

TIME WARNER CABLE INC.

Form 10-Q

April 30, 2008

Table of Contents

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

Form 10-Q

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

For the quarterly period ended **March 31, 2008** or

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

For the transition period from _____ to _____
Commission File Number: 001-33335

TIME WARNER CABLE INC.
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or organization)

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

**One Time Warner Center
North Tower
New York, New York 10019**
(Address of principal executive offices) (Zip Code)
(212) 364-8200
(Registrant's telephone number, including area code)

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

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

<u>Description of Class</u>		Shares Outstanding as of April 25, 2008
Class A Common Stock	\$.01 par value	901,941,580
Class B Common Stock	\$.01 par value	75,000,000

**TIME WARNER CABLE INC.
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS
AND OTHER FINANCIAL INFORMATION**

	Page
PART I. FINANCIAL INFORMATION	
<u>Management's Discussion and Analysis of Results of Operations and Financial Condition</u>	1
<u>Item 4. Controls and Procedures</u>	13
<u>Consolidated Balance Sheet as of March 31, 2008 and December 31, 2007</u>	14
<u>Consolidated Statement of Operations for the Three Months Ended March 31, 2008 and 2007</u>	15
<u>Consolidated Statement of Cash Flows for the Three Months Ended March 31, 2008 and 2007</u>	16
<u>Consolidated Statement of Shareholders' Equity</u>	17
<u>Notes to Consolidated Financial Statements</u>	18
<u>Supplementary Information</u>	28
<u>PART II. OTHER INFORMATION</u>	
<u>Item 1. Legal Proceedings</u>	35
<u>Item 6. Exhibits</u>	35
<u>EX-10.1 AMENDED AND RESTATED EMPLOYMENT AGREEMENT</u>	
<u>EX-10.2 FIRST AMENDMENT TO EMPLOYMENT AGREEMENT</u>	
<u>EX-31.1 SECTION 302 CERTIFICATION OF THE PEO</u>	
<u>EX-31.2 SECTION 302 CERTIFICATION OF THE PFO</u>	
<u>EX-32 SECTION 906 CERTIFICATIONS OF THE PEO AND PFO</u>	

Table of Contents

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

INTRODUCTION

Management's discussion and analysis of results of operations and financial condition (MD&A) is provided as a supplement to the accompanying consolidated financial statements and notes to help provide an understanding of Time Warner Cable Inc.'s (together with its subsidiaries, TWC or the Company) financial condition, cash flows and results of operations. MD&A is organized as follows:

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

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

Results of operations. This section provides an analysis of the Company's results of operations for the three months ended March 31, 2008.

Financial condition and liquidity. This section provides an analysis of the Company's financial condition as of March 31, 2008 and cash flows for the three months ended March 31, 2008.

Caution concerning forward-looking statements. This section provides a description of the use of forward-looking information appearing in this report, including in MD&A and the consolidated financial statements. Such information is based on management's current expectations about future events, which are inherently susceptible to uncertainty and changes in circumstances. Refer to the Company's Annual Report on Form 10-K for the year ended December 31, 2007 (the 2007 Form 10-K) for a discussion of the risk factors applicable to the Company.

OVERVIEW

TWC is the second-largest cable operator in the U.S., with technologically advanced, well-clustered systems located mainly in five geographic areas New York State (including New York City), the Carolinas, Ohio, southern California (including Los Angeles) and Texas. As of March 31, 2008, TWC served approximately 14.7 million customers who subscribed to one or more of its video, high-speed data and voice services, representing approximately 33.0 million revenue generating units.

Time Warner Inc. (Time Warner) currently owns approximately 84.0% of the common stock of TWC (representing a 90.6% voting interest). The financial results of TWC's operations are consolidated by Time Warner. Time Warner also owns a 12.43% non-voting common stock interest in a subsidiary of TWC. The Company and its Board of Directors are in discussions with Time Warner regarding a possible change in Time Warner's ownership in the Company.

TWC principally offers three services video, high-speed data and voice over its broadband cable systems. TWC markets its services separately and in bundled packages of multiple services and features. As of March 31, 2008, 50% of TWC's customers subscribed to two or more of its primary services, including 18% of its customers who subscribed to all three primary services. Historically, TWC has focused primarily on residential customers, while also selling video, high-speed data and commercial networking and transport services to commercial customers. Recently, TWC has begun selling voice services to small- and medium-sized businesses as part of an increased emphasis on its commercial business. In addition, TWC earns revenues by selling advertising time to national, regional and local businesses.

Table of Contents

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

Video is TWC's largest service in terms of revenues generated and, as of March 31, 2008, TWC had approximately 13.3 million basic video subscribers. Although providing video services is a competitive and highly penetrated business, TWC expects to continue to increase video revenues through the offering of advanced digital video services, as well as through price increases and digital video subscriber growth. As of March 31, 2008, TWC had approximately 8.3 million digital video subscribers, which represented approximately 62% of its basic video subscribers. TWC's digital video subscribers provide a broad base of potential customers for additional services. Video programming costs represent a major component of TWC's expenses and are expected to continue to increase, reflecting contractual rate increases, subscriber growth and the expansion of service offerings. TWC expects that its video service margins will continue to decline over the next few years as increases in programming costs outpace growth in video revenues.

As of March 31, 2008, TWC had approximately 7.9 million residential high-speed data subscribers. TWC expects continued strong growth in residential high-speed data subscribers and revenues during 2008; however, the rate of growth of both subscribers and revenues is expected to continue to slow over time as high-speed data services become increasingly well-penetrated. TWC also offers commercial high-speed data services and had 280,000 commercial high-speed data subscribers as of March 31, 2008.

