The Transactions at our marginal tax rate of 40.2% and considering the impact of the non-deductible interest expense related to the TW NY Series A Preferred Membership Units.

**Note 3: Unaudited Pro Forma Condensed Combined Statement of Operations Adjustments Six Months Ended June 30, 2006 The Transactions**

The pro forma adjustments to the statement of operations for the six months ended June 30, 2006 relating to the Transactions are as follows:

(e) The adjustments to historical depreciation and amortization expense reflect the impact of using the fair values and useful lives of the underlying assets based on a valuation analysis performed by management. The discounted cash flow approach was based upon management's estimated future cash flows from the acquired assets and utilized a discount rate consistent with the inherent risk of each of the acquired assets.



(f) The increase in interest expense reflects incremental borrowings to finance our portion of the Adelpia acquisition and the Redemptions, net of the impact of the ATC Contribution. The following tables illustrate the allocation of borrowings to various financing arrangements and the computation of incremental interest expense.

**Table of Contents****Adelphia Acquisition**

|  | <b>Long-term<br/>Debt<br/>(in millions)</b> | <b>Annual<br/>Rate</b> | <b>Interest<br/>Expense for<br/>the<br/>Six Months<br/>Ended<br/>June 30, 2006<br/>(in millions)</b> |
|--|---|------------------------|--|
| TW NY Series A Preferred Membership Units <sup>(1)</sup> | \$ 300                                      | 8.21%                  | \$ 12  |
| Other debt <sup>(1)</sup>                                | 8,822                                       | 5.74%                  | 253  |
| Total incremental borrowing                              | 9,122                                       |                        | 265  |
| Redemption of mandatorily redeemable preferred equity    | (2,400)                                     | 8.06%                  | (97)   |
| Net increase in debt/redeemable preferred equity         | \$ 6,722                                    |                        | \$ 168   |

- (1) This table reflects borrowings under our revolving credit facility and term loans and the issuance of commercial paper. The interest rate utilized in the pro forma information for Other debt is a weighted-average rate based on the borrowings used to finance our portion of the Adelphia acquisition. The rates for Other debt and the TW NY Series A Preferred Membership Units are based on actual borrowing rates when the loans were made and the TW NY Series A Preferred Membership Units were issued. A 1/8% change in the annual interest rate for the Other debt noted above would change interest expense by \$11 million per year.

**Redemptions**

|                           | <b>Long-term<br/>Debt<br/>(in millions)</b> | <b>Annual<br/>Rate</b> | <b>Interest<br/>Expense for<br/>the<br/>Six Months<br/>Ended<br/>June 30, 2006<br/>(in millions)</b> |
|---------------------------|---|------------------------|--|
| Other debt <sup>(1)</sup> | \$ 2,004                                    | 5.74%                  | \$ 58  |

- (1) This table reflects borrowings under our revolving credit facility and term loans and the issuance of commercial paper. The interest rate utilized in the pro forma information for Other debt is a weighted-average rate based on the borrowings under these financing arrangements. The rates for Other debt are based on actual borrowing rates when the loans were made. A 1/8% change in the annual interest rate for the Other debt noted above would change interest expense by \$3 million per year.

(g) The net increase in minority interest expense reflects an adjustment to record ATC's direct non-voting common ownership interest in TW NY Holding of approximately 12.4%, the elimination of ATC's historical minority interest in TWE and the elimination of Comcast's residual equity interest in TWE.

|   | <b>(in millions)</b> |
|---|----------------------|
| Eliminate ATC's historical minority interest in TWE | \$ 8                 |
| Record ATC's minority interest in TW NY Holding     | (53)                 |
| Eliminate Comcast's residual equity interest in TWE | 37                   |
| Net adjustment                                      | \$ (8)               |

(h) The adjustment to the income tax provision is required to adjust the historical income taxes on both the Subtotal of Net Acquired Systems and the Pro Forma Adjustments The Transactions at our marginal tax rate of 40.2% and considering the impact of the non-deductible interest expense related to the TW NY Series A Preferred Membership Units.

**Note 4: TKCCP Dissolution**

On January 1, 2007, TKCCP distributed its assets to us and Comcast. Comcast received TKCCP's cable systems in Houston (the Houston Pool) and we received the Kansas City Pool and we began consolidating the financial results of the Kansas City Pool on that date. All debt of TKCCP (inclusive of debt provided by us and Comcast) was allocated to the Houston Pool and became the responsibility of Comcast. We accounted for the distribution of the assets of TKCCP as a sale of our 50% equity interest in the Houston Pool in exchange for acquiring an additional 50% equity interest in the Kansas City Pool. We recorded a gain based on the difference between the carrying value and the fair value of our 50% investment in the Houston Pool

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surrendered in connection with the dissolution of TKCCP. This pretax gain of approximately \$146 million is not reflected in the accompanying unaudited pro forma condensed combined statement of operations.

(i) Prior to the distribution of its assets, we accounted for our investment in TKCCP under the equity method of accounting. The adjustments to the unaudited pro forma condensed combined statement of operations reflect the reversal of historical equity income and the consolidation of the operations of the Kansas City Pool.

(j) The adjustments to the unaudited pro forma condensed combined statement of operations reflect the elimination of intercompany transactions between TKCCP and Historical TWC, primarily the provision of Road Runner services to TKCCP and management fees received by Historical TWC for management functions provided to TKCCP.

(k) The adjustments to historical depreciation and amortization expense reflect the impact of using the fair values and useful lives of the underlying assets based on a valuation analysis performed by management. The discounted cash flow approach was based upon management's estimated future cash flows from the acquired assets and utilized a discount rate consistent with the inherent risk of each of the acquired assets. The purchase price allocation with respect to the acquisition of Comcast's 50% equity interest in the Kansas City Pool is preliminary.

(l) The adjustment to the income tax provision is required to adjust the historical income taxes on the dissolution of TKCCP at our marginal tax rate of 40.2%.

**Note 5: Items Not Acquired**

The following table represents the unaudited historical operating results of the Adelphia systems up to the closing of the Transactions that were (i) received by TW NY in the Adelphia acquisition and then transferred to Comcast in the Exchange, (ii) acquired by Comcast in the Adelphia acquisition and not transferred to us in the Exchange or (iii) retained by Adelphia after the Transactions. The Other Adjustments columns include certain items and allocated costs that were included in the Comcast Historical Systems financial information and the Adelphia acquired systems that were not acquired by us. Specifically, the following items relate to the Comcast Historical Systems and the Adelphia acquired systems that were not transferred to us and, therefore, are included as part of the Other Adjustments columns:

Adelphia's and Comcast's parent and subsidiary interest expense;

Intercompany management fees related to the Comcast Historical Systems;

Adelphia investigation and re-audit related fees;

Reorganization expenses due to the bankruptcy of Adelphia;

Intercompany charges between Adelphia cable systems that we acquired and Adelphia cable systems that Comcast acquired that will be discontinued as a result of the Transactions;

The gain on sale recognized by Adelphia in connection with the Transactions; and

Income tax provisions for the Historical Adelphia and Comcast Historical Systems.

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|  | <b>Items Not Acquired for the Seven Months Ended July 31, 2006</b>                                      |   |  |  |   |   |
|--|---|---|--|--|---|---|
|  | <b>Adelphia<br/>Systems<br/><br/>Purchased<br/>by TW<br/>NY<br/><br/>Transferred<br/>to<br/>Comcast</b> | <b>Adelphia<br/>Systems<br/>Purchased<br/>by<br/><br/>Comcast<br/>Retained<br/>by<br/>Comcast</b> | <b>Historical<br/>Adelphia<br/><br/>Not<br/><br/>Purchased<br/>by TW<br/>NY<br/>or<br/>Comcast<br/>(in millions)</b> | <b>Other Adjustments</b>                 |   | <b>Total<br/><br/>Items<br/><br/>Not<br/>Acquired</b> |
|  |   |   |  | <b>Adelphia<br/>Acquired<br/>Systems</b> | <b>Comcast<br/>Historical<br/>Systems</b> |   |
| Total revenues   | \$ 1,113  | \$ 76   | \$ 14  | \$                                       | \$  | \$ 1,203  |
| Costs of revenues  | 629   | 40  | 7  | (16)                                     |   | 660   |
| Selling, general and<br>administrative expenses  | 90  | 6   | 7  | (11)                                     | 43  | 135   |
| Depreciation   | 178   | 13  | 3  |  |   | 194   |
| Amortization   | 20  | 1   |  |  |   | 21  |
| Impairment of long-lived assets  |   | 17  |  |  |   | 17  |
| Gain on disposition of long-lived<br>assets  |   |   | (2)  |  |   | (2)   |
| Investigation and re-audit related<br>fees   | 13  | 1   |  | 18                                       |   | 32  |
| Operating Income (Loss)  | 183   | (2)   | (1)  | 9  | (43)                                      | 146   |
| Interest expense, net  | (158)   | (13)  |  | (267)                                    | (4)                                       | (442)   |
| Minority interest income, net  |   |   | 13   |  |   | 13  |
| Other expense, net   | (2)   |   | (103)  |  |   | (105)   |
| Reorganization income due to<br>bankruptcy   | 21  | 3   | 1  | 28                                       |   | 53  |
| Gain on the Transactions   |   |   |  | 6,130                                    |   | 6,130   |
| Income (loss) before income<br>taxes, discontinued operations<br>and cumulative effect of<br>accounting change | 44  | (12)  | (90)   | 5,900                                    | (47)                                      | 5,795   |
| Income tax (provision) benefit   | (50)  | (4)   | 3  | (222)                                    | 2   | (271)   |
| Income (loss) before<br>discontinued operations and<br>cumulative effect of accounting<br>change               | \$ (6)  | \$ (16)   | \$ (87)  | \$ 5,678                                 | \$ (45)                                   | \$ 5,524  |

**Table of Contents****Note 6: Comcast Historical Systems Supplemental Information**

The following table represents the unaudited historical operating results of the Comcast Historical Systems for the seven months ended July 31, 2006, which have been separated into the six months ended June 30, 2006 and the one month period ended July 31, 2006.

|   | <b>Comcast Historical Systems</b>                     |  |   |
|---|---|--|---|
|   | <b>Six<br/>Months<br/>Ended<br/>June 30,<br/>2006</b> | <b>One Month<br/>Ended<br/>July 31,<br/>2006<br/>(in millions)</b> | <b>Seven<br/>Months<br/>Ended<br/>July 31, 2006</b> |
| Total revenues  | \$ 630  | \$ 110   | \$ 740  |
| Costs of revenues   | 248   | 41   | 289   |
| Selling, general and administrative expenses  | 205   | 33   | 238   |
| Depreciation  | 106   | 18   | 124   |
| Amortization  | 5   | 1  | 6   |
| Impairment of long-lived assets   | 9   |  | 9   |
| Operating Income  | 57  | 17   | 74  |
| Interest expense, net   | (4)   |  | (4)   |
| Loss from equity investments, net   | (3)   |  | (3)   |
| Other expense, net  | (1)   | (1)  | (2)   |
| Income (loss) before income taxes, discontinued operations and cumulative effect of accounting change | 49  | 16   | 65  |
| Income tax (provision) benefit  | 8   | (6)  | 2   |
| Income before discontinued operations and cumulative effect of accounting change                      | \$ 57   | \$ 10  | \$ 67   |

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**SELECTED FINANCIAL INFORMATION**

Our selected financial information is set forth in the following tables. The balance sheet data as of December 31, 2002 and the statement of operations data for the year ended December 31, 2002 have been derived from our unaudited consolidated financial statements for such periods not included in this prospectus. The balance sheet data as of December 31, 2003 and 2004 and the statement of operations data as of December 31, 2003 have been derived from our audited financial statements not included in this prospectus. The balance sheet data as of December 31, 2005 and 2006 and the statement of operations data for the years ended December 31, 2004, 2005 and 2006 have been derived from our audited consolidated financial statements, which are included elsewhere in this prospectus.

The balance sheet data as of June 30, 2007 and the statement of operations data for the six months ended June 30, 2006 and 2007 have been derived from our unaudited consolidated financial statements included elsewhere in this prospectus. The balance sheet data as of June 30, 2006 have been derived from our unaudited financial statements not included in this prospectus. In the opinion of management, the unaudited financial data reflect all adjustments, consisting of normal and recurring adjustments, necessary for a fair statement of our results of operations for those periods. Our results of operations for the six months ended June 30, 2007 are not necessarily indicative of the results that can be expected for the full year or for any future period.

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|   | Year Ended December 31,              |          |          |          |          | Six Months Ended |          |
|---|--------------------------------------|----------|----------|----------|----------|------------------|----------|
|   | 2002                                 | 2003     | 2004     | 2005     | 2006     | June 30,<br>2006 | 2007     |
|   | (in millions, except per share data) |          |          |          |          |                  |          |
| <b>Selected Operating Statement Information:</b>  |                                      |          |          |          |          |                  |          |
| Revenues:   |                                      |          |          |          |          |                  |          |
| Video   | \$ 4,923                             | \$ 5,351 | \$ 5,706 | \$ 6,044 | \$ 7,632 | \$ 3,199         | \$ 5,083 |
| High-speed data   | 949                                  | 1,331    | 1,642    | 1,997    | 2,756    | 1,169            | 1,818    |
| Voice   |                                      | 1        | 29       | 272      | 715      | 297              | 549      |
| Advertising   | 504                                  | 437      | 484      | 499      | 664      | 242              | 415      |
| Total revenues  | 6,376                                | 7,120    | 7,861    | 8,812    | 11,767   | 4,907            | 7,865    |
| Total costs and expenses <sup>(a)</sup>   | 14,504                               | 5,818    | 6,307    | 7,026    | 9,588    | 3,911            | 6,575    |
| Operating Income (Loss) <sup>(a)</sup>  | (8,128)                              | 1,302    | 1,554    | 1,786    | 2,179    | 996              | 1,290    |
| Interest expense, net   | (385)                                | (492)    | (465)    | (464)    | (646)    | (225)            | (454)    |
| Income from equity investments, net   | 13                                   | 33       | 41       | 43       | 129      | 42               | 7        |
| Minority interest expense, net  | (118)                                | (59)     | (56)     | (64)     | (108)    | (43)             | (79)     |
| Other income (expense), net <sup>(b)</sup>  | (420)                                |          | 11       | 1        | 2        | 1                | 143      |
| Income (loss) before income taxes, discontinued operations and cumulative effect of accounting change | (9,038)                              | 784      | 1,085    | 1,302    | 1,556    | 771              | 907      |
| Income tax provision  | (118)                                | (327)    | (454)    | (153)    | (620)    | (307)            | (359)    |
| Income (loss) before discontinued operations and cumulative effect of accounting change               | (9,156)                              | 457      | 631      | 1,149    | 936      | 464              | 548      |
| Discontinued operations, net of tax   | (443)                                | 207      | 95       | 104      | 1,038    | 64               |          |
| Cumulative effect of accounting change, net of tax <sup>(c)</sup>                                     | (28,031)                             |          |          |          | 2        | 2                |          |
| Net income (loss)   | \$ (37,630)                          | \$ 664   | \$ 726   | \$ 1,253 | \$ 1,976 | \$ 530           | \$ 548   |
| Basic income (loss) per common share before discontinued operations and cumulative effect of          | \$ (11.15)                           | \$ 0.48  | \$ 0.63  | \$ 1.15  | \$ 0.95  | \$ 0.47          | \$ 0.56  |



|  |            |         |         |         |         |         |         |
|--|------------|---------|---------|---------|---------|---------|---------|
| accounting change  |            |         |         |         |         |         |         |
| Discontinued operations  | (0.54)     | 0.22    | 0.10    | 0.10    | 1.05    | 0.06    |         |
| Cumulative effect of<br>accounting change  | (34.14)    |         |         |         |         |         |         |
| Basic net income (loss) per<br>common share  | \$ (45.83) | \$ 0.70 | \$ 0.73 | \$ 1.25 | \$ 2.00 | \$ 0.53 | \$ 0.56 |
| Average basic common<br>shares   | 821.0      | 955.3   | 1,000.0 | 1,000.0 | 990.4   | 1,000.0 | 976.9   |
| Diluted income (loss) per<br>common share before<br>discontinued operations<br>and cumulative effect of<br>accounting change | \$ (11.15) | \$ 0.48 | \$ 0.63 | \$ 1.15 | \$ 0.95 | \$ 0.47 | \$ 0.56 |
| Discontinued operations  | (0.54)     | 0.22    | 0.10    | 0.10    | 1.05    | 0.06    |         |
| Cumulative effect of<br>accounting change  | (34.14)    |         |         |         |         |         |         |
| Diluted net income (loss)<br>per common share  | \$ (45.83) | \$ 0.70 | \$ 0.73 | \$ 1.25 | \$ 2.00 | \$ 0.53 | \$ 0.56 |
| Average diluted common<br>shares   | 821.0      | 955.3   | 1,000.0 | 1,000.0 | 990.4   | 1,000.0 | 977.1   |

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|  | 2002                         | 2003   | December 31,<br>2004 2005 2006 |        |        | June 30,<br>2006 2007 |        |
|--|------------------------------|--------|--------------------------------|--------|--------|-----------------------|--------|
|  | (in millions, except ratios) |        |                                |        |        |                       |        |
| <b>Selected Balance Sheet Information:</b>   |                              |        |                                |        |        |                       |        |
| Cash and equivalents   | \$ 868                       | \$ 329 | \$ 102                         | \$ 12  | \$ 51  | \$ 26                 | \$ 70  |
| Total assets   | 62,146                       | 42,902 | 43,138                         | 43,677 | 55,743 | 44,010                | 55,873 |
| Total debt and preferred equity <sup>(d)</sup>                                     | 6,976                        | 8,368  | 7,299                          | 6,863  | 14,732 | 6,523                 | 14,171 |
| <b>Other Financial Data:</b>   |                              |        |                                |        |        |                       |        |
| Ratio of earnings to fixed charges <sup>(e)</sup>                                  | \$ (8,894)                   | 2.5x   | 3.0x                           | 3.3x   | 3.1x   | 3.6x                  | 3.1x   |
| Ratio of earnings to combined fixed charges and preferred dividends <sup>(e)</sup> | \$ (8,894)                   | 2.5x   | 3.0x                           | 3.3x   | 3.1x   | 3.6x                  | 3.1x   |

- (a) Includes merger-related costs and restructuring costs of \$16 million and \$21 million in the six months ended June 30, 2007 and 2006, respectively, and \$56 million, \$42 million and \$15 million in the years ended December 31, 2006, 2005 and 2003, respectively (none in 2004 and 2002). Includes a \$9.210 billion goodwill impairment charge and a \$6 million gain related to the sale of a cable system at TWE in 2002.
- (b) Includes a pretax gain of \$146 million in the six months ended June 30, 2007 related to the sale of our 50% equity interest in the Houston Pool of TKCCP. Includes a charge of \$420 million in 2002 to reflect the other than temporary declines in the value of certain unconsolidated cable television system joint ventures.
- (c) Includes a benefit of \$2 million in the six months ended June 30, 2006 and the year ended December 31, 2006 related to the cumulative effect of a change in accounting principle in connection with the adoption of Financial Accounting Standards Board ( FASB ) Statement No. 123 (revised 2004), *Share-Based Payment*, and a charge of \$28.031 billion in 2002 related to the cumulative effect of a change in accounting principle in connection with the adoption of FASB Statement No. 142, *Goodwill and Other Intangible Assets*.
- (d) Includes debt due within one year of \$2 million at June 30, 2007 (none at June 30, 2006) and \$4 million, \$1 million, \$4 million and \$8 million at December 31, 2006, 2004, 2003 and 2002, respectively (none at December 31, 2005), long-term debt, TW NY Series A Preferred Membership Units and mandatorily redeemable preferred equity issued by a subsidiary.
- (e) For purposes of computing the ratio of earnings to fixed charges and the ratio of earnings to combined fixed charges and preferred stock dividends, earnings were calculated by adding: (i) pretax income, (ii) interest expense, (iii) preferred stock dividend requirements of majority-owned companies, (iv) minority interest in the income of majority-owned subsidiaries that have fixed charges, and (v) the amount of undistributed losses (earnings) of our less than 50%-owned companies. Fixed charges consist of interest expense. Combined fixed charges and preferred stock dividends include the fixed charges mentioned above and the amount of pretax income necessary to cover any preferred stock dividend requirements.

Earnings as defined include significant noncash charges for depreciation and amortization primarily relating to the amortization of intangible assets recognized in business combinations.

For periods in which earnings before fixed charges were insufficient to cover fixed charges (or combined fixed charges and preferred dividends), the dollar amount of coverage deficiency (in millions), instead of the ratio, is

disclosed.

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

*You should read the following discussion in conjunction with Selected Financial Information, Unaudited Pro Forma Condensed Combined Financial Information and our historical financial statements and related notes, Adelphia's consolidated financial statements and related notes and Comcast's special purpose combined carve-out financial statements of the former Comcast Los Angeles, Dallas and Cleveland cable system operations and related notes, each of which is included elsewhere in this prospectus. Some of the statements in the following discussion are forward-looking statements. For more information, please see Forward-Looking Statements. The following discussion and analysis of our results of operations includes periods prior to the consummation of the Transactions and the consolidation of the Kansas City Pool. Accordingly, our historical results of operations are not indicative of what our future results of operations will be.*

**Overview**

We are the second-largest cable operator in the U.S. and are an industry leader in developing and launching innovative video, data and voice services. At June 30, 2007, we had approximately 13.4 million basic video subscribers in technologically advanced, well-clustered systems located mainly in five geographic areas: New York state, the Carolinas, Ohio, southern California and Texas. As of June 30, 2007, we were the largest cable operator in a number of large cities, including New York City and Los Angeles.

On July 31, 2006, a subsidiary of ours, TW NY, and Comcast completed the acquisition of substantially all of the cable assets of Adelphia and related transactions. In addition, effective January 1, 2007, we began consolidating the results of the Kansas City Pool upon the distribution of the assets of TKCCP to us and Comcast. Prior to January 1, 2007, our interest in TKCCP was reported as an equity method investment. Refer to Recent Developments for further details.

Time Warner currently owns approximately 84.0% of our common stock (representing a 90.6% voting interest). The financial results of our operations are consolidated by Time Warner.

We principally offer three services: video, high-speed data and voice, which have been primarily targeted to residential customers. Video is our largest service in terms of revenues generated. We expect to continue to increase video revenues through the offering of advanced digital video services such as VOD, SVOD, HDTV and set-top boxes equipped with DVRs, as well as through price increases and subscriber growth. Our digital video subscribers provide a broad base of potential customers for additional advanced services. Providing basic video services is a competitive and highly penetrated business, and, as a result, we expect slower incremental growth in the number of basic video subscribers compared to the growth in our advanced service offerings. Video programming costs represent a major component of our expenses and are expected to continue to increase, reflecting contractual rate increases, subscriber growth and the expansion of service offerings, and it is expected that our video service margins will decline over the next few years as programming cost increases outpace growth in video revenues.

High-speed data has been one of our fastest-growing services over the past several years and is a key driver of our results. As of June 30, 2007, we had approximately 7.2 million residential high-speed data subscribers. We expect continued strong growth in residential high-speed data subscribers and revenues for the foreseeable future; however, the rate of growth of both subscribers and revenues is expected to slow over time as high-speed data services become increasingly well-penetrated. In addition, as narrowband Internet users continue to migrate to broadband connections, we anticipate that an increasing percentage of our new high-speed data customers will elect to purchase our entry-level high-speed data service, which is generally less expensive than our flagship service. As a result, over time,

our average high-speed data revenue per subscriber may decline reflecting this shift in mix. We also offer commercial high-speed data services and had approximately 263,000 commercial high-speed data subscribers as of June 30, 2007.

Approximately 2.3 million subscribers received Digital Phone service, our voice service, as of June 30, 2007. Under our primary calling plan, for a monthly fixed fee, Digital Phone customers typically receive the following services: an unlimited local, in-state and U.S., Canada and Puerto Rico calling plan, as well as call waiting, caller ID and E911 services. We are also currently deploying lower-priced calling plans to serve those customers that do

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not use interstate and/or long-distance calling plans extensively and intend to offer additional plans with a variety of calling options in the future. Digital Phone enables us to offer our customers a convenient package, or bundle, of video, high-speed data and voice services, and to compete effectively against bundled services available from our competitors. We expect strong increases in Digital Phone subscribers and revenues for the foreseeable future. We have begun to introduce Business Class Phone, a commercial Digital Phone service, to small- and medium-sized businesses and will continue to roll out this service during the remainder of 2007 in most of the Legacy Systems. We are also introducing this service in some of the Acquired Systems.

In November 2005, we and several other cable companies, together with Sprint, announced the formation of a joint venture to develop integrated wireline and wireless video, data and voice services. In 2006, we began offering under the Pivot brand name a bundle that includes Sprint wireless service (with some of our unique features) in limited operating areas and we will continue to roll out this service during the remainder of 2007.

Some of our principal competitors, in particular, direct broadcast satellite operators and incumbent local telephone companies, either offer or are making significant capital investments that will allow them to offer services that provide features and functions comparable to the video, data and/or voice services that we offer and they are aggressively seeking to offer them in bundles similar to ours. We expect that the availability of these bundled service offerings will continue to intensify competition.

In addition to the subscription services described above, we also earn revenues by selling advertising time to national, regional and local businesses.

As of July 31, 2006, the date the transactions with Adelphia and Comcast closed, the penetration rates for basic video, digital video and high-speed data services were generally lower in the Acquired Systems than in the Legacy Systems. Furthermore, certain advanced services were not available in some of the Acquired Systems, and an IP-based telephony service was not available in any of the Acquired Systems. To increase the penetration of these services in the Acquired Systems, we are in the midst of a significant integration effort that includes upgrading the capacity and technical performance of these systems to levels that will allow the delivery of these advanced services and features. Such integration-related efforts are expected to be largely complete by the end of 2007. As of June 30, 2007, Digital Phone was available to over 40% of the homes passed in the Acquired Systems. We expect to continue to roll out Digital Phone service across the Acquired Systems during the remainder of 2007.

Improvement in the financial and operating performance of the Acquired Systems depends in part on the completion of these initiatives and the subsequent availability of our bundled advanced services in the Acquired Systems. In addition, due to various operational and competitive challenges, we expect that the acquired systems located in Los Angeles, CA and Dallas, TX will continue to require more time and resources than the other acquired systems to stabilize and then meaningfully improve their financial and operating performance. As of June 30, 2007, the Los Angeles and Dallas acquired systems together served approximately 1.9 million basic video subscribers (about 50% of the basic video subscribers served by the Acquired Systems). We believe that by upgrading the plant and integrating the Acquired Systems into our operations, there is a significant opportunity over time to increase service penetration rates, and improve Subscription revenues and OIBDA in the Acquired Systems.

## **Recent Developments**

### ***Time Warner's Interest in TW NY Holding***

Time Warner has recently expressed interest in a transaction pursuant to which our subsidiary, TW NY Holding, would redeem a significant portion of Time Warner's 12.43% non-voting, equity interest in it. On September 13, 2007, our board of directors appointed a special committee of independent directors and authorized it to consider any

proposal Time Warner may make in this regard and negotiate with Time Warner regarding the terms of such a transaction. No assurance can be given that Time Warner will make a proposal that will result in an agreement for us to redeem a portion of its interest in TW NY Holding or, if an agreement is reached, that a redemption transaction will be consummated. In April 2005, in connection with the announcement of the Transactions, we valued this interest (as if the Transactions had occurred at that time)

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at approximately \$2.9 billion. This valuation is not necessarily indicative of the fair value of the interest as of the date of this prospectus. If a redemption transaction takes place, we would expect to finance the transaction through available borrowing capacity under our existing committed revolving credit facility or by accessing the bank credit or debt capital markets. If a redemption transaction is completed, it will not change the 84% ownership interest Time Warner has in our common stock.

### ***2007 Bond Offering***

On April 9, 2007, in the 2007 Bond Offering, we issued \$5.0 billion in aggregate principal amount of senior unsecured notes and debentures consisting of \$1.5 billion principal amount of 2012 initial notes, \$2.0 billion principal amount of 2017 initial notes, and \$1.5 billion principal amount of 2037 initial debentures pursuant to Rule 144A and Regulation S under the Securities Act. We used the net proceeds from this issuance to repay all of the outstanding indebtedness under our \$4.0 billion three-year term loan facility and a portion of the outstanding indebtedness under our \$4.0 billion five-year term loan facility. See **Financial Condition and Liquidity Debt Securities** for further details.

### ***TKCCP Joint Venture***

TKCCP was a 50-50 joint venture between a consolidated subsidiary of ours (Time Warner Entertainment-Advance/Newhouse Partnership ( TWE-A/N )) and Comcast. In accordance with the terms of the TKCCP partnership agreement, on July 3, 2006, Comcast notified us of its election to trigger the dissolution of the partnership and its decision to allocate all of TKCCP's debt, which totaled approximately \$2 billion, to the Houston Pool. On August 1, 2006, we notified Comcast of our election to receive the Kansas City Pool. On October 2, 2006, we received approximately \$630 million from Comcast due to the repayment of debt owed by TKCCP to TWE-A/N that had been allocated to the Houston Pool. From July 1, 2006 through December 31, 2006, we were entitled to 100% of the economic interest in the Kansas City Pool (and recognized such interest pursuant to the equity method of accounting), and we were not entitled to any economic benefits of ownership from the Houston Pool.

On January 1, 2007, TKCCP distributed its assets to us and Comcast. We received the Kansas City Pool, which served approximately 788,000 basic video subscribers as of December 31, 2006, and Comcast received the Houston Pool, which served approximately 795,000 basic video subscribers as of December 31, 2006. We began consolidating the results of the Kansas City Pool on January 1, 2007. TKCCP was formally dissolved on May 15, 2007. For accounting purposes, we have treated the distribution of TKCCP's assets as a sale of our 50% equity interest in the Houston Pool and as an acquisition of Comcast's 50% equity interest in the Kansas City Pool. As a result of the sale of our 50% equity interest in the Houston Pool, we recorded a pretax gain of approximately \$146 million in the first quarter of 2007, which is included as a component of other income, net, in the consolidated statement of operations for the six months ended June 30, 2007.

### ***Adelphia Acquisition***

On July 31, 2006, TW NY and Comcast completed their respective acquisitions of assets comprising in the aggregate substantially all of the cable assets of Adelphia. At the closing of the Adelphia acquisition, TW NY paid approximately \$8.9 billion in cash, after giving effect to certain purchase price adjustments, and shares representing 17.3% of our Class A common stock (approximately 16% of our outstanding common stock) for the portion of the Adelphia assets it acquired. In addition, on July 28, 2006, in the ATC Contribution, ATC contributed its 1% common equity interest and \$2.4 billion preferred equity interest in TWE to TW NY Holding, in exchange for an approximately 12.4% non-voting common stock interest in TW NY Holding.

On February 13, 2007, Adelphia's Chapter 11 reorganization plan became effective and, under applicable securities law regulations and provisions of the U.S. bankruptcy code, we became a public company subject to the requirements



of the Exchange Act. Under the terms of the reorganization plan, most of the 155,913,430 shares of our Class A common stock that Adelphia received in the Adelphia acquisition (representing approximately 16% of our outstanding common stock) are being distributed to Adelphia's creditors. As of June 30, 2007, approximately 91% of these shares of our Class A common stock had been distributed to Adelphia's creditors.

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The remaining shares are expected to be distributed during the coming months as the remaining disputes are resolved by the bankruptcy court. On March 1, 2007, our Class A common stock began trading on the NYSE under the symbol TWC.

***The Redemptions***

On July 31, 2006, immediately before the closing of the Adelphia acquisition, Comcast's interests in us and TWE were redeemed. Specifically, in the TWC Redemption, Comcast's 17.9% interest in us was redeemed in exchange for 100% of the capital stock of a subsidiary of ours holding both cable systems serving approximately 589,000 subscribers and approximately \$1.857 billion in cash. In addition, in the TWE Redemption, Comcast's 4.7% interest in TWE was redeemed in exchange for 100% of the equity interests of a subsidiary of TWE holding both cable systems serving approximately 162,000 subscribers and approximately \$147 million in cash. The TWC Redemption was designed to qualify as a tax free split off under section 355 of the Tax Code. For accounting purposes, the Redemptions were treated as an acquisition of Comcast's minority interests in us and TWE and a disposition of the cable systems that were transferred to Comcast. The purchase of the minority interests resulted in a reduction of goodwill of \$738 million related to the excess of the carrying value of the Comcast minority interests over the total fair value of the Redemptions. In addition, the disposition of the cable systems resulted in an after-tax gain of \$945 million, included in discontinued operations for the year ended December 31, 2006, which is comprised of a \$131 million pretax gain (calculated as the difference between the carrying value of the systems acquired by Comcast in the Redemptions totaling \$2.969 billion and the estimated fair value of \$3.100 billion) and a net tax benefit of \$814 million, including the reversal of historical deferred tax liabilities of approximately \$838 million that had existed on systems transferred to Comcast in the TWC Redemption.

***The Exchange***

Following the Redemptions and the Adelphia acquisition, on July 31, 2006, TW NY and Comcast swapped certain cable systems, most of which were acquired from Adelphia, in order to enhance our and Comcast's respective geographic clusters of subscribers, and TW NY paid Comcast approximately \$67 million for certain adjustments related to the Exchange. The systems exchanged by TW NY included Urban Cable Works of Philadelphia, L.P. (Urban Cable) and systems acquired from Adelphia. We did not record a gain or loss on systems TW NY acquired from Adelphia and transferred to Comcast in the Exchange because such systems were recorded at fair value in the Adelphia acquisition. We did, however, record a pretax gain of \$34 million (\$20 million net of tax) on the Exchange related to the disposition of Urban Cable, which is included in discontinued operations for the year ended December 31, 2006.

The results of the systems acquired in connection with the Transactions have been included in our consolidated statement of operations since the closing of the Transactions. The systems previously owned by us that were transferred to Comcast in connection with the Redemptions and the Exchange (the Transferred Systems), including the gains discussed above, have been reflected as discontinued operations in the consolidated financial statements for all periods presented.