Approximately 3.2 million residential subscribers received Digital Phone service, TWC's IP-based telephony voice service, as of March 31, 2008. TWC expects strong increases in Digital Phone subscribers and revenues for the foreseeable future. TWC also rolled out Business Class Phone, a commercial Digital Phone service, to small- and medium-sized businesses during 2007 in the majority of its systems and expects to complete the roll-out in the remainder of its systems during 2008. As of March 31, 2008, TWC had 10,000 commercial Digital Phone subscribers.

Some of TWC's principal competitors, direct broadcast satellite operators and incumbent local telephone companies in particular, either offer or are making significant capital investments that will allow them to offer services that provide features and functions comparable to the video, high-speed data and/or voice services offered by TWC. These services are also offered in bundles similar to TWC's and, in certain cases, such offerings include wireless service. The availability of these bundled service offerings has intensified competition, and TWC expects that competition will continue to intensify in the future as these offerings become more prevalent. TWC plans to continue to enhance its services with innovative offerings, which TWC believes will distinguish its services from those of its competitors.

FINANCIAL STATEMENT PRESENTATION

Revenues

The Company's 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, expanded basic and digital services from both residential and commercial subscribers. Video revenues from digital services, or digital video revenues, include revenues from digital tiers, digital pay channels, pay-per-view, video-on-demand, subscription-video-on-demand and digital video recorder services. Video revenues also include related equipment rental charges, installation charges and franchise fees 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 the Company's 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 certain distributors of TWC's Road RunnerTM high-speed data service (including cable systems managed by the Advance/Newhouse Partnership) and fees

Table of Contents

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

received from third-party internet service providers whose on-line services are provided to some of TWC's customers.

Voice revenues include monthly subscriber fees from residential and commercial Digital Phone subscribers, along with related installation charges. For the three months ended March 31, 2007, voice revenues also included monthly subscriber fees from circuit-switched telephone subscribers (93,000 subscribers as of March 31, 2007). During the first quarter of 2008, TWC substantially completed the process of discontinuing the provision of circuit-switched telephone service in accordance with regulatory requirements. As a result, as of March 31, 2008, Digital Phone was the only voice service that TWC offered.

Advertising revenues include the fees charged to local, regional and national advertising customers for advertising placed on the Company's video and high-speed data services. Nearly all Advertising revenues are attributable to the Company's 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; voice network costs; other service-related expenses, including non-administrative labor costs directly associated with the delivery of services to subscribers; maintenance of the Company's delivery systems; franchise fees; and other related costs. The Company's programming agreements are generally multi-year agreements that provide for the Company to make payments to the programming vendors at agreed upon rates based on the number of subscribers to which the Company provides the service.

Selling, general and administrative expenses include amounts not directly associated with the delivery of services to subscribers or the maintenance of the Company's delivery systems, such as administrative labor costs, marketing expenses, billing system charges, non-plant repair and maintenance costs, fees paid to Time Warner for reimbursement of certain administrative support functions and other administrative overhead costs.

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

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). The Company defines 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 the Company's business because OIBDA eliminates the uneven effect across its 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 the Company's 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 the Company's annual incentive compensation programs. OIBDA also is a metric used by the Company's parent, Time Warner, to evaluate the Company's performance and is an important measure in the Time Warner reportable segment disclosures. 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 the Company's 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 the Company for income taxes, debt servicing costs, the share of OIBDA related to the minority ownership, the results of the Company's 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.

Table of Contents

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

Free Cash Flow is a non-GAAP financial measure. The Company defines 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 the Company's business. The Company believes this measure is an important indicator of its liquidity, including its ability to reduce net debt and make strategic investments, because it reflects the Company's operating cash flow after considering the significant capital expenditures required to operate its 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, the Company's 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**Recent Accounting Standards**

See Note 2 to the accompanying consolidated financial statements for a discussion of the accounting standards adopted during the three months ended March 31, 2008 and recent accounting standards not yet adopted.

Three Months Ended March 31, 2008 Compared to Three Months Ended March 31, 2007

The following discussion provides an analysis of the Company's results of operations and should be read in conjunction with the accompanying consolidated statement of operations.

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

	Three Months Ended March 31,		
	2008	2007	% Change
Subscription:			
Video	\$ 2,603	\$ 2,504	4%
High-speed data	994	894	11%
Voice	366	264	39%
Total Subscription	3,963	3,662	8%
Advertising	197	189	4%
Total	\$ 4,160	\$ 3,851	8%

Table of Contents

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

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

	2008	March 31, 2007	% Change
Basic video ^(a)	13,306	13,448	(1%)
Digital video ^(b)	8,283	7,548	10%
Residential high-speed data ^(c)	7,924	7,000	13%
Commercial high-speed data ^(c)	280	254	10%
Residential Digital Phone ^(d)	3,170	2,094	51%
Commercial Digital Phone ^(d)	10		NM
Revenue generating units ^(e)	32,973	30,437	8%
Customer relationships ^(f)	14,722	14,685	

NM Not meaningful.

- (a) Basic video subscriber numbers reflect billable subscribers who receive at least basic video service.
- (b) Digital video subscriber numbers reflect billable subscribers who receive any level of video service via digital transmissions.
- (c) High-speed data subscriber numbers reflect billable subscribers who receive TWC's Road Runner high-speed data service or any of the other high-speed data services offered by TWC.
- (d) Digital Phone subscriber

numbers reflect billable subscribers who receive an IP-based telephony service. For the three months ended March 31, 2007, residential Digital Phone subscriber numbers exclude 93,000 subscribers who received traditional, circuit-switched telephone service.

(e) Revenue generating units represent the total of all basic video, digital video, high-speed data and voice (including Digital Phone and circuit-switched telephone service) subscribers.

(f) Customer relationships represent the number of subscribers who receive at least one level of service, encompassing video, high-speed data and voice services, without regard to the number of services

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.

Subscription revenues increased as a result of increases in video, high-speed data and voice revenues. The increase in video revenues was primarily due to the continued growth of digital video services and video price increases. Additional information regarding the major components of video revenues was as follows (in millions):

	Three Months Ended March 31,		
	2008	2007	% Change
Basic video services	\$ 1,551	\$ 1,549	
Digital video services	632	563	12%
Equipment rental and installation charges	269	245	10%
Franchise fees	112	109	3%
Other	39	38	3%
Total video	\$ 2,603	\$ 2,504	4%

High-speed data revenues increased primarily due to growth in high-speed data subscribers. Strong growth rates for high-speed data revenues are expected to continue during the remainder of 2008.

The increase in voice revenues was due to growth in Digital Phone subscribers. Voice revenues for the three months ended March 31, 2007 also included \$14 million of revenues associated with subscribers who received traditional, circuit-switched telephone service. Strong growth rates for voice revenues are expected to continue during the remainder of 2008.

Average monthly subscription revenue (which includes video, high-speed data and voice revenues) per basic video subscriber (subscription ARPU) increased 9% to \$99.65 for the three months ended March 31, 2008 from \$91.04 for the three months ended March 31, 2007. This increase was primarily a result of the increased penetration of digital video, high-speed data and Digital Phone and higher video prices, as discussed above.

Advertising revenues increased slightly to \$197 million for the three months ended March 31, 2008 from \$189 million for the three months ended March 31, 2007.

Table of Contents

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

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

	Three Months Ended March 31,		
	2008	2007	% Change
Video programming	\$ 929	\$ 880	6%
Employee	584	547	7%
High-speed data	40	44	(9%)
Voice	128	112	14%
Franchise fees	112	109	3%
Other direct operating costs	214	191	12%
Total	\$ 2,007	\$ 1,883	7%

Costs of revenues increased 7%, primarily related to increases in video programming, employee, voice and other direct operating costs. As a percentage of revenues, costs of revenues were 48% for the three months ended March 31, 2008 compared to 49% for the three months ended March 31, 2007.

The increase in video programming costs was primarily due to contractual rate increases and the expansion of service offerings, partially offset by lower basic video subscribers. Average programming costs per basic video subscriber increased 7% to \$23.37 per month in 2008 from \$21.88 per month in 2007.

Employee costs increased primarily due to higher headcount resulting from the continued growth of digital video, high-speed data and Digital Phone services, as well as salary increases.

High-speed data costs consist of the direct costs associated with the delivery of high-speed data services, including network connectivity costs. High-speed data costs decreased due to a decrease in per-subscriber connectivity costs, partially offset by subscriber growth.

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, partially offset by a decline in per-subscriber connectivity costs.

Other direct operating costs increased primarily due to increases in certain other costs associated with the continued growth of digital video, high-speed data and Digital Phone services.

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

	Three Months Ended March 31,		
	2008	2007	% Change
Employee	\$ 310	\$ 263	18%
Marketing	158	123	28%
Other	283	265	7%
Total	\$ 751	\$ 651	15%

Selling, general and administrative expenses increased as a result of higher employee, marketing and other costs. Employee costs increased, due primarily to greater headcount, salary increases and higher equity-based compensation expense, reflecting mainly the timing of 2008 grants, which were made during the first quarter as compared to 2007 grants, which were made in the second quarter. Marketing costs increased as a result of intensified marketing efforts during the first quarter of 2008. Other costs increased primarily due to higher administrative costs associated with the

increase in headcount discussed above.

Merger-related and restructuring costs. For the three months ended March 31, 2007, the Company expensed non-capitalizable merger-related costs associated with the 2006 transactions with Adelphia Communications Corporation (Adelphia) and Comcast Corporation (together with its subsidiaries,

Table of Contents

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

Comcast) of \$4 million. In addition, the results for the three months ended March 31, 2007 included restructuring costs of \$6 million.

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):

	Three Months Ended March 31,		
	2008	2007	% Change
Net income	\$ 242	\$ 276	(12%)
Income tax provision	165	187	(12%)
Income before income taxes	407	463	(12%)
Interest expense, net	199	227	(12%)
Income from equity investments, net	(5)	(3)	67%
Minority interest expense, net	41	38	8%
Other income, net	(6)	(146)	(96%)
Operating Income	636	579	10%
Depreciation	701	649	8%
Amortization	65	79	(18%)
OIBDA	\$ 1,402	\$ 1,307	7%

OIBDA. OIBDA increased principally as a result of 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. The increase in depreciation expense was primarily associated with purchases of customer premise equipment, scalable infrastructure and line extensions (each of which is primarily driven by customer demand) occurring during or subsequent to the first quarter of 2007.

Amortization expense. Amortization expense decreased primarily due to the absence of amortization expense associated with customer relationships recorded in connection with the 2003 restructuring of Time Warner Entertainment Company, L.P., a subsidiary of TWC, which were fully amortized at the end of the first quarter of 2007.

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

Interest expense, net. Interest expense, net, decreased due to a decrease in variable rate debt outstanding, as well as decreases in average interest rates on borrowings, partially offset by an increase in the Company's fixed rate debt outstanding. In April 2007, the Company issued \$5.0 billion in aggregate principal amount of fixed rate senior unsecured notes and debentures, the net proceeds of which were used to repay a portion of the Company's variable rate debt that was previously outstanding.

Other income, net. Other income, net for the three months ended March 31, 2008 primarily relates to a pretax gain recorded on the sale of a cost-method investment. During the three months ended March 31, 2007, the Company recorded a pretax gain of \$146 million as a result of the distribution of the assets of Texas and Kansas City Cable Partners, L.P. to TWC and Comcast on January 1, 2007, which was treated as a sale of the Company's 50% equity interest in the pool of assets consisting of the Houston cable systems (the TKCCP Gain).

Income before income taxes. Income before income taxes decreased primarily due to a decrease in other income, net due to the TKCCP Gain recorded in 2007, as discussed above, partially offset by an increase in Operating Income and a decrease in interest expense, net.