As a result of the closing of the Transactions, we acquired systems with approximately 4.0 million basic video subscribers and disposed of the Transferred Systems, with approximately 0.8 million basic video subscribers, for a net gain of approximately 3.2 million basic video subscribers. As of June 30, 2007, Time Warner owned approximately 84.0% of our outstanding common stock (including 82.7% of our outstanding Class A common stock and all outstanding shares of our Class B common stock), as well as an approximately 12.4% non-voting common stock interest in TW NY Holding. As a result of the Redemptions, Comcast no longer had an interest in us or TWE.

***Tax Benefits from the Transactions***

The Adelpia acquisition was designed to be a taxable acquisition of assets that would result in a tax basis in the acquired assets equal to the purchase price paid. The depreciation and amortization deductions resulting from this step-up in the tax basis of the assets would reduce future net cash tax payments and thereby increase our future cash flows. We believe that most cable operators have a tax basis that is below the fair

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market value of their cable systems and, accordingly, we have viewed a portion of our tax basis in the acquired assets as incremental value above the amount of basis more generally associated with cable systems. The tax benefit of such incremental step-up would reduce net cash tax payments by more than \$300 million per year, assuming the following: (i) incremental step-up relating to 85% of a \$14.4 billion purchase price (which assumes that 15% of the fair market value of cable systems represents a typical amount of basis), (ii) straight-line amortization deductions over 15 years, (iii) sufficient taxable income to utilize the amortization deductions, and (iv) a 40% effective tax rate. The IRS or state or local tax authorities might challenge the anticipated tax characterizations or related valuations, and any successful challenge could materially adversely affect our tax profile (including our ability to recognize the intended tax benefits from the Transactions), significantly increase our future cash tax payments and significantly reduce our future earnings and cash flow.

Also, the TWC Redemption was designed to qualify as a tax-free split-off under section 355 of the Tax Code. If the IRS were successful in challenging the tax-free characterization of the TWC Redemption, an additional cash liability on account of taxes of up to an estimated \$900 million could become payable by us.

## **Financial Statement Presentation**

### ***Revenues***

Our revenues consist of Subscription and Advertising revenues. Subscription revenues consist of revenues from video, high-speed data and voice services.

Video revenues include monthly fees for basic, standard and digital services from both residential and commercial subscribers, together with related equipment rental charges, including charges for set-top boxes, and charges for premium programming and SVOD services. Video revenues also include installation, pay-per-view and VOD charges and franchise fees relating to video charges collected on behalf of local franchising authorities. Several ancillary items are also included within video revenues, such as commissions earned on the sale of merchandise by home shopping services and rental income earned on the leasing of antenna attachments on our transmission towers. In each period presented, these ancillary items constitute less than 2% of video revenues.

High-speed data revenues include monthly subscriber fees from both residential and commercial subscribers, along with related equipment rental charges, home networking fees and installation charges. High-speed data revenues also include fees received from third-party internet service providers, certain cable systems owned by a subsidiary of TWE-A/N and managed by the Advance/Newhouse Partnership ( A/N ) and, in 2006, fees received from TKCCP.

Voice revenues include monthly subscriber fees principally from voice subscribers, including Digital Phone subscribers and approximately 74,000 circuit-switched subscribers (as of June 30, 2007) acquired from Comcast in the Exchange, along with related installation charges. We continue to provide traditional, circuit-switched services to some of those subscribers and, in some areas, have begun the process of discontinuing the circuit-switched offering in accordance with regulatory requirements. In those areas where the circuit-switched offering is discontinued, Digital Phone will be the only voice service we provide.

Advertising revenues include the fees charged to local, regional and national advertising customers for advertising placed on our video and high-speed data services. Nearly all Advertising revenues are attributable to our video service.

### ***Costs and Expenses***

Costs of revenues include: video programming costs (including fees paid to the programming vendors net of certain amounts received from the vendors); high-speed data connectivity costs; Digital Phone network costs; other service-related expenses, including non-administrative labor costs directly associated with the delivery of services to subscribers; maintenance of our delivery systems; franchise fees; and other related expenses. Our programming agreements are generally multi-year agreements that provide for us to make payments to the programming vendors at agreed upon rates based on the number of subscribers to which we provide the service.

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Selling, general and administrative expenses include amounts not directly associated with the delivery of services to subscribers or the maintenance of our delivery systems, such as administrative labor costs, marketing expenses, billing charges, non-plant repair and maintenance costs, management fees paid to Time Warner and other administrative overhead costs, net of management fees received from TKCCP. Effective August 1, 2006, we no longer receive management fees from TKCCP.

### ***Use of Operating Income before Depreciation and Amortization and Free Cash Flow***

OIBDA is a non-GAAP financial measure. We define OIBDA as Operating Income before depreciation of tangible assets and amortization of intangible assets. Management utilizes OIBDA, among other measures, in evaluating the performance of our business because OIBDA eliminates the uneven effect across our business of considerable amounts of depreciation of tangible assets and amortization of intangible assets recognized in business combinations. Additionally, management utilizes OIBDA because it believes this measure provides valuable insight into the underlying performance of our individual cable systems by removing the effects of items that are not within the control of local personnel charged with managing these systems such as income tax provision, other income (expense), net, minority interest expense, net, income from equity investments, net, and interest expense, net. In this regard, OIBDA is a significant measure used in our annual incentive compensation programs. OIBDA also is a metric used by our parent, Time Warner, to evaluate our performance and is an important measure in the Time Warner reportable segment disclosures. Management also uses OIBDA because it believes it provides an indication of our ability to service debt and fund capital expenditures, as OIBDA removes the impact of depreciation and amortization. A limitation of this measure, however, is that it does not reflect the periodic costs of certain capitalized tangible and intangible assets used in generating revenues in our business. To compensate for this limitation, management evaluates the investments in such tangible and intangible assets through other financial measures, such as capital expenditure budget variances, investment spending levels and return on capital analyses. Another limitation of this measure is that it does not reflect the significant costs borne by us for income taxes, debt servicing costs, the share of OIBDA related to the minority ownership, the results of our equity investments or other non-operational income or expense. Management compensates for this limitation through other financial measures such as a review of net income and earnings per share.

Free Cash Flow is a non-GAAP financial measure. We define Free Cash Flow as cash provided by operating activities (as defined under GAAP) plus excess tax benefits from the exercise of stock options, less cash provided by (used by) discontinued operations, capital expenditures, partnership distributions and principal payments on capital leases. Management uses Free Cash Flow to evaluate our business. It is also a significant component of our annual incentive compensation programs. We believe this measure is an important indicator of our liquidity, including our ability to reduce net debt and make strategic investments, because it reflects our operating cash flow after considering the significant capital expenditures required to operate our business. A limitation of this measure, however, is that it does not reflect payments made in connection with investments and acquisitions, which reduce liquidity. To compensate for this limitation, management evaluates such expenditures through other financial measures such as return on investment analyses.

Both OIBDA and Free Cash Flow should be considered in addition to, not as a substitute for, our Operating Income, net income and various cash flow measures (e.g., cash provided by operating activities), as well as other measures of financial performance and liquidity reported in accordance with GAAP, and may not be comparable to similarly titled measures used by other companies. A reconciliation of OIBDA to Operating Income is presented under Results of Operations. A reconciliation of Free Cash Flow to cash provided by operating activities is presented under Financial Condition and Liquidity.

## **Results Of Operations**

*Changes in Basis of Presentation*

*Consolidation of Kansas City Pool*

On January 1, 2007, we began consolidating the results of the Kansas City Pool we received upon the distribution of the assets of TKCCP to us and Comcast. The results of operations for the Kansas City Pool have been presented below separately from the results of the Legacy Systems.

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### ***Discontinued Operations***

We have reflected the operations of the Transferred Systems as discontinued operations for all periods presented.

### ***Reclassifications***

Certain reclassifications have been made to the prior years' financial information to conform to the June 30, 2007 presentation.

### ***Stock-based Compensation***

Historically, our employees were granted equity awards under Time Warner's equity plans. When we became a public company, Time Warner ceased making equity awards under its equity plans to our employees. We have established the Time Warner Cable Inc. 2006 Stock Incentive Plan (the "2006 Plan"). Through March 31, 2007, our financial statements reflect equity awards under Time Warner's equity plans and all future grants of equity awards to our employees will be made under our equity plans. Our employees who have outstanding equity awards under Time Warner's equity plans will retain any rights under those Time Warner equity awards pursuant to their terms regardless of their participation in our equity plans.

We have adopted the provisions of FAS 123R as of January 1, 2006. The provisions of FAS 123R require that a company measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. That cost is recognized in the statement of operations over the period during which an employee is required to provide service in exchange for the award. FAS 123R also amends FASB Statement No. 95, *Statement of Cash Flows*, to require that excess tax benefits, as defined, realized from the exercise of stock options be reported as a financing cash inflow rather than as a reduction of taxes paid in cash flow from operations.

Prior to the adoption of FAS 123R, we had followed the provisions of FASB Statement No. 123, *Accounting for Stock-Based Compensation* (FAS 123), which allowed us to follow the intrinsic value method set forth in Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees*, and disclose the pro forma effects on net income (loss) had the fair value of the equity awards been expensed. In connection with adopting FAS 123R, we elected to adopt the modified retrospective application method provided by FAS 123R and, accordingly, financial statement amounts for all prior periods presented herein reflect results as if the fair value method of expensing had been applied from the original effective date of FAS 123 (see Note 1 to our consolidated financial statements for the year ended December 31, 2006 for a discussion on the impact of the adoption of FAS 123R).

Prior to the adoption of FAS 123R, we recognized stock-based compensation expense for awards with graded vesting by treating each vesting tranche as a separate award and recognizing compensation expense ratably for each tranche. For equity awards granted subsequent to the adoption of FAS 123R, we treat such awards as a single award and recognize stock-based compensation expense on a straight-line basis (net of estimated forfeitures) over the employee service period. Stock-based compensation expense is recorded in costs of revenues or selling, general and administrative expense depending on the employee's job function.

When recording compensation cost for equity awards, FAS 123R requires companies to estimate the number of equity awards granted that are expected to be forfeited. Prior to the adoption of FAS 123R, for disclosure purposes, we recognized forfeitures when they occurred, rather than using an estimate at the grant date and subsequently adjusting the estimated forfeitures to reflect actual forfeitures. We recorded a benefit of \$2 million, net of tax, as the cumulative effect of a change in accounting principle upon the adoption of FAS 123R in the first quarter of 2006, to recognize the effect of estimating the number of awards granted prior to January 1, 2006 that are not ultimately expected to vest.



Total equity-based compensation expense (which includes expense recognized related to Time Warner stock options, restricted stock and restricted stock units, as well as our stock options and restricted stock units) recognized during the six months ended June 30, 2007 and 2006 was \$38 million and \$21 million, respectively, and during the years ended December 31, 2006, 2005 and 2004 was \$33 million, \$53 million and \$70 million, respectively.

**Table of Contents*****Employers Accounting for Defined Benefit Pension and Other Postretirement Plans***

On December 31, 2006, we adopted the provisions of FASB Statement No. 158, *Employers Accounting for Defined Benefit Pension and Other Postretirement Benefits* ( FAS 158 ). FAS 158 addresses the accounting for defined benefit pension plans and other postretirement benefit plans ( plans ). Specifically, FAS 158 requires companies to recognize an asset for a plan s overfunded status or a liability for a plan s underfunded status as of the end of the company s fiscal year, the offset of which is recorded, net of tax, as a component of accumulated other comprehensive income (loss) in shareholders equity. As a result of adopting FAS 158, on December 31, 2006, we reflected the funded status of our plans by reducing our net pension asset by approximately \$208 million to reflect actuarial and investment losses that had been deferred pursuant to prior pension accounting rules and recording a corresponding deferred tax asset of approximately \$84 million and a net after-tax charge of approximately \$124 million in accumulated other comprehensive loss, net, in shareholders equity.

***Accounting for Sabbatical Leave and Other Similar Benefits***

On January 1, 2007, we adopted the provisions of Emerging Issues Task Force ( EITF ) Issue No. 06-02, *Accounting for Sabbatical Leave and Other Similar Benefits* ( EITF 06-02 ), related to certain sabbatical leave and other employment arrangements that are similar to a sabbatical leave. EITF 06-02 provides that an employee s right to a compensated absence under a sabbatical leave or similar benefit arrangement in which the employee is not required to perform any duties during the absence is an accumulating benefit. Therefore, such arrangements should be accounted for as a liability with the cost recognized over the service period during which the employee earns the benefit. Adoption of this guidance resulted in a decrease in retained earnings of \$62 million (\$37 million, net of tax) on January 1, 2007. The resulting change in the accrual for the six months ended June 30, 2007 was not material.

***Income Statement Classification of Taxes Collected from Customers***

In June 2006, the EITF reached a consensus on EITF Issue No. 06-03, *How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That Is, Gross versus Net Presentation)* ( EITF 06-03 ). EITF 06-03 provides that the presentation of taxes assessed by a governmental authority that is directly imposed on a revenue-producing transaction between a seller and a customer on either a gross basis (included in revenues and costs) or on a net basis (excluded from revenues) is an accounting policy decision that should be disclosed. The provisions of EITF 06-03 became effective for us as of January 1, 2007. EITF 06-03 did not have a material impact on our consolidated financial statements.

***Accounting for Uncertainty in Income Taxes***

On January 1, 2007, we adopted the provisions of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109* ( FIN 48 ), which clarifies the accounting for uncertainty in income tax positions. This interpretation requires us to recognize in our consolidated financial statements only those tax positions determined to be more likely than not of being sustained upon examination, based on the technical merits of the positions. Upon adoption, we recognized a \$3 million reduction of previously recorded tax reserves, which was accounted for as an increase to the retained earnings balance as of January 1, 2007.

***Quantifying Effects of Prior Years Misstatements in Current Year Financial Statements***

In September 2006, the SEC issued Staff Accounting Bulletin ( SAB ) No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements* ( SAB 108 ). SAB 108 requires that registrants quantify errors using both a balance sheet and statement of operations approach and evaluate whether

either approach results in a misstated amount that, when all relevant quantitative and qualitative factors are considered, is material. SAB 108 became effective for us in the fourth quarter of 2006 and did not have a material impact on our consolidated financial statements.

**Table of Contents*****Recent Accounting Standards******Consideration Given by a Service Provider to Manufacturers or Resellers of Equipment***

In September 2006, the EITF reached a consensus on EITF Issue No. 06-01, *Accounting for Consideration Given by a Service Provider to Manufacturers or Resellers of Equipment Necessary for an End-Customer to Receive Service from the Service Provider* ( EITF 06-01 ). EITF 06-01 provides that consideration provided to the manufacturers or resellers of specialized equipment should be accounted for as a reduction of revenue if the consideration provided is in the form of cash and the service provider directs that such cash be provided directly to the customer. Otherwise, the consideration should be recorded as an expense. EITF 06-01 will be effective for us as of January 1, 2008 and is not expected to have a material impact on our consolidated financial statements.

***Fair Value Measurements***

In September 2006, the FASB issued FASB Statement No. 157, *Fair Value Measurements* ( FAS 157 ). FAS 157 establishes a single authoritative definition of fair value, sets out a framework for measuring fair value, and expands on required disclosures about fair value measurement. FAS 157 is effective for us on January 1, 2008 and will be applied prospectively. The provisions of FAS 157 are not expected to have a material impact on our consolidated financial statements.

***Six months ended June 30, 2007 compared to six months ended June 30, 2006***

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

|                    | <b>Six Months Ended June 30,</b> |                           |                 |
|--------------------|----------------------------------|---------------------------|-----------------|
|                    | <b>2007<sup>(a)</sup></b>        | <b>2006<sup>(b)</sup></b> | <b>% Change</b> |
| Subscription:      |                                  |                           |                 |
| Video              | \$ 5,083                         | \$ 3,199                  | 59%             |
| High-speed data    | 1,818                            | 1,169                     | 56%             |
| Voice              | 549                              | 297                       | 85%             |
| Total Subscription | 7,450                            | 4,665                     | 60%             |
| Advertising        | 415                              | 242                       | 71%             |
| Total              | \$ 7,865                         | \$ 4,907                  | 60%             |

(a) Revenues for the six months ended June 30, 2007 include the results of the Legacy Systems, the Acquired Systems and the Kansas City Pool as reported in the table below.

(b) Revenues for the six months ended June 30, 2006 consist only of the results of the Legacy Systems.

Revenues, including the components of Subscription revenues, for the Legacy Systems, the Acquired Systems, the Kansas City Pool and the Total Systems were as follows for the six months ended June 30, 2007 (in millions):

| <b>Legacy</b> | <b>Acquired</b> | <b>Kansas</b> | <b>Total</b> |
|---------------|-----------------|---------------|--------------|
|---------------|-----------------|---------------|--------------|

|                    | <b>Systems</b> | <b>Systems</b> | <b>City<br/>Pool</b> | <b>Systems</b> |
|--------------------|----------------|----------------|----------------------|----------------|
| Subscription:      |                |                |                      |                |
| Video              | \$ 3,403       | \$ 1,407       | \$ 273               | \$ 5,083       |
| High-speed data    | 1,314          | 404            | 100                  | 1,818          |
| Voice              | 475            | 34             | 40                   | 549            |
| Total Subscription | 5,192          | 1,845          | 413                  | 7,450          |
| Advertising        | 257            | 140            | 18                   | 415            |
| Total              | \$ 5,449       | \$ 1,985       | \$ 431               | \$ 7,865       |

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Subscriber numbers were as follows (in thousands):

|  | Consolidated Subscribers <sup>(a)</sup><br>as of June 30, |       |             | Managed Subscribers <sup>(a)</sup><br>as of June 30, |       |             |
|--|---|-------|-------------|--|-------|-------------|
|  | 2007  | 2006  | %<br>Change | 2007   | 2006  | %<br>Change |
| Basic video <sup>(b)</sup>                 | 13,391  | 8,680 | 54%         | 13,391   | 9,469 | 41%         |
| Digital video <sup>(c)</sup>               | 7,732   | 4,649 | 66%         | 7,732  | 4,971 | 56%         |
| Residential high-speed data <sup>(d)</sup> | 7,188   | 4,308 | 67%         | 7,188  | 4,649 | 55%         |
| Commercial high-speed data <sup>(d)</sup>  | 263   | 183   | 44%         | 263  | 199   | 32%         |
| Digital Phone <sup>(e)</sup>               | 2,335   | 1,350 | 73%         | 2,335  | 1,462 | 60%         |

- (a) Historically, managed subscribers included our consolidated subscribers and subscribers in the Kansas City Pool of TKCCP, which we received on January 1, 2007 in the TKCCP asset distribution. Beginning January 1, 2007, subscribers in the Kansas City Pool are included in both managed and consolidated subscriber results as a result of the consolidation of the Kansas City Pool.
- (b) Basic video subscriber numbers reflect billable subscribers who receive basic video service.
- (c) Digital video subscriber numbers reflect billable subscribers who receive any level of video service via digital technology.
- (d) High-speed data subscriber numbers reflect billable subscribers who receive our Road Runner high-speed data service or any of the other high-speed data services offered by us.
- (e) Digital Phone subscriber numbers reflect billable subscribers who receive IP-based telephony service. Digital Phone subscribers exclude subscribers acquired from Comcast in the Exchange who receive traditional, circuit-switched telephone service (which totaled approximately 74,000 consolidated subscribers at June 30, 2007).

Subscription revenues increased for the six months ended June 30, 2007 as a result of increases in video, high-speed data and voice revenues. The increase in video revenues was primarily due to the impact of the Acquired Systems, the consolidation of the Kansas City Pool, the continued penetration of digital video services, video price increases and growth in basic video subscriber levels in the Legacy Systems. Aggregate revenues associated with our digital video services, including digital tiers, digital pay channels, pay-per-view, VOD, SVOD and DVRs, increased 70% to \$1.172 billion for the six months ended June 30, 2007 from \$689 million for the six months ended June 30, 2006.

High-speed data revenues for the six months ended June 30, 2007 increased primarily due to the impact of the Acquired Systems, the consolidation of the Kansas City Pool and growth in high-speed data subscribers in the Legacy Systems. Commercial high-speed data revenues increased to \$207 million for the six months ended June 30, 2007 from \$144 million for the six months ended June 30, 2006. Strong growth rates for high-speed data service revenues are expected to continue during the remainder of 2007.

The increase in voice revenues for the six months ended June 30, 2007 was primarily due to growth in Digital Phone subscribers in the Legacy Systems and the consolidation of the Kansas City Pool. Voice revenues associated with the Acquired Systems also included approximately \$25 million for the six months ended June 30, 2007 of revenues associated with subscribers acquired from Comcast who received traditional, circuit-switched telephone service. Strong growth rates for voice revenues are expected to continue during the remainder of 2007.

Average monthly subscription revenue (which includes video, high-speed data and voice revenues) per basic video subscriber ( subscription ARPU ) increased approximately 3% to \$93 for the six months ended June 30, 2007 from

approximately \$90 for the six months ended June 30, 2006, primarily as a result of the increased penetration of advanced services (including digital video, high-speed data and Digital Phone) in the Legacy Systems and higher video prices, as discussed above, partially offset by lower penetration of advanced services in both the Acquired Systems and the Kansas City Pool.

For the six months ended June 30, 2007, Advertising revenues increased due to a \$151 million increase in local advertising and a \$22 million increase in national advertising, primarily due to the impact of the Acquired Systems and, to a lesser extent, the consolidation of the Kansas City Pool and growth in the Legacy Systems.

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*Costs of revenues.* The major components of costs of revenues were as follows (in millions):

|                   | <b>Six Months Ended June 30,</b> |                 |                 |
|-------------------|----------------------------------|-----------------|-----------------|
|                   | <b>2007</b>                      | <b>2006</b>     | <b>% Change</b> |
| Video programming | \$ 1,762                         | \$ 1,041        | 69%             |
| Employee          | 1,078                            | 605             | 78%             |
| High-speed data   | 83                               | 70              | 19%             |
| Voice             | 223                              | 131             | 70%             |
| Other             | 609                              | 355             | 72%             |
| <b>Total</b>      | <b>\$ 3,755</b>                  | <b>\$ 2,202</b> | <b>71%</b>      |

Costs of revenues increased 71%, and, as a percentage of revenues, were 48% for the six months ended June 30, 2007 compared to 45% for the six months ended June 30, 2006. The increase in costs of revenues was primarily related to the impact of the Acquired Systems and the consolidation of the Kansas City Pool, as well as increases in video programming, employee, voice and other costs. The increase in costs of revenues as a percentage of revenues reflects the lower margins in the Acquired Systems.

The increase in video programming costs was due primarily to the impact of the Acquired Systems and the consolidation of the Kansas City Pool, as well as contractual rate increases, the increase in video subscribers and the expansion of service offerings in the Legacy Systems. Video programming costs for the six months ended June 30, 2006 also included an \$11 million benefit reflecting an adjustment in the amortization of certain launch support payments. Video programming costs in the Acquired Systems and the Kansas City Pool totaled \$513 million and \$101 million, respectively, for the six months ended June 30, 2007. Average per subscriber programming costs increased 9%, to \$21.89 per month in 2007 from \$20.06 per month in 2006.

Employee costs increased primarily due to the impact of the Acquired Systems, the consolidation of the Kansas City Pool, higher headcount resulting from the continued roll-out of advanced services and salary increases. Additionally, employee costs for the six months ended June 30, 2006 included a benefit of approximately \$16 million (with an additional benefit of approximately \$5 million included in selling, general and administrative expenses) due to changes in estimates related to prior period medical benefit accruals.

High-speed data service costs consist of the direct costs associated with the delivery of high-speed data services, including network connectivity and certain other costs. High-speed data service costs increased due to the impact of the Acquired Systems, the consolidation of the Kansas City Pool and subscriber growth, offset partially by a decrease in per subscriber connectivity costs.

Voice costs consist of the direct costs associated with the delivery of voice services, including network connectivity costs. Voice costs increased primarily due to growth in Digital Phone subscribers and the consolidation of the Kansas City Pool, offset partially by a decline in per subscriber connectivity costs.

Other costs increased primarily due to the impact of the Acquired Systems and the consolidation of the Kansas City Pool, as well as revenue-driven increases in fees paid to local franchise authorities and increases in other costs associated with the continued roll-out of advanced services in the Legacy Systems. Additionally, other costs for the six months ended June 30, 2006 included a benefit of \$10 million related to third-party maintenance support payment



fees, reflecting the resolution of terms with an equipment vendor.

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

|           | <b>Six Months Ended June 30,</b> |             |                 |
|-----------|----------------------------------|-------------|-----------------|
|           | <b>2007</b>                      | <b>2006</b> | <b>% Change</b> |
| Employee  | \$ 546                           | \$ 400      | 37%             |
| Marketing | 255                              | 166         | 54%             |
| Other     | 542                              | 317         | 71%             |
| Total     | \$ 1,343                         | \$ 883      | 52%             |

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Selling, general and administrative expenses increased as a result of higher employee, marketing and other costs. Employee costs increased primarily due to the impact of the Acquired Systems, the consolidation of the Kansas City Pool, increased headcount resulting from the continued roll-out of advanced services, salary increases and an increase in equity-based compensation. Marketing costs increased as a result of the Acquired Systems and higher costs associated with the continued roll-out of advanced services. Other costs increased primarily due to the impact of the Acquired Systems, the consolidation of the Kansas City Pool and increases in administrative costs associated with the increase in headcount discussed above. Other costs for the six months ended June 30, 2006 also included an \$11 million charge (with an additional \$2 million charge included in costs of revenues) reflecting an adjustment to prior period facility rent expense.

*Merger-related and restructuring costs.* We expensed non-capitalizable merger-related costs associated with the Transactions of \$7 million and \$11 million for the six months ended June 30, 2007 and 2006, respectively. In addition, the results included restructuring costs of \$9 million and \$10 million for the six months ended June 30, 2007 and 2006, respectively. Our restructuring activities are part of our broader plans to simplify our organizational structure and enhance our customer focus. We are in the process of executing these initiatives and expect to incur additional costs as these plans continue to be implemented throughout 2007.

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

|  | <b>Six Months Ended June 30,</b> |             |                     |
|--|----------------------------------|-------------|---------------------|
|  | <b>2007</b>                      | <b>2006</b> | <b>%<br/>Change</b> |
| Net income   | \$ 548                           | \$ 530      | 3%                  |
| Discontinued operations, net of tax  |                                  | (64)        | (100)%              |
| Cumulative effect of accounting change, net of tax   |                                  | (2)         | (100)%              |
| Income before discontinued operations and cumulative effect of accounting change               | 548                              | 464         | 18%                 |
| Income tax provision   | 359                              | 307         | 17%                 |
| Income before income taxes, discontinued operations and cumulative effect of accounting change | 907                              | 771         | 18%                 |
| Interest expense, net  | 454                              | 225         | 102%                |
| Income from equity investments, net  | (7)                              | (42)        | (83)%               |
| Minority interest expense, net   | 79                               | 43          | 84%                 |
| Other income, net  | (143)                            | (1)         | NM                  |
| Operating Income   | 1,290                            | 996         | 30%                 |
| Depreciation   | 1,318                            | 768         | 72%                 |
| Amortization   | 143                              | 37          | 286%                |
| OIBDA  | \$ 2,751                         | \$ 1,801    | 53%                 |

NM Not meaningful.

*OIBDA.* OIBDA increased for the six months ended June 30, 2007 principally due to revenue growth, partially offset by higher costs of revenues and selling, general and administrative expenses, as discussed above.

*Depreciation expense.* Depreciation expense increased for the six months ended June 30, 2007 primarily due to the impact of the Acquired Systems, the consolidation of the Kansas City Pool and demand-driven increases in recent years of purchases of customer premise equipment, which generally has a significantly shorter useful life compared to the mix of assets previously purchased.

*Amortization expense.* Amortization expense increased for the six months ended June 30, 2007 primarily as a result of the amortization of intangible assets related to customer relationships associated with the Acquired Systems. This was partially offset by a decrease due to the absence during the second quarter of

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2007 of amortization expense associated with customer relationships recorded in connection with the restructuring of TWE in 2003, which were fully amortized at the end of the first quarter of 2007.

*Operating Income.* Operating Income increased for the six months ended June 30, 2007 primarily due to the increase in OIBDA, partially offset by increases in both depreciation and amortization expense, as discussed above.

We anticipate that OIBDA and Operating Income will continue to increase during the second half of 2007 as compared to the similar period in the prior year, although the full year rates of growth are expected to be lower than those experienced in the first half of 2007 because the last five months of 2006 also included contributions from the Acquired Systems.

*Interest expense, net.* Interest expense, net, increased for the six months ended June 30, 2007 primarily due to an increase in long-term debt and mandatorily redeemable preferred membership units issued by a subsidiary in connection with the Transactions, partially offset by a decrease in mandatorily redeemable preferred equity issued by a subsidiary as a result of the ATC Contribution.

*Income from equity investments, net.* Income from equity investments, net, decreased for the six months ended June 30, 2007 primarily due to our no longer treating TKCCP as an equity method investment. Refer to [Overview](#) [Recent Developments](#) [TKCCP Joint Venture](#) for additional information.

*Minority interest expense, net.* Minority interest expense, net, increased for the six months ended June 30, 2007 primarily reflecting the change in the ownership structure of our company and TWE as a result of the ATC Contribution and the Redemptions.

*Other income, net.* We recorded a pretax gain of approximately \$146 million for the six months ended June 30, 2007 as a result of the distribution of TKCCP's assets, which was treated as a sale of our 50% equity interest in the Houston Pool. Refer to [Overview](#) [Recent Developments](#) [TKCCP Joint Venture](#) for additional information.

*Income tax provision.* Our income tax provision has been prepared as if we operated as a stand-alone taxpayer for all periods presented. For the six months ended June 30, 2007 and 2006, we recorded income tax provisions of \$359 million and \$307 million, respectively. The effective tax rate was approximately 40% for both the six months ended June 30, 2007 and 2006.

*Income before discontinued operations and cumulative effect of accounting change.* Income before discontinued operations and cumulative effect of accounting change was \$548 million for the six months ended June 30, 2007 compared to \$464 million for the six months ended June 30, 2006. Basic and diluted income per common share before discontinued operations and cumulative effect of accounting change were \$0.56 for the six months ended June 30, 2007 compared to \$0.47 for the six months ended June 30, 2006. These increases were primarily due to increases in Operating Income and other income, net, partially offset by increases in interest expense, net, income tax provision and minority interest expense, net, and a decrease in income from equity investments, net.

*Discontinued operations, net of tax.* Discontinued operations, net of tax, reflect the impact of treating the Transferred Systems as discontinued operations. For the six months ended June 30, 2006, we recognized pretax income applicable to these systems of \$107 million (\$64 million, net of tax).

*Cumulative effect of accounting change, net of tax.* For the six months ended June 30, 2006, we recorded a benefit of \$2 million, net of tax, as the cumulative effect of a change in accounting principle upon the adoption of FAS 123R to recognize the effect of estimating the number of Time Warner equity-based awards granted to our employees prior to January 1, 2006 that are not ultimately expected to vest.

*Net income and net income per common share.* Net income was \$548 million for the six months ended June 30, 2007 compared to \$530 million for the six months ended June 30, 2006. Basic and diluted net income per common share were \$0.56 for the six months ended June 30, 2007 compared to \$0.53 for the six months ended June 30, 2006.

**Table of Contents****Full year 2006 compared to full year 2005**

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

|                    | <b>Year Ended December 31,</b> |             |                 |
|--------------------|--------------------------------|-------------|-----------------|
|                    | <b>2006</b>                    | <b>2005</b> | <b>% Change</b> |
| Subscription:      |                                |             |                 |
| Video              | \$ 7,632                       | \$ 6,044    | 26%             |
| High-speed data    | 2,756                          | 1,997       | 38%             |
| Voice              | 715                            | 272         | 163%            |
| Total Subscription | 11,103                         | 8,313       | 34%             |
| Advertising        | 664                            | 499         | 33%             |
| Total              | \$ 11,767                      | \$ 8,812    | 34%             |

As previously reported, Adelphia and Comcast employed methodologies that differed slightly from those used by us to determine subscriber numbers. As of September 30, 2006, we had converted subscriber numbers for most of the Acquired Systems to our methodology. During the fourth quarter of 2006, we completed the conversion of such data, which resulted in a reduction of approximately 46,000 basic video subscribers in the Acquired Systems. Subscriber numbers were as follows (in thousands):

|  | <b>Consolidated Subscribers</b> |             |               | <b>Managed Subscribers<sup>(a)</sup></b> |             |               |
|--|---------------------------------|-------------|---------------|--|-------------|---------------|
|  | <b>as of December 31,</b>       |             |               | <b>as of December 31,</b>                |             |               |
|  |                                 |             | <b>%</b>      |  |             | <b>%</b>      |
|  | <b>2006</b>                     | <b>2005</b> | <b>Change</b> | <b>2006</b>                              | <b>2005</b> | <b>Change</b> |
| Basic video <sup>(b)</sup>                 | 12,614                          | 8,603       | 47%           | 13,402                                   | 9,384       | 43%           |
| Digital video <sup>(c)</sup>               | 6,938                           | 4,294       | 62%           | 7,270                                    | 4,595       | 58%           |
| Residential high-speed data <sup>(d)</sup> | 6,270                           | 3,839       | 63%           | 6,644                                    | 4,141       | 60%           |
| Commercial high-speed data <sup>(d)</sup>  | 230                             | 169         | 36%           | 245                                      | 183         | 34%           |
| Digital Phone <sup>(e)</sup>               | 1,719                           | 913         | 88%           | 1,860                                    | 998         | 86%           |

(a) Managed subscribers include consolidated subscribers and subscribers in the Kansas City Pool of TKCCP, which we received on January 1, 2007 in the TKCCP asset distribution. Since January 1, 2007, subscribers in the Kansas City Pool have been included in consolidated subscriber results.

(b) Basic video subscriber numbers reflect billable subscribers who receive basic video service.

(c) Digital video subscriber numbers reflect billable subscribers who receive any level of video service via digital technology.

(d) High-speed data subscriber numbers reflect billable subscribers who receive our Road Runner high-speed data service or any of the other high-speed data services offered by us.

(e) Digital Phone subscriber numbers reflect billable subscribers who receive IP-based telephony service. Digital Phone subscribers exclude subscribers acquired from Comcast in the Exchange who receive traditional, circuit-switched telephone service (which totaled approximately 106,000 consolidated subscribers at

December 31, 2006).

Subscription revenues increased in 2006 as a result of increases in video, high-speed data and Digital Phone revenues. The increase in video revenues in 2006 was primarily due to the impact of the Acquired Systems, the continued penetration of digital video services and video price increases and growth in basic video subscriber levels in the Legacy Systems. Video revenues in the Acquired Systems totaled \$1.165 billion in 2006. Aggregate revenues associated with our digital video services, including digital tiers, Pay-Per-View, VOD, SVOD and DVRs, increased 41% to \$1.027 billion in 2006 from \$727 million in 2005.

High-speed data revenues in 2006 increased primarily due to the Acquired Systems and growth in high-speed data subscribers. High-speed data revenues in the Acquired Systems totaled \$321 million in 2006. Consolidated commercial high-speed data revenues increased to \$318 million in 2006 from \$241 million in 2005. Consolidated residential high-speed data penetration, expressed as a percentage of service-ready homes, was 26.1% at both December 31, 2006 and December 31, 2005 as a result of strong growth in the Legacy Systems offset by lower penetration rates in the Acquired Systems.

The increase in voice revenues in 2006 was primarily due to growth in Digital Phone subscribers. Voice revenues in 2006 also included approximately \$27 million of revenues associated with subscribers acquired from Comcast who received traditional, circuit-switched telephone service. As of December 31, 2006, Digital Phone service was only available in some of the Acquired Systems on a limited basis. Consolidated Digital

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Phone penetration, expressed as a percentage of service-ready homes, increased to 11.3% at December 31, 2006 from 7.0% at December 31, 2005.

Subscription ARPU increased approximately 11% to \$90 in 2006 from approximately \$81 in 2005 as a result of the increased penetration in advanced services and higher video rates, as discussed above.

Advertising revenues increased primarily due to a \$136 million increase in local advertising and a \$29 million increase in national advertising in 2006, primarily attributable to the Acquired Systems. Advertising revenues in the Acquired Systems totaled \$137 million in 2006. Excluding the results of the Acquired Systems, Advertising revenues increased slightly as a result of an increase in political advertising revenues in 2006.

*Costs of revenues.* The major components of costs of revenues were as follows (in millions):

|                   | <b>Year Ended December 31,</b> |             |                     |
|-------------------|--------------------------------|-------------|---------------------|
|                   | <b>2006</b>                    | <b>2005</b> | <b>%<br/>Change</b> |
| Video programming | \$ 2,523                       | \$ 1,889    | 34%                 |
| Employee          | 1,505                          | 1,156       | 30%                 |
| High-speed data   | 156                            | 102         | 53%                 |
| Voice             | 309                            | 122         | 153%                |
| Other             | 863                            | 649         | 33%                 |
| Total             | \$ 5,356                       | \$ 3,918    | 37%                 |

Costs of revenues increased 37%, and, as a percentage of revenues, were 46% in 2006 compared to 44% in 2005. The increase in costs of revenues is primarily related to the impact of the Acquired Systems, as well as increases in video programming costs, employee costs and Digital Phone costs. The increase in costs of revenues as a percentage of revenues reflects the items noted above and lower margins for the Acquired Systems.

The increase in video programming costs was due primarily to the impact of the Acquired Systems, higher sports network programming costs, the increase in video subscribers and non-sports-related contractual rate increases. Video programming costs in the Acquired Systems were \$409 million in 2006. Per subscriber programming costs increased 11%, to \$20.33 per month in 2006 from \$18.35 per month in 2005. The increase in per subscriber programming costs was primarily due to higher sports network programming costs and non-sports-related contractual rate increases. Video programming costs in both 2006 and 2005 also benefited from comparable amounts of adjustments related to changes in programming estimates and the settlement of terms with program vendors.

Employee costs increased primarily due to the impact of the Acquired Systems, salary increases and higher headcount resulting from the roll-out of advanced services. These increases were partially offset by a benefit of approximately \$32 million related to both changes in estimates and a correction of prior period medical benefit accruals.

High-speed data service costs consist of the direct costs associated with the delivery of high-speed data services, including network connectivity and certain other costs. High-speed data service costs increased due to the Acquired Systems, subscriber growth and an increase in per subscriber connectivity costs.



Voice costs consist of the direct costs associated with the delivery of Digital Phone services, including network connectivity and certain other costs. Voice costs increased primarily due to the growth in Digital Phone subscribers.

Other costs increased due to revenue-driven increases in fees paid to local franchise authorities, as well as increases in other costs associated with the continued roll-out of advanced services, including Digital Phone.

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

|           | <b>Year Ended December 31,</b> |             |                 |
|-----------|--------------------------------|-------------|-----------------|
|           | <b>2006</b>                    | <b>2005</b> | <b>% Change</b> |
| Employee  | \$ 872                         | \$ 678      | 29%             |
| Marketing | 414                            | 306         | 35%             |
| Other     | 840                            | 545         | 54%             |
| Total     | \$ 2,126                       | \$ 1,529    | 39%             |

Selling, general and administrative expenses increased as a result of higher employee, marketing and other costs. Employee costs increased primarily due to the impact of the Acquired Systems, increased headcount resulting from the continued roll-out of advanced services and salary increases, partially offset by a benefit of approximately \$8 million related to both changes in estimates and a correction of prior period medical benefit accruals. Marketing costs increased as a result of the Acquired Systems and higher costs associated with the roll-out of advanced services. Other costs increased primarily due to the impact of the Acquired Systems and increases in administrative costs associated with the increase in headcount discussed above.

*Merger-related and restructuring costs.* In 2006 and 2005, we expensed \$38 million and \$8 million, respectively, of non-capitalizable merger-related costs associated with the Transactions. These merger-related costs are related primarily to consulting fees concerning integration planning for the Transactions and other costs incurred in connection with notifying new customers of the change in cable providers. In addition, the results for 2006 include \$18 million of restructuring costs. The results for 2005 included \$35 million of restructuring costs, primarily associated with the early retirement of certain senior executives and the closing of several local news channels, partially offset by a \$1 million reduction in restructuring charges, reflecting changes to previously established restructuring accruals. Our restructuring activities are part of our broader plans to simplify our organizational structure and enhance our customer focus.

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

|  | <b>Year Ended December 31,</b> |             |                 |
|--|--------------------------------|-------------|-----------------|
|  | <b>2006</b>                    | <b>2005</b> | <b>% Change</b> |
| Net income   | \$ 1,976                       | \$ 1,253    | 58%             |
| Discontinued operations, net of tax  | (1,038)                        | (104)       | NM              |
| Cumulative effect of accounting change, net of tax                               | (2)                            |             | NM              |
| Income before discontinued operations and cumulative effect of accounting change | 936                            | 1,149       | (19)%           |
| Income tax provision   | 620                            | 153         | 305%            |

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|  |          |          |      |
|--|----------|----------|------|
| Income before income taxes, discontinued operations and cumulative effect of accounting change | 1,556    | 1,302    | 20%  |
| Interest expense, net  | 646      | 464      | 39%  |
| Income from equity investments, net  | (129)    | (43)     | 200% |
| Minority interest expense, net   | 108      | 64       | 69%  |
| Other income, net  | (2)      | (1)      | 100% |
| Operating Income   | 2,179    | 1,786    | 22%  |
| Depreciation   | 1,883    | 1,465    | 29%  |
| Amortization   | 167      | 72       | 132% |
| OIBDA  | \$ 4,229 | \$ 3,323 | 27%  |

NM Not meaningful.

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*OIBDA.* OIBDA increased to \$4.229 billion in 2006 from \$3.323 billion in 2005. This increase was attributable to the impact of the Acquired Systems and revenue growth (particularly growth in high margin high-speed data revenues), partially offset by higher costs of revenues and selling, general and administrative expenses, as discussed above.

*Depreciation expense.* Depreciation expense increased to \$1.883 billion in 2006 from \$1.465 billion in 2005 primarily due to the impact of the Acquired Systems and demand-driven increases in recent years of purchases of customer premise equipment, which generally has a significantly shorter useful life compared to the mix of assets previously purchased.

*Amortization expense.* Amortization expense increased to \$167 million in 2006 from \$72 million in 2005 as a result of the amortization of intangible assets associated with customer relationships acquired as part of the Transactions.

*Operating Income.* Operating Income increased to \$2.179 billion in 2006 from \$1.786 billion in 2005 primarily due to the increase in OIBDA, partially offset by the increase in depreciation and amortization expense, as discussed above.

*Interest expense, net.* Interest expense, net, increased to \$646 million in 2006 from \$464 million in 2005 primarily due to an increase in debt levels attributable to the Transactions.

*Income from equity investments, net.* Income from equity investments, net, increased to \$129 million in 2006 from \$43 million in 2005. This increase was primarily due to an increase in the profitability of TKCCP, as well as changes in the economic benefit of TWE's partnership interest in TKCCP due to the then pending dissolution of the partnership triggered by Comcast on July 3, 2006. Beginning in the third quarter of 2006, the income from TKCCP reflects 100% of the operations of the Kansas City Pool and does not reflect any of the economic benefits of the Houston Pool. In addition, income from equity investments, net reflects the benefit from the allocation of all the TKCCP debt to the Houston Pool, which reduced interest expense for the Kansas City Pool. We received the Kansas City Pool on January 1, 2007 in the TKCCP asset distribution and began consolidating our results on that date.

*Minority interest expense, net.* Minority interest expense, net, increased to \$108 million in 2006 from \$64 million in 2005. This increase primarily reflects a change in the ownership structure of us and TWE. At December 31, 2005, ATC, a subsidiary of Time Warner, and Comcast had residual equity ownership interests in TWE of 1% and 4.7%, respectively. On July 28, 2006, ATC contributed its 1% common equity interest (as well as its \$2.4 billion preferred equity interest) in TWE to TW NY Holding in exchange for an approximately 12.4% non-voting common stock interest in TW NY Holding. On July 31, 2006, we and TWE redeemed Comcast's ownership interests in us and TWE, respectively.

*Income tax provision.* Our income tax provision has been prepared as if we operated as a stand-alone taxpayer for all periods presented. In 2006 and 2005, we recorded income tax provisions of \$620 million and \$153 million, respectively. The effective tax rate was approximately 40% in 2006 compared to approximately 12% in 2005. The increase in the effective tax rate was primarily due to the favorable impact in 2005 of state tax law changes in Ohio, an ownership restructuring in Texas and certain other methodology changes. The income tax provision for 2005, absent the noted deferred tax impacts, would have been \$532 million, with a related effective tax rate of approximately 41%.

*Income before discontinued operations and cumulative effect of accounting change.* Income before discontinued operations and cumulative effect of accounting change was \$936 million in 2006 compared to \$1.149 billion in 2005. Basic and diluted income per common share before discontinued operations and cumulative effect of accounting change were \$0.95 in 2006 compared to \$1.15 in 2005. These decreases were primarily due to the increase in the income tax provision, discussed above, and higher interest expense, partially offset by increased Operating Income and income from equity investments, net.

*Discontinued operations, net of tax.* Discontinued operations, net of tax, reflect the impact of treating the Transferred Systems as discontinued operations. For the years ended December 31, 2006 and 2005, we recognized pretax income applicable to these systems of \$285 million and \$163 million, respectively,

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(\$1.038 billion and \$104 million, respectively, net of tax). Included in the 2006 results are a pretax gain of approximately \$165 million on the Transferred Systems and a tax benefit of approximately \$800 million comprised of a tax benefit of \$814 million on the Redemptions, partially offset by a provision of \$14 million on the Exchange. The tax benefit of \$814 million resulted primarily from the reversal of historical deferred tax liabilities that had existed on systems transferred to Comcast in the TWC Redemption. The TWC Redemption was designed to qualify as a tax-free split-off under section 355 of the Tax Code, and as a result, such liabilities were no longer required. However, if the IRS were successful in challenging the tax-free characterization of the TWC Redemption, an additional cash liability on account of taxes of up to an estimated \$900 million could become payable by us. See Recent Developments Tax Benefits from the Transactions.

*Cumulative effect of accounting change, net of tax.* In 2006, we recorded a benefit of \$2 million, net of tax, as the cumulative effect of a change in accounting principle upon the adoption of FAS 123R in 2006, to recognize the effect of estimating the number of Time Warner equity-based awards granted to our employees prior to January 1, 2006 that are not ultimately expected to vest.

*Net income and net income per common share.* Net income was \$1.976 billion in 2006 compared to \$1.253 billion in 2005. Basic and diluted net income per common share were \$2.00 in 2006 compared to \$1.25 in 2005.

**Full year 2005 compared to full year 2004**

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

|                    | Year Ended December 31, |          |          |
|--------------------|-------------------------|----------|----------|
|                    | 2005                    | 2004     | % Change |
| Subscription:      |                         |          |          |
| Video              | \$ 6,044                | \$ 5,706 | 6%       |
| High-speed data    | 1,997                   | 1,642    | 22%      |
| Voice              | 272                     | 29       | NM       |
| Total Subscription | 8,313                   | 7,377    | 13%      |
| Advertising        | 499                     | 484      | 3%       |
| Total              | \$ 8,812                | \$ 7,861 | 12%      |

NM Not meaningful.

Subscriber results were as follows (in thousands):

|  | Consolidated Subscribers<br>as of December 31, |       |             | Managed Subscribers <sup>(a)</sup><br>as of December 31, |       |             |
|--|--|-------|-------------|--|-------|-------------|
|  | 2005   | 2004  | %<br>Change | 2005   | 2004  | %<br>Change |
| Basic video <sup>(b)</sup>                 | 8,603  | 8,561 | 0.5%        | 9,384  | 9,336 | 0.5%        |
| Digital video <sup>(c)</sup>               | 4,294  | 3,773 | 14%         | 4,595  | 4,067 | 13%         |
| Residential high-speed data <sup>(d)</sup> | 3,839  | 3,126 | 23%         | 4,141  | 3,368 | 23%         |

|   |     |     |     |     |     |     |
|---|-----|-----|-----|-----|-----|-----|
| Commercial high-speed data <sup>(d)</sup> | 169 | 140 | 21% | 183 | 151 | 21% |
| Digital Phone <sup>(e)</sup>              | 913 | 180 | NM  | 998 | 206 | NM  |

NM Not meaningful.

- (a) Managed subscribers include consolidated subscribers and subscribers in the Kansas City Pool of TKCCP, which we received on January 1, 2007 in the TKCCP asset distribution. Since January 1, 2007, subscribers in the Kansas City Pool have been included in consolidated subscriber results.
- (b) Basic video subscriber numbers reflect billable subscribers who receive basic video service.
- (c) Digital video subscriber numbers reflect billable subscribers who receive any level of video service via digital technology.
- (d) High-speed data subscriber numbers reflect billable subscribers who receive our Road Runner high-speed data service or any of the other high-speed data services offered by us.
- (e) Digital Phone subscriber numbers reflect billable subscribers who receive IP-based telephony service.

Subscription revenues increased in 2005 as a result of increases in video, high-speed data and Digital Phone revenues. Total video revenues increased by \$338 million, or 6%, over 2004, primarily due to continued penetration of digital video services and video price increases, as well as an increase in basic video subscribers

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between December 31, 2004 and December 31, 2005. Aggregate revenues associated with digital video services, including digital tiers, Pay-Per-View, VOD, SVOD and DVRs, increased 19% from \$612 million in 2004 to \$727 million in 2005.

High-speed data revenues increased in 2005 primarily due to growth in high-speed data subscribers. Consolidated residential high-speed data penetration, expressed as a percentage of service-ready homes, increased from 21.8% at December 31, 2004 to 26.1% at December 31, 2005. Commercial high-speed data revenues increased from \$181 million in 2004 to \$241 million in 2005.

The increase in voice revenues in 2005 was primarily due to the full-scale launch of Digital Phone across our footprint. Digital Phone was available to nearly 88% of our consolidated homes passed as of December 31, 2005.

Subscription ARPU increased approximately 13% to \$81 in 2005 from approximately \$72 in 2004 as a result of the increased penetration in advanced services and higher video prices, as discussed above.

Advertising revenues in 2005 increased as a result of an approximate \$19 million increase in national advertising, partially offset by a \$4 million decline in local advertising. The increase in national advertising was driven by growth in both the rate and volume of advertising spots sold. Local advertising declined as a result of a decrease in political advertising.

*Costs of revenues.* The primary components of costs of revenues were as follows (in millions):

|                   | <b>Year Ended December 31,</b> |                 |                 |
|-------------------|--------------------------------|-----------------|-----------------|
|                   | <b>2005</b>                    | <b>2004</b>     | <b>% Change</b> |
| Video programming | \$ 1,889                       | \$ 1,709        | 11%             |
| Employee          | 1,156                          | 1,002           | 15%             |
| High-speed data   | 102                            | 128             | (20)%           |
| Voice             | 122                            | 14              | NM              |
| Other             | 649                            | 603             | 8%              |
| <b>Total</b>      | <b>\$ 3,918</b>                | <b>\$ 3,456</b> | <b>13%</b>      |

NM Not meaningful.

Total video programming costs increased by 11% in 2005. On a per subscriber basis, programming costs increased by 11%, from \$16.60 per month in 2004 to \$18.35 per month in 2005. These increases were primarily attributable to contractual rate increases and the ongoing deployment of new service offerings, including VOD and SVOD.

Employee costs increased in 2005, in part, as a result of increased headcount driven by new service deployment initiatives, including Digital Phone. Salary increases also contributed to the increase in employee costs.

High-speed data costs have benefited as connectivity costs have continued to decrease on a per subscriber basis due to industry-wide cost reductions.

Voice costs increased due to the ongoing deployment of Digital Phone.

Other costs increased due largely to the revenue-driven increase in fees paid to local franchise authorities.



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

|           | Year Ended December 31, |          |             |
|-----------|-------------------------|----------|-------------|
|           | 2005                    | 2004     | %<br>Change |
| Employee  | \$ 678                  | \$ 632   | 7%          |
| Marketing | 306                     | 272      | 13%         |
| Other     | 545                     | 546      |             |
| Total     | \$ 1,529                | \$ 1,450 | 5%          |

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Employee costs increased primarily due to an increase in headcount associated with the continued roll-out of advanced services, as well as salary increases, partially offset by a decrease in equity-based compensation expense. Marketing costs increased due to a continued focus on aggressive marketing of our broad range of services. Other costs decreased slightly primarily due to \$34 million of costs incurred in 2004 in connection with a settlement related to Urban Cable, partially offset by an increase in legal fees.

*Merger-related and restructuring costs.* In 2005, we expensed approximately \$8 million of non-capitalizable merger-related costs associated with the Adelphia acquisition and the Exchange. In addition, the 2005 results include approximately \$35 million of restructuring costs, primarily associated with the early retirement of certain senior executives and the closing of several local news channels, partially offset by a \$1 million reduction in restructuring charges, reflecting changes to previously established restructuring accruals. These charges are part of our broader plans to simplify our organizational structure and enhance our customer focus.

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

|  | <b>Year Ended December 31,</b> |             |                 |
|--|--------------------------------|-------------|-----------------|
|  | <b>2005</b>                    | <b>2004</b> | <b>% Change</b> |
| Net income   | \$ 1,253                       | \$ 726      | 73%             |
| Discontinued operations, net of tax                    | (104)                          | (95)        | 9%              |
| Income before discontinued operations                  | 1,149                          | 631         | 82%             |
| Income tax provision                                   | 153                            | 454         | (66)%           |
| Income before income taxes and discontinued operations | 1,302                          | 1,085       | 20%             |
| Interest expense, net                                  | 464                            | 465         |                 |
| Income from equity investments, net                    | (43)                           | (41)        | 5%              |
| Minority interest expense, net                         | 64                             | 56          | 14%             |
| Other income, net                                      | (1)                            | (11)        | (91)%           |
| Operating Income                                       | 1,786                          | 1,554       | 15%             |
| Depreciation   | 1,465                          | 1,329       | 10%             |
| Amortization   | 72                             | 72          |                 |
| OIBDA  | \$ 3,323                       | \$ 2,955    | 12%             |

*OIBDA.* OIBDA increased \$368 million, or 12%, from \$2.955 billion in 2004 to \$3.323 billion in 2005. This increase was driven by revenue growth (particularly high margin high-speed data revenues), partially offset by increases in costs of revenues, selling, general and administrative expenses and the \$42 million of merger-related and restructuring charges in 2005, discussed above.

*Depreciation expense.* Depreciation expense increased 10% to \$1.465 billion in 2005 from \$1.329 billion in 2004. This increase was primarily due to the increased spending on customer premise equipment in recent years. Such equipment generally has a shorter useful life compared to the mix of assets previously purchased.

*Operating Income.* Operating Income increased to \$1.786 billion in 2005 from \$1.554 billion in 2004, due to the increase in OIBDA, partially offset by the increase in depreciation expense.

*Interest expense, net.* Interest expense, net, decreased slightly from \$465 million in 2004 to \$464 million in 2005, primarily due to an increase in interest income associated with loans to TKCCP, which was largely offset by an increase in interest expense related to long-term debt.

*Income from equity investments, net.* Income from equity investments, net, increased slightly from \$41 million in 2004 to \$43 million in 2005. This increase was primarily due to an increase in the profitability of iN DEMAND and a decrease in losses incurred by local news joint ventures, partially offset by a decline in profitability of TKCCP, as a result of higher interest expense associated with an increase in debt at the joint venture.

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*Minority interest expense, net.* The results of TWE are consolidated by us for financial reporting purposes. Minority interest expense, net, increased from \$56 million in 2004 to \$64 million in 2005. This increase primarily reflects an increase in the profitability of TWE, in which Time Warner and Comcast had residual equity ownership interests of 1% and 4.7%, respectively, at December 31, 2005.

*Other income, net.* Other income, net, decreased from \$11 million in 2004 to \$1 million in 2005 due to a reversal of previously established reserves associated with the dissolution of a joint venture in 2004.

*Income tax provision.* Our income tax provision has been prepared as if we operated as a stand-alone taxpayer for all periods presented. The income tax provision decreased from \$454 million in 2004 to \$153 million in 2005. The effective tax rate was approximately 42% in 2004 compared to 12% in 2005. The decrease in the tax provision and the effective tax rate was primarily a result of the favorable impact of state tax law changes in Ohio, an ownership restructuring in Texas and certain other methodology changes, partially offset by an increase in earnings during 2005 as compared to 2004. The income tax provision for 2005, absent the noted deferred tax impacts, would have been \$532 million, with a related effective tax rate of approximately 41%.

*Income before discontinued operations.* Income before discontinued operations was \$1.149 billion in 2005 compared to \$631 million in 2004. Basic and diluted income per common share before discontinued operations and cumulative effect of accounting change were \$1.15 in 2005 compared to \$0.63 in 2004. These increases were due to higher Operating Income and a lower income tax provision, partially offset by higher minority interest expense.

*Discontinued operations, net of tax.* Discontinued operations, net of tax, reflect the impact of treating the Transferred Systems as discontinued operations. The increase to \$104 million in 2005 from \$95 million in 2004 was as a result of higher earnings at the Transferred Systems.

*Net income and net income per common share.* Net income was \$1.253 billion in 2005 compared to \$726 million in 2004. Basic and diluted net income per common share were \$1.25 in 2005 compared to \$0.73 in 2004.

## **Financial Condition and Liquidity**

### ***Current Financial Condition***

Management believes that cash generated by or available to us should be sufficient to fund our capital and liquidity needs for the foreseeable future. Our sources of cash include cash provided by operating activities, cash and equivalents on hand, \$3.327 billion of available borrowing capacity under our committed credit facilities and commercial paper program as of June 30, 2007 and access to the capital markets.

At June 30, 2007, we had \$13.871 billion of debt, \$70 million of cash and equivalents (net debt of \$13.801 billion), \$300 million of TW NY Series A Preferred Membership Units and \$24.058 billion of shareholders' equity. At December 31, 2006, we had \$14.432 billion of debt, \$51 million of cash and equivalents (net debt of \$14.381 billion), \$300 million of TW NY Series A Preferred Membership Units and \$23.564 billion of shareholders' equity. At December 31, 2005, we had \$4.463 billion of debt, \$12 million of cash and equivalents (net debt of \$4.451 billion), \$2.400 billion of mandatorily redeemable preferred equity issued by a subsidiary and \$20.347 billion of shareholders' equity.

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The following table shows the significant items contributing to the change in net debt from December 31, 2005 to December 31, 2006 and from December 31, 2006 to June 30, 2007 (in millions):

|   |           |
|---|-----------|
| Balance at December 31, 2005  | \$ 4,451  |
| Cash provided by operating activities                                   | (3,595)   |
| Proceeds from the repayment by Comcast of TKCCP debt owed to TWE-A/N    | (631)     |
| Proceeds from the issuance of TW NY Series A Preferred Membership Units | (300)     |
| Capital expenditures from continuing operations                         | 2,718     |
| Capital expenditures from discontinued operations                       | 56        |
| Redemption of Comcast's interests in us and TWE                         | 2,004     |
| Cash used for the Adelphia acquisition and the Exchange <sup>(a)</sup>  | 9,080     |
| Investment in Wireless Joint Venture                                    | 633       |
| All other, net  | (35)      |
| <br>  |           |
| Balance at December 31, 2006 <sup>(b)</sup>                             | 14,381    |
| Cash provided by operating activities                                   | (2,204)   |
| Capital expenditures from continuing operations                         | 1,551     |
| All other, net  | 73        |
| <br>  |           |
| Balance at June 30, 2007 <sup>(b)</sup>                                 | \$ 13,801 |

(a) Included in the cash used for the Adelphia acquisition and the Exchange is cash paid at closing of \$8.935 billion, a contractual closing adjustment of \$67 million and other transaction-related costs of \$78 million paid in 2006.

(b) Includes an unamortized fair value adjustment of \$140 million and \$134 million at December 31, 2006 and June 30, 2007, respectively.

In connection with the closing of the Adelphia acquisition, TW NY paid \$8.935 billion in cash, after giving effect to certain purchase price adjustments, that was funded by an intercompany loan from us and the proceeds of the private placement issuance of \$300 million of TW NY Series A Preferred Membership Units with a mandatory redemption date of August 1, 2013 and a cash dividend rate of 8.21% per annum. The intercompany loan was financed by borrowings under the Cable Revolving Facility and the Term Facilities described below and the issuance of commercial paper. In connection with the TWC Redemption, Comcast received 100% of the capital stock of a subsidiary of ours holding both cable systems and approximately \$1.857 billion in cash that was funded through the issuance of our commercial paper and borrowings under the Cable Revolving Facility. In addition, in connection with the TWE Redemption, Comcast received 100% of the equity interests in a subsidiary of TWE holding both cable systems and approximately \$147 million in cash that was funded by the repayment of a pre-existing loan TWE had made to us (which repayment we funded through the issuance of commercial paper and borrowings under the Cable Revolving Facility). Additionally, ATC's 1% common equity interest and \$2.4 billion preferred equity interest in TWE were contributed to TW NY Holding in exchange for an approximately 12.4% non-voting common stock interest in TW NY Holding. Following these transactions, TW NY also exchanged certain cable systems with Comcast and TW NY paid Comcast approximately \$67 million for certain adjustments related to the Exchange. See Bank Credit Agreements and Commercial Paper Program, Mandatorily Redeemable Preferred Equity and TW NY Mandatorily Redeemable Non-voting Series A Preferred Membership Units for additional information on the indebtedness incurred and preferred membership units issued in connection with the Adelphia acquisition and the Redemptions.

We are a participant in a wireless spectrum joint venture with several other cable companies (the Wireless Joint Venture), which, on November 29, 2006, was awarded certain advanced wireless spectrum licenses in an FCC

auction. In 2006, we invested approximately \$633 million in the Wireless Joint Venture. Sprint was a participant in the Wireless Joint Venture until August 2007. Under the joint venture agreement, Sprint exercised its option to have the Wireless Joint Venture purchase its interests in the Wireless Joint Venture for an amount equal to Sprint's capital contributions. In August 2007, we contributed \$28 million to the Wireless Joint Venture to fund our share of the payment to Sprint. Under certain circumstances, the remaining members have the ability to exit the Wireless Joint Venture and receive from the Wireless Joint Venture, subject to certain limitations and adjustments, advanced wireless spectrum licenses covering their operating areas.

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On October 2, 2006, we received approximately \$630 million from Comcast for the repayment of debt owed by TKCCP to TWE-A/N that had been allocated to the Houston Pool.

**Cash Flows**

Cash and equivalents increased by \$19 million and \$14 million for the six months ended June 30, 2007 and 2006, respectively, and by \$39 million for the year ended December 31, 2006. Cash and equivalents decreased by \$90 million and \$227 million for the years ended December 31, 2005 and 2004, respectively. Components of these changes are discussed below in more detail.

**Operating Activities**

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

|   | <b>Six Months Ended</b> |             | <b>Year Ended December 31,</b> |             |             |
|---|-------------------------|-------------|--------------------------------|-------------|-------------|
|   | <b>2007</b>             | <b>2006</b> | <b>2006</b>                    | <b>2005</b> | <b>2004</b> |
| OIBDA   | \$ 2,751                | \$ 1,801    | \$ 4,229                       | \$ 3,323    | \$ 2,955    |
| Net interest payments <sup>(a)</sup>                                      | (400)                   | (251)       | (662)                          | (507)       | (492)       |
| Net income taxes refunded (paid) <sup>(b)</sup>                           | (50)                    | (143)       | (474)                          | (535)       | 13          |
| Noncash equity-based compensation   | 38                      | 21          | 33                             | 53          | 70          |
| Net cash flows from discontinued operations <sup>(c)</sup>                | 46                      | 119         | 112                            | 237         | 240         |
| Merger-related and restructuring payments, net of accruals <sup>(d)</sup> | (8)                     | (1)         | (3)                            | 30          |             |
| Pension plan contributions  |                         |             | (101)                          | (91)        | (150)       |
| All other, net, including working capital changes                         | (173)                   | (5)         | 461                            | 30          | 25          |
| Cash provided by operating activities                                     | \$ 2,204                | \$ 1,541    | \$ 3,595                       | \$ 2,540    | \$ 2,661    |

(a) Includes interest income received of \$6 million for the six months ended June 30, 2007 (none for the six months ended June 30, 2006 and the years ended December 31, 2006, 2005 and 2004).

(b) Includes income tax refunds received of \$5 million and \$4 million for the six months ended June 30, 2007 and 2006, respectively, and \$4 million, \$6 million and \$61 million for the years ended December 31, 2006, 2005 and 2004, respectively.

(c) Reflects net income from discontinued operations of \$64 million for the six months ended June 30, 2006 (none for the six months ended June 30, 2007) and \$1.038 billion, \$104 million and \$95 million for the years ended December 31, 2006, 2005 and 2004, respectively, as well as noncash gains and expenses and working capital-related adjustments of \$46 million and \$55 million for the six months ended June 30, 2007 and 2006, respectively, and \$(926) million, \$133 million and \$145 million for the years ended December 31, 2006, 2005 and 2004, respectively.

(d) Includes payments for merger-related and restructuring costs and payments for certain other merger-related liabilities, net of accruals.

Cash provided by operating activities increased from \$1.541 billion for the six months ended June 30, 2006 to \$2.204 billion for the six months ended June 30, 2007. This increase was primarily related to an increase in OIBDA (due to revenue growth, partially offset by increases in costs of revenues and selling, general and administrative expenses, as described above) and a decrease in net income taxes paid (primarily as a result of the timing of tax payments to Time Warner under our tax sharing arrangement), which were partially offset by an increase in working capital requirements, an increase in net interest payments reflecting the increase in debt levels attributable to the Transactions and a decrease in cash relating to discontinued operations. The increase in working capital requirements was primarily due to the timing of accounts payable and accrual payments.

Cash provided by operating activities increased from \$2.540 billion in 2005 to \$3.595 billion in 2006. This increase was primarily related to an increase in OIBDA (attributable to the impact of the Acquired Systems and revenue growth in the Legacy Systems (particularly high margin high-speed data revenues), partially offset by increases in costs of revenues and selling, general and administrative expenses), a decrease in working capital requirements and a decrease in net income taxes paid, partially offset by lower net cash flows from discontinued operations, an increase in net interest payments and an increase in merger-related and restructuring payments. The decrease in working capital requirements was primarily due to the impact of the Transactions, as well as the timing of accounts payable and accrual payments, partially offset by lower cash collections on receivables.



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Cash provided by operating activities decreased from \$2.661 billion in 2004 to \$2.540 billion in 2005. This decrease was principally due to an increase in net cash tax payments, partially offset by an increase in OIBDA (attributable to revenue growth (particularly high margin high-speed data revenues), partially offset by increases in costs of revenues, selling, general and administrative expenses and merger-related and restructuring costs), and a decrease in contributions to our pension plans.

**Investing Activities**

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

|  | <b>Six Months Ended</b> |             | <b>Year Ended December 31,</b> |             |             |
|--|-------------------------|-------------|--------------------------------|-------------|-------------|
|  | <b>June 30,</b>         |             | <b>2006</b>                    | <b>2005</b> | <b>2004</b> |
|  | <b>2007</b>             | <b>2006</b> |                                |             |             |
| Investments and acquisitions, net of cash acquired and distributions received: |                         |             |                                |             |             |
| Distributions received from an investee  | \$ 47                   | \$          | \$                             | \$          | \$          |
| Adelphia acquisition and the Exchange <sup>(a)</sup>                           | (16)                    | (11)        | (9,080)                        |             |             |
| Wireless Joint Venture   | (1)                     |             | (633)                          |             |             |
| Redemption of Comcast's interest in TWE  |                         |             | (147)                          |             |             |
| All other  | (7)                     | (94)        | (2)                            | (113)       | (103)       |
| Capital expenditures from continuing operations                                | (1,551)                 | (1,018)     | (2,718)                        | (1,837)     | (1,559)     |
| Capital expenditures from discontinued operations                              |                         | (48)        | (56)                           | (138)       | (153)       |
| Proceeds from the repayment by Comcast of TKCCP debt owed to TWE-A/N           |                         |             | 631                            |             |             |
| Proceeds from disposal of property, plant and equipment                        | 4                       | 6           | 6                              | 4           | 3           |
| Investments and acquisitions, from discontinued operations                     |                         |             |                                | (48)        | (4)         |
| Cash used by investing activities  | \$ (1,524)              | \$ (1,165)  | \$ (11,999)                    | \$ (2,132)  | \$ (1,816)  |

(a) Included in the cash used for the Adelphia acquisition and the Exchange for the year ended December 31, 2006 is cash paid at closing of \$8.935 billion, a contractual closing adjustment of \$67 million and other transaction-related costs of \$78 million paid in 2006.