Table of Contents

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

Income tax provision. TWC's income tax provision has been prepared as if the Company operated as a stand-alone taxpayer for all periods presented. For the three months ended March 31, 2008 and 2007, the Company recorded income tax provisions of \$165 million and \$187 million, respectively. The effective tax rate was approximately 41% and 40% for the three months ended March 31, 2008 and 2007, respectively.

Net income and net income per common share. Net income was \$242 million for the three months ended March 31, 2008 compared to \$276 million for the three months ended March 31, 2007. Basic and diluted net income per common share were \$0.25 for the three months ended March 31, 2008 compared to \$0.28 for the three months ended March 31, 2007. Net income and net income per common share decreased primarily due to a decrease in other income, net due to the TKCCP Gain recorded in 2007, as discussed above, partially offset by an increase in Operating Income and decreases in interest expense, net and income tax provision.

FINANCIAL CONDITION AND LIQUIDITY

Management believes that cash generated by or available to TWC should be sufficient to fund its capital and liquidity needs for the foreseeable future. TWC's sources of cash include cash provided by operating activities, cash and equivalents on hand, available borrowing capacity under its committed credit facilities and commercial paper program, and access to the capital markets. TWC's unused committed available funds were \$4.226 billion as of March 31, 2008, reflecting \$226 million in cash and equivalents and \$4.000 billion of available borrowing capacity under the Company's \$6.0 billion senior unsecured five-year revolving credit facility (the Cable Revolving Facility).

Current Financial Condition

As of March 31, 2008, the Company had \$13.226 billion of debt, \$226 million of cash and equivalents (net debt of \$13.000 billion, defined as total debt less cash and equivalents), \$300 million of mandatorily redeemable non-voting Series A Preferred Membership Units issued by a subsidiary of TWC, Time Warner NY Cable LLC (TW NY), in connection with the acquisition of Adelphia (the TW NY Preferred Membership Units) and \$24.997 billion of shareholders' equity. As of December 31, 2007, the Company had \$13.577 billion of debt, \$232 million of cash and equivalents (net debt of \$13.345 billion), \$300 million of TW NY Preferred Membership Units and \$24.706 billion of shareholders' equity.

The following table shows the significant items contributing to the decrease in net debt from December 31, 2007 to March 31, 2008 (in millions):

Balance as of December 31, 2007 ^(a)	\$ 13,345
Cash provided by operating activities	(1,186)
Capital expenditures	846
All other, net	(5)
 Balance as of March 31, 2008 ^(a)	 \$ 13,000

(a) Amounts include unamortized fair value adjustments of \$124 million and \$126 million as of March 31, 2008 and

December 31,
2007,
respectively,
which were
recognized as a
result of the
merger of
America Online,
Inc. (now
known as AOL
LLC) and Time
Warner Inc.
(now known as
Historic TW
Inc.).

Cash Flows

Cash and equivalents decreased by \$6 million and \$4 million for the three months ended March 31, 2008 and 2007, respectively. Components of these changes are discussed below in more detail.

Table of Contents

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

Operating Activities

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

	Three Months Ended March	
	31,	
	2008	2007
OIBDA	\$ 1,402	\$ 1,307
Net interest payments ^(a)	(212)	(255)
Pension plan contributions	(50)	
Noncash equity-based compensation	34	5
Merger-related and restructuring payments, net of accruals ^(b)	(4)	(5)
Net income taxes refunded ^(c)	1	1
Net cash flows from discontinued operations ^(d)		54
All other, net, including working capital changes	15	(101)
Cash provided by operating activities	\$ 1,186	\$ 1,006

(a) Amounts include interest income received of \$3 million and \$2 million for the three months ended March 31, 2008 and 2007, respectively.

(b) Amounts include payments for merger-related and restructuring costs and payments for certain other merger-related liabilities, net of accruals.

(c) Amounts include income tax payments of \$1 million and \$4 million for the three months

ended
March 31, 2008
and 2007,
respectively.

- (d) Amounts reflect
noncash gains
and expenses
and working
capital-related
adjustments.

Cash provided by operating activities increased from \$1.006 billion for the three months ended March 31, 2007 to \$1.186 billion for the three months ended March 31, 2008. 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 previously discussed), the change in working capital requirements and a decrease in net interest payments, partially offset by 2008 pension plan contributions and the absence in 2008 of cash flows from discontinued operations. The decrease in net interest payments was due to a decrease in interest expense (as previously discussed) and the timing of interest payments, and the change in working capital requirements was primarily due to the timing of payments and collections of accounts receivable.

The Economic Stimulus Act of 2008, enacted in the first quarter of 2008, provides for a bonus first year depreciation deduction of 50% of qualified property. The benefits of this legislation are applicable to certain of the Company's capital expenditures and are expected to reduce the Company's net income tax payments in 2008.

The Company anticipates making discretionary cash contributions of approximately \$150 million to its funded defined benefit pension plans in 2008, subject to market conditions and other considerations, \$50 million of which has been contributed as of March 31, 2008.

Table of Contents

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

Investing Activities

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

	Three Months Ended March 31,	
	2008	2007
Investments and acquisitions, net of cash acquired and distributions received:		
Distributions received from an investee ^(a)	\$	\$ 48
All other	(5)	9
Capital expenditures	(846)	(720)
Other investing activities	10	3
Cash used by investing activities	\$ (841)	\$ (660)

(a) Distributions received from an investee represent distributions received from Sterling Entertainment Enterprises, LLC (d/b/a SportsNet New York), an equity-method investee.

Cash used by investing activities increased from \$660 million for the three months ended March 31, 2007 to \$841 million for the three months ended March 31, 2008. This increase was principally due to an increase in capital expenditures, driven by greater penetration of digital video, high-speed data and Digital Phone services, as well as the absence in 2008 of distributions received from an investee.