Cash used by investing activities increased from \$1.165 billion for the six months ended June 30, 2006 to \$1.524 billion for the six months ended June 30, 2007. This increase was principally due to an increase in capital expenditures from continuing operations, driven by capital expenditures associated with the Acquired Systems, as well as the continued roll-out of advanced digital services. The increase was partially offset by an increase in net cash acquired from investments, which included distributions received from Sterling Entertainment Enterprises, LLC (dba SportsNet New York), an equity method investee, and decreases in investment spending related to our equity investments and capital expenditures from discontinued operations.

Cash used by investing activities increased from \$2.132 billion in 2005 to \$11.999 billion in 2006. This increase was principally due to the Adelphia acquisition and the Exchange and an increase in capital expenditures from continuing

operations, driven by capital expenditures associated with the integration of the Acquired Systems, the continued roll-out of advanced digital services, including Digital Phone services, and continued growth in high-speed data services. The increase also reflects the investment in the Wireless Joint Venture and cash used in the TWE Redemption, partially offset by decreases in investment spending related to our equity investments and other acquisition-related expenditures and capital expenditures from discontinued operations.

Cash used by investing activities increased from \$1.816 billion in 2004 to \$2.132 billion in 2005. This increase was principally due to increases in capital expenditures from continuing operations, cash used by investing activities of discontinued operations and acquisition-related expenditures, partially offset by decreases in investment spending related to our equity investments and capital expenditures from discontinued operations. The increase in capital expenditures from continuing operations in 2005 was primarily associated

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with increased spending associated with the continued roll-out of advanced digital services, including Digital Phone.

Our capital expenditures from continuing operations included the following major categories (in millions):

|   | <b>Six Months Ended</b> |                 | <b>Year Ended December 31,</b> |                 |                 |
|---|-------------------------|-----------------|--------------------------------|-----------------|-----------------|
|   | <b>June 30,</b>         |                 | <b>2006</b>                    | <b>2005</b>     | <b>2004</b>     |
|   | <b>2007</b>             | <b>2006</b>     | <b>2006</b>                    | <b>2005</b>     | <b>2004</b>     |
| Customer premise equipment <sup>(a)</sup> | \$ 736                  | \$ 506          | \$ 1,125                       | \$ 805          | \$ 656          |
| Scalable infrastructure <sup>(b)</sup>    | 221                     | 150             | 568                            | 325             | 184             |
| Line extensions <sup>(c)</sup>            | 167                     | 122             | 280                            | 235             | 218             |
| Upgrades/rebuilds <sup>(d)</sup>          | 132                     | 43              | 151                            | 113             | 126             |
| Support capital <sup>(e)</sup>            | 295                     | 197             | 594                            | 359             | 375             |
| <b>Total capital expenditures</b>         | <b>\$ 1,551</b>         | <b>\$ 1,018</b> | <b>\$ 2,718</b>                | <b>\$ 1,837</b> | <b>\$ 1,559</b> |

- (a) Represents 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 Digital Phone signals. Such equipment typically includes digital set-top boxes, remote controls, high-speed data modems, telephone modems and the costs of installing such equipment for new customers. Customer premise equipment also includes materials and labor incurred to install the drop cable that connects a customer's dwelling or business to the closest point of the main distribution network.
- (b) Represents costs incurred in the purchase and installation of equipment that controls signal reception, processing and transmission throughout our 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 (VOD equipment) and equipment necessary to provide certain video, high-speed data and Digital Phone service features (voicemail, e-mail, etc.).
- (c) Represents costs incurred to extend our 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) Represents costs incurred to upgrade or replace certain existing components or an entire geographic area of our distribution network. These costs typically include network design, the purchase and installation of fiber optic and coaxial cable and certain electronic equipment.
- (e) Represents 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.

We incur expenditures associated with the construction of our cable systems. Costs associated with the construction of the cable transmission and distribution facilities and new cable service installations are capitalized. We generally capitalize expenditures for tangible fixed assets having a useful life of greater than one year. Capitalized costs include direct material, labor and overhead and interest. Sales and marketing costs, as well as the costs of repairing or maintaining existing fixed assets, are expensed as incurred. With respect to certain customer premise equipment, which includes set-top boxes and cable modems, we capitalize installation charges only upon the initial deployment of these assets. All costs incurred in subsequent disconnects and reconnects are expensed as incurred. Depreciation on these assets is provided, generally using the straight-line method, over their estimated useful lives. For set-top boxes and modems, the useful life is 3 to 5 years, and, for distribution plant, the useful life is up to 16 years.

In connection with the Transactions, TW NY acquired significant amounts of property, plant and equipment, which were recorded at their estimated fair values. The remaining useful lives assigned to such assets were generally shorter than the useful lives assigned to comparable new assets, to reflect the age, condition and intended use of the acquired property, plant and equipment.

As a result of the Transactions, we have made and anticipate continuing to make significant capital expenditures related to the continued integration of the Acquired Systems, including improvements to plant and technical performance and upgrading system capacity, which will allow us to offer our advanced services and features in the Acquired Systems. Through December 31, 2006, we incurred approximately \$200 million of such expenditures, and we estimate that we will incur additional expenditures of approximately \$225 million to \$275 million during 2007 (including approximately \$90 million incurred during the six months ended June 30, 2007). We expect that these upgrades will be substantially complete by the end of 2007. We do not believe that these expenditures will have a material negative impact on our liquidity or capital resources.

**Table of Contents****Financing Activities**

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

|  | Six Months Ended |          | Year Ended December 31, |          |            |
|--|------------------|----------|-------------------------|----------|------------|
|  | June 30,<br>2007 | 2006     | 2006                    | 2005     | 2004       |
| Borrowings (repayments), net <sup>(a)</sup>                  | \$ 238           | \$ (346) | \$ 634                  | \$ (422) | \$ 1,149   |
| Borrowings   | 5,629            |          | 10,300                  |          | 147        |
| Repayments   | (6,448)          |          | (975)                   |          | (2,353)    |
| Redemption of Comcast's interest in us                       |                  |          | (1,857)                 |          |            |
| Issuance of TW NY Series A Preferred Membership Units        |                  |          | 300                     |          |            |
| Excess tax benefit from exercise of stock options            | 5                |          | 4                       |          |            |
| Principal payments on capital leases                         | (2)              |          | (3)                     | (1)      | (2)        |
| Distributions to owners, net                                 | (19)             | (16)     | (31)                    | (30)     | (13)       |
| Other financing activities                                   | (64)             |          | 71                      |          |            |
| Cash used by financing activities of discontinued operations |                  |          |                         | (45)     |            |
| Cash provided (used) by financing activities                 | \$ (661)         | \$ (362) | \$ 8,443                | \$ (498) | \$ (1,072) |

<sup>(a)</sup> Borrowings (repayments), net, reflect borrowings under our commercial paper program with original maturities of three months or less, net of repayments of such borrowings. Borrowings (repayments), net, also included \$28 million and \$13 million of debt issuance costs for the six months ended June 30, 2007 and 2006, respectively, and \$17 million of debt issuance costs for the year ended December 31, 2006.

Cash used by financing activities increased from \$362 million for the six months ended June 30, 2006 to \$661 million for the six months ended June 30, 2007. This increase was due primarily to an increase in the net repayments of borrowings under our debt obligations and other financing activities.

Cash provided by financing activities was \$8.443 billion in 2006 compared to cash used by financing activities of \$498 million in 2005. This increase in cash provided (used) by financing activities was due to an increase in net borrowings primarily associated with the Transactions, the issuance of the TW NY Series A Preferred Membership Units and other financing activities, partially offset by cash used in the TWC Redemption.

Cash used by financing activities decreased from \$1.072 billion in 2004 to \$498 million in 2005. This decrease was primarily due to a decline in net repayments of debt, partially offset by increases in net partnership tax distributions and stock option distributions and cash used by financing activities of discontinued operations in 2005.

**Table of Contents****Free Cash Flow**

*Reconciliation of Cash provided by operating activities to Free Cash Flow.* The following table reconciles Cash provided by operating activities to Free Cash Flow (in millions):

|   | <b>Six Months Ended</b> |             | <b>Year Ended December 31,</b> |             |             |
|---|-------------------------|-------------|--------------------------------|-------------|-------------|
|   | <b>June 30,</b>         |             | <b>2006</b>                    | <b>2005</b> | <b>2004</b> |
|   | <b>2007</b>             | <b>2006</b> |                                |             |             |
| Cash provided by operating activities   | \$ 2,204                | \$ 1,541    | \$ 3,595                       | \$ 2,540    | \$ 2,661    |
| Reconciling items:  |                         |             |                                |             |             |
| Discontinued operations, net of tax   |                         | (64)        | (1,038)                        | (104)       | (95)        |
| Adjustments relating to the operating cash flow of discontinued operations  | (46)                    | (55)        | 926                            | (133)       | (145)       |
| Cash provided by continuing operating activities  | 2,158                   | 1,422       | 3,483                          | 2,303       | 2,421       |
| Add: Excess tax benefit from exercise of stock options  | 5                       |             | 4                              |             |             |
| Less:   |                         |             |                                |             |             |
| Capital expenditures from continuing operations   | (1,551)                 | (1,018)     | (2,718)                        | (1,837)     | (1,559)     |
| Partnership tax distributions, stock option distributions and principal payments on capital leases of continuing operations | (21)                    | (16)        | (34)                           | (31)        | (11)        |
| Free Cash Flow  | \$ 591                  | \$ 388      | \$ 735                         | \$ 435      | \$ 851      |

Free Cash Flow increased from \$388 million for the six months ended June 30, 2006 to \$591 million for the six months ended June 30, 2007 primarily as a result of an increase in cash provided by continuing operating activities, partially offset by an increase in capital expenditures from continuing operations, as discussed above.

Free Cash Flow increased to \$735 million during 2006, as compared to \$435 million during 2005. This increase of \$300 million was primarily driven by a \$906 million increase in OIBDA, as previously discussed, and a decrease in working capital requirements, partially offset by an increase in capital expenditures from continuing operations.

Free Cash Flow decreased to \$435 million during 2005 as compared to \$851 million during 2004. This decrease of \$416 million was primarily driven by increases in net cash tax payments and capital expenditures from continuing operations, partially offset by an increase in OIBDA, as previously discussed, and a decrease in contributions to our pension plans.

**Table of Contents*****Outstanding Debt and Mandatorily Redeemable Preferred Equity and Available Financial Capacity***

Debt, mandatorily redeemable preferred equity and unused borrowing capacity as of June 30, 2007 and December 31, 2006 were as follows:

|   | Interest Rate at<br>June 30, 2007 | Maturity | Outstanding Balance as of |                   |
|---|-----------------------------------|----------|---------------------------|-------------------|
|   |                                   |          | June 30, 2007             | December 31, 2006 |
|   |                                   |          | (in millions)             |                   |
| Bank credit agreements and commercial paper program <sup>(a)(b)</sup> | 5.590% <sup>(c)</sup>             | 2011     | \$ 5,542                  | \$ 11,077         |
| TWE notes and debentures <sup>(d)</sup>                               | 7.250% <sup>(e)</sup>             | 2008     | 602                       | 602               |
|   | 10.150% <sup>(e)</sup>            | 2012     | 269                       | 271               |
|   | 8.875% <sup>(e)</sup>             | 2012     | 367                       | 369               |
|   | 8.375% <sup>(e)</sup>             | 2023     | 1,042                     | 1,043             |
|   | 8.375% <sup>(e)</sup>             | 2033     | 1,054                     | 1,055             |
| TWC notes and debentures  | 5.400% <sup>(f)</sup>             | 2012     | 1,497                     |                   |
|   | 5.850% <sup>(f)</sup>             | 2017     | 1,996                     |                   |
|   | 6.550% <sup>(f)</sup>             | 2037     | 1,490                     |                   |
| TW NY Series A Preferred Membership Units                             | 8.210%                            | 2013     | 300                       | 300               |
| Capital leases and other  |                                   |          | 12 <sup>(g)</sup>         | 15 <sup>(g)</sup> |
| Total   |                                   |          | \$ 14,171                 | \$ 14,732         |

(a) Unused capacity, which includes \$70 million and \$51 million in cash and equivalents at June 30, 2007 and December 31, 2006, respectively, equals \$3.397 billion and \$2.798 billion at June 30, 2007 and December 31, 2006, respectively. Unused capacity at both June 30, 2007 and December 31, 2006 reflects a reduction of \$159 million for outstanding letters of credit backed by the Cable Revolving Facility, as defined below.

(b) Outstanding balance amounts exclude an unamortized discount on commercial paper of \$18 million and \$17 million at June 30, 2007 and December 31, 2006, respectively.

(c) Rate represents a weighted-average interest rate.

(d) Includes an unamortized fair value adjustment of \$134 million and \$140 million as of June 30, 2007 and December 31, 2006, respectively.

(e) Rate represents the stated rate at original issuance. The effective weighted-average interest rate for the TWE notes and debentures in the aggregate is 7.65% at June 30, 2007.

(f) Rate represents the stated rate at original issuance. The effective weighted-average interest rate for the TWC notes and debentures in the aggregate is 5.97% at June 30, 2007.

(g) Amounts include \$2 million and \$4 million of capital leases due within one year at June 30, 2007 and December 31, 2006, respectively.

***Debt Securities***

On April 9, 2007, we issued \$1.5 billion principal amount of 2012 initial notes, \$2.0 billion principal amount of 2017 initial notes and \$1.5 billion principal amount of 2037 initial debentures pursuant to Rule 144A and Regulation S under the Securities Act. The debt securities are guaranteed by TWE and TW NY Holding.

The initial debt securities were issued pursuant to an Indenture, dated as of April 9, 2007 (the "Base Indenture"), by and among us, the guarantors and The Bank of New York, as trustee, as supplemented by the First Supplemental Indenture, dated as of April 9, 2007 (the "First Supplemental Indenture" and, together with the Base Indenture, the "Indenture"), by and among us, the guarantors and The Bank of New York, as trustee.

The 2012 notes mature on July 2, 2012, the 2017 notes mature on May 1, 2017 and the 2037 debentures mature on May 1, 2037. Interest on the 2012 notes is payable semi-annually in arrears on January 2 and July 2 of each year, beginning on July 2, 2007. Interest on the 2017 notes and the 2037 debentures is payable semi-annually in arrears on May 1 and November 1 of each year, beginning on November 1, 2007. The debt securities are unsecured senior obligations of ours and rank equally with our other unsecured and unsubordinated obligations. The guarantees of the debt securities are unsecured senior obligations of the guarantors and rank equally in right of payment with all other unsecured and unsubordinated obligations of the guarantors.

The debt securities may be redeemed in whole or in part at any time at our option at a redemption price equal to the greater of (i) 100% of the principal amount of the debt securities being redeemed and (ii) the sum



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of the present values of the remaining scheduled payments on the debt securities discounted to the redemption date on a semi-annual basis at a government treasury rate plus 20 basis points for the 2012 notes, 30 basis points for the 2017 notes and 35 basis points for the 2037 debentures as further described in the Indenture, plus, in each case, accrued but unpaid interest to the redemption date.

The Indenture contains customary covenants relating to restrictions on our or any material subsidiary's ability to create liens and on our and the guarantors' ability to consolidate, merge or convey or transfer substantially all of our or their assets. The Indenture also contains customary events of default.

In connection with the issuance of the initial debt securities, on April 9, 2007, we, the guarantors and the purchasers of the initial debt securities entered into the Registration Rights Agreement pursuant to which we agreed, among other things, to use our commercially reasonable efforts to consummate a registered exchange offer for the initial debt securities within 270 days after the issuance date of the initial debt securities or cause a shelf registration statement covering the resale of the initial debt securities to be declared effective within specified periods. We will be required to pay additional interest of 0.25% per annum on the initial debt securities if we fail to timely comply with our obligations under the Registration Rights Agreement until such time as we comply. See Description of the Debt Securities and the Guarantees.

### ***Bank Credit Agreements and Commercial Paper Program***

In the first quarter of 2006, we entered into \$14.0 billion of bank credit agreements, consisting of an amended and restated \$6.0 billion senior unsecured five-year revolving credit facility maturing February 15, 2011 (the Cable Revolving Facility), a \$4.0 billion five-year term loan facility maturing February 21, 2011 (the Five-Year Term Facility) and a \$4.0 billion three-year term loan facility maturing February 24, 2009 (the Three-Year Term Facility and, together with the Five-Year Term Facility, the Term Facilities). The Term Facilities, together with the Cable Revolving Facility, are referred to as the Cable Facilities. Collectively, the Cable Facilities refinanced \$4.0 billion of previously existing committed bank financing, and \$2.0 billion of the Cable Revolving Facility and \$8.0 billion of the Term Facilities were used to finance, in part, the cash portions of the Transactions. The Cable Facilities are guaranteed by TWE and TW NY Holding (or, in the case of the Three-Year Term Facility was guaranteed by TWE and TW NY Holding, as discussed below).

In April 2007, we used the net proceeds of the 2007 Bond Offering to repay all of the outstanding indebtedness under the Three-Year Term Facility, which was terminated on April 13, 2007. The balance of the net proceeds was used to repay a portion of the outstanding indebtedness under the Five-Year Term Facility on April 27, 2007, which reduced the outstanding indebtedness under such facility to \$3.045 billion as of such date.

Borrowings under the Cable Revolving Facility bear interest at a rate based on our credit rating, which rate was LIBOR plus 0.27% per annum as of June 30, 2007. In addition, we are required to pay a facility fee on the aggregate commitments under the Cable Revolving Facility at a rate determined by our credit rating, which rate was 0.08% per annum as of June 30, 2007. We may also incur an additional usage fee of 0.10% per annum on the outstanding loans and other extensions of credit under the Cable Revolving Facility if and when such amounts exceed 50% of the aggregate commitments thereunder. Borrowings under the Five-Year Term Facility accrue interest at a rate based on our credit rating, which rate was LIBOR plus 0.40% per annum as of June 30, 2007.

The Cable Revolving Facility provides same-day funding capability and a portion of the commitment, not to exceed \$500 million at any time, may be used for the issuance of letters of credit. The Cable Revolving Facility and the Five-Year Term Facility contain a maximum leverage ratio covenant of 5.0 times our consolidated EBITDA. The terms and related financial metrics associated with the leverage ratio are defined in the applicable agreements. At June 30, 2007, we were in compliance with the leverage covenant, with a leverage ratio, calculated in accordance with

the agreements, of approximately 2.6 times. The Cable Revolving Facility and the Five-Year Term Facility do not contain any credit ratings-based defaults or covenants or any ongoing covenant or representations specifically relating to a material adverse change in our financial condition or results of operations or those of Time Warner. Borrowings under the Cable Revolving Facility

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may be used for general corporate purposes and unused credit is available to support borrowings under our commercial paper program.

In addition to the Cable Revolving Facility and the Five-Year Term Facility, we maintain a \$6.0 billion unsecured commercial paper program (the CP Program ) that is also guaranteed by TW NY Holding and TWE. Commercial paper issued under the CP Program is supported by unused committed capacity under the Cable Revolving Facility and ranks pari passu with other unsecured senior indebtedness of our company, TWE and TW NY Holding.

As of June 30, 2007, there were borrowings of \$3.045 billion outstanding under the Five-Year Term Facility, letters of credit totaling \$159 million outstanding under the Cable Revolving Facility, and \$2.515 billion of commercial paper outstanding under the CP Program and supported by the Cable Revolving Facility. Our available committed capacity under the Cable Revolving Facility as of June 30, 2007 was approximately \$3.327 billion, and we had \$70 million of cash and equivalents on hand.

### ***TWE Notes***

During 1992 and 1993, TWE issued notes and debentures (the TWE Notes ) publicly in a number of offerings. The maturities of these outstanding issuances ranged from 15 to 40 years and the fixed interest rates range from 7.25% to 10.15%. The fixed-rate borrowings include an unamortized debt premium of \$140 million and \$154 million as of December 31, 2006 and 2005, respectively. The debt premium is amortized over the term of each debt issue as a reduction of interest expense. As discussed below, we and TW NY Holding have each guaranteed TWE's obligations under the TWE Notes. Prior to November 2, 2006, ATC and Warner Communications Inc. ( WCI ) (subsidiaries of Time Warner) each guaranteed pro-rata portions of the TWE Notes based on the relative fair value of the net assets that each contributed to TWE prior to the restructuring of TWE, which was completed on March 31, 2003 (the TWE Restructuring ). On September 10, 2003, TWE submitted an application with the SEC to withdraw its 7.25% Senior Debentures (due 2008) from listing and registration on the NYSE. The application to withdraw was granted by the SEC effective on October 17, 2003. As a result, TWE has no obligation to file reports with the SEC under the Exchange Act.

Pursuant to the Ninth Supplemental Indenture to the TWE Indenture, TW NY, a subsidiary of ours and a successor in interest to Time Warner NY Cable Inc., agreed to waive, for so long as it remained a general partner of TWE, the benefit of certain provisions in the TWE Indenture which provided that it would not have any liability for the TWE Notes as a general partner of TWE (the TW NY Waiver ). On October 18, 2006, TW NY contributed all of its general partnership interests in TWE to TWE GP Holdings LLC, its wholly owned subsidiary (the TWE GP Transfer ), and, as a result, the TW NY Waiver, by its terms, ceased to be in effect. In addition, on October 18, 2006, we, together with TWE, TW NY Holding, ATC, WCI and The Bank of New York, as trustee, entered into the Tenth Supplemental Indenture to the TWE Indenture. Pursuant to the Tenth Supplemental Indenture to the TWE Indenture, TW NY Holding fully, unconditionally and irrevocably guaranteed the payment of principal and interest on the TWE Notes.

On October 19, 2006, TWE commenced a consent solicitation to amend the TWE Indenture to simplify the guaranty structure of the TWE Notes and to amend TWE's reporting obligations under the TWE Indenture. On November 2, 2006, the consent solicitation was completed, and we, TWE, TW NY Holding and The Bank of New York, as Trustee, entered into the Eleventh Supplemental Indenture to the TWE Indenture, which (i) amended the guaranty of the TWE Notes previously provided by us to provide a direct guaranty of the TWE Notes by us, rather than a guaranty of the TW Partner Guaranties (as defined below), (ii) terminated the guaranties (the TW Partner Guaranties ) previously provided by ATC and WCI and (iii) amended TWE's reporting obligations under the TWE Indenture to allow TWE to provide holders of the TWE Notes with quarterly and annual reports that we (or any other ultimate parent guarantor, as described in the Eleventh Supplemental Indenture) would be required to file with the SEC pursuant to Section 13 of the Exchange Act, if it were required to file such reports with the SEC in respect of the TWE Notes pursuant to such

section of the Exchange Act, subject to certain exceptions as described in the Eleventh Supplemental Indenture.

**Table of Contents*****TW NY Mandatorily Redeemable Non-voting Series A Preferred Membership Units***

In connection with the financing of the Adelphia acquisition, TW NY issued \$300 million of its Series A Preferred Membership Units to a limited number of third parties. The TW NY Series A Preferred Membership Units pay cash dividends at an annual rate equal to 8.21% of the sum of the liquidation preference thereof and any accrued but unpaid dividends thereon, on a quarterly basis. The TW NY Series A Preferred Membership Units are subject to mandatory redemption by TW NY on August 1, 2013 and are not redeemable by TW NY at any time prior to that date. The redemption price of the TW NY Series A Preferred Membership Units is equal to their liquidation preference plus any accrued and unpaid dividends through the redemption date. Except under limited circumstances, holders of TW NY Series A Preferred Membership Units have no voting rights.

The terms of the TW NY Series A Preferred Membership Units require that holders owning a majority of the TW NY Series A Preferred Membership Units must approve any agreement for a material sale or transfer by TW NY and its subsidiaries of assets at any time during which TW NY and its subsidiaries maintain, collectively, cable systems serving fewer than 500,000 cable subscribers, or that would (after giving effect to such asset sale) cause TW NY to maintain, directly or indirectly, fewer than 500,000 cable subscribers, unless the net proceeds of the asset sale are applied to fund the redemption of the TW NY Series A Preferred Membership Units and the sale occurs on or immediately prior to the redemption date. Additionally, for so long as the TW NY Series A Preferred Membership Units remain outstanding, TW NY may not merge or consolidate with another company, or convert from a limited liability company to a corporation, partnership or other entity, unless (i) such merger or consolidation is permitted by the asset sale covenant described above, (ii) if TW NY is not the surviving entity or is no longer a limited liability company, the then holders of the TW NY Series A Preferred Membership Units have the right to receive from the surviving entity securities with terms at least as favorable as the TW NY Series A Preferred Membership Units and (iii) if TW NY is the surviving entity, the tax characterization of the TW NY Series A Preferred Membership Units would not be affected by the merger or consolidation. Any securities received from a surviving entity as a result of a merger or consolidation or the conversion into a corporation, partnership or other entity must rank senior to any other securities of the surviving entity with respect to dividends and distributions or rights upon a liquidation.

***Mandatorily Redeemable Preferred Equity***

On July 28, 2006, ATC, a subsidiary of Time Warner, contributed its \$2.4 billion of mandatorily redeemable preferred equity interest and a 1% common equity interest in TWE to TW NY Holding in exchange for a 12.4% non-voting common equity interest in TW NY Holding. TWE originally issued the \$2.4 billion mandatorily redeemable preferred equity to ATC in connection with the TWE Restructuring. The issuance was a noncash transaction. The preferred equity pays cash distributions on a quarterly basis, at an annual rate of 8.059% of its face value, and is required to be redeemed by TWE in cash on April 1, 2023.

***Time Warner Approval Rights***

Under a shareholder agreement entered into between us and Time Warner on April 20, 2005 (the *Shareholder Agreement*), we are required to obtain Time Warner's approval prior to incurring additional debt (except for ordinary course issuances of commercial paper or borrowings under the Cable Revolving Facility up to the limit of that credit facility, to which Time Warner has consented) or rental expenses (other than with respect to certain approved leases) or issuing preferred equity, if our consolidated ratio of debt, including preferred equity, plus six times our annual rental expense to EBITDAR (the *TW Leverage Ratio*) then exceeds, or would as a result of the incurrence or issuance exceed, 3:1. Under certain circumstances, we are required to include the indebtedness, annual rental expense obligations and EBITDAR of certain unconsolidated entities that we manage and/or in which we own an equity interest, in the calculation of the TW Leverage Ratio. The Shareholder Agreement defines EBITDAR, at any time of

measurement, as operating income plus depreciation, amortization and rental expense (for any lease that is not accounted for as a capital lease) for the twelve months ending on the last day of our most recent fiscal quarter, including certain adjustments to reflect the impact of significant transactions as if they had occurred at the beginning of the period.

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The following table sets forth the calculation of the TW Leverage Ratio for the twelve months ended June 30, 2007 (in millions, except ratio):

|                                 |               |
|---------------------------------|---------------|
| Indebtedness                    | \$ 13,871     |
| Preferred Membership Units      | 300           |
| Six times annual rental expense | 1,086         |
| <br>Total                       | <br>\$ 15,257 |
| <br>EBITDAR                     | <br>\$ 5,586  |
| <br>TW Leverage Ratio           | <br>2.73x     |

As indicated in the table above, as of June 30, 2007, the TW Leverage Ratio did not exceed 3:1.

**Contractual and Other Obligations****Firm Commitments**

We have commitments under various firm contractual arrangements to make future payments for goods and services. These firm commitments secure future rights to various assets and services to be used in the normal course of operations. For example, we are contractually committed to make some minimum lease payments for the use of property under operating lease agreements. In accordance with current accounting rules, the future rights and obligations pertaining to these contracts are not reflected as assets or liabilities on our consolidated balance sheet.

The following table summarizes our material firm commitments at June 30, 2007 and the timing of and effect that these obligations are expected to have on our liquidity and cash flow in future periods. We expect to fund these firm commitments with cash provided by operating activities generated in the ordinary course of business.

|   | 2007         | 2008-2009    | 2010-2011<br>(in millions) | 2012 and<br>Thereafter | Total         |
|---|--------------|--------------|----------------------------|------------------------|---------------|
| Programming purchases <sup>(a)</sup>  | \$ 1,603     | \$ 5,375     | \$ 3,715                   | \$ 2,133               | \$ 12,826     |
| Outstanding debt obligations and TW NY Series A Preferred Membership Units <sup>(b)</sup> | 2            | 600          | 5,560                      | 7,910                  | 14,072        |
| Interest and dividends <sup>(c)</sup>   | 449          | 1,740        | 1,447                      | 5,969                  | 9,605         |
| Facility leases <sup>(d)</sup>  | 59           | 179          | 149                        | 371                    | 758           |
| Data processing services  | 22           | 89           | 89                         | 40                     | 240           |
| High-speed data connectivity  | 30           | 40           | 2                          | 2                      | 74            |
| Digital Phone connectivity <sup>(e)</sup>   | 160          | 394          | 197                        |                        | 751           |
| Converter and modem purchases   | 33           |              |                            |                        | 33            |
| Other   | 22           | 18           | 2                          | 7                      | 49            |
| <br>Total   | <br>\$ 2,380 | <br>\$ 8,435 | <br>\$ 11,161              | <br>\$ 16,432          | <br>\$ 38,408 |

- (a) We have purchase commitments with various programming vendors to provide video services to subscribers. Programming fees represent a significant portion of our costs of revenues. Future fees under such contracts are based on numerous variables, including number and type of customers. The amounts of the commitments reflected above are based on the number of subscribers at June 30, 2007 applied to the per subscriber contractual rates contained in the contracts that were in effect as of June 30, 2007.
- (b) Outstanding debt obligations and TW NY Series A Preferred Membership Units represent the principal amounts due on outstanding debt obligations and the TW NY Series A Preferred Membership Units as of June 30, 2007. Amounts do not include any fair value adjustments, bond premiums, discounts, interest payments or dividends.
- (c) With the exception of commercial paper issued under our commercial paper program, amounts are based on the outstanding debt or mandatorily redeemable preferred membership units balances, respective interest or dividend rates (interest rates on variable-rate debt were held constant through maturity at the June 30, 2007 rates) and maturity schedule of the respective instruments as of June 30, 2007. With regard to commercial paper issued under the commercial paper program, amounts assume the outstanding commercial paper and interest rates at June 30, 2007 will remain outstanding through the maturity of the underlying credit facility. Interest ultimately paid on these obligations may differ based on changes in interest rates for variable-rate debt, as well as any potential future refinancings entered into by us.
- (d) We have facility lease commitments under various operating leases including minimum lease obligations for real estate and operating equipment.
- (e) Digital Phone connectivity commitments are based on the number of Digital Phone subscribers at June 30, 2007 and the per subscriber contractual rates contained in the contracts that were in effect as of June 30, 2007.



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Our total rent expense, which primarily includes facility rental expense and pole attachment rental fees, amounted to \$91 million for the six months ended June 30, 2007 and \$149 million, \$98 million and \$101 million for the years ended December 31, 2006, 2005 and 2004, respectively.

***Contingent Commitments***

Prior to the TWE Restructuring, TWE had various contingent commitments, including guarantees, related to TWE's non-cable businesses, including Warner Bros., Home Box Office, and TWE's interests in The WB Television Network (which has subsequently ceased operations), Comedy Central (which was subsequently sold) and the Courtroom Television Network (collectively, the Non-cable Businesses). In connection with the restructuring of TWE, some of these commitments were not transferred with their applicable Non-cable Business and they remain contingent commitments of TWE. Specifically, in connection with the Non-cable Businesses' former investment in the Six Flags theme parks located in Georgia and Texas (Six Flags Georgia and Six Flags Texas, respectively, and, collectively, the Parks), in 1997, Time Warner and TWE each agreed to guarantee (the Six Flags Guarantee), for the benefit of the limited partners, certain obligations of the partnerships that hold the Parks (the Partnerships), including the following (the Guaranteed Obligations): (a) the obligation to make a minimum amount of annual distributions to the limited partners of the Partnerships; (b) the obligation to make a minimum amount of capital expenditures each year; (c) the requirement that an annual offer to purchase be made in respect of 5% of the limited partnership units of the Partnerships (plus any such units not purchased in any prior year) based on an aggregate price for all limited partnership units at the higher of (i) \$250 million in the case of Six Flags Georgia and \$374.8 million in the case of Six Flags Texas (the Base Valuations) and (ii) a weighted-average multiple of EBITDA for the respective Park over the previous four-year period; (d) ground lease payments; and (e) either (i) the purchase of all of the outstanding limited partnership units by Six Flags through the exercise of a call option upon the earlier of the occurrence of certain specified events and the end of the term of each of the Partnerships in 2027 (Six Flags Georgia) and 2028 (Six Flags Texas) (the End of Term Purchase) or (ii) the obligation to cause each of the Partnerships to have no indebtedness and to meet certain other financial tests as of the end of the term of the Partnership. The aggregate amount payable in connection with an End of Term Purchase of either Park will be the Base Valuation applicable to such Park, adjusted for changes in the consumer price index from December 1996, in the case of Six Flags Georgia, and December 1997, in the case of Six Flags Texas through December of the year immediately preceding the year in which the End of Term Purchase occurs, in each case, reduced ratably to reflect limited partnership units previously purchased.