TWC's capital expenditures included the following major categories (in millions):

	Three Months Ended March 31,	
	2008	2007
Customer premise equipment ^(a)	\$ 446	\$ 339
Scalable infrastructure ^(b)	104	99
Line extensions ^(c)	87	76
Upgrades/rebuilds ^(d)	63	58
Support capital ^(e)	146	148
Total capital expenditures	\$ 846	\$ 720

- (a) Amounts represent costs incurred in the purchase and installation of equipment that resides at a customer's home or business for the purpose of receiving/sending video, high-speed data and/or voice signals. Such equipment typically includes digital (including high-definition) set-top boxes, remote controls, high-speed data modems, telephone modems and the costs of installing such new equipment. 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) Amounts represent costs incurred in the purchase and installation of equipment that controls signal reception, processing and transmission throughout TWC's distribution network, as well as controls and

communicates with the equipment residing at a customer's home or business. Also included in scalable infrastructure is certain equipment necessary for content aggregation and distribution (video-on-demand equipment) and equipment necessary to provide certain video, high-speed data and Digital Phone service features (voicemail, e-mail, etc.).

(c) Amounts represent costs incurred to extend TWC's distribution network into a geographic area previously not served. These costs typically include network design, the purchase and installation of fiber optic and coaxial cable and certain electronic equipment.

(d) Amounts primarily represent costs incurred to upgrade or replace certain existing components or an entire geographic area of TWC's distribution network. These costs typically include network design, the purchase and

installation of fiber optic and coaxial cable and certain electronic equipment.

- (e) Amounts represent all other capital purchases required to run day-to-day operations. These costs typically include vehicles, land and buildings, computer hardware/software, office equipment, furniture and fixtures, tools and test equipment.

TWC incurs expenditures associated with the construction of its cable systems. Costs associated with the construction of the cable transmission and distribution facilities and new cable service installations are capitalized. TWC generally capitalizes expenditures for tangible fixed assets having a useful life of greater than one year. Capitalized costs include direct material, labor and overhead, as well as 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 high-speed data and telephone cable modems, TWC capitalizes installation charges only upon the initial deployment of these assets. All costs incurred in subsequent disconnects and reconnects are expensed as incurred.

Table of Contents

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

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.

Financing Activities

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

	Three Months Ended March	
	31,	
	2008	2007
Borrowings (repayments), net ^(a)	\$ 166	\$ 624
Borrowings	141	173
Repayments	(655)	(1,079)
Other financing activities	(3)	(68)
Cash used by financing activities	\$ (351)	\$ (350)

(a) Borrowings (repayments), net, reflects borrowings under the Company's commercial paper program with original maturities of three months or less, net of repayments of such borrowings.

Cash used by financing activities was \$350 million for the three months ended March 31, 2007 compared to \$351 million for the three months ended March 31, 2008, as the increase in net repayments under the Company's debt obligations was offset by a decrease in payments for other financing activities.

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):

	Three Months Ended March	
	31,	
	2008	2007
Cash provided by operating activities	\$ 1,186	\$ 1,006
Reconciling items:		
Adjustments relating to the operating cash flow of discontinued operations		(54)

Edgar Filing: TIME WARNER CABLE INC. - Form 10-Q

Cash provided by continuing operating activities	1,186	952
Add: Excess tax benefit from exercise of stock options		3
Less:		
Capital expenditures	(846)	(720)
Partnership tax distributions, stock option distributions and principal payments on capital leases	(1)	(11)
Free Cash Flow	\$ 339	\$ 224

Free Cash Flow increased from \$224 million for the three months ended March 31, 2007 to \$339 million for the three months ended March 31, 2008 primarily as a result of an increase in cash provided by continuing operating activities, partially offset by an increase in capital expenditures, as discussed above.

Time Warner Approval Rights

Under a shareholder agreement entered into between TWC and Time Warner on April 20, 2005 (the Shareholder Agreement), TWC is 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 its consolidated ratio of debt, including preferred equity, plus six times its 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, TWC is required to include the indebtedness, annual rental expense obligations and

Table of Contents

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

EBITDAR of certain unconsolidated entities that it manages and/or in which it owns 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 TWC's 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.

The following table sets forth the calculation of the TW Leverage Ratio for the twelve months ended March 31, 2008 (in millions, except ratio):

Total debt	\$ 13,226
TW NY Preferred Membership Units	300
Six times annual rental expense	1,104
Total	\$ 14,630
EBITDAR	\$ 6,021
TW Leverage Ratio	2.43x

CAUTION CONCERNING FORWARD-LOOKING STATEMENTS

This document contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, particularly statements anticipating future growth in revenues, OIBDA, cash provided by operating activities and other financial measures. Words such as anticipates, estimates, expects, projects, intends, plans, 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 the Company is under no obligation to, and expressly disclaims any obligation to, update or alter its forward-looking statements whether as a result of such changes, new information, subsequent events or otherwise.

Various factors could adversely affect the operations, business or financial results of TWC in the future and cause TWC's actual results to differ materially from those contained in the forward-looking statements, including those factors discussed in detail in Item 1A, Risk Factors, in the 2007 Form 10-K and in TWC's other filings made from time to time with the Securities and Exchange Commission (the SEC) after the date of this report. In addition, the Company operates in a highly competitive, consumer and technology-driven and rapidly changing business. The Company's 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, its continued ability to protect and secure any necessary intellectual property rights. TWC's actual results could differ materially from management's expectations because of changes in such factors.

Further, lower than expected valuations associated with the Company's cash flows and revenues may result in the Company's inability to realize the value of recorded intangibles and goodwill. Additionally, achieving the Company's financial objectives could be adversely affected by the factors discussed in detail in Item 1A, Risk Factors, in the 2007 Form 10-K, as well as:

- economic slowdowns;
- the impact of terrorist acts and hostilities;
- changes in the Company's 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 the ability to access the capital markets for debt securities or bank financings.

Table of Contents

TIME WARNER CABLE INC.

Item 4. CONTROLS AND PROCEDURES

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

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

Changes in Internal Control Over Financial Reporting

There have not been any changes in the Company's internal control over financial reporting during the quarter ended March 31, 2008 that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

Table of Contents

TIME WARNER CABLE INC.
CONSOLIDATED BALANCE SHEET
(Unaudited)

	March 31, 2008	December 31, 2007
	(in millions)	
ASSETS		
Current assets		
Cash and equivalents	\$ 226	\$ 232
Receivables, less allowances of \$84 million and \$87 million as of March 31, 2008 and December 31, 2007, respectively	627	743
Receivables from affiliated parties	4	2
Prepaid expenses and other current assets	127	95
Deferred income tax assets	80	91
Total current assets	1,064	1,163
Investments	729	735
Property, plant and equipment, net	12,932	12,873
Intangible assets subject to amortization, net	664	719
Intangible assets not subject to amortization	38,930	38,925
Goodwill	2,106	2,117
Other assets	98	68
Total assets	\$ 56,523	\$ 56,600
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities		
Accounts payable	\$ 318	\$ 417
Deferred revenue and subscriber-related liabilities	180	164
Payables to affiliated parties	181	204
Accrued programming expense	524	509
Other current liabilities	1,187	1,237
Current liabilities of discontinued operations		5
Total current liabilities	2,390	2,536
Long-term debt	13,226	13,577
Mandatorily redeemable preferred membership units issued by a subsidiary	300	300
Deferred income tax liabilities, net	13,432	13,291
Long-term payables to affiliated parties	22	36
Other liabilities	405	430
Minority interests	1,751	1,724
Commitments and contingencies (Note 7)		
Shareholders equity		
Class A common stock, \$0.01 par value, 902 million shares issued and outstanding as of March 31, 2008 and December 31, 2007	9	9
	1	1

Edgar Filing: TIME WARNER CABLE INC. - Form 10-Q

Class B common stock, \$0.01 par value, 75 million shares issued and outstanding
as of March 31, 2008 and December 31, 2007

Paid-in-capital	19,456		19,411
Accumulated other comprehensive loss, net	(171)		(174)
Retained earnings	5,702		5,459
Total shareholders' equity	24,997		24,706
Total liabilities and shareholders' equity	\$ 56,523	\$	56,600

See accompanying notes.

Table of Contents

TIME WARNER CABLE INC.
CONSOLIDATED STATEMENT OF OPERATIONS
(Unaudited)

	Three Months Ended March	
	31,	
	2008	2007
	(in millions, except per share data)	
Revenues:		
Subscription:		
Video	\$ 2,603	\$ 2,504
High-speed data	994	894
Voice	366	264
Total Subscription	3,963	3,662
Advertising	197	189
Total revenues ^(a)	4,160	3,851
Costs and expenses:		
Costs of revenues ^{(a)(b)}	2,007	1,883
Selling, general and administrative ^{(a)(b)}	751	651
Depreciation	701	649
Amortization	65	79
Merger-related and restructuring costs		10
Total costs and expenses	3,524	3,272
Operating Income	636	579
Interest expense, net	(199)	(227)
Income from equity investments, net	5	3
Minority interest expense, net	(41)	(38)
Other income, net	6	146
Income before income taxes	407	463
Income tax provision	(165)	(187)
Net income	\$ 242	\$ 276
Basic net income per common share	\$ 0.25	\$ 0.28
Average basic common shares outstanding	976.9	976.9
Diluted net income per common share	\$ 0.25	\$ 0.28
Average diluted common shares outstanding	977.4	976.9

- (a) Includes the following income (expenses) resulting from transactions with related companies:

	Three Months Ended March	
	31,	
	2008	2007
	(in millions)	
Revenues	\$ 3	\$ 3
Costs of revenues	(270)	(251)
Selling, general and administrative	(4)	(5)

- (b) Costs of revenues and selling, general and administrative expenses exclude depreciation.

See accompanying notes.

Table of Contents

TIME WARNER CABLE INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
(Unaudited)

	Three Months Ended March	
	31,	
	2008	2007
	(in millions)	
OPERATING ACTIVITIES		
Net income	\$ 242	\$ 276
Adjustments for noncash and nonoperating items:		
Depreciation and amortization	766	728
Pretax gain on sale of 50% equity interest in the Houston Pool of TKCCP		(146)
Pretax gain on sale of cost-method investment	(9)	
Income from equity investments, net of cash distributions		9
Minority interest expense, net	41	38
Deferred income taxes	130	136
Equity-based compensation	34	5
Changes in operating assets and liabilities, net of acquisitions:		
Receivables	104	134
Accounts payable and other liabilities	(66)	(218)
Other changes	(56)	(10)
Adjustments relating to discontinued operations ^(a)		54
Cash provided by operating activities	1,186	1,006
INVESTING ACTIVITIES		
Investments and acquisitions, net of cash acquired and distributions received	(5)	57
Capital expenditures	(846)	(720)
Proceeds from sale of cost-method investment	9	
Proceeds from disposal of property, plant and equipment	1	3
Cash used by investing activities	(841)	(660)
FINANCING ACTIVITIES		
Borrowings (repayments), net ^(b)	166	624
Borrowings ^(c)	141	173
Repayments ^(c)	(655)	(1,079)
Excess tax benefit from exercise of stock options		3
Principal payments on capital leases		(1)
Distributions to owners, net	(1)	(10)
Other	(2)	(60)
Cash used by financing activities	(351)	(350)
DECREASE IN CASH AND EQUIVALENTS	(6)	(4)
CASH AND EQUIVALENTS AT BEGINNING OF PERIOD	232	51
CASH AND EQUIVALENTS AT END OF PERIOD	\$ 226	\$ 47

- (a) Net cash flows from discontinued operations were \$54 million for the three months ended March 31, 2007 (none for the three months ended March 31, 2008).
- (b) Borrowings (repayments), net, reflects borrowings under the Company's commercial paper program with original maturities of three months or less, net of repayments of such borrowings.
- (c) Amounts represent borrowings and repayments related to debt instruments with original maturities greater than three months.