In connection with the 1998 sale of Six Flags Entertainment Corporation to Six Flags Inc. (formerly Premier Parks Inc.) (Six Flags), Six Flags, Historic TW Inc. (formerly known as Time Warner Inc., Historic TW) and TWE, among others, entered into a Subordinated Indemnity Agreement pursuant to which Six Flags agreed to guarantee the performance of the Guaranteed Obligations when due and to indemnify Historic TW and TWE, among others, in the event that the Guaranteed Obligations are not performed and the Six Flags Guarantee is called upon. In the event of a default of Six Flags' obligations under the Subordinated Indemnity Agreement, the Subordinated Indemnity Agreement and related agreements provide, among other things, that Historic TW and TWE have the right to acquire control of the managing partner of the Parks. Six Flags' obligations to Historic TW and TWE are further secured by its interest in all limited partnership units that are purchased by Six Flags.

Additionally, Time Warner and WCI have agreed, on a joint and several basis, to indemnify TWE from and against any and all of these contingent liabilities, but TWE remains a party to these commitments. In the event that TWE is required to make a payment related to any contingent liabilities of the TWE Non-cable Businesses, TWE will recognize an expense from discontinued operations and will receive a capital contribution from Time Warner and/or its subsidiary WCI for reimbursement of the incurred expenses. Additionally, costs related to any acquisition and subsequent distribution to Time Warner would also be treated as an expense of discontinued operations to be reimbursed by Time Warner.

To date, no payments have been made by Historic TW or TWE pursuant to the Six Flags Guarantee. In its annual report on Form 10-K for the year ended December 31, 2006, Six Flags has reported a maximum

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limited partnership unit obligation for 2007 of approximately \$277 million. We believe the current fair values of the Parks are in excess of this amount.

We have cable franchise agreements containing provisions requiring the construction of cable plant and the provision of services to customers within the franchise areas. In connection with these obligations under existing franchise agreements, we obtain surety bonds or letters of credit guaranteeing performance to municipalities and public utilities and payment of insurance premiums. Such surety bonds and letters of credit as of June 30, 2007 and December 31, 2006 and 2005 amounted to \$322 million, \$328 million and \$245 million, respectively. Payments under these arrangements are required only in the event of nonperformance. We do not expect that these contingent commitments will result in any amounts being paid in the foreseeable future.

We are required to make cash distributions to Time Warner when our employees exercise previously issued Time Warner stock options. For more information, see [Market Risk Management](#) [Equity Risk](#) below.

## **Market Risk Management**

Market risk is the potential loss arising from adverse changes in market rates and prices, such as interest rates and changes in the market value of investments.

### ***Interest Rate Risk***

#### ***Variable-rate Debt***

As of June 30, 2007, we had an outstanding balance of variable-rate debt of \$5.542 billion, which excludes an unamortized discount adjustment of \$18 million. Based on the variable-rate obligations outstanding at June 30, 2007, each 25 basis point increase or decrease in the level of interest rates would, respectively, increase or decrease our annual interest expense and related cash payments by approximately \$14 million. These potential increases or decreases are based on simplifying assumptions, including a constant level of variable-rate debt for all maturities and an immediate, across-the-yield curve increase or decrease in the level of interest rates with no other subsequent changes for the remainder of the periods.

#### ***Fixed-rate Debt and TW NY Series A Preferred Membership Units***

As of June 30, 2007, we had approximately \$8.617 billion of fixed-rate debt and TW NY Series A Preferred Membership Units, including an unamortized fair value adjustment of \$134 million. Based on the fixed-rate debt obligations outstanding at June 30, 2007, a 25 basis point increase or decrease in the level of interest would, respectively, increase or decrease the fair value of the fixed-rate debt by approximately \$172 million. These potential increases or decreases are based on simplifying assumptions, including a constant level and rate of fixed-rate debt and an immediate, across-the-board increase or decrease in the level of interest rates with no other subsequent changes for the remainder of the periods.

### ***Equity Risk***

We are also exposed to market risk as it relates to changes in the market value of our investments. We invest in equity instruments of private companies for operational and strategic business purposes. These investments are subject to significant fluctuations in fair market value due to volatility of the industries in which the companies operate. As of June 30, 2007, we had approximately \$692 million of investments.

Some of our employees have been granted options to purchase shares of Time Warner common stock in connection with their past employment with subsidiaries and affiliates of Time Warner. We have agreed that, upon the exercise by any of our officers or employees of any options to purchase Time Warner common stock, we will reimburse Time Warner in an amount equal to the excess of the closing price of a share of Time Warner common stock on the date of the exercise of the option over the aggregate exercise price paid by the exercising officer or employee for each share of Time Warner common stock. At June 30, 2007, we had accrued approximately \$131 million of stock option distributions payable to Time Warner. That amount, which

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is not payable until the underlying options are exercised and then only subject to limitations on cash distributions in accordance with the senior unsecured revolving credit facilities, will be adjusted in subsequent accounting periods based on changes in the quoted market prices for Time Warner's common stock.

## **Critical Accounting Policies**

The SEC considers an accounting policy to be critical if it is important to our financial condition and results, and if it requires significant judgment and estimates on the part of management in its application. The development and selection of these critical accounting policies have been determined by our management and the related disclosures have been reviewed with the audit committee of our board of directors. For a summary of all of our significant accounting policies, see Note 2 to our consolidated financial statements for the year ended December 31, 2006.

## ***Asset Impairments***

### ***Goodwill and Indefinite-lived Intangible Assets***

Goodwill impairment is determined using a two-step process. The first step of the goodwill impairment test is to identify a potential impairment by comparing the fair value of a reporting unit with its carrying amount, including goodwill. We have identified six reporting units based on the geographic locations of our systems. The estimates of fair value of a reporting unit are determined using various valuation techniques, with the primary technique being a discounted cash flow analysis. A discounted cash flow analysis requires one to make various judgmental assumptions including assumptions about future cash flows, growth rates and discount rates. The assumptions about future cash flows and growth rates are based on our budget and business plan and assumptions are made about the perpetual growth rate for periods beyond the long-term business plan period. Discount rate assumptions are based on an assessment of the risk inherent in the future cash flows of the respective reporting units. In estimating the fair values of our reporting units, we also use research analyst estimates, as well as comparable market analyses. If the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is not deemed to be impaired and the second step of the impairment test is not performed. If the carrying amount of a reporting unit exceeds its fair value, the second step of the goodwill impairment test is performed to measure the amount of impairment loss, if any. The second step of the goodwill impairment test compares the implied fair value of the reporting unit's goodwill with the carrying amount of that goodwill. If the carrying amount of the reporting unit's goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess. The implied fair value of goodwill is determined in the same manner as the amount of goodwill recognized in a business combination. In other words, the fair value of the reporting unit is allocated to all of the assets and liabilities of that unit (including any unrecognized intangible assets) as if the reporting unit had been acquired in a business combination and the fair value of the reporting unit was the purchase price paid to acquire the reporting unit.

The impairment test for other intangible assets not subject to amortization consists of a comparison of the fair value of the intangible asset with its carrying value. We have identified six units of accounting based upon geographic locations of our systems in performing our testing. If the carrying value of the intangible asset exceeds its fair value, an impairment loss is recognized in an amount equal to that excess. The estimates of fair value of intangible assets not subject to amortization are determined using various discounted cash flow valuation methodologies. The methodology used to value the cable franchises entails identifying the projected discrete cash flows related to such franchises and discounting them back to the valuation date. Significant assumptions inherent in the methodologies employed include estimates of discount rates. Discount rate assumptions are based on an assessment of the risk inherent in the respective intangible assets.

Our 2006 annual impairment analysis, which was performed during the fourth quarter, did not result in an impairment charge. For one reporting unit, the 2006 estimated fair value was within 10% of the respective book value. Applying a

hypothetical 10% decrease to the fair value of this reporting unit would result in a greater book value than fair value for cable franchises in the amount of approximately \$20 million. Other intangible assets not subject to amortization are tested for impairment annually, or more frequently if events or circumstances indicate that the asset might be impaired.

**Table of Contents*****Finite-lived Intangible Assets***

In determining whether finite-lived intangible assets (e.g., customer relationships) are impaired, the accounting rules do not provide for an annual impairment test. Instead, they require that a triggering event occur before testing an asset for impairment. Such triggering events include the significant disposal of a portion of such assets or the occurrence of an adverse change in the market involving the business employing the related asset. The Redemptions were a triggering event for testing such assets for impairment. Once a triggering event has occurred, the impairment test employed is based on whether the intent is to hold the asset for continued use or to hold the asset for sale. If the intent is to hold the asset for continued use, the impairment test first requires a comparison of undiscounted future cash flows against the carrying value of the asset. If the carrying value of such asset exceeds the undiscounted cash flow, the asset would be deemed to be impaired. Impairment would then be measured as the difference between the fair value of the asset and its carrying value. Fair value is generally determined by discounting the future cash flows associated with that asset. If the intent is to hold the asset for sale and certain other criteria are met (e.g., the asset can be disposed of currently, appropriate levels of authority have approved the sale or there is an actively pursuing buyer), the impairment test involves comparing the asset's carrying value to its fair value. To the extent the carrying value is greater than the asset's fair value, an impairment loss is recognized for the difference.

Significant judgments in this area involve determining whether a triggering event has occurred and the determination of the cash flows for the assets involved and the discount rate to be applied in determining fair value. There was no impairment of finite-lived intangible assets in 2006 or in connection with testing done as a result of the Redemptions.

***Equity-based Compensation Expense***

We account for equity-based compensation in accordance with FAS 123R. The provisions of FAS 123R require a company to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. That cost is recognized in the statement of operations over the period during which an employee is required to provide service in exchange for the award.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model, consistent with the provisions of FAS 123R and SAB No. 107, *Share-Based Payment*. Because option-pricing models require the use of subjective assumptions, changes in these assumptions can materially affect the fair value of the options. The assumptions presented in the table below represent the weighted-average value of the applicable assumption used to value Time Warner stock options at their grant date.

|   | <b>Year Ended December 31,</b> |             |             |
|---|--------------------------------|-------------|-------------|
|   | <b>2006</b>                    | <b>2005</b> | <b>2004</b> |
| Expected volatility                       | 22.3%                          | 24.5%       | 34.9%       |
| Expected term to exercise from grant date | 5.07 years                     | 4.79 years  | 3.60 years  |
| Risk-free rate                            | 4.6%                           | 3.9%        | 3.1%        |
| Expected dividend yield                   | 1.1%                           | 0.1%        | 0%          |

The two most significant judgments involved in the selection of fair value assumptions are the expected volatility of Time Warner's common stock and the expected term to exercise from grant date. In estimating expected volatility, we look to the volatility implied by long-term traded Time Warner options (i.e., terms of two years). Because Time Warner options granted to our employees have terms greater than two years, the volatility implied by the traded Time Warner options is adjusted to reflect the expected life of the options. In estimating the expected term of stock options granted to an employee, we utilize a mathematical model which considers factors such as historical employee exercise

patterns and volatility of Time Warner common stock to predict the expected term of an employee stock option. The judgments involved here also include determining whether different segments of the employee population have different exercise behavior. Separate groups of employees that have similar historical exercise behavior are considered separately for valuation purposes. The risk-free rate assumed in valuing the options is based on the U.S. Treasury yield curve in effect at the time of



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grant for the expected term of the option. We determine the expected dividend yield percentage by dividing the expected annual dividend by the market price of Time Warner common stock at the date of grant.

Our stock option compensation expense for the years ended December 31, 2006, 2005 and 2004 was \$29 million, \$53 million and \$66 million, respectively. The weighted-average fair value of an option for the years ended December 31, 2006, 2005 and 2004, was \$4.47, \$5.11 and \$5.11, respectively. A one year increase in the expected term, from 5.07 years to 6.07 years, while holding all other assumptions constant, would result in an increase to the 2006 weighted-average grant date fair value of approximately \$0.46 per option, resulting in approximately \$4 million of additional compensation expense recognized in income over the period during which an employee is required to provide service in exchange for the award. A 500 basis point increase in the volatility, from 22.3% to 27.3%, while holding all other assumptions constant, would result in an increase to the 2006 weighted-average grant date fair value of approximately \$0.63 per option, resulting in approximately \$6 million of additional compensation expense recognized in income over the period during which an employee is required to provide service in exchange for the award.

### ***Multiple-element Transactions***

Multiple-element transactions involve situations where judgment must be exercised in determining fair value of the different elements in a bundled transaction. As the term is used here, multiple-element arrangements can involve:

*Contemporaneous purchases and sales.* We sell a product or service (e.g., advertising services) to a customer and at the same time purchases goods or services (e.g., programming);

*Sales of multiple products and/or services.* We sell multiple products or services to a counterparty (e.g., we sell video, Digital Phone and high-speed data services to a customer); and/or

*Purchases of multiple products and/or services, or the settlement of an outstanding item contemporaneous with the purchase of a product or service.* We purchase multiple products or services from a counterparty (e.g., we settle a dispute on an existing programming contract at the same time that it is renegotiating a new programming contract with the same programming vendor).

### ***Contemporaneous Purchases and Sales***

In the normal course of business, we enter into multiple-element transactions where we are simultaneously both a customer and a vendor with the same counterparty. For example, when negotiating the terms of programming purchase contracts with cable networks, we may at the same time negotiate for the sale of advertising to the same cable network. Arrangements, although negotiated contemporaneously, may be documented in one or more contracts. In accounting for such arrangements, we look to the guidance contained in the following authoritative literature:

APB Opinion No. 29, *Accounting for Nonmonetary Transactions* ( APB 29 );

FASB Statement No. 153, *Exchanges of Nonmonetary Assets an amendment of APB Opinion No. 29* ( FAS 153 );

EITF Issue No. 01-09, *Accounting for Consideration Given by a Vendor to a Customer* ( EITF 01-09 ); and

EITF Issue No. 02-16, *Accounting by a Customer (Including a Reseller) for Certain Consideration Received from a Vendor* ( EITF 02-16 ).

Our policy for accounting for each transaction negotiated contemporaneously is to record each element of the transaction based on the respective estimated fair values of the products or services purchased and the products or services sold. The judgments made in determining fair value in such arrangements impact the amount and period in which revenues, expenses and net income are recognized over the term of the contract. In determining the fair value of the respective elements, we refer to quoted market prices (where available), historical transactions or comparable cash transactions. The most frequent transactions of this type that we

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encounter involve funds received from our vendors, which we account for in accordance with EITF 02-16. We record cash consideration received from a vendor as a reduction in the price of the vendor's product unless (i) the consideration is for the reimbursement of a specific, incremental, identifiable cost incurred in which case we would record the cash consideration received as a reduction in such cost or (ii) we are providing an identifiable benefit in exchange for the consideration in which case we recognize revenue for this element.

With respect to programming vendor advertising arrangements being negotiated simultaneously with the same cable network, we assess whether each piece of the arrangements is at fair value. The factors that are considered in determining the individual fair values of the programming and advertising vary from arrangement to arrangement and include:

- existence of a most-favored-nation clause or comparable assurances as to fair market value with respect to programming;
- comparison to fees under a prior contract;
- comparison to fees paid for similar networks; and
- comparison to advertising rates paid by other advertisers on our systems.

Advertising revenues associated with such arrangements were less than \$1 million for each of the years ended December 31, 2006 and 2005, and were \$9 million in 2004.

### ***Sales of Multiple Products or Services***

Our policy for revenue recognition in instances where multiple deliverables are sold contemporaneously to the same counterparty is in accordance with EITF Issue No. 00-21, *Revenue Arrangements with Multiple Deliverables*, and SEC Staff Accounting Bulletin No. 104, *Revenue Recognition*. Specifically, if we enter into sales contracts for the sale of multiple products or services, then we evaluate whether we have objective fair value evidence for each deliverable in the transaction. If we have objective fair value evidence for each deliverable of the transaction, then we account for each deliverable in the transaction separately, based on the relevant revenue recognition accounting policies. However, if we are unable to determine objective fair value for one or more undelivered elements of the transaction, we recognize revenue on a straight-line basis over the term of the agreement. For example, we sell cable, Digital Phone and high-speed data services to subscribers in a bundled package at a rate lower than if the subscriber purchases each product on an individual basis. Subscription revenues received from such subscribers are allocated to each product in a pro-rata manner based on the fair value of each of the respective services.

### ***Purchases of Multiple Products or Services***

Our policy for cost recognition in instances where multiple products or services are purchased contemporaneously from the same counterparty is consistent with our policy for the sale of multiple deliverables to a customer. Specifically, if we enter into a contract for the purchase of multiple products or services, we evaluate whether it has fair value evidence for each product or service being purchased. If we have fair value evidence for each product or service being purchased, we account for each separately, based on the relevant cost recognition accounting policies. However, if we are unable to determine fair value for one or more of the purchased elements, we would recognize the cost of the transaction on a straight-line basis over the term of the agreement.

This policy also would apply in instances where we settle a dispute at the same time we purchase a product or service from that same counterparty. For example, we may settle a dispute on an existing programming contract with a

programming vendor at the same time that we are renegotiating a new programming contract with the same programming vendor. Because we are negotiating both the settlement of the dispute and a new programming contract, each of the elements should be accounted for at fair value. The amount allocated to the settlement of the dispute would be recognized immediately, whereas the amount allocated to the new programming contract would be accounted for prospectively, consistent with the accounting for other similar programming agreements.

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### ***Property, Plant and Equipment***

We incur expenditures associated with the construction of our cable systems. Costs associated with the construction of the cable transmission and distribution facilities and new cable service installations are capitalized. With respect to certain customer premise equipment, which includes set-top boxes and cable modems, we capitalize installation charges only upon the initial deployment of these assets. All costs incurred in subsequent disconnects and reconnects are expensed as incurred. Depreciation on these assets is provided, generally using the straight-line method, over their estimated useful lives.

We use product-specific and, in the case of customers who have multiple products installed at once, bundle-specific standard costing models to capitalize installation activities. Significant judgment is involved in the development of these costing models, including the average time required to perform an installation and the determination of the nature and amount of indirect costs to be capitalized. Additionally, the development of standard costing models for new products such as Digital Phone involve more estimates than the standard costing models for established products because we have less historical data related to the installation of new products. The standard costing models are reviewed annually and adjusted prospectively, if necessary, based on comparisons to actual costs incurred.

We generally capitalize expenditures for tangible fixed assets having a useful life of greater than one year. Types of capitalized expenditures include: customer premise equipment, scalable infrastructure, line extensions, plant upgrades and rebuilds and support capital. For set-top boxes and modems, useful life is generally 3 to 5 years and for distribution plant, useful life is up to 16 years. In connection with the Transactions, TW NY acquired significant amounts of property, plant and equipment, which were recorded at their estimated fair values. The remaining useful lives assigned to such assets were generally shorter than the useful lives assigned to comparable new assets to reflect the age, condition and intended use of the acquired property, plant and equipment.

### ***Programming Agreements***

We exercise significant judgment in estimating programming expense associated with certain video programming contracts. Our policy is to record video programming costs based on our contractual agreements with programming vendors, which are generally multi-year agreements that provide for us to make payments to the programming vendors at agreed upon rates, which represent fair market value, based on the number of subscribers to which we provide the service. If a programming contract expires prior to entering into a new agreement, we are required to estimate the programming costs during the period there is no contract in place. We consider the previous contractual rates, inflation and the status of the negotiations in determining our estimates. When the programming contract terms are finalized, an adjustment to programming expense is recorded, if necessary, to reflect the terms of the new contract. We must also make estimates in the recognition of programming expense related to other items, such as the accounting for free periods, most-favored-nation clauses and service interruptions, as well as the allocation of consideration exchanged between the parties in multiple-element transactions. Additionally, judgments are also required by management when we purchase multiple services from the same cable programming vendor. In these scenarios, the total consideration provided to the programming vendor is required to be allocated to the various services received based upon their respective fair values. Because multiple services from the same programming vendor are often received over different contractual periods and often have different contractual rates, the allocation of consideration to the individual services will have an impact on the timing of our expense recognition.

### ***Income Taxes***

From time to time, we engage in transactions in which the tax consequences may be subject to uncertainty. Examples of such transactions include business acquisitions and disposals, issues related to consideration paid or received in

connection with acquisitions and disposals, and certain financing transactions. Significant judgment is required in assessing and estimating the tax consequences of these transactions. For example, the Adelpia acquisition was designed as a taxable acquisition. Accordingly, we have viewed a portion of our tax basis in the acquired assets resulting from the Adelpia acquisition as incremental value above the amount of basis more generally associated with cable systems. The tax benefit of such incremental

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step-up would reduce net cash tax payments by more than \$300 million per year, assuming the following: (i) incremental step-up relating to 85% of the \$14.4 billion purchase price (which assumes that 15% of the fair market value of cable systems represents a typical amount of basis), (ii) straight-line amortization deductions over 15 years, (iii) sufficient taxable income to utilize the amortization deductions, and (iv) a 40% effective tax rate. The IRS or state and local taxing authorities might challenge the anticipated tax characterizations or related valuations, and any successful challenge could significantly increase our future tax payments and significantly reduce our future earnings and cash flow. Additionally, the TWC Redemption was designed to qualify as a tax-free split-off under section 355 of the Tax Code. If the IRS were successful in challenging the tax-free characterization of the TWC Redemption, an additional cash liability on account of taxes of up to an estimated \$900 million could be payable by us.

We prepare and file tax returns based on interpretation of tax laws and regulations. In the normal course of business, our tax returns are subject to examination by various taxing authorities. Such examinations may result in future tax and interest assessments by these taxing authorities. Although we believe we have support for the positions taken on our tax return, we have recorded a liability for our best estimate of the probable loss on certain of these positions. There is considerable judgment involved in determining whether positions taken on the tax return are probable of being sustained. We adjust our tax reserve estimates periodically because of ongoing examinations by and settlements with the various taxing authorities, as well as changes in tax laws, regulations and interpretations. The consolidated tax provision of any given year includes adjustments to prior year income tax accruals that are considered appropriate.

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**BUSINESS**

**Overview**

We, together with our subsidiaries, are the second-largest cable operator in the U.S. and are an industry leader in developing and launching innovative video, data and voice services. At June 30, 2007, we had cable systems that passed approximately 26 million U.S. homes in well-clustered locations and had approximately 14.7 million customer relationships. Approximately 85% of these homes passed were located in one of five principal geographic areas: New York state, the Carolinas, Ohio, southern California and Texas. As of June 30, 2007, we were the largest cable system operator in a number of large cities, including New York City and Los Angeles.

As part of our strategy to expand our cable footprint and improve the clustering of our cable systems, on July 31, 2006, TW NY and Comcast completed their respective acquisitions of assets comprising, in the aggregate, substantially all of the cable systems of Adelphia. TW NY paid for the Adelphia assets acquired by it with approximately \$8.9 billion in cash (after certain purchase price adjustments) and shares of our Class A common stock representing approximately 16% of our outstanding common stock. Immediately prior to the Adelphia acquisition, we and our subsidiary, TWE, redeemed Comcast's interests in us and TWE, respectively, with the result that Comcast no longer had an interest in either company. In addition, TW NY exchanged certain cable systems with subsidiaries of Comcast. As a result of the closing of the Transactions, we acquired systems with approximately 4.0 million basic video subscribers and disposed of systems with approximately 0.8 million basic video subscribers transferred to Comcast in connection with the Redemptions and the Exchange for a net gain of approximately 3.2 million basic video subscribers.

On February 13, 2007, Adelphia's Chapter 11 reorganization plan became effective and, under applicable securities law regulations and provisions of the U.S. bankruptcy code, we became a public company subject to the requirements of the Exchange Act. Under the terms of the reorganization plan, most of the 155,913,430 shares of our Class A common stock that Adelphia received in the Adelphia acquisition (representing approximately 16% of our common stock) are being distributed to Adelphia's creditors. As of June 30, 2007, approximately 91% of these shares of Class A common stock had been distributed to Adelphia's creditors. The remaining shares are expected to be distributed during the coming months as remaining disputes are resolved by the bankruptcy court. On March 1, 2007, our Class A common stock began trading on the NYSE under the symbol TWC.

Time Warner currently owns approximately 84.0% of our common stock (representing a 90.6% voting interest). Our financial results are consolidated by Time Warner.

As the marketplace for basic video services has matured, the cable industry has responded by introducing new services, including enhanced video services like HDTV and VOD, high-speed internet access and IP-based telephony. As of June 30, 2007, approximately 7.7 million (or 58%) of our 13.4 million basic video customers subscribed to digital video services, 7.2 million (or 28%) of high-speed data service-ready homes subscribed to a residential high-speed data service such as our Road Runner service and 2.3 million (or 12%) of voice service-ready homes subscribed to Digital Phone. We launched Digital Phone broadly in the Legacy Systems during 2004 and as of June 30, 2007, it was available to over 40% of the homes passed in the Acquired Systems. As of June 30, 2007, in the Legacy Systems, approximately 59% of our 9.6 million basic video customers subscribed to digital video services and over 32% of high-speed data service-ready homes subscribed to a residential high-speed data service. For periods presented prior to January 1, 2007, the customer data contained in this section include subscribers in managed, but unconsolidated, Kansas City Pool systems, which were distributed to us by TKCCP effective on January 1, 2007 and were consolidated on January 1, 2007. For additional information with respect to the distribution of the assets of TKCCP to its partners on January 1, 2007, see Management's Discussion and Analysis of Results of Operations and





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**Corporate Structure**

The following chart illustrates our corporate structure as of June 30, 2007. The subscriber numbers, long-term debt and preferred equity balances presented below are approximate as of June 30, 2007. Certain intermediate entities and certain preferred interests held by us or our subsidiaries are not reflected. The subscriber counts within each entity indicate the number of basic video subscribers attributable to cable systems owned by such entity. Basic video subscriber numbers reflect billable subscribers who receive our basic video service.

- (1) The principal amount of TWE's debt securities excludes an unamortized fair value adjustment of \$134 million.
- (2) We are also the obligor under an intercompany loan from TWE with an aggregate principal amount of \$2.5 billion.
- (3) TW NY is also the obligor under an intercompany loan from us with an aggregate principal amount of \$8.7 billion.
- (4) The subscribers and economic ownership interests listed in the chart for TWE-A/N relate only to those TWE-A/N systems in which we have an economic interest and over which we exercise day-to-day supervision. See "Operating Partnerships and Joint Ventures" Description of Certain Provisions of the TWE-A/N Partnership Agreement for a more detailed description of the TWE-A/N capital structure.
- (5) Pursuant to the terms of Adelphia's plan of reorganization, as of June 30, 2007, approximately 91% of the shares of our Class A common stock that Adelphia received in the Adelphia acquisition had been distributed to Adelphia's creditors.

**Table of Contents****Services**

We offer a variety of services over our broadband cable systems, including video, high-speed data and voice services. We market our services separately and as bundled packages of multiple services and features. Increasingly, our customers subscribe to more than one of our services for a single price reflected on a single consolidated monthly bill.

***Video Services***

We offer a full range of analog and digital video service levels, including premium services such as HBO and Showtime, as well as advanced services such as VOD, HDTV, and set-top boxes equipped with DVRs. The following table presents selected statistical data regarding our video services:

|                                    | 2004                               | December 31,<br>2005 | 2006   | June 30,<br>2007 |
|------------------------------------|------------------------------------|----------------------|--------|------------------|
|                                    | (in thousands, except percentages) |                      |        |                  |
| Homes passed <sup>(1)</sup>        | 15,977                             | 16,338               | 26,062 | 26,335           |
| Basic subscribers <sup>(2)</sup>   | 9,336                              | 9,384                | 13,402 | 13,391           |
| Basic penetration <sup>(3)</sup>   | 58.4%                              | 57.4%                | 51.4%  | 50.8%            |
| Digital subscribers                | 4,067                              | 4,595                | 7,270  | 7,732            |
| Digital penetration <sup>(4)</sup> | 43.6%                              | 49.0%                | 54.2%  | 57.7%            |

- (1) Homes passed represent the estimated number of service-ready single residence homes, apartment and condominium units and commercial establishments passed by our cable systems without further extending our transmission lines.
- (2) Basic subscriber numbers reflect billable subscribers who receive basic video service.
- (3) Basic penetration represents basic subscribers as a percentage of homes passed.
- (4) Digital penetration represents digital subscribers as a percentage of basic subscribers.

*Analog services.* Analog video service is available in almost all of our operating areas. We typically offer two levels or tiers of service Basic and Standard which together offer, on average, approximately 70 channels for viewing on cable-ready television sets generally without the need for a separate set-top box.

*Basic Tier* generally, broadcast television signals, satellite delivered broadcast networks and superstations, local origination channels, and public access, educational and government channels; and

*Standard Tier* generally includes national, regional and local cable news, entertainment and other specialty networks, such as CNN, A&E, ESPN, CNBC and MTV.

We offer our Basic and Standard tiers for a fixed monthly fee. The rates we can charge for our Basic tier and certain video equipment are subject to regulation under federal law. See Regulatory Matters.

In certain areas, our Basic and Standard tiers also include proprietary local programming devoted to the communities we serve. For example, we provide 24-hour local news channels in the following areas: NY1 News and NY1 Noticias in New York, NY; News 14 Carolina in Charlotte, Greensboro and Raleigh, NC; R News in Rochester, NY; Capital News 9 in Albany, NY; News 8 Austin in Austin, TX; and News 10 Now in Syracuse, NY. In most of these areas, these news channels are available exclusively on our cable systems.

As of June 30, 2007, 50.8% of our homes passed, or 13.4 million subscribers, subscribed to our basic video services and, in the Legacy Systems, 56.5% of our homes passed, or 9.6 million subscribers, subscribed to our basic video services.

*Digital services.* Subscribers to our digital video services receive up to 250 digital video and audio programming services. Our digital video services may include:

*Additional Cable Networks* up to 60 digitally delivered cable networks, including spin-off and successor networks to successful national cable services, new networks and niche programming services, such as Discovery Home and MTV2;

*Interactive Program Guide* an on-screen interactive program guide that contains descriptions of available viewing options, enables navigation among these options and provides convenient parental controls and access to our On-Demand services, which are described below;

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*Premium and Multiplex Premium Channels* multi-channel versions of premium services, such as the suite of HBO networks, which includes HBO, HBO 2, HBO Signature, HBO Family, HBO Comedy, HBO Zone and HBO Latino;

*Music Channels* up to 45 CD-quality genre-themed audio music stations;

*Seasonal Sports Packages* packages of sports programming, such as MLB Extra Innings, NBA League Pass and NHL Center Ice, which provide multiple channels displaying games from outside the subscriber's local area;

*Digital Tiers* specialized tiers comprising thematically linked programming services, including sports and Spanish language tiers; and

*Family Choice Tier* a specialized tier comprising about 15 standard and digital channels selected to be appropriate for family viewing based on ratings information provided by the programmers and based on our best judgment.

Our analog and digital video subscribers pay a fixed monthly fee for the level of service they receive. Subscribers to premium channels are charged an additional monthly fee, with discounts generally available for the purchase of packages of more than one such service.

As of June 30, 2007, 57.7%, or approximately 7.7 million, of our basic video subscribers subscribed to our digital video services and, in the Legacy Systems, approximately 58.6%, or approximately 5.6 million, of our basic video subscribers subscribed to our digital video services.

*On-Demand services.* We offer a number of On-Demand services that enable users to view what they want, when they want it. These services which are provided only to our digital video customers feature advanced functionality, such as the ability to pause, rewind and fast-forward the programming using our VOD system. We believe that access to On-Demand programming gives our existing analog subscribers and potential new subscribers a compelling reason to subscribe to our digital video service. Our On-Demand products and services include:

*Movies-on-Demand* offers a wide selection of movies and occasional special events to our digital video subscribers.

*Subscription-Video-on-Demand* provides digital subscribers with On-Demand access to packages of programming that are either associated with a particular premium content provider to which they already subscribe or are otherwise made available on a subscription basis.

*Ad-Supported Video-on-Demand* provides digital subscribers with free On-Demand access to selected movies, programs and program excerpts from cable television networks such as A&E, PBS Sprout, Oxygen and CNN, as well as music videos, local programming and other content, and introduces subscribers to the convenience of our On-Demand services.

*Start Over* this VOD-based, Emmy award-winning technology allows digital video customers to conveniently and instantly restart select programs then being aired by participating programming services. Users cannot fast forward through commercials while using Start Over, so traditional advertising economics are preserved for participating programming vendors. Introduced in our Columbia, South Carolina, division in 2005, we deployed this service in several areas during 2006 and are introducing it more broadly in 2007.

*Quick Clips* permits our digital subscribers watching a program to access without switching channels, relevant short-form content on an on demand basis.

We believe our VOD technology will also facilitate the introduction of other service enhancements, including such features as Look Back, Catch Up and Coming Soon.

We charge for most of the movies that are made available in our Movies-on-Demand service on a per-use basis. Generally, the SVOD services that are associated with particular premium content are packaged together

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with such premium content and are made available as part of a separate package of SVOD services. Other SVOD services are made available for a fixed monthly fee.

*DVRs.* Set-top boxes equipped with digital video recorders are available for a flat monthly fee. These set-top boxes enable customers to:

pause and/or rewind live television programs;

record programs on a hard drive built into the set-top box by selecting the program's title from the interactive program guide rather than by start and stop times;

pause, rewind and fast-forward recorded programs;

automatically record each episode or only selected episodes of a particular series without the need to reprogram the DVR;

watch one show while recording another;

record two shows at the same time; and

set parental controls on what can be recorded.

Initially introduced in 2002, we currently offer our DVR product to our digital video subscribers in all of the Legacy Systems. As of June 30, 2007, 37.8%, or approximately 2.9 million, of our digital video subscribers also received a DVR set-top box. We charge a monthly fee for our DVR service over and above the normal set-top box charge. The monthly equipment fee for a DVR set-top box is subject to regulation. See *Regulatory Matters* below.

*High definition services.* We generally offer at least 15 channels of HDTV, in each of our systems, mainly consisting of broadcast signals and standard and premium cable networks, as well as HDTV Movies-on-Demand in most of the Legacy Systems. HDTV provides a higher resolution picture and improved audio quality. In most instances, customers who already subscribe to the standard-definition versions of these services, including in the case of broadcast stations those customers who receive only Basic service, are not charged for the high definition version of the channels. We also offer a package of HDTV channels for an additional monthly fee.