See accompanying notes.

Table of Contents

TIME WARNER CABLE INC.
CONSOLIDATED STATEMENT OF SHAREHOLDERS EQUITY
(Unaudited)

	Three Months Ended March	
	2008	2007
	31,	
	(in millions)	
BALANCE AT BEGINNING OF PERIOD	\$ 24,706	\$ 23,564
Net income	242	276
Other comprehensive income	3	2
Comprehensive income	245	278
Impact of adopting new accounting pronouncements ^(a)	1	(34)
Equity-based compensation	34	5
Allocations from Time Warner and other, net	11	(2)
BALANCE AT END OF PERIOD	\$ 24,997	\$ 23,811

(a) The amounts relate to the impact of adopting the provisions of Emerging Issues Task Force (EITF) Issue No. 06-10, *Accounting for Collateral Assignment Split-Dollar Life Insurance Arrangements*, of \$1 million for the three months ended March 31, 2008, and EITF Issue No. 06-02, *Accounting for Sabbatical Leave and Other Similar Benefits*, of \$(37) million, partially offset by the impact of

adopting the
provisions of
Financial
Accounting
Standards Board
Interpretation
No. 48,
*Accounting for
Uncertainty in
Income Taxes an
interpretation of
FASB Statement
No. 109*, of
\$3 million for
the three months
ended
March 31, 2007.

See accompanying notes.

Table of Contents

TIME WARNER CABLE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

Description of Business

Time Warner Cable Inc. (together with its subsidiaries, TWC or the Company) is the second-largest cable operator in the U.S., with technologically advanced, well-clustered systems located mainly in five geographic areas New York State (including New York City), the Carolinas, Ohio, southern California (including Los Angeles) and Texas. As of March 31, 2008, TWC served approximately 14.7 million customers who subscribed to one or more of its video, high-speed data and voice services, representing approximately 33.0 million revenue generating units.

Time Warner Inc. (Time Warner) currently owns approximately 84.0% of the common stock of TWC (representing a 90.6% voting interest). The financial results of TWC's operations are consolidated by Time Warner. Time Warner also owns a 12.43% non-voting common stock interest in a subsidiary of TWC. The Company and its Board of Directors are in discussions with Time Warner regarding a possible change in Time Warner's ownership in the Company.

TWC principally offers three services video, high-speed data and voice over its broadband cable systems. TWC markets its services separately and in bundled packages of multiple services and features. As of March 31, 2008, 50% of TWC's customers subscribed to two or more of its primary services, including 18% of its customers who subscribed to all three primary services. Historically, TWC has focused primarily on residential customers, while also selling video, high-speed data and commercial networking and transport services to commercial customers. Recently, TWC has begun selling voice services to small- and medium-sized businesses as part of an increased emphasis on its commercial business. In addition, TWC earns revenues by selling advertising time to national, regional and local businesses.

Video is TWC's largest service in terms of revenues generated and, as of March 31, 2008, TWC had approximately 13.3 million basic video subscribers. Although providing video services is a competitive and highly penetrated business, TWC continues to increase video revenues through the offering of advanced digital video services, as well as through price increases and digital video subscriber growth. As of March 31, 2008, TWC had approximately 8.3 million digital video subscribers, which represented approximately 62% of its basic video subscribers. TWC's digital video subscribers provide a broad base of potential customers for additional services.

As of March 31, 2008, TWC had approximately 7.9 million residential high-speed data subscribers. TWC also offers commercial high-speed data services and had 280,000 commercial high-speed data subscribers as of March 31, 2008.

Approximately 3.2 million residential subscribers received Digital Phone service, TWC's IP-based telephony voice service, as of March 31, 2008. In 2008, TWC continued to roll out Business Class Phone, a commercial Digital Phone service, to small- and medium-sized businesses. As of March 31, 2008, TWC had 10,000 commercial Digital Phone subscribers.

Table of Contents

TIME WARNER CABLE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

Basis of Presentation

Basis of Consolidation

The consolidated financial statements include 100% of the assets, liabilities, revenues, expenses and cash flows of TWC and all entities in which TWC has a controlling voting interest, as well as allocations of certain Time Warner corporate costs deemed reasonable by management to present the Company's consolidated results of operations, financial position, changes in equity and cash flows on a stand-alone basis. In accordance with Financial Accounting Standards Board (FASB) Interpretation No. 46 (revised 2003), *Consolidation of Variable Interest Entities* and *interpretation of ARB No. 51*, the consolidated financial statements include the results of Time Warner Entertainment-Advance/Newhouse Partnership (TWE-A/N) only for the systems that are controlled by TWC and for which TWC holds an economic interest. The Time Warner corporate costs include specified administrative services, including selected tax, human resources, legal, information technology, treasury, financial, public policy and corporate and investor relations services, and approximate Time Warner's estimated cost for services rendered. Intercompany accounts and transactions between consolidated companies have been eliminated in consolidation.

Use of Estimates

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

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

Reclassifications

Certain reclassifications have been made to the prior year's financial information to conform to the March 31, 2008 presentation.

Interim Financial Statements

The consolidated financial statements are unaudited; however, in the opinion of management, they contain all the adjustments (consisting of those of a normal recurring nature) considered necessary to present fairly the financial position, the results of operations and cash flows for the periods presented in conformity with GAAP applicable to interim periods. The consolidated financial statements should be read in conjunction with the audited consolidated financial statements of TWC included in the Company's Annual Report on Form 10-K for the year ended December 31, 2007.