***High-speed Data Services***

We offer residential and commercial high-speed data services to nearly all of our homes passed as of June 30, 2007. Our high-speed data services provide customers with a fast, always-on connection to the Internet. Subscribers pay a monthly flat fee based on the level of service received. Due to their different characteristics, commercial and bulk subscribers are charged at different rates from residential subscribers.

The following table presents some statistical data regarding our high-speed data services:

|   | 2004                               | December 31,<br>2005 | 2006   | June 30,<br>2007 |
|---|------------------------------------|----------------------|--------|------------------|
|   | (in thousands, except percentages) |                      |        |                  |
| Service-ready homes passed <sup>(1)</sup> | 15,870                             | 16,227               | 25,691 | 26,033           |

|  |       |       |       |       |
|--|-------|-------|-------|-------|
| Residential high-speed data subscribers                | 3,368 | 4,141 | 6,644 | 7,188 |
| Residential high-speed data penetration <sup>(2)</sup> | 21.2% | 25.5% | 25.9% | 27.6% |
| Commercial high-speed data subscribers                 | 151   | 183   | 245   | 263   |

- (1) Service-ready homes passed represent the estimated number of high-speed data service-ready single residence homes, apartment and condominium units and commercial establishments passed by our cable systems without further extending our transmission lines.
- (2) Residential high-speed data penetration represents residential high-speed data subscribers as a percentage of high-speed data service-ready homes passed.

High-speed data subscribers connect their personal computers or other broadband ready devices to our cable systems using a cable modem, which we provide at no charge or which subscribers can purchase themselves if they wish. Our high-speed data service enables subscribers to connect to the Internet at speeds much greater than traditional dial-up telephone modems. In contrast to dial-up services, subscribers to our



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high-speed data service do not have to log in to their account each time they wish to access the service and can remain connected without being disconnected because of inactivity.

*Road Runner.* As of June 30, 2007, we offered our Road Runner branded, high-speed data service to residential subscribers in virtually all of our systems.

Our Road Runner service provides communication tools and personalized services, including e-mail, PC security, parental controls, news group, online radio and personal home pages. Electronic messages can be personalized with photo attachments or video clips. The Road Runner portal provides access to content and media from local, national and international providers and topic-specific channels including games, news, sports, autos, kids, music, movie listings, and shopping sites.

We offer multiple tiers of Road Runner service, each with different operating characteristics and a different monthly fee. In recent years, we have steadily increased maximum download speeds in response to competitive factors and we anticipate that we will continue to be able to do so for the foreseeable future.

Road Runner was a recipient of the SATMetrics award for highest consumer likelihood to recommend in 2006, well ahead of all other cable providers, DSL providers, and other ISPs. In addition to Road Runner, most of our cable systems provide high-speed access to the services of certain other on-line providers, including EarthLink.

*Time Warner Cable Business Class.* We offer commercial customers a variety of high-speed data services, including Internet access, website hosting and managed security. These services are offered to a broad range of businesses and are marketed under the Time Warner Cable Business Class brand. We expect that small- and medium-sized businesses will increasingly find the need to purchase high-speed data services and intend to pursue opportunities in this area.

In addition to the residential subscribers and commercial accounts serviced through our cable systems, we provide our Road Runner high-speed data service to third parties for a fee.

## ***Voice Services***

*Digital Phone.* Digital Phone is the newest of our core services, having been launched broadly across the Legacy Systems in 2004. Under our primary calling plan, our customers receive a Digital Phone package that provides unlimited local, in-state and U.S., Canada and Puerto Rico long-distance calling and a number of calling features for a fixed monthly fee. We are also currently deploying lower-priced calling plans to serve those customers that do not use interstate and/or long-distance calling plans extensively and intend to offer additional plans with a variety of calling options in the future. Our Digital Phone plans include, among others, the following calling features:

Call Waiting;

Caller ID;

Voicemail;

Call Forwarding;

Speed Dial;

Anonymous Call Reject;

International Direct Dial service;

3-way calling;

Enhanced 911 Service, which allows our customers to contact local emergency services personnel by dialing 911. With Enhanced 911 service, the customer's address and phone number will automatically display on the emergency dispatcher's screen; and

Customer Service (611).

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As of June 30, 2007, Digital Phone had been launched in all of the Legacy Systems and was available to 94% of the homes passed in those systems. At that time, in the Legacy Systems, we had 2.2 million Digital Phone customers and penetration of voice service to serviceable homes was approximately 14%. Since no comparable IP-based telephony service was available in the Acquired Systems at the time of acquisition, the continued introduction of Digital Phone in the Acquired Systems, separately and as part of a bundle, is a high priority. As of June 30, 2007, Digital Phone was available to over 40% of the homes passed in the Acquired Systems. We expect to continue to roll out Digital Phone across the Acquired Systems during the remainder of 2007.

As an adjunct to our existing commercial high-speed data business, we have begun to introduce Business Class Phone, a commercial Digital Phone service, to small- and medium-sized businesses and will continue to roll out this service during the remainder of 2007 in most of the Legacy Systems. We are also introducing this service in some of the Acquired Systems.

Digital Phone is delivered over the same system facilities we use to provide video and high-speed data services. We provide customers with a voice-enabled cable modem that digitizes voice signals and routes them as data packets, using IP technology, over our own managed broadband cable systems. Calls to destinations outside of our cable systems are routed to the traditional public switched telephone network. Unlike Internet phone providers, such as Vonage and Lingo, which utilize the Internet to transport telephone calls, our Digital Phone service uses only managed networks and public switched telephone networks to route calls. We believe our managed approach to delivery of voice services allows us to better monitor and maintain call and service quality.

We have agreements with Verizon and Sprint under which these companies assist us in providing Digital Phone service by routing voice traffic to the public switched telephone network, delivering enhanced 911 service and assisting in local number portability and long distance traffic carriage. In July 2006, we agreed to expand our multi-year relationship with Sprint as our primary provider of these services, including in the Acquired Systems. See **Risk Factors** **Risks Related to Dependence on Third Parties** We may not be able to obtain necessary hardware, software and operational support.

*Circuit-switched Telephone.* In the Exchange, we acquired customers from Comcast who receive traditional, circuit-switched local and long distance telephone services. We continue to provide traditional, circuit-switched services to some of those subscribers and, in some areas, have begun the process of discontinuing the circuit-switched offering in accordance with regulatory requirements. In those areas where the circuit-switched offering is discontinued, Digital Phone will be the only voice service we provide.

***Service Bundles***

In addition to selling our services separately, we are focused on marketing differentiated packages of multiple services and features, or bundles, for a single price. Increasingly, many of our customers subscribe to two or three of our services. The bundle represents a discount from the price of buying the services separately and the convenience of a single monthly bill. We believe that these Double Play and Triple Play offerings increase our customers' satisfaction with us, increase customer retention and encourage subscription to additional features. In the Legacy Systems as of June 30, 2007, 49.4% of our customers, received at least two services. The table below sets forth the number of our Double Play and Triple Play customers as of the dates indicated.

|                | December 31, |                     | June 30,            |
|----------------|--------------|---------------------|---------------------|
| 2004           | 2005         | 2006 <sup>(1)</sup> | 2007 <sup>(1)</sup> |
| (in thousands) |              |                     |                     |

|             |       |       |       |       |
|-------------|-------|-------|-------|-------|
| Double Play | 2,850 | 3,099 | 4,647 | 4,745 |
| Triple Play | 145   | 760   | 1,523 | 1,915 |

- (1) As of December 31, 2006, double play and triple play subscribers include approximately 68,000 and 24,000 subscribers, respectively, acquired from Comcast in the Exchange who receive traditional, circuit-switched telephone service. As of June 30, 2007, double play and triple play subscribers include approximately 51,000 and 17,000 subscribers, respectively, acquired from Comcast in the Exchange who receive traditional, circuit-switched telephone service.

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### ***Cross-platform Features***

In support of our bundled services strategy, we are developing features that operate across two or more of our services. For example, we have begun to offer customers who subscribe to both Time Warner Digital Cable and Digital Phone, at no charge, a Caller ID on TV feature that displays incoming call information on the customer's television set. In July 2006, we introduced a new feature called PhotoShowTV in our Oceanic division in Hawaii that gives customers who subscribe to both Time Warner Digital Cable and Road Runner high-speed online service the ability to create and share their personal photo shows with our other Time Warner Cable digital video customers using our VOD technology.

### **Advertising**

We sell advertising time to a variety of national, regional and local businesses. As part of the agreements under which we acquire video programming, we typically receive an allocation of scheduled advertising time in such programming, generally two minutes per hour, into which our systems can insert commercials, subject to limitations regarding subject matter. The clustering of our systems expands the share of viewers that we reach within a local designated market area, which helps our local advertising sales personnel to compete more effectively with broadcast and other media. Following the Transactions, we now have a strong presence in the country's two largest advertising markets, New York, New York, and Los Angeles, California.

In addition, in many locations, contiguous cable system operators have formed advertising interconnects to deliver locally inserted commercials across wider geographic areas, replicating the reach of the broadcast stations as much as possible. Our local cable news channels also provide us with opportunities to generate advertising revenue.

### **New Opportunities**

#### ***Commercial Services***

We believe that selling video and telecommunications services to commercial customers could provide us with a significant growth opportunity. We have sold video and high-speed data services to businesses for some time. In 2007, we introduced an IP-based telephony service geared to small- and medium-sized businesses, which we expect to deploy in most of the Legacy Systems and some of the Acquired Systems by the end of 2007. We believe the introduction of a business phone offering will, over time, allow us to expand the commercial services part of our business.

#### ***Wireless Joint Ventures***

In November 2005, we and several other cable companies, together with Sprint, announced the formation of a joint venture to develop integrated video entertainment, wireline and wireless data and communications products and services. In 2006, we began offering under the Pivot brand name a bundle that includes Sprint wireless voice service (with some of our unique features) in limited operating areas and will continue to roll out this service during the remainder of 2007. The package contains some wireline/wireless integration, such as a common voice mail-box for both the home and wireless phone. See Risk Factors Risks Related to Competition Our competitive position could suffer if we are unable to develop a compelling wireless offering.

A separate joint venture formed by the same parties participated in the FCC Auction 66 for Advanced Wireless Spectrum (AWS), and was the winning bidder of 137 licenses. These licenses cover 20 MHz of AWS in about 90% of the continental United States and Hawaii. The FCC awarded these licenses to the venture on November 29, 2006.

There can be no assurance that the venture will successfully develop mobile and related services. Under the joint venture agreement, Sprint had the ability to exit the venture upon 60 days' notice and to require that the venture purchase its interests for an amount equal to Sprint's capital contributions. Sprint has exercised this option and, in August 2007, we contributed \$28 million to the venture to fund our share of the payment to Sprint. In addition, under certain circumstances, the remaining members of the venture have the ability to exit the venture and receive from the venture, subject to certain limitations and adjustments, AWS licenses covering their operating areas.

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### ***Advanced Advertising***

We are exploring various means by which we could utilize our advanced services, such as VOD and interactive TV to deliver the same kind of targeting and interactivity to television advertisers that currently is available to Internet advertisers. For example, in upstate New York, we provide overlays that enable customers to request additional information regarding certain advertised products, to telescope from a traditional advertisement to a long form VOD segment regarding the advertised product, to vote on a hot topic or receive more specific additional information. These tools can be used to provide advertisers with important feedback about the impact of their advertising efforts.

### **Marketing and Sales**

We seek to deepen our relationships with existing customers, thereby increasing the amount of revenue we obtain from each home we serve and increasing customer retention, as well as to attract new customers. Our marketing is focused on conveying the benefits of our services in particular, the way our services can enhance and simplify customers' lives to these target groups. Our marketing strategy focuses on bundles of video, data and voice services, including premium services, offered in differentiated but easy to understand packages. These bundles provide discounted pricing as compared with the aggregate prices for the services provided if they were purchased separately, in addition to the convenience of a single bill. We generally market bundles with entry level pricing, which provide our customer care representatives the opportunity to offer additional services or upgraded levels of existing services that are relevant to targeted customer groups.

To support these efforts, we utilize our brand and the brand statement, *The Power of You*<sup>tm</sup>, in conjunction with a variety of integrated marketing, promotional and sales campaigns and techniques. Our advertising is intended to let our diverse base of subscribers and prospects know that we are a customer-centric company one that empowers customers by providing maximum choice, convenience and value and that we are committed to exceeding expectations through innovative product offerings and superior customer service. Our message is supported across broadcast, our own cable systems, print, radio and other outlets including outdoor advertising, direct mail, e-mail, on-line advertising, local grassroots efforts and non-traditional media.

We also employ a wide range of direct channels to reach our customers, including outbound telemarketing and door-to-door sales. In addition, we use customer care channels and inbound call centers to increase awareness of our products and services offered. Creative promotional offers are also a key part of our strategy, and an area where we work with third parties such as consumer electronics manufacturers and cable programmers.

We have been developing and implementing a number of technology-based tools and capabilities. These initiatives include the development of customized data storage and flexible access tools. This infrastructure will ensure that critical customer information is in the hands of customer service representatives as they interact with customers and prospects and on an aggregate basis to help us develop marketing programs.

Each of our local operations has a marketing and sales function responsible for selecting the relevant marketing communications, pricing and promotional offers for the products and services being sold and the consumer segments being targeted. The marketing and sales strategy is developed in coordination with our regional and corporate marketing teams, with execution by the local operating division.

We are also developing new sales channels through agreements with local and national retail stores, where our satellite competitors have a strong presence. This retail presence enables both new and existing customers to learn more about us, and purchase our products and services. We maintain dedicated customer service centers that allow for the resolution of billing and service issues as well as facilitate the sale of new products and services. Our centers are

located in our local administrative offices or operations centers, independent facilities or kiosks or booths within larger retail establishments, such as shopping malls.

**Customer Care**

We believe that superior customer care can help increase customer satisfaction, promote customer loyalty and lasting customer relationships, and increase the penetration of our services. We are committed to putting



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our customers at the center of everything we do and are making significant investments in technology and people to support this commitment.

Our customer call centers use a range of software and systems to try to ensure the most efficient and effective customer care possible. For instance, many of our customer call centers utilize workforce and call flow management systems to route the millions of calls we receive each month to available representatives and to maximize existing resources. Customer representatives have access to desktop tools to provide the information our customers need, reducing call handling time. These desktop tools provide the representative with timely, valuable information regarding the customer then calling (e.g., notifying the representative if the customer has called previously on the same issue or helping to identify a new service in which the customer might be interested). We use quality assurance software that monitors both the representative's customer interactions and the desktop tools the representative selects during each call.

Many of our divisions are utilizing interactive voice recognition systems and on-line customer care systems to allow customers to obtain information they require without the need to speak with a customer care representative. Most customers who wish or need to speak with a representative will talk to a locally-based representative, which enables us to respond to local customer needs and preferences. However, some specialized care functions, such as advanced technical support for our high-speed data service, are handled regionally or nationally.

In order to enhance customer convenience and satisfaction, we have implemented a number of customer care initiatives. Depending on location, these may include:

- two-hour appointment windows with an on-time guarantee;
- customer loyalty and reward programs;
- weekend, evening and same-day installation and trouble-shooting service appointments;
- payment and/or billing information through the Internet or by phone; and
- follow-up calls to monitor satisfaction with installation or maintenance visits.

We also provide Answers on Demand, which allows customers to select discrete help topics from a menu and then view interactive videos that answer their questions. Customers can access Answers on Demand either on-line or on their television set (using our VOD technology).

## **Technology**

### ***Our Cable Systems***

Our cable systems employ a flexible and extensible network architecture known as hybrid fiber coax, or HFC. We transmit signals on these systems via laser-fed fiber optic cable from origination points known as headends and hubs to a group of distribution nodes, and use coaxial cable to deliver these signals from the individual nodes to the homes they serve. We pioneered this architecture and received an Emmy award in 1994 for our HFC development efforts. HFC architecture allows the delivery of two-way video and broadband transmissions, which is essential to providing advanced video services, like VOD, Road Runner high-speed data services and Digital Phone.

HFC architecture is the cornerstone technology in our digital cable systems. HFC architecture provides us with numerous benefits, including the following:

*Reliability.* HFC enables the delivery of highly dependable traditional and two-way video and broadband services.

*Signal quality.* HFC delivers very clean signal quality, which permits us to provide excellent video signals, as well as facilitating the delivery of advanced services like VOD, high-speed data and voice services.

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*Flexibility.* HFC utilizes optical networking that allows inexpensive and efficient bandwidth increases and takes advantage of favorable cost and performance curves.

*Adaptability.* HFC is highly adaptable, and allows us to utilize new networking techniques that afford increased capacity and performance without costly upgrades.

As of June 30, 2007, almost all of the homes passed in the Legacy Systems and, according to our estimates, approximately 97% of all homes passed were served by plant that had been upgraded to provide at least 750MHz of capacity. Carriage of analog programming (approximately 70 channels per system) uses about two thirds of a typical system's capacity leaving capacity for digital video, high-speed data and voice products. Digital signals, including video, high-speed data and voice signals, can be carried more efficiently than analog signals. Generally 10 to 12 digital channels or their equivalent can be broadcast using the same amount of capacity required to broadcast just one analog channel. We are in the process of upgrading the plant in the Acquired Systems to our Legacy Systems standards.

We believe that our network architecture is sufficiently flexible and extensible to support our current requirements. However, in order for us to continue to innovate and deliver new services to our customers, as well as meet competitive imperatives, we anticipate that we will need to increase the amount of usable bandwidth available to us in most of our systems over the next few years. We believe that this can be achieved largely through the maximization and careful management of our systems' existing bandwidth, without costly upgrades. For example, to accommodate increasing numbers of HDTV channels and other demands for greater capacity in our network, in certain areas we have begun deployment of a technology known as switched digital video ( SDV ). SDV ensures that only those channels that are being watched within a given grouping of households are being transmitted to those households. Since it is generally the case that not all channels are being watched at all times by a given group of households, this frees up capacity that can then be made available for other uses. This expansion of network capacity does not rely on extensive upgrade construction. Instead, we invest in switching equipment in our headends and hubs and, as necessary, segment our plant to ensure that switches and lasers are shared among fewer households. As a result of this process, capacity is made available for new services, including HDTV channels.

### ***Video, High-speed Data and Voice Distribution***

In most systems, we deliver our services via laser-fed fiber optic cable from the headend, either directly or via a hub, to a group of nodes, and use coaxial cable to deliver these signals and services from individual nodes to the homes they serve. A typical hub provides service to approximately 20,000 homes, and our average node provides service to approximately 500 homes.

National and regional video services are generally delivered to us through satellites that are owned or leased by the relevant programmer. These services' signals are transmitted to downlink facilities located at our headends. Local video signals, including local broadcast signals, are picked up by antennae or are delivered to our headends via fiber connection. VOD content is received using a variety of these methods and generally stored on servers located at each system's headend.

We deliver high-speed data services to our subscribers through our HFC network, our regional fiber networks that are either owned by us or leased from third parties, including, in some instances, AOL, a subsidiary of Time Warner, and through backbone networks that provide connectivity to the Internet and are operated by third parties, including AOL. We pay fees for leased circuits based on the amount of capacity used and pay for Internet connectivity based either on a fixed fee for a specified amount of available capacity or on the amount of data traffic received from and sent over the provider's backbone network. We provide all major high-speed data customer service applications and monitor our

IP network, through our operation of two national data centers, eight regional data centers and two network operations centers.

We deliver Digital Phone voice services to our customers over the same system facilities used to provide video and high-speed data services. We provide Digital Phone customers with a voice-enabled cable modem that digitizes voice signals and routes them as data packets, using Internet protocol, a common standard for the packaging of data for transmission, over the cable system to one of our regional data centers. At the

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regional data center, a softswitch routes the data packets as appropriate based on the call's destination. Calls destined for end users outside of our network are routed through devices called session border controllers in the session initiation protocol format and delivered to our wholesale service providers. Such calls are then routed to a traditional public telephone switch, operated by one of our wholesale service providers, and then to their final destination (e.g., a residential or business end-user, a 911 dispatcher, or an operator). Calls placed outside of our network and intended for our subscribers follow a reverse route. Calls entirely within our network are generally routed by the softswitch to the appropriate end user without the use of a traditional public telephone switch.

***Set-top Boxes***

Our Basic and Standard tier subscribers generally do not require a set-top box to view their video services. However, because our digital signals and signals for premium programming are secured, our digital video customers receiving one-way (i.e., non-interactive) programming, such as premium channels and digital cable networks, can only receive such channels if they have a digital set-top box or if they have a digital cable ready television or similar device equipped with a CableCARD (as described below under *Set-top Box Developments*). Customers receiving our two-way video services, such as VOD and our interactive program guide, must have a digital set-top box that we provide to receive these services. Each of our cable systems uses one of only two conditional access systems to secure signals from unauthorized receipt, the intellectual property rights to which are controlled by set-top box manufacturers. In part as a result of the proprietary nature of these conditional access schemes, we currently purchase set-top boxes from a limited number of suppliers. For more information, see *Risk Factors* *Risks Related to Dependence on Third Parties*. We may not be able to obtain necessary hardware, software and operational support. The cable industry has recently entered into agreements with certain consumer electronics manufacturers under which they will shortly complete development of a limited number of interactive digital cable ready televisions (i.e., sets capable of utilizing our two-way services without the need for a set-top box). We have begun ordering some set-top boxes from some of these manufacturers as well. Our purchasing agreements generally provide us with most favored nation treatment under which the suppliers must offer us favorable price terms, subject to some limitations.

Historically, we have also relied primarily on set-top box suppliers to create the applications and interfaces we make available to our customers. Although we believe that our current applications and interfaces are compelling to customers, the lack of compatibility among set-top box operating systems has in the past hindered applications development. This is beginning to change somewhat, as third parties have begun to develop interactive applications, such as gaming and polling applications, notwithstanding the lack of common platform among set-top box schemes. Over the last few years, we have been developing our own interactive program guide and user interface, which we are in the process of deploying.

As described below under *Set-top Box Developments*, as current technological and compatibility issues for set-top box applications are resolved and a common platform for set-top box applications emerges, we expect that applications developers will devote more time and resources to the creation of innovative digital platform products, which should enable us to offer new features to our subscribers in the future.

***Set-top Box Developments***

There have been a number of market and regulatory developments in recent years that may impact the costs and benefits to us of providing customers with set-top boxes.

*Plug and play.* In December 2002, cable operators and consumer-electronics companies entered into a standard-setting agreement, known as the plug and play agreement, relating to interoperability between cable systems and reception equipment. The FCC promulgated rules to implement the agreement, under which cable systems with activated spectrum of 750MHz or higher must, among other things, support digital cable ready consumer electronic devices

(e.g., televisions) equipped with a slot for a CableCARD. The CableCARD performs certain security functions and enables the device to tune and receive encrypted (or scrambled ) digital signals without the need for a separate set-top box.

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The plug and play agreement and the FCC rules address only unidirectional devices (i.e., devices capable of utilizing only cable operators one-way transmission services) and not devices capable of carrying two-way services, such as interactive program guides and VOD. As a result, those of our customers who use a CableCARD equipped television set, and who do not have a set-top box, cannot access these advanced services. If a significant number of our subscribers decline set-top boxes in favor of one-way devices purchased at retail, it could have an adverse effect on our business. For more information, see Risk Factors Risks Related to Dependence on Third Parties The adoption of, or the failure to adopt, certain consumer electronics devices may negatively impact our offerings of new and enhanced services. Cable operators, consumer-electronics companies and other market participants have been holding discussions that may lead to a similar set of interoperability agreements covering digital devices capable of carrying cable operators two-way, interactive products and services. Although efforts to reach an inter-industry agreement on two-way interoperability standards have not yielded results, as noted above, certain consumer electronics manufacturers have entered into direct agreements with the cable industry under which they will shortly complete development of a limited number of two-way capable television sets.

If two-way interoperability standards can be agreed upon, or if other efforts to enable consumer electronics devices to securely receive and utilize our two-way services are successful, our business could be benefited. First, consumer electronic companies could manufacture set-top boxes without the need to license our current suppliers conditional access technology, which could lead to greater competition and innovation. Second, if customers widely adopted such devices sold at retail, it would likely reduce our set-top box capital expenditures and the need for installation appointments in homes already wired for cable. However, we could suffer a decline in set-top box revenues. Furthermore, in the long term, as interoperability for two-way devices evolves, consumer electronics companies may be more willing to develop products that make enhanced use of digital cable s capabilities, expanding the range of services we could offer.

Under another set of FCC regulations, which became effective on July 1, 2007, cable operators must cease placing into service new set-top boxes with security functions built into the box. In other words, new set-top boxes deployed by cable operators are required to utilize a CableCARD or similar means of separating security functions from other set-top box functions. See Regulatory Matters Communications Act and FCC Regulation Other regulatory requirements of the Communications Act and the FCC below. The provision of set-top boxes that accept a CableCARD, or similar separate security device, will significantly increase per-unit set-top box costs as compared with the set-top boxes we have been using, which utilize integrated security. The FCC has also ordered the cable industry to investigate and report on the possibility of implementing a downloadable security system that would be accessible to all set-top devices. If the implementation of such a system proves technologically feasible, this may eliminate the need for consumers to lease separate conditional-access security devices.

*Open cable application platform.* CableLabs, a nonprofit research and development consortium founded by members of the cable industry, has put forward a set of hardware and software specifications known as OpenCable, which represent an effort to achieve compatibility across cable network interfaces. The OpenCable software specification, which is known as open cable application platform, or OCAP, is intended to create a common platform for set-top box applications regardless of what operating system the box uses. The OpenCable specification is consistent with the CableCARD specification promulgated under the FCC s plug and play rules and the encryption technology that allows the CableCARD to securely communicate with the host device. If widely adopted, OCAP could spur innovation in applications for set-top boxes and cable-ready consumer electronics devices. Furthermore, the availability of multi-platform set-top box applications should, together with the move toward separable conditional access systems, help to make set-top boxes more fungible, resulting in increased competition among manufacturers. We expect to deploy OCAP in nearly all of our operating areas by the end of 2008.





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### **Content and Equipment Suppliers**

#### *Video Programming Content*

We believe that offering a wide variety of programming is an important factor influencing a subscriber's decision to subscribe to and retain our video services. We devote considerable resources to obtaining access to a wide range of programming that we believe will appeal to both existing and potential subscribers.

*Cable television networks.* The terms and conditions of carriage of cable programming services are generally established through written affiliation agreements between programmers, including affiliates of Time Warner, and us. Most cable programming services are available to us for a fixed monthly per subscriber fee, which sometimes includes a volume discount pricing structure. However, payments to the providers of some premium channels, may be based on a percentage of our gross receipts from subscriptions to the channels. For home shopping channels, we do not pay and generally receive a percentage of the amount spent on home shopping purchases that is attributable to our subscribers and in some instances receive minimum guarantees.

Our programming contracts usually continue for a fixed period of time, generally from three to seven years. We believe that our ability to provide compelling programming packages is best served when we have maximum flexibility to determine on which systems and tiers a programming service will be carried. Sometimes, our flexibility is limited by the affiliation agreement. It is often necessary to agree to carry a particular programming service in certain of our cable systems and/or carry the service on a specific tier. In some cases, it is necessary for us to agree to distribute a programming service to a minimum number of subscribers or to a minimum percentage of our subscribers.

*Broadcast television signals.* Generally, we carry all local full power analog broadcast stations serving the areas in which we provide cable service. In most areas, we also carry the digital broadcast signals of a number of these stations. In some cases, we carry these stations under the FCC must-carry rules. In other cases, we must negotiate with the stations' owners for the right to retransmit these stations' signals. For more information, see Regulatory Matters below. Currently, we have multi-year retransmission consent agreements in place with most of the retransmission consent stations we carry. In other cases, we are carrying stations under short-term arrangements while we negotiate new long-term agreements.

*Pay-Per-View and On-Demand content.* Generally, we obtain rights to carry movies on an on-demand basis, as well as Pay-Per-View events, through iN Demand, a company in which we hold a minority interest. iN Demand negotiates with motion picture studios to obtain the relevant distribution rights. In some instances, we have contracted directly with the motion picture studios for the rights to carry their movies on an on-demand basis. Movies-on-Demand content is generally provided to us under a revenue-sharing arrangement, although in some cases there are minimum guaranteed payments required.

Our ability to get access to current hit films in a timely fashion is hampered to some extent by the traditional sequence of Hollywood's distribution windows. Typically, after theatrical release, films are made available to home video distributors on an exclusive basis for a set period of time, currently about 45 days. It is only after home video has enjoyed its exclusive window that Movies-on-Demand and Pay-Per-View distributors can gain access to the content. It is possible that subscriber purchases of Movies-on-Demand would increase if we were able to provide hit films during the home video window. However, despite continuing efforts to do so, we have generally been unable to obtain the right to offer current hit films during this window on a regular basis.

In line with our goal of offering a wide variety of programming that will appeal to both existing and potential subscribers, we are trying to maximize the quantity and quality of all of our video offerings, especially our VOD

offerings. As additional VOD content becomes available we evaluate it to determine if it meets our standards and to the extent it does, we begin offering it to our digital subscribers.

We obtain SVOD and other free on-demand content directly from the relevant content providers.

***Set-top Boxes***

We purchase set-top boxes and CableCARDS from a limited number of suppliers. We lease these devices to subscribers at monthly rates. Our video equipment fees are regulated. Under FCC rules, cable operators are allowed to set equipment rates for set-top boxes, CableCARDS and remote controls on the basis of actual capital costs, plus an annual after-tax rate of return of 11.25%, on the capital cost (net of depreciation). This

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rate of return allows us to economically provide sophisticated customer premise equipment to subscribers. See [Technology Set-top Boxes](#) above and [Regulatory Matters](#) below.

### **Competition**

We face intense competition from a variety of alternative information and entertainment delivery sources, principally from direct-to-home satellite video providers and certain regional telephone companies, each of which offers or will shortly be able to offer a broad range of services through increasingly varied technologies. In addition, technological advances will likely increase the number of alternatives available to our customers from other providers and intensify the competitive environment. See [Risk Factors](#) [Risks Related to Competition](#).

#### ***Principal Competitors***

*Direct broadcast satellite.* Our video services face competition from direct broadcast satellite services, such as the Dish Network and DirecTV. DirecTV and Dish Network offer satellite-delivered pre-packaged programming services that can be received by relatively small and inexpensive receiving dishes. The video services provided by these satellite providers are comparable, in many respects, to our analog and digital video services, and direct broadcast satellite subscribers can obtain satellite receivers with integrated digital video recorders from those providers as well. Both major direct broadcast satellite providers have entered into co-marketing arrangements with regional telephone companies that allow these telephone companies to offer customers a bundle of video, telephone and DSL services, which competes with our [Triple Play](#) of video, high-speed data and Digital Phone services.

*Incumbent local telephone companies.* Our high-speed data and Digital Phone services face competition from the DSL and traditional phone offerings of incumbent local telephone companies in most of our operating areas. In some cases, DSL providers have partnered with ISPs such as AOL, which may enhance DSL's competitive position. In addition, some incumbent local telephone companies, such as AT&T and Verizon, have undertaken fiber-optic upgrades of their networks. The technologies they are using, such as FTTN and FTTH, are capable of carrying two-way video, high-speed data with substantial bandwidth and IP-based telephony services, each of which is similar to the comparable services we offer. These networks allow for the marketing of service bundles of video, data and voice services and these companies also have the ability to include wireless services provided by owned or affiliated companies in bundles that they may offer.

*Cable overbuilds.* We operate our cable systems under non-exclusive franchises granted by state or local authorities. The existence of more than one cable system, including municipality-owned systems, operating in the same territory is referred to as an [overbuild](#). In some of our operating areas, other operators have overbuilt our systems and/or offer video, data and voice services in competition with us.

*Satellite Master Antenna Television ( SMATV ).* Additional competition comes from private cable television systems servicing condominiums, apartment complexes and certain other multiple dwelling units, often on an exclusive basis, with local broadcast signals and many of the same satellite-delivered program services offered by franchised cable systems. Some SMATV operators now offer voice and high-speed data services as well.

*Wireless Cable/Multi-channel Microwave Distribution Services ( MMDS ).* We face competition from wireless cable operators, including digital wireless operators, who use terrestrial microwave technology to distribute video programming and some of which now offer voice and high-speed data services.

#### ***Other Competition and Competitive Factors***

Aside from competing with the video, data and voice services offered by direct broadcast satellite providers, local incumbent telephone companies, cable overbuilders and some SMATVs and MMDSs, each of our services also faces competition from other companies that provide services on a stand-alone basis.

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*Video competition.* Our video services face competition on a stand-alone basis from a number of different sources, including:

local television broadcast stations that provide free over-the-air programming which can be received using an antenna and a television set;

local television broadcasters, which in selected markets sell digital subscription services; and

video programming delivered over broadband Internet connections.

Our VOD services compete with online movie services, which are delivered over broadband Internet connections, and with video stores and home video products.

*Online competition.* Our high-speed data services face or may face competition from a variety of companies that offer other forms of online services, including low cost dial-up services over ordinary telephone lines, and developing technologies, such as Internet service via power lines, satellite and various wireless services (e.g., Wi-Fi), including those of local municipalities.

*Digital Phone competition.* Our Digital Phone service also competes with wireless phone providers and national providers of Internet-based phone products such as Vonage. The increase in the number of different technologies capable of carrying voice services has intensified the competitive environment in which our Digital Phone service operates.

*Additional competition.* In addition to multi-channel video providers, cable systems compete with all other sources of news, information and entertainment, including over-the-air television broadcast reception, live events, movie theaters and the Internet. In general, we also face competition from other media for advertising dollars. To the extent that our products and services converge with theirs, we compete with the manufacturers of consumer electronics products. For instance, our digital video recorders compete with similar devices manufactured by consumer electronics companies.

*Franchise process.* Under the Cable Television Consumer Protection and Competition Act of 1992, franchising authorities are prohibited from unreasonably refusing to award additional franchises. In December 2006, the FCC adopted an order intended to make it easier for competitors to obtain franchises, by defining when the actions of county- and municipal-level franchising authorities will be deemed to be unreasonable as part of the franchising process. The order, among other things, establishes deadlines for franchising authorities to act on competitive franchise applications; prohibits franchising authorities from placing unreasonable build-out demands on competitive applicants; and prohibits franchising authorities from requiring competitive applicants to undertake certain obligations concerning the provision of public, educational, and governmental access programming. Furthermore, legislation supported by regional telephone companies has been proposed at the state and federal level and enacted in a number of states to allow these companies to enter the video distribution business without obtaining local franchise approval and often on substantially more favorable terms than those afforded us and other existing cable operators. Legislation of this kind has been enacted in California, New Jersey, North Carolina, South Carolina and Texas. See Risk Factors Risks Related to Government Regulation.

## **Employees**

As of June 30, 2007, we had approximately 45,000 employees, including approximately 1,700 part-time employees. Approximately 4.5% of our employees are represented by labor unions. We consider our relations with our employees to be good.

**Regulatory Matters**

Our business is subject, in part, to regulation by the FCC and by most local and some state governments where we have cable systems. In addition, our business is operated subject to compliance with the terms of the Memorandum Opinion and Order issued by the FCC in July 2006 in connection with the regulatory clearance of the Transactions (the Adelphia/Comcast Transactions Order ). In addition, various legislative and

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regulatory proposals under consideration from time to time by Congress and various federal agencies have in the past materially affected us and may do so in the future.

The following is a summary of the terms of the Adelphia/Comcast Transactions Order as well as current significant federal, state and local laws and regulations affecting the growth and operation of our businesses. The summary of the Adelphia/Comcast Transactions Order herein does not purport to be complete and is subject to, and is qualified in its entirety by reference to, the provisions of the Adelphia/Comcast Transactions Order.

### ***Adelphia/Comcast Transactions Order***

In the Adelphia/Comcast Transactions Order, the FCC imposed conditions on us, which will expire in July 2012, related to regional sports networks, as defined in the Adelphia/Comcast Transactions Order ( RSNs ), and the resolution of disputes pursuant to the FCC's leased access regulations. In particular, the Adelphia/Comcast Transactions Order provides that:

neither we nor our affiliates may offer an affiliated RSN on an exclusive basis to any multi-channel video programming distributor ( MVPD );

we may not unduly or improperly influence:

the decision of any affiliated RSN to sell programming to an unaffiliated MVPD;

the prices, terms, and conditions of sale of programming by an affiliated RSN to an unaffiliated MVPD;

if an MVPD and an affiliated RSN cannot reach an agreement on the terms and conditions of carriage, the MVPD may elect commercial arbitration to resolve the dispute;

if an unaffiliated RSN is denied carriage by us, it may elect a form of commercial arbitration to resolve the dispute in accordance with federal and FCC rules, subject to de novo review by the FCC; and

with respect to leased access, if an unaffiliated programmer is unable to reach an agreement with us, that programmer may elect commercial arbitration to resolve the dispute, with the arbitrator being required to resolve the dispute using the FCC's existing rate formula relating to pricing terms.

The application and scope of these conditions have not yet been tested, but some of them are the subject of an arbitration with the Mid-Atlantic Sports Network. We retain the right to obtain FCC and judicial review of any arbitration awards made pursuant to these conditions.

### ***Communications Act and FCC Regulation***

The Communications Act and the regulations and policies of the FCC affect significant aspects of our cable system operations, including video subscriber rates; carriage of broadcast television stations, as well as the way we sell our program packages to subscribers; the use of cable systems by franchising authorities and other third parties; cable system ownership; offering of voice and high-speed data services; and use of utility poles and conduits.

*Net neutrality legislative and regulatory proposals.* In the 2005-2006 Congressional term, several net neutrality -type provisions were introduced as part of broader Communications Act reform legislation. These provisions would have limited to a greater or lesser extent the ability of broadband providers to adopt pricing models and network management policies that would differentiate based on different uses of the Internet. None of these provisions was

adopted. Similar legislation has been introduced in the current Congressional term.

In September 2005, the FCC issued a non-binding policy statement regarding net neutrality (the Net Neutrality Policy Statement ). The FCC indicated that the statement was intended to offer guidance and insight into its approach to the Internet and broadband related issues. The principles contained in the statement set forth the FCC's view that consumers are entitled to access and use the lawful Internet content and applications of their choice, to connect lawful devices of their choosing that do not harm the broadband



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provider's network and are entitled to competition among network, application, service and content providers. The FCC statement also noted that these principles are subject to reasonable network management. Subsequently, the FCC has made these principles binding as to certain telecommunications companies in orders adopted in connection with mergers undertaken by those companies. To date, the FCC has declined to adopt any such regulations that would be applicable to us.

Several parties are seeking to persuade the FCC to adopt net neutrality-type regulations in a number of proceedings that are currently pending before the agency. These include pending FCC rulemakings regarding IP-enabled services and broadband Internet access services. In addition, in March 2007, the FCC opened a Notice of Inquiry regarding the implementation of net neutrality regulations.

We are unable to predict the likelihood that legislative or additional regulatory proposals regarding net neutrality will be adopted. For a discussion of net neutrality and the impact such proposals could have on us if adopted, see the discussion in Risk Factors Risks Related to Government Regulation Net neutrality legislation or regulation could limit our ability to operate our high-speed data business profitably, to manage our broadband facilities efficiently and to make upgrades to those facilities sufficient to respond to growing bandwidth usage by our high-speed data customers.

*Subscriber rates.* The Communications Act and the FCC's rules regulate rates for basic cable service and equipment in communities that are not subject to effective competition, as defined by federal law. Where there is no effective competition, federal law authorizes franchising authorities to regulate the monthly rates charged by the operator for the minimum level of video programming service, referred to as basic service, which generally includes local broadcast channels and public access or educational and government channels required by the franchise. This kind of regulation also applies to the installation, sale and lease of equipment used by subscribers to receive basic service, such as set-top boxes and remote control units. In many localities, we are no longer subject to this rate regulation, either because the local franchising authority has not become certified by the FCC to regulate these rates or because the FCC has found that there is effective competition.

*Carriage of broadcast television stations and other programming regulation.* The Communications Act and the FCC's regulations contain broadcast signal carriage requirements that allow local commercial television broadcast stations to elect once every three years to require a cable system to carry their stations, subject to some exceptions, or to negotiate with cable systems the terms by which the cable systems may carry their stations, commonly called retransmission consent. The most recent election by broadcasters became effective on January 1, 2006.

The Communications Act and the FCC's regulations require a cable operator to devote up to one-third of its activated channel capacity for the mandatory carriage of local commercial television stations. The Communications Act and the FCC's regulations give local non-commercial television stations mandatory carriage rights, but non-commercial stations do not have the option to negotiate retransmission consent for the carriage of their signals by cable systems. Additionally, cable systems must obtain retransmission consent for all distant commercial television stations (i.e., those television stations outside the designated market area to which a community is assigned) except for commercial satellite-delivered independent superstations and some low-power television stations.

FCC regulations require us to carry the signals of both commercial and non-commercial local digital-only broadcast stations and the digital signals of local broadcast stations that return their analog spectrum to the government and convert to a digital broadcast format. The FCC's rules give digital-only broadcast stations discretion to elect whether the operator will carry the station's primary signal in a digital or converted analog format, and the rules also permit broadcasters with both analog and digital signals to tie the carriage of their digital signals to the carriage of their analog signals as a retransmission consent condition.

The Communications Act also permits franchising authorities to negotiate with cable operators for channels for public, educational and governmental access programming. It also requires a cable system with 36 or more activated channels to designate a significant portion of its channel capacity for commercial leased access by third parties to provide programming that may compete with services offered by the cable operator.

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The FCC regulates various aspects of such third party commercial use of channel capacity on our cable systems, including the rates and some terms and conditions of the commercial use.

In connection with certain changes in our programming line-up, the Communications Act and FCC regulations also require us to give various kinds of advance notice. Under certain circumstances, we must give as much as 30 days advance notice to subscribers, programmers and franchising authorities. Under certain circumstances, notice may have to be given in the form of bill inserts, on-screen announcements and/or newspaper advertisements. Giving notice can be expensive and, given long lead times, may limit our ability to implement programming changes quickly. Direct broadcast satellite operators and other non-cable programming distributors are not subject to analogous duties.

*High-speed Internet access.* From time to time, industry groups, telephone companies and ISPs have sought local, state and federal regulations that would require cable operators to sell capacity on their systems to ISPs under a common carrier regulatory scheme. Cable operators have successfully challenged regulations requiring this forced access, although courts that have considered these cases have employed varying legal rationales in rejecting these regulations.

In 2002, the FCC released an order in which it determined that cable-modem service constitutes an information service rather than a cable service or a telecommunications service, as those terms are used in the Communications Act. That determination was sustained by the U.S. Supreme Court. According to the FCC, an information service classification may permit but does not require it to impose multiple ISP requirements. In 2002, the FCC initiated a rulemaking proceeding to consider whether it may and should do so and whether local franchising authorities should be permitted to do so. As of August 2007, this rulemaking proceeding was still pending. As noted above, in 2005, the FCC adopted a Net Neutrality Policy Statement intended to offer guidance on its approach to the Internet and broadband access. Among other things, the Policy Statement stated that consumers are entitled to competition among network, service and content providers, and to access the lawful content and services of their choice, subject to the needs of law enforcement. The FCC may in the future adopt specific regulations to implement the Policy Statement.

*Ownership limitations.* There are various rules prohibiting joint ownership of cable systems and other kinds of communications facilities. Local telephone companies generally may not acquire more than a small equity interest in an existing cable system in the telephone company's service area, and cable operators generally may not acquire more than a small equity interest in a local telephone company providing service within the cable operator's franchise area. In addition, cable operators may not have more than a small interest in MMDS facilities or SMATV systems in their service areas. Finally, the FCC has been exploring whether it should prohibit cable operators from holding ownership interests in satellite operators.

The Communications Act also required the FCC to adopt reasonable limits on the number of subscribers a cable operator may reach through systems in which it holds an ownership interest. In September 1993, the FCC adopted a rule that was later amended to prohibit any cable operator from serving more than 30% of all cable, satellite and other multi-channel subscribers nationwide. The Communications Act also required the FCC to adopt reasonable limits on the number of channels that cable operators may fill with programming services in which they hold an ownership interest. In September 1993, the FCC imposed a limit of 40% of a cable operator's first 75 activated channels. In March 2001, a federal appeals court struck down both limits and remanded the issue to the FCC for further review. The FCC initiated a rulemaking in 2001 to consider adopting a new horizontal ownership limit and announced a follow-on proceeding to consider the issue anew. As of August 2007, the FCC was continuing to explore whether it should re-impose any limits.

*Pole attachment regulation.* The Communications Act requires that utilities provide cable systems and telecommunications carriers with non-discriminatory access to any pole, conduit or right-of-way controlled by investor-owned utilities. The Communications Act also requires the FCC to regulate the rates, terms and conditions

imposed by these utilities for cable systems use of utility pole and conduit space unless state authorities demonstrate to the FCC that they adequately regulate pole attachment rates, as is the case in some states in which we operate. In the absence of state regulation, the FCC administers pole attachment rates on a formula basis. The FCC's original rate formula governs the maximum rate utilities may charge for attachments to their poles and conduit by cable operators providing cable services. The FCC also adopted a second rate

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formula that became effective in February 2001 and governs the maximum rate investor-owned utilities may charge for attachments to their poles and conduit by companies providing telecommunications services. The U.S. Supreme Court has upheld the FCC's jurisdiction to regulate the rates, terms and conditions of cable operators' pole attachments that are being used to provide both cable service and high-speed data service. The applicability of this determination to our voice services is still an open issue.

*Set-top box regulation.* Certain regulatory requirements are also applicable to set-top boxes. Currently, many cable subscribers rent from their cable operator a set-top box that performs both signal-reception functions and conditional-access security functions. The lease rates cable operators charge for this equipment are subject to rate regulation to the same extent as basic cable service. In 1996, Congress enacted a statute seeking to allow subscribers to use set-top boxes obtained from third party retailers. The most important of the FCC's implementing regulations requires cable operators to offer separate equipment providing only the security function (so that subscribers can purchase set-top boxes or other navigational devices from other sources) and to cease placing into service new set-top boxes that have integrated security. The regulations requiring cable operators to cease distributing new set-top boxes with integrated security became effective on July 1, 2007. We expect to incur approximately \$50 million in incremental set-top box costs during 2007 as a result of these regulations.

In December 2002, cable operators and consumer-electronics companies entered into a standard-setting agreement relating to reception equipment that uses a conditional-access security card—a CableCARD<sup>®</sup>—provided by the cable operator to receive one-way cable services. To implement the agreement, the FCC adopted regulations that (i) establish a voluntary labeling system for such one-way devices; (ii) require most cable systems to support these devices; and (iii) adopt various content-encoding rules, including a ban on the use of selectable output controls. The FCC has recently initiated a notice of proposed rulemaking that may lead to regulations covering equipment sold at retail that is designed to receive two-way products and services.

*Other regulatory requirements of the Communications Act and the FCC.* The Communications Act also includes provisions regulating customer service, subscriber privacy, marketing practices, equal employment opportunity, technical standards and equipment compatibility, antenna structure notification, marking, lighting, emergency alert system requirements and the collection from cable operators of annual regulatory fees, which are calculated based on the number of subscribers served and the types of FCC licenses held.

Separately, the FCC has adopted cable inside wiring rules to provide specific procedures for the disposition of residential home wiring and internal building wiring where a subscriber terminates service or where an incumbent cable operator is forced by a building owner to terminate service in a multiple dwelling unit building. The FCC has also adopted rules providing that, in the event that an incumbent cable operator sells the inside wiring, it must make the wiring available to the multiple dwelling unit owner or the alternative cable service provider during the 24-hour period prior to the actual service termination by the incumbent, in order to avoid service interruption.

*Compulsory copyright licenses for carriage of broadcast stations and music performance licenses.* Our cable systems provide subscribers with, among other things, local and distant television broadcast stations. We generally do not obtain a license to use the copyrighted performances contained in these stations' programming directly from program owners. Instead, we obtain this license pursuant to a compulsory license provided by federal law, which requires us to make payments to a copyright pool. The elimination or substantial modification of the cable compulsory license could adversely affect our ability to obtain suitable programming and could substantially increase the cost of programming that remains available for distribution to our subscribers.

When we obtain programming from third parties, we generally obtain licenses that include any necessary authorizations to transmit the music included in it. When we create our own programming and provide various other programming or related content, including local origination programming and advertising that we insert into

cable-programming networks, we are required to obtain any necessary music performance licenses directly from the rights holders. These rights are generally controlled by three music performance rights organizations, each with rights to the music of various composers. We generally have obtained the necessary licenses, either through negotiated licenses or through procedures established by consent decrees entered into by some of the music performance rights organizations.

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### ***State and Local Regulation***

Cable operators operate their systems under non-exclusive franchises. Franchises are awarded, and cable operators are regulated, by state franchising authorities, local franchising authorities, or both. We believe we generally have good relations with state and local cable regulators.

Franchise agreements typically require payment of franchise fees and contain regulatory provisions addressing, among other things, upgrades, service quality, cable service to schools and other public institutions, insurance and indemnity bonds. The terms and conditions of cable franchises vary from jurisdiction to jurisdiction. The Communications Act provides protections against many unreasonable terms. In particular, the Communications Act imposes a ceiling on franchise fees of five percent of revenues derived from cable service. We generally pass the franchise fee on to our subscribers, listing it as a separate item on the bill.

Franchise agreements usually have a term of ten to 15 years from the date of grant, although some renewals may be for shorter terms. Franchises usually are terminable only if the cable operator fails to comply with material provisions. We have not had a franchise terminated due to breach. After a franchise agreement expires, a local franchising authority may seek to impose new and more onerous requirements, including requirements to upgrade facilities, to increase channel capacity and to provide various new services. Federal law, however, provides significant substantive and procedural protections for cable operators seeking renewal of their franchises. In addition, although we occasionally reach the expiration date of a franchise agreement without having a written renewal or extension, we generally have the right to continue to operate, either by agreement with the local franchising authority or by law, while continuing to negotiate a renewal. In the past, substantially all of the material franchises relating to our systems have been renewed by the relevant local franchising authority, though sometimes only after significant time and effort. During 2006, in adopting new regulations intended to limit the ability of local franchising authorities to delay or refuse the grant of competitive franchises (by, for example, imposing deadlines on franchise negotiations), the FCC announced the adoption of a Further Notice of Proposed Rulemaking that concluded tentatively that these new regulations should also apply to existing franchisees, including cable operators, at the time of their next franchise renewal. The FCC indicated it would issue an order in the Further Notice of Proposed Rulemaking within six months from release of the final order adopting the new regulations applicable to new entrants. Despite our efforts and the protections of federal law, it is possible that some of our franchises may not be renewed, and we may be required to make significant additional investments in our cable systems in response to requirements imposed in the course of the franchise renewal process. See [Competition](#) [Other Competition and Competitive Factors](#) [Franchise process](#).

Local telephone companies may provide service as traditional cable operators with local franchises or they may opt to provide their programming over unfranchised open video systems. Open video systems are subject to specified requirements, including, but not limited to, a requirement that they set aside a portion of their channel capacity for use by unaffiliated program distributors on a non-discriminatory basis.

### ***Regulation of Telephony***

Traditional providers of circuit-switched telephone services generally are subject to significant regulation. It is unclear whether and to what extent regulators will subject services like our Digital Phone service ( [Non-traditional Voice Services](#) ) to the regulations that apply to these traditional services provided by incumbent telephone companies. In February 2004, the FCC opened a broad-based rulemaking proceeding to consider these and other issues. That rulemaking remains pending. The FCC has, however, issued a series of orders resolving discrete issues on a piecemeal basis. For example, over the past several years, the FCC has required Non-traditional Voice Service providers to supply E911 capabilities as a standard feature to their subscribers, to assist law enforcement investigations with wiretaps and information, to contribute to the federal universal service fund, to pay regulatory fees, to comply with

customer privacy rules and to provide access to their services to persons with disabilities. Certain other issues remain unclear. In particular, in November 2004, the FCC issued an order stating that certain kinds of Non-traditional Voice Services are not subject to state certification and tariffing requirements. The full extent of this preemption is not clear. One state public utility commission, for example, has determined that our Digital Phone service is subject to traditional, circuit-



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switched telephone regulations. This determination has been appealed. It is also unclear whether utility pole owners may charge cable operators offering Non-traditional Voice Services higher rates for pole rental than for traditional cable service and cable-modem service.

## **Legal Proceedings**

On May 20, 2006, the America Channel LLC ( America Channel ) filed a lawsuit in U.S. District Court for the District of Minnesota against both us and Comcast alleging that the purchase of Adelphia by Comcast and us will injure competition in the cable system and cable network markets and violate the federal antitrust laws. The lawsuit seeks monetary damages as well as an injunction blocking the Adelphia acquisition. The United States Bankruptcy Court for the Southern District of New York issued an order enjoining America Channel from pursuing injunctive relief in the District of Minnesota and ordering that America Channel's efforts to enjoin the transaction can only be heard in the Southern District of New York, where the Adelphia bankruptcy is pending. America Channel's appeal of this order was dismissed on October 10, 2006, and its claim for injunctive relief should now be moot. However, America Channel has announced its intention to proceed with its damages case in the District of Minnesota. On September 19, 2006, we filed a motion to dismiss this action, which was granted on January 17, 2007 with leave to replead. On February 5, 2007, the America Channel filed an amended complaint. We filed a motion to dismiss the amended complaint on April 10, 2007, which motion was granted on June 28, 2007. America Channel has appealed this decision. We intend to defend against this lawsuit vigorously, but are unable to predict the outcome of this suit or reasonably estimate a range of possible loss.

On June 22, 2005, Mecklenburg County filed suit against TWE-A/N in the General Court of Justice District Court Division, Mecklenburg County, North Carolina. Mecklenburg County, the franchisor in TWE-A/N's Mecklenburg County cable system, alleges that TWE-A/N's predecessor failed to construct an institutional network in 1981 and that TWE-A/N assumed that obligation upon the transfer of the franchise in 1995. Mecklenburg County is seeking compensatory damages and TWE-A/N's release of certain video channels it is currently using on the cable system. On April 14, 2006, TWE-A/N filed a motion for summary judgment, which is pending. We intend to defend against this lawsuit vigorously, but are unable to predict the outcome of this suit or reasonably estimate a range of possible loss.

On June 16, 1998, plaintiffs in *Andrew Parker and Eric DeBrauwere, et al. v. Time Warner Entertainment Company, L.P. and Time Warner Cable* filed a purported nationwide class action in U.S. District Court for the Eastern District of New York claiming that TWE sold its subscribers personally identifiable information and failed to inform subscribers of their privacy rights in violation of the Cable Communications Policy Act of 1984 and common law. The plaintiffs seek damages and declaratory and injunctive relief. On August 6, 1998, TWE filed a motion to dismiss, which was denied on September 7, 1999. On December 8, 1999, TWE filed a motion to deny class certification, which was granted on January 9, 2001 with respect to monetary damages, but denied with respect to injunctive relief. On June 2, 2003, the U.S. Court of Appeals for the Second Circuit vacated the District Court's decision denying class certification as a matter of law and remanded the case for further proceedings on class certification and other matters. On May 4, 2004, plaintiffs filed a motion for class certification, which we have opposed. On October 25, 2005, the court granted preliminary approval of a class settlement arrangement on terms that were not material to us. A final settlement approval hearing was held on May 19, 2006, and on January 26, 2007, the court denied approval of the settlement. We intend to defend against this lawsuit vigorously, but are unable to predict the outcome of the suit.

## ***Certain Patent Litigation***

On September 1, 2006, Ronald A. Katz Technology Licensing, L.P. ( Katz ) filed a complaint in the U.S. District Court for the District of Delaware alleging that we and several other cable operators, among other defendants, infringe a number of patents purportedly relating to our customer call center operations, voicemail and/or VOD services. The plaintiff is seeking unspecified monetary damages as well as injunctive relief. On March 20, 2007, this case, together

with other lawsuits filed by Katz, was made subject to a Multidistrict Litigation ( MDL ) Order transferring the case for pretrial proceedings to the U.S. District Court

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for the Central District of California. We intend to defend against the claim vigorously, but are unable to predict the outcome of the suit or reasonably estimate a range of possible loss.

On July 14, 2006, Hybrid Patents Inc. filed a complaint in the U.S. District Court for the Eastern District of Texas alleging that we and a number of other cable operators infringed a patent purportedly relating to high-speed data and Internet-based phone services. The plaintiff is seeking unspecified monetary damages as well as injunctive relief. We intend to defend against the claim vigorously, but are unable to predict the outcome of the suit or reasonably estimate a range of possible loss.

On June 1, 2006, Rembrandt Technologies, LP ( Rembrandt ) filed a complaint in the U.S. District Court for the Eastern District of Texas alleging that we and a number of other cable operators infringed several patents purportedly related to a variety of technologies, including high-speed data and Internet-based phone services. In addition, on September 13, 2006, Rembrandt filed a complaint in the U.S. District Court for the Eastern District of Texas alleging that we infringe several patents purportedly related to high-speed cable modem internet products and services. In each of these cases, the plaintiff is seeking unspecified monetary damages as well as injunctive relief. On June 18, 2007, these cases, along with other lawsuits filed by Rembrandt, were made subject to an MDL Order transferring the case for pretrial proceedings to the U.S. District Court for the District of Delaware. We intend to defend against these lawsuits vigorously, but are unable to predict the outcome of these suits or reasonably estimate a range of possible loss.

On April 26, 2005, Acacia Media Technologies ( AMT ) filed suit against us in the U.S. District Court for the Southern District of New York alleging that we infringe several patents held by AMT. AMT has publicly taken the position that delivery of broadcast video (except live programming such as sporting events), pay-per-view, video-on-demand and ad insertion services over cable systems infringe its patents. AMT has brought similar actions regarding the same patents against numerous other entities, and all of the previously pending litigations have been made the subject of an MDL Order consolidating the actions for pretrial activity in the U.S. District Court for the Northern District of California. On October 25, 2005, our action was consolidated into the MDL proceedings. The plaintiff is seeking unspecified monetary damages as well as injunctive relief. We intend to defend against this lawsuit vigorously, but are unable to predict the outcome of this suit or reasonably estimate a range of possible loss.

From time to time, we receive notices from third parties claiming that we infringe their intellectual property rights. Claims of intellectual property infringement could require us to enter into royalty or licensing agreements on unfavorable terms, incur substantial monetary liability or be enjoined preliminarily or permanently from further use of the intellectual property in question. In addition, certain agreements that we enter may require us to indemnify the other party for certain third-party intellectual property infringement claims, which could increase our damages and our costs of defending against such claims. Even if the claims are without merit, defending against the claims can be time consuming and costly.

As part of the TWE Restructuring, Time Warner agreed to indemnify the cable businesses of TWE from and against any and all liabilities relating to, arising out of or resulting from specified litigation matters brought against the TWE Non-cable Businesses. Although Time Warner has agreed to indemnify the cable businesses of TWE against such liabilities, TWE remains a named party in certain litigation matters.

The costs and other effects of pending or future litigation, governmental investigations, legal and administrative cases and proceedings (whether civil or criminal), settlements, judgments and investigations, claims and changes in those matters (including those matters described above), and developments or assertions by or against us relating to intellectual property rights and intellectual property licenses, could have a material adverse effect on our business, financial condition and operating results.

**Facilities and Properties**

Our principal physical assets consist of operating plant and equipment, including signal receiving, encoding and decoding devices, headends and distribution systems and equipment at or near subscribers' homes for each of our cable systems. The signal receiving apparatus typically includes a tower, antenna, ancillary electronic equipment and earth stations for reception of satellite signals. Headends, consisting of

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electronic equipment necessary for the reception, amplification and modulation of signals, are located near the receiving devices. Our distribution system consists primarily of coaxial and fiber optic cables, lasers, routers, switches and related electronic equipment. Our cable plant and related equipment generally are attached to utility poles under pole rental agreements with local public utilities, although in some areas the distribution cable is buried in underground ducts or trenches. Customer premise equipment consists principally of set-top boxes and cable modems. The physical components of cable systems require periodic maintenance.

Our high-speed data backbone consists of fiber owned by us or circuits leased from affiliated and third-party vendors, and related equipment. We also operate regional and national data centers with equipment that is used to provide services, such as e-mail, news and web services to our high-speed data subscribers and to provide services to our Digital Phone customers. In addition, we maintain a network operations center with equipment necessary to monitor and manage the status of our high-speed data network.

As of June 30, 2007, the largest property we owned was an approximately 318,500 square foot building housing one of our divisional headquarters, a call center and a warehouse in Columbia, SC, of which approximately 50% is leased to a third-party tenant, and we leased and owned other real property housing national operations centers and regional data centers used in our high-speed data services business in Herndon, VA; Raleigh, NC; Tampa, FL; Syracuse, NY; Austin, TX; Kansas City, MO; Orange County, CA; New York, NY; Coudersport, PA; and Columbus, OH. As of June 30, 2007, we also leased and owned locations for our corporate offices in New York, NY, Stamford, CT and Charlotte, NC as well as numerous business offices, warehouses and properties housing divisional operations throughout the country. Our signal reception sites, primarily antenna towers and headends, and microwave facilities are located on owned and leased parcels of land, and we own or lease space on the towers on which certain of our equipment is located. We own most of our service vehicles.

We believe that our properties, both owned and leased, taken as a whole, are in good operating condition and are suitable and adequate for our business operations. The nature of the facilities and properties that we acquired as a result of the Transactions is substantially similar to those used in our existing business.

## **The Transactions**

The following provides a more detailed description of the Transactions and contains summaries of the terms of the material agreements that were entered into in connection with the Transactions. This description does not purport to be complete and is subject to, and is qualified in its entirety by reference to, the applicable agreements.

### ***Agreements with Adelphia***

As described in more detail below, under separate agreements (as amended, the TW NY Purchase Agreement and Comcast Purchase Agreement, respectively, and, collectively, the Purchase Agreements), TW NY and Comcast purchased substantially all of the cable assets of Adelphia. The Purchase Agreements were entered into after Adelphia filed voluntary petitions for relief under Chapter 11 of Title 11 of the United States Bankruptcy Code (the Bankruptcy Code). This section provides additional details regarding the Purchase Agreements, the Adelphia acquisition and Comcast's underlying acquisition of Adelphia's assets (the Comcast Adelphia acquisition), along with certain other agreements we entered into with Comcast.

*The TW NY Purchase Agreement.* On April 20, 2005, TW NY, one of our subsidiaries, entered into the TW NY Purchase Agreement with Adelphia. The TW NY Purchase Agreement provided that TW NY would purchase certain assets and assume certain liabilities from Adelphia. On June 21, 2006, Adelphia and TW NY entered into Amendment No. 2 to the TW NY Purchase Agreement (the TW NY Amendment). Under the terms of the TW NY Amendment, the assets TW NY acquired from Adelphia and the consideration to be paid to Adelphia remained unchanged. However,

the TW NY Amendment provided that the Adelphia acquisition would be effected in accordance with the provisions of sections 105, 363 and 365 of the Bankruptcy Code and, as a result, Adelphia's creditors were not required to approve a plan of reorganization under chapter 11 of the Bankruptcy Code prior to the consummation of the Adelphia acquisition. The Adelphia acquisition closed on July 31, 2006, immediately after the Redemptions. The Adelphia acquisition included cable systems located

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in the following areas: West Palm Beach, Florida; Cleveland and Akron, Ohio; Los Angeles, California; and suburbs of the District of Columbia (some of which we transferred to Comcast as part of the Exchange). As consideration for the assets purchased from Adelphia, TW NY assumed certain liabilities as specified in the TW NY Purchase Agreement and paid to Adelphia approximately \$8.9 billion in cash (including approximately \$360 million paid into escrow), after giving effect to certain purchase price adjustments discussed below, and delivered 149,765,147 shares of our Class A common stock to Adelphia and 6,148,283 shares of our Class A common stock into escrow. This represents approximately 17.3% of our Class A common stock outstanding (including shares issued into escrow), and approximately 16% of our total outstanding common stock as of the closing of the Adelphia acquisition.

The purchase price was subject to customary adjustments to reflect changes in Adelphia's net liabilities and subscribers as well as any shortfall in Adelphia's capital expenditure spending relative to its budget during the interim period between the execution of the TW NY Purchase Agreement and the closing of the transactions contemplated by the TW NY Purchase Agreement (the Adelphia Closing). Approximately 6 million shares of our Class A common stock and cash were deposited into escrow to secure Adelphia's obligations in respect of any post-closing adjustments to the purchase price and its indemnification obligations for, among other things, breaches of its representations, warranties and covenants contained in the TW NY Purchase Agreement. All of the shares and substantially all of the cash have been released from escrow except for an amount of cash retained to satisfy claims against the escrow asserted on or prior to July 31, 2007.

The parties to the TW NY Purchase Agreement made customary representations and warranties. Adelphia's representations and warranties survived until July 31, 2007 and, to the extent any claims were made prior to such date, until such claims are resolved. The debtors in Adelphia's bankruptcy proceedings (excluding, except to the extent provided in the TW NY Purchase Agreement, the joint ventures described in The Comcast Purchase Agreement below), are jointly and severally liable for breaches or violations by Adelphia of its representations, warranties and covenants. The representations and warranties of TW NY contained in the TW NY Purchase Agreement expired at the Adelphia Closing.

The TW NY Purchase Agreement included customary and certain other covenants made by Adelphia and TW NY, including covenants that require Adelphia to deliver financial statements for the systems purchased sufficient to fulfill our obligations to provide such financial statements in connection with the distribution of our Class A common stock by Adelphia to certain of Adelphia's creditors.

The TW NY Purchase Agreement requires Adelphia to indemnify TW NY and each of its affiliates (including us), their respective directors, officers, shareholders, agents and other individuals (the TW Indemnified Parties) for losses and expenses stemming from the breach of any representation or warranty, covenant and certain other items. Subject to very limited exceptions, the TW Indemnified Parties are only able to seek reimbursement for losses from the escrowed cash and shares. In addition, subject to specified exceptions, losses associated with breaches of representations and warranties generally must exceed certain dollar amounts before a TW Indemnified Party may make a claim for indemnification. Even after the applicable threshold has been reached, a claim for indemnification for losses associated with breaches of representations and warranties is subject to specified aggregate deductibles and cap amounts. With respect to assets acquired from Adelphia by TW NY that were subsequently transferred to Comcast in the Exchange, Adelphia's indemnification obligation is subject to a threshold of \$74 million, a deductible of \$42 million and is capped at \$296.7 million, subject to certain adjustments, and with respect to assets acquired by TW NY that were not transferred to Comcast pursuant to the Exchange, Adelphia's indemnification obligation is subject to a threshold of \$67 million, a deductible of \$38 million and is capped at \$267.9 million, subject to certain adjustments.

The TW NY Purchase Agreement required us, at the Adelphia Closing, to amend and restate our by-laws to restrict us and our subsidiaries from entering into transactions with or for the benefit of Time Warner and its affiliates other than

us and our subsidiaries (the Time Warner Group ), subject to specified exceptions. Additionally, prior to August 1, 2011 (five years following the Adelphia Closing), our restated certificate of incorporation and by-laws do not allow for an amendment to the provisions of our by-laws restricting these transactions without the consent of a majority of the holders of our Class A common stock, other than any



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member of the Time Warner Group. Additionally, under the TW NY Purchase Agreement, we agreed that we will not enter into any short-form merger prior to August 1, 2008 (two years after the Adelphia Closing) and that we will not issue equity securities to any person (other than, subject to satisfying certain requirements, we and our affiliates) that have a higher vote per share than our Class A common stock prior to February 1, 2008 (18 months after the Adelphia Closing).

At the closing of the Adelphia acquisition, we and Adelphia entered into the Adelphia Registration Rights and Sale Agreement (the Adelphia Registration Rights and Sale Agreement), which governed the disposition of the shares of our Class A common stock received by Adelphia in the Adelphia acquisition. Upon the effectiveness of Adelphia's plan of reorganization, the parties' obligations under the Adelphia Registration Rights and Sale Agreement terminated.

*Parent Agreement.* Pursuant to the Parent Agreement among Adelphia, TW NY and us, dated as of April 20, 2005, we, among other things, guaranteed the obligations of TW NY to Adelphia under the TW NY Purchase Agreement.

*The Comcast Purchase Agreement.* The Comcast Purchase Agreement has similar terms to the TW NY Purchase Agreement and the transactions contemplated by the Comcast Purchase Agreement also closed on July 31, 2006. The Comcast Adelphia acquisition was effected in accordance with the provisions of sections 105, 363 and 365 of the Bankruptcy Code and a plan of reorganization for the joint ventures referred to in the following sentence. The Comcast Adelphia acquisition included cable systems and Adelphia's interest in two joint ventures in which Comcast also held interests: Century-TCI California Communications, L.P. (the Century-TCI joint venture), which owned cable systems in the Los Angeles, California area, and Parnassos Communications, L.P. (the Parnassos joint venture), which owned cable systems in Ohio and Western New York. The purchase price under the Comcast Purchase Agreement was approximately \$3.6 billion in cash.

***Agreements with Comcast***

As described in more detail below, on the same day as the parties consummated the transactions governed by the Purchase Agreements, we and some of our affiliates (collectively, the TWC Group) and Comcast consummated the TWC Redemption, the TWE Redemption and the Exchange (collectively, the TWC/Comcast Transactions). Under the terms of the agreement which governed the TWC Redemption (the TWC Redemption Agreement), we redeemed Comcast's investment in us in exchange for one of our subsidiaries that held both cable systems and cash. In accordance with the terms of the agreement which governed the TWE Redemption (the TWE Redemption Agreement), TWE redeemed Comcast's interest in TWE in exchange for one of TWE's subsidiaries that held both cable systems and cash. In accordance with the terms of the agreement which governed the Exchange (as amended, the Exchange Agreement), TW NY and Comcast transferred to one another subsidiaries that held certain cable systems, including cable systems acquired by each from Adelphia. The TWC Redemption Agreement, the TWE Redemption Agreement and the Exchange Agreement, are collectively referred to as the TWC/Comcast Agreements.

*The TWC Redemption Agreement.* Pursuant to the TWC Redemption Agreement, dated as of April 20, 2005, as amended, among us and certain other members of the TWC Group and Comcast, the TWC Redemption was effected and Comcast's interest in us was redeemed on July 31, 2006, immediately prior to the Adelphia acquisition. The TWC Redemption Agreement required that we redeem all of our Class A common stock held by TWE Holdings II Trust (Comcast Trust II), a trust that was established for the benefit of Comcast, in exchange for 100% of the common stock of Cable Holdco II Inc. (Cable Holdco II), then a subsidiary of ours. At the time of the TWC Redemption, Cable Holdco II held both certain cable systems previously owned directly or indirectly by us (TWC Redemption Systems) serving approximately 589,000 basic subscribers and approximately \$1.9 billion in cash, subject generally to the liabilities associated with the TWC Redemption Systems. Certain specified assets and liabilities of the TWC Redemption Systems were retained by us.

The TWC Redemption Agreement contains closing adjustments to be paid in cash based on (1) the relative growth or decline in the number of basic video subscribers served by the TWC Redemption Systems as compared to the relative growth or decline in the number of basic video subscribers served by the other

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cable systems operated by us and (2) the excess, if any, of the net liabilities of the TWC Redemption Systems over an agreed upon threshold amount.

The TWC Redemption Agreement contains various customary representations and warranties of the parties thereto including representations by us as to the absence of certain changes or events concerning the TWC Redemption Systems, compliance with law, litigation, employee benefit plans, property, intellectual property, environmental matters, financial statements, regulatory matters, taxes, material contracts, insurance and brokers. The representations and warranties of the parties to the TWC Redemption Agreement generally survive the closing of the TWC Redemption for a period of one year and certain representations and warranties either did not survive the closing of the TWC Redemption, survive indefinitely or survive until the expiration of the applicable statute of limitations (giving effect to any waiver, mitigation or extension thereof).

The TWC Redemption Agreement contains customary indemnification obligations on the part of the parties thereto with respect to breaches of representations, warranties and covenants and certain other matters, generally subject to a \$20 million threshold and \$200 million cap, with respect to certain of our representations and warranties regarding the TWC Redemption Systems and related matters, and with respect to certain representations and warranties of the Comcast parties relating to litigation, financial statements, finder's fees and certain regulatory matters.

*TWC/Comcast Tax Matters Agreement.* In connection with the closing of the TWC Redemption, we, Cable Holdco II and Comcast entered into the Holdco Tax Matters Agreement (the "TWC/Comcast Tax Matters Agreement"). The TWC/Comcast Tax Matters Agreement allocates responsibility for income taxes of Cable Holdco II and deals with matters relating to the income tax consequences of the TWC Redemption. This agreement contains representations, warranties and covenants relevant to such income tax treatment. The TWC/Comcast Tax Matters Agreement also contains indemnification obligations relating to the foregoing.

*The TWE Redemption Agreement.* Pursuant to the TWE Redemption Agreement, dated as of April 20, 2005, as amended, among us and Comcast, Comcast's interest in TWE was redeemed on July 31, 2006, immediately prior to the Adelphia acquisition. Prior to the TWE Redemption, TWE Holdings I Trust ("Comcast Trust I"), a trust established for the benefit of Comcast, owned a 4.7% residual equity interest in TWE. Pursuant to the TWE Redemption Agreement, TWE redeemed all of the TWE residual equity interest held by Comcast Trust I in exchange for 100% of the limited liability company interests of Cable Holdco III LLC ("Cable Holdco III"), then a subsidiary of TWE. At the time of the TWE Redemption, Cable Holdco III held both certain cable systems previously owned or operated directly or indirectly by TWE (the "TWE Redemption Systems") serving approximately 162,000 subscribers and approximately \$147 million in cash, subject generally to the liabilities associated with the TWE Redemption Systems. Certain specified assets and liabilities of the TWE Redemption Systems were retained by TWE.

The TWE Redemption Agreement contains closing adjustments to be paid in cash based on (1) the relative growth or decline in the number of basic video subscribers served by the TWE Redemption Systems as compared to the relative growth or decline in the number of basic video subscribers served by the other cable systems owned by TWE and (2) the excess, if any, of the net liabilities of the TWE Redemption Systems over an agreed upon threshold amount.

The TWE Redemption Agreement contained various customary representations and warranties of the parties thereto including representations by TWE as to the absence of certain changes or events concerning the TWE Redemption Systems, compliance with law, litigation, employee benefit plans, property, intellectual property, environmental matters, financial statements, regulatory matters, taxes, material contracts, insurance and brokers. The representations and warranties of the parties to the TWE Redemption Agreement generally survive the closing of the TWE Redemption Agreement for a period of one year and certain representations and warranties either survive indefinitely or survive until the expiration of the applicable statute of limitations (giving effect to any waiver, mitigation or extension thereof).

The TWE Redemption Agreement contained customary indemnification obligations on the part of the parties thereto with respect to breaches of representations and warranties and covenants and certain other matters, generally subject to a \$6 million threshold and \$60 million cap, with respect to certain representations

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and warranties of TWE regarding the TWE Redemption Systems and related matters, and with respect to certain representations and warranties of the Comcast parties relating to litigation, financial statements, finder's fees and certain regulatory matters.

*The Exchange Agreement.* Pursuant to the Exchange Agreement, dated as of April 20, 2005, as amended, among us, TW NY and Comcast, the Exchange closed on July 31, 2006, immediately after the Adelphia acquisition. Pursuant to the Exchange Agreement, TW NY transferred all outstanding limited liability company interests of certain newly formed limited liability companies (collectively, the TW Newcos) to Comcast in exchange for all limited liability company interests of certain newly formed limited liability companies or limited partnerships, respectively, owned by Comcast (collectively, the Comcast Newcos). In addition, we paid Comcast approximately \$67 million in cash for certain adjustments related to the Exchange. Included in the systems we acquired in the Exchange were cable systems (i) that were owned by the Century-TCI joint venture in the Los Angeles, California area and the Parnassos joint venture in Ohio and Western New York and (ii) then owned by Comcast located in the Dallas, Texas, Los Angeles, California, and Cleveland, Ohio areas.

The Exchange Agreement contains various customary representations and warranties of the parties thereto (which generally survive for a period of 12 months after the closing of the Exchange), including representations concerning the cable systems subject to the Exchange Agreement originally owned by us or Comcast as to the absence of certain changes or events, compliance with law, litigation, employee benefit plans, property, intellectual property, environmental matters, financial statements, regulatory matters, taxes, material contracts, insurance and brokers.

The Exchange Agreement contains customary indemnification obligations on the part of the parties thereto with respect to breaches of representations, warranties, covenants and certain other matters. Each party's indemnification obligations with respect to breaches of representations and warranties (other than certain specified representations and warranties) are subject to (1) with respect to cable systems originally owned by us that were acquired by Comcast, a \$5.7 million threshold and \$19.1 million cap, (2) with respect to cable systems originally owned by Adelphia that were initially acquired by us pursuant to the TW NY Purchase Agreement and then transferred to Comcast pursuant to the Exchange Agreement, a \$74.6 million threshold and \$746 million cap, (3) with respect to cable systems originally owned by Comcast that were acquired by us, a \$41.5 million threshold and \$415 million cap, and (4) with respect to cable systems originally owned by Adelphia that were initially acquired by Comcast pursuant to the Comcast Purchase Agreement and then transferred to us pursuant to the Exchange Agreement, a \$34.9 million threshold and \$349 million cap. In addition, no party is required to indemnify the other for breaches of representations, warranties or covenants relating to assets or liabilities initially acquired from Adelphia and then transferred to the other party, unless the breach is of a representation, warranty or covenant actually made by the party under the Exchange Agreement in relation to those Adelphia assets or liabilities.

## **Operating Partnerships and Joint Ventures**

### ***Time Warner Entertainment Company, L.P.***

TWE is a Delaware limited partnership that was formed in 1992. At the time of the TWE Restructuring, which was completed on March 31, 2003, subsidiaries of Time Warner owned general and limited partnership interests in TWE consisting of 72.36% of the pro-rata priority capital and residual equity capital and 100% of the junior priority capital, and Comcast Trust I owned limited partnership interests in TWE consisting of 27.64% of the pro-rata priority capital and residual equity capital. Prior to the TWE Restructuring, TWE's business consisted of interests in cable systems, cable networks and filmed entertainment.

Through a series of steps executed in connection with the TWE Restructuring, TWE transferred its non-cable businesses, including its filmed entertainment and cable network businesses, along with associated liabilities, to WCI,

a wholly owned subsidiary of Time Warner, and the ownership structure of TWE was reorganized so that (i) we owned 94.3% of the residual equity interests in TWE, (ii) Comcast Trust I owned 4.7% of the residual equity interests in TWE and (iii) ATC, a wholly owned subsidiary of Time Warner, owned 1.0% of the residual equity interests in TWE and \$2.4 billion in mandatorily redeemable preferred

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equity issued by TWE. In addition, following the TWE Restructuring, Time Warner indirectly held shares of our Class A common stock and Class B common stock representing, in the aggregate, 89.3% of our voting power and 82.1% of our outstanding equity.

On July 28, 2006, the partnership interests and preferred equity originally held by ATC, were contributed to TW NY Holding, a wholly owned subsidiary of ours, in exchange for a 12.4% non-voting common stock interest in TW NY Holding and upon the closing of the TWE Redemption, Comcast Trust I's ownership interest in TWE was redeemed. As a result, Time Warner has no direct interest in TWE and Comcast no longer has any interest in TWE. As of June 30, 2007, TWE had \$3.2 billion in principal amount of outstanding debt securities with maturities ranging from 2008 to 2033 and fixed interest rates ranging from 7.25% to 10.15%. See Management's Discussion and Analysis of Results of Operations and Financial Condition Financial Condition and Liquidity TWE Notes.

The TWE partnership agreement requires that transactions between us and our subsidiaries, on the one hand, and TWE and its subsidiaries on the other hand, be conducted on an arm's-length basis, with management, corporate or similar services being provided by us on a no mark-up basis with fair allocations of administrative costs and general overhead.

### ***Description of Certain Provisions of the TWE-A/N Partnership Agreement***

The following description summarizes certain provisions of the partnership agreement relating to TWE-A/N. Such description does not purport to be complete and is subject to, and is qualified in its entirety by reference to, the provisions of the TWE-A/N partnership agreement.

*Partners of TWE-A/N.* The general partnership interests in TWE-A/N are held by TW NY and an indirect subsidiary of TWE (such TWE subsidiary and TW NY are together, the TW Partners ) and A/N, a partnership owned by wholly owned subsidiaries of Advance Publications Inc. and Newhouse Broadcasting Corporation. The TW Partners also hold preferred partnership interests.

*2002 Restructuring of TWE-A/N.* The TWE-A/N cable television joint venture was formed by TWE and A/N in December 1995. A restructuring of the partnership was completed during 2002. As a result of this restructuring, cable systems and their related assets and liabilities serving approximately 2.1 million subscribers as of December 31, 2002 (which amount is not included in TWE-A/N's 4.8 million consolidated subscribers, as of June 30, 2007) located primarily in Florida (the A/N Systems ), were transferred to a subsidiary of TWE-A/N (the A/N Subsidiary ). As part of the restructuring, effective August 1, 2002, A/N's interest in TWE-A/N was converted into an interest that tracks the economic performance of the A/N Systems, while the TW Partners retain the economic interests and associated liabilities in the remaining TWE-A/N cable systems. Also, in connection with the restructuring, we effectively acquired A/N's interest in Road Runner. TWE-A/N's financial results, other than the results of the A/N Systems, are consolidated with us. Road Runner continues to provide high-speed data services to the A/N Subsidiary.

*Management and Operations of TWE-A/N.* Subject to certain limited exceptions, a subsidiary of TWE is the managing partner, with exclusive management rights of TWE-A/N, other than with respect to the A/N Systems. Also, subject to certain limited exceptions, A/N has authority for the supervision of the day-to-day operations of the A/N Subsidiary and the A/N Systems. In connection with the 2002 restructuring, TWE entered into a services agreement with A/N and the A/N Subsidiary under which TWE agreed to exercise various management functions, including oversight of programming and various engineering-related matters. TWE and A/N also agreed to periodically discuss cooperation with respect to new product development.

*Restrictions on Transfer TW Partners.* Each TW Partner is generally permitted to directly or indirectly dispose of its entire partnership interest at any time to a wholly owned affiliate of TWE (in the case of transfers by TWE-A/N

Holdco, L.P. ( TWE-A/N Holdco )) or to TWE, Time Warner or a wholly owned affiliate of TWE or Time Warner (in the case of transfers by us). In addition, the TW Partners are also permitted to transfer their partnership interests through a pledge to secure a loan, or a liquidation of TWE in which Time Warner, or its affiliates, receives a majority of the interests of TWE-A/N held by the TW Partners. TWE-A/N Holdco is allowed to issue additional partnership interests in TWE-A/N Holdco so long as Time



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Warner continues to own, directly or indirectly, either 35% or 43.75% of the residual equity capital of TWE-A/N Holdco, depending on when the issuance occurs.

*Restrictions on Transfer A/N Partner.* A/N is generally permitted to directly or indirectly transfer its entire partnership interest at any time to certain members of the Newhouse family or specified affiliates of A/N. A/N is also permitted to dispose of its partnership interest through a pledge to secure a loan and in connection with specified restructurings of A/N.

*Restructuring Rights of the Partners.* TWE-A/N Holdco and A/N each has the right to cause TWE-A/N to be restructured at any time. Upon a restructuring, TWE-A/N is required to distribute the A/N Subsidiary with all of the A/N Systems to A/N in complete redemption of A/N's interests in TWE-A/N, and A/N is required to assume all liabilities of the A/N Subsidiary and the A/N Systems. To date, neither TWE-A/N Holdco nor A/N has delivered notice of the intent to cause a restructuring of TWE-A/N.

*TWE's Regular Right of First Offer.* Subject to exceptions, A/N and its affiliates are obligated to grant TWE-A/N Holdco a right of first offer prior to any sale of assets of the A/N Systems to a third party.

*TWE's Special Right of First Offer.* Within a specified time period following the first, seventh, thirteenth and nineteenth anniversaries of the deaths of two specified members of the Newhouse family (those deaths have not yet occurred), A/N has the right to deliver notice to TWE-A/N Holdco stating that it wishes to transfer some or all of the assets of the A/N Systems, thereby granting TWE-A/N Holdco the right of first offer to purchase the specified assets. Following delivery of this notice, an appraiser will determine the value of the assets proposed to be transferred. Once the value of the assets has been determined, A/N has the right to terminate its offer to sell the specified assets. If A/N does not terminate its offer, TWE-A/N Holdco will have the right to purchase the specified assets at a price equal to the value of the specified assets determined by the appraiser. If TWE-A/N Holdco does not exercise its right to purchase the specified assets, A/N has the right to sell the specified assets to an unrelated third party within 180 days on substantially the same terms as were available to TWE.

## **Our Governing Documents**

### ***Our Management and Operations***

The following description summarizes certain provisions of our constituent documents and certain agreements that affect and govern our ongoing operations. Such description does not purport to be complete and is qualified in its entirety by reference to the provisions of such agreements and constituent documents.

*Our Stockholders.* A subsidiary of Time Warner owns 746,000,000 shares of our Class A common stock, which generally has one vote per share, and 75,000,000 shares of our Class B common stock, which generally has ten votes per share, which together represent 90.6% of the voting power of our stock and approximately 84% of our equity. Our Class B common stock is not convertible into our Class A common stock. Our Class A common stock and our Class B common stock vote together as a single class on all matters, except with respect to the election of directors and certain matters described below.

*Our Board of Directors.* Our Class A common stock votes as a separate class with respect to the election of our Class A directors (the Class A Directors), and our Class B common stock votes as a separate class with respect to the election of our Class B directors (the Class B Directors). Pursuant to our Certificate of Incorporation, which was adopted upon the closing of the Adelphia acquisition, the Class A Directors must represent not less than one-sixth and not more than one-fifth of our directors, and the Class B Directors must represent not less than four-fifths of our directors. As a result of its holdings, Time Warner has the ability to cause the election of all Class A Directors and

Class B Directors, subject to certain restrictions on the identity of these directors discussed below.

Under the terms of our Certificate of Incorporation, until August 1, 2009, at least 50% of our board of directors must be independent directors as defined under the NYSE listed company rules.

Pursuant to our Shareholder Agreement, so long as Time Warner has the power to elect a majority of our board of directors, we must obtain Time Warner's consent before entering into any agreement that binds or

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purports to bind Time Warner or its affiliates or that would subject us or our subsidiaries to significant penalties or restrictions as a result of any action or omission of Time Warner or its affiliates; or adopting a stockholder rights plan, becoming subject to section 203 of the Delaware General Corporation Law, adopting a fair price provision in its certificate of incorporation or taking any similar action.

Furthermore, pursuant to the Shareholder Agreement, Time Warner may purchase debt securities issued by TWE under the TWE Indenture only after giving notice to us of the approximate amount of debt securities it intends to purchase and the general time period for the purchase, which period may not be greater than 90 days, subject to our right to give notice to Time Warner that we intend to purchase such amount of TWE debt securities ourselves.

*Protections of Minority Class A Common Stockholders.* The approval of the holders of a majority of the voting power of the outstanding shares of our Class A common stock held by persons other than Time Warner is necessary in connection with:

any merger, consolidation or business combination of ours in which the holders of our Class A common stock do not receive per share consideration identical to that received by the holders of our Class B common stock (other than with respect to voting power) or which would adversely affect the specific rights and privileges of our Class A common stock relative to our Class B common stock;

any change to our Certificate of Incorporation that would have a material adverse effect on the rights of the holders of our Class A common stock in a manner different from the effect on the holders of our Class B common stock;

through July 31, 2011, any change to provisions of our By-Laws concerning restrictions on transactions between us and Time Warner and its affiliates and the adoption of provisions of our Certificate of Incorporation or our By-Laws inconsistent with such restrictions;

any change to our Certificate of Incorporation that would alter the number of independent directors required on our board of directors; and

any change to the provisions of our Certificate of Incorporation that would affect the right of our Class A common stock to vote as a class in connection with any of the events discussed above.

**Table of Contents****MANAGEMENT****Our Directors and Executive Officers**

The following table sets forth the name of each of our directors and executive officers, the office held by such director or officer and the age of such director or officer as of July 31, 2007. Unless otherwise noted, each of the executive officers named below assumed his or her position with us at the time of the TWE Restructuring, which took place in March 2003 and, prior to that time, each held the same position within the Time Warner Cable division of TWE.

| <b>Name</b>             | <b>Age</b> | <b>Office</b>   |
|-------------------------|------------|---|
| Glenn A. Britt          | 58         | President and Chief Executive Officer, Class B Director |
| Carole Black            | 64         | Class B Director  |
| Thomas H. Castro        | 53         | Class B Director  |
| David C. Chang          | 65         | Class A Director  |
| James E. Copeland, Jr.  | 62         | Class A Director  |
| Peter R. Haje           | 73         | Class B Director  |
| Don Logan               | 63         | Chairman of the Board, Class B Director                 |
| Michael Lynne           | 66         | Class B Director  |
| N.J. Nicholas, Jr.      | 67         | Class B Director  |
| Wayne H. Pace           | 61         | Class B Director  |
| Landel C. Hobbs         | 44         | Chief Operating Officer                                 |
| Michael LaJoie          | 52         | Executive Vice President and Chief Technology Officer   |
| Marc Lawrence-Apfelbaum | 52         | Executive Vice President, General Counsel and Secretary |
| Robert D. Marcus        | 42         | Senior Executive Vice President                         |
| John K. Martin, Jr.     | 40         | Executive Vice President and Chief Financial Officer    |
| Carl U.J. Rossetti      | 58         | Executive Vice President, Corporate Development         |
| Lynn M. Yaeger          | 58         | Executive Vice President, Corporate Affairs             |

Set forth below are the principal positions held during at least the last five years by each of the directors and executive officers named above:

**Mr. Britt** Glenn A. Britt has served as our President and Chief Executive Officer since February 15, 2006. Prior to that, he had served as our Chairman and Chief Executive Officer since the TWE Restructuring. Prior to the TWE Restructuring, Mr. Britt was the Chairman and Chief Executive Officer of the Time Warner Cable division of TWE from August 2001 and was President of the Time Warner Cable division of TWE from January 1999 to August 2001. Prior to assuming that position, he was Chief Executive Officer and President of Time Warner Cable Ventures, a unit of TWE, from January 1994 to January 1999. He was an Executive Vice President for certain of our predecessor entities from 1990 to January 1994. From 1972 to 1990, Mr. Britt held various positions at Time Warner and its predecessor Time Inc., including as Chief Financial Officer of Time Inc. Mr. Britt has served as a Class B director since March 2003. Mr. Britt also serves as a director of Xerox Corporation and a trustee of Teachers Insurance and Annuity Association.

Ms. Black

Carole Black served as the President and Chief Executive Officer of Lifetime Entertainment Services, a multi-media brand for women, including Lifetime Network, Lifetime Movie Network, Lifetime Real Women Network, Lifetime Online and Lifetime Home Entertainment, from March 1999 to March 2005. Prior to that, Ms. Black served as the President and General Manager of NBC4, Los

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Angeles, a commercial television station, from 1994 to 1999, and at various marketing-related positions at The Walt Disney Company, a media and entertainment company, from 1986 to 1993. Ms. Black has served as a Class B Director since July 31, 2006.

Mr. Castro

Thomas H. Castro, the co-founder of Border Media Partners LLC, a radio broadcasting company that primarily targets Hispanic listeners, has served as its President and Chief Executive Officer since 2002. Prior to that, Mr. Castro, an entrepreneur, owned and operated other radio stations and founded a company that exported oil field equipment to Mexico. Mr. Castro has served as a Class B Director since July 31, 2006.

Dr. Chang

David C. Chang has served as Chancellor of Polytechnic University in New York since July 2005, having served as its President from 1994. He has also served as a Professor of Electrical and Computer Engineering since 1994. Prior to assuming that position, he was Dean of the College of Engineering and Applied Sciences at Arizona State University. Dr. Chang is also a director of AXT, Inc., has served as a Class A director since March 2003, and served as an independent director of ATC from 1986 to 1992.

Mr. Copeland

James E. Copeland, Jr. has served as a Global Scholar at the Robinson School of Business at Georgia State University since 2003. Prior to that, Mr. Copeland served as the Chief Executive Officer of Deloitte & Touche USA LLP, a public accounting firm, and Deloitte Touche Tohmatsu, its global parent, from 1999 to May 2003. Prior to that, Mr. Copeland served in various positions at Deloitte & Touche, and its predecessors from 1967. Mr. Copeland has served as a Class A director since July 31, 2006 and is also a director of Coca-Cola Enterprises Inc., ConocoPhillips and Equifax, Inc.

Mr. Haje

Peter R. Haje has served as a legal and business consultant and private investor since he retired from service as an executive officer of Time Warner on January 1, 2000. Prior to that, he served as the Executive Vice President and General Counsel of Time Warner from October 1990, adding the title of Secretary in May 1993. He also served as the Executive Vice President and General Counsel of TWE from June 1992 until 1999. Prior to his service to Time Warner, Mr. Haje was a partner of the law firm of Paul, Weiss, Rifkind, Wharton & Garrison LLP for more than 20 years. Mr. Haje has served as a Class B director since July 31, 2006 and is also a director of American Community Newspapers Inc.

Mr. Logan

Don Logan was appointed Chairman of our Board of Directors on February 15, 2006. He served as Chairman of Time Warner's Media & Communications Group from July 2002 until December 31, 2005. Prior to assuming that position, he was Chairman and Chief Executive Officer of Time Inc., Time Warner's publishing subsidiary, from 1994 to July 2002 and was its President and Chief Operating Officer from 1992 to 1994. Prior to that, Mr. Logan held various executive positions with Southern

Progress Corporation, which was acquired by Time Inc. in 1985.  
Mr. Logan has served as a Class B director since March 2003.

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|------------------------|--|
| Mr. Lynne              | Michael Lynne has served as the Co-Chairman and Co-Chief Executive Officer of New Line Cinema Corporation, a producer, marketer and distributor of theatrical motion pictures and a subsidiary of Time Warner, since 2001. Prior to that, he served as its President and Chief Operating Officer from 1990 and as Counsel to New Line Cinema for a decade prior to that. Mr. Lynne has served as a Class B director since July 31, 2006 and is also a director of Vornado Realty Trust.  |
| Mr. Nicholas           | N.J. Nicholas, Jr. is an investor. From 1964 until 1992, Mr. Nicholas held various positions at Time Inc. and Time Warner. He was named President of Time Inc. in 1986 and served as Co-Chief Executive Officer of Time Warner from 1990 to 1992. Mr. Nicholas is also a director of Boston Scientific Corporation and Xerox Corporation and has served as a Class B director since March 2003.  |
| Mr. Pace               | Wayne H. Pace has served as Executive Vice President and Chief Financial Officer of Time Warner since November 2001, and served as Executive Vice President and Chief Financial Officer of TWE from November 2001 until October 2004. He was Vice Chairman and Chief Financial and Administrative Officer of Turner Broadcasting System, Inc. ( TBS ) from March 2001 to November 2001 and held various other executive positions at TBS, including Chief Financial Officer, from 1993 to 2001. Prior to that Mr. Pace was an audit partner with Price Waterhouse, now PricewaterhouseCoopers LLP, an international accounting firm. Mr. Pace has served as a Class B director since March 2003. |
| Mr. Hobbs              | Landel C. Hobbs has served as our Chief Operating Officer since August 2005. Prior to that, he served as our Executive Vice President and Chief Financial Officer since March 2003 and in the same capacity for the Time Warner cable division of TWE from October 2001. Prior to that, he was Vice President, Financial Analysis and Operations Support for Time Warner from September 2000 to October 2001. Beginning in 1993, Mr. Hobbs was employed by TBS (a subsidiary of Time Warner since 1996), including as Senior Vice President and Chief Accounting Officer from 1996 until September 2000.   |
| Mr. LaJoie             | Michael LaJoie has served as our Executive Vice President and Chief Technology Officer since January 2004. Prior to that, he served as Executive Vice President of Advanced Technology from March 2003 and in the same capacity for the Time Warner Cable division of TWE from August 2002 until the TWE Restructuring. Mr. LaJoie served as Vice President of Corporate Development of the Time Warner Cable division of TWE from 1998.   |
| Mr. Lawrence-Apfelbaum | Marc Lawrence-Apfelbaum has served as our Executive Vice President, General Counsel and Secretary since January 2003. Prior to that, he served as Senior Vice President, General Counsel and Secretary of the Time   |



Warner Cable division of TWE from 1996 and other positions in the law department prior to that.

Mr. Marcus

Robert D. Marcus has served as our Senior Executive Vice President since August 2005, joining us from Time Warner where he had served as Senior Vice President, Mergers and Acquisitions

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from 2002. Mr. Marcus joined Time Warner in 1998 as Vice President of Mergers and Acquisitions.

Mr. Martin

John K. Martin, Jr. has served as our Executive Vice President and Chief Financial Officer since August 2005, joining us from Time Warner where he had served as Senior Vice President of Investor Relations from May 2004 and Vice President from March 2002 to May 2004. Prior to that, Mr. Martin was Director in the Equity Research group of ABN AMRO Securities LLC from 2000 to 2002, and Vice President of Investor Relations at Time Warner from 1999 to 2000. Mr. Martin first joined Time Warner in 1993 as a Manager of SEC financial reporting.

Mr. Rossetti

Carl U.J. Rossetti has served as our Executive Vice President, Corporate Development since August 2002. Previously, Mr. Rossetti served as an Executive Vice President of the Time Warner Cable division of TWE from 1998 and in various other positions since 1976.

Ms. Yaeger

Lynn M. Yaeger has served as our Executive Vice President of Corporate Affairs since January 2003. Prior to assuming that position, she served as Senior Vice President of Corporate Affairs for our various predecessors beginning in 1988.

Currently, our board of directors consists of ten members, five of whom are independent as required pursuant to our by-laws. See **Corporate Governance** below. Our board has identified Ms. Black and Messrs. Castro, Chang, Copeland and Nicholas as independent directors as independence is defined in the NYSE Listed Company Manual and as defined by Rule 10A-3 of the Exchange Act. Additionally, each of these directors meets the categorical standards for independence established by our board, as set forth in our Corporate Governance Policy. Our board has determined that the employment of Mr. Nicholas' stepson by Time Inc., a subsidiary of Time Warner, does not affect Mr. Nicholas' independence. A copy of our Corporate Governance Policy is available on our website.

**Terms of Executive Officers and Directors**

Each director serves for a term of one year. Directors hold office until the annual meeting of stockholders and until their successors have been duly elected and qualified. Our executive officers are appointed by the board of directors and serve at the discretion of the board.

**Corporate Governance**

***Controlled Company***

Our Class A common stock began trading on the NYSE on March 1, 2007. For purposes of the NYSE rules, we are a controlled company. Controlled companies under the NYSE rules are companies of which more than 50% of the voting power is held by an individual, a group or another company. A subsidiary of Time Warner currently holds approximately 84.0% of our common stock and 90.6% of the voting power and Time Warner, through its subsidiary, is able to elect the entire Board of Directors. Accordingly, we are exempt from certain NYSE governance requirements. Specifically, as a controlled company under NYSE rules, the board does not have a majority of independent directors and the Nominating and Governance Committee and Compensation Committee are not composed entirely of independent directors.

***Board of Directors***

Holders of our Class A common stock vote, as a separate class, with respect to the election of our Class A directors, and holders of our Class B common stock vote, as a separate class, with respect to the election of our Class B directors. Under our restated certificate of incorporation, the Class A directors must represent not

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less than one-sixth and not more than one-fifth of our directors, and the Class B directors must represent not less than four-fifths of our directors. As a result of its shareholdings, Time Warner has the ability to cause the election of all Class A directors and Class B directors, subject to certain restrictions on the identity of these directors discussed below.

Under the terms of our amended and restated certificate of incorporation at least 50% of our board of directors must be independent directors. As a condition to the consummation of the Adelphia acquisition, we agreed not to amend this charter provision prior to August 1, 2009 (three years following the Adelphia Closing) without, among other things, the consent of the holders of a majority of the shares of Class A common stock other than Time Warner and its affiliates.

## **Board Committees**

Our board of directors has three principal standing committees, an audit committee, a compensation committee and a nominating and governance committee.

*Audit Committee.* The members of the audit committee are currently James Copeland, Jr., who serves as the Chair, David Chang and N.J. Nicholas, Jr. Among other things, the audit committee complies with all NYSE and legal requirements and consists entirely of independent directors. The Audit Committee assists the board in fulfilling its responsibilities in connection with our (i) independent auditors, (ii) internal auditors, (iii) financial statements, (iv) earnings releases and guidance, as well as (v) our compliance program, internal controls, and risk management. The board has determined that each member of the Audit Committee qualifies as an audit committee financial expert under the rules of the SEC implementing section 407 of the Sarbanes-Oxley Act and meets the independence and experience requirements of the NYSE and the federal securities laws.

*Compensation Committee.* The members of our compensation committee are Michael Lynne, who serves as the Chair, Carole Black, Thomas Castro, Peter Haje, Don Logan and N.J. Nicholas, Jr.

The members of the Compensation Committee who are independent directors are Ms. Black and Messrs. Castro and Nicholas. The Compensation Committee is responsible for (i) approving compensation and employment agreements for, and reviewing benefits provided to certain of our senior executives, (ii) overseeing our disclosure regarding executive compensation, (iii) administering our equity-based compensation plans and (iv) reviewing our overall compensation structure and benefit plans. A sub-committee of the Compensation Committee, consisting of two independent directors, Ms. Black and Mr. Nicholas, is responsible for certain executive compensation matters, including (i) reviewing and approving corporate goals and objectives relevant to the compensation of the CEO and each of the executive officers and each of the other employees whose annual total compensation has a value of \$2 million or more (the Senior Exec