Net Income per Common Share

Basic net income per common share is computed by dividing net income by the weighted average of common shares outstanding during the period. Weighted-average common shares include shares of Class A common stock and Class B common stock. Diluted net income per common share adjusts basic net income per common share for the effects of stock options and restricted stock units only in the periods in

Table of Contents

TIME WARNER CABLE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

which such effect is dilutive. Set forth below is a reconciliation of basic and diluted net income per common share (in millions, except per share data):

	Three Months Ended March	
	31,	
	2008	2007
Net income	\$ 242	\$ 276
Average common shares outstanding basic	976.9	976.9
Dilutive effect of equity awards	0.5	
Average common shares outstanding diluted	977.4	976.9
Net income per common share:		
Basic	\$ 0.25	\$ 0.28
Diluted	\$ 0.25	\$ 0.28

2. RECENT ACCOUNTING STANDARDS**Accounting Standards Adopted in 2008*****Consideration Given by a Service Provider to Manufacturers or Resellers of Equipment***

On January 1, 2008, the Company adopted the provisions of EITF Issue No. 06-1, *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 06-1). EITF 06-1 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. The adoption of the provisions of EITF 06-1 did not have a material impact on the Company's consolidated financial statements.

Accounting for Postretirement Benefit Aspects of Split-Dollar Life Insurance Arrangements

On January 1, 2008, the Company adopted the provisions of EITF Issue No. 06-10, *Accounting for Collateral Assignment Split-Dollar Life Insurance Arrangements* (EITF 06-10), which requires that a company recognize a liability for the postretirement benefits associated with collateral assignment split-dollar life insurance arrangements. The provisions of EITF 06-10 are applicable in instances where the Company has contractually agreed to maintain a life insurance policy (i.e., the Company pays the premiums) for an employee in periods in which the employee is no longer providing services. The adoption of EITF 06-10 did not have a material impact on the Company's consolidated financial statements.

Fair Value Measurements

On January 1, 2008, the Company adopted certain provisions of Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (Statement) No. 157, *Fair Value Measurements* (FAS 157), which 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. The provisions of FAS 157 adopted on January 1, 2008 relate to financial assets and liabilities as well as other assets and liabilities carried at fair value on a recurring basis and did not have a material impact on the Company's consolidated financial statements. The provisions of FAS 157 related to other nonfinancial assets and liabilities will be effective for TWC on January 1, 2009, and will be applied prospectively. The Company is currently evaluating the impact that the provisions of FAS 157 related to other

nonfinancial assets and liabilities will have on the Company's consolidated financial statements.

20

Table of Contents

TIME WARNER CABLE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

Recent Accounting Standards Not Yet Adopted***Business Combinations***

In December 2007, the FASB issued Statement No. 141 (revised 2007), *Business Combinations* (FAS 141R). FAS 141R establishes principles and requirements for how an acquirer in a business combination (i) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree, (ii) recognizes and measures the goodwill acquired in a business combination or a gain from a bargain purchase, and (iii) determines what information to disclose to enable users of financial statements to evaluate the nature and financial effects of the business combination. FAS 141R will be applied prospectively to business combinations that have an acquisition date on or after January 1, 2009. The provisions of FAS 141R will not impact the Company's consolidated financial statements for prior periods.

Noncontrolling Interests

In December 2007, the FASB issued Statement No. 160, *Noncontrolling Interests in Consolidated Financial Statements - an amendment of ARB No. 51* (FAS 160). The provisions of FAS 160 establish accounting and reporting standards for the noncontrolling interest in a subsidiary including the accounting treatment upon the deconsolidation of a subsidiary. The provisions of FAS 160 will be effective for TWC on January 1, 2009 and will be applied prospectively, except for the presentation of the noncontrolling interests, which for all prior periods would be reclassified to equity in the consolidated balance sheet and adjusted out of net income in the consolidated statement of operations. The Company is currently evaluating the impact the provisions of FAS 160 will have on the Company's consolidated financial statements.

3. TEXAS AND KANSAS CITY CABLE PARTNERS, L.P. JOINT VENTURE

Texas and Kansas City Cable Partners, L.P. (TKCCP) was a 50-50 joint venture between a consolidated subsidiary of TWC (TWE-A/N) and Comcast Corporation (together with its subsidiaries, Comcast). On January 1, 2007, TKCCP distributed its assets to its partners. TWC received certain cable assets located in Kansas City, south and west Texas and New Mexico (the Kansas City Pool), which served approximately 788,000 basic video subscribers as of December 31, 2006, and Comcast received the pool of assets consisting of the Houston cable systems (the Houston Pool), which served approximately 795,000 basic video subscribers as of December 31, 2006. TWC began consolidating the results of the Kansas City Pool on January 1, 2007. TKCCP was formally dissolved on May 15, 2007. For accounting purposes, TWC treated the distribution of TKCCP's assets as a sale of TWC's 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 TWC's 50% equity interest in the Houston Pool, TWC recorded a pretax gain of \$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 three months ended March 31, 2007.

4. EQUITY-BASED COMPENSATION**Time Warner Equity Plans**

Prior to 2007, Time Warner granted options to purchase Time Warner common stock and shares of Time Warner common stock (restricted stock) or restricted stock units (RSUs) under its equity plans (collectively, the Time Warner Equity Awards) to employees of TWC. TWC recognizes compensation expense for the fair value of such awards according to the provisions of FASB Statement No. 123 (revised 2004), *Share-Based Payment*. Time Warner has not granted Time Warner Equity Awards to employees of TWC since TWC Class A common stock began to trade publicly in March 2007. In addition, employees of Time Warner who become employed by TWC retain their Time Warner Equity Awards pursuant to their

Table of Contents

TIME WARNER CABLE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

terms and TWC records equity-based compensation expense from the date of transfer through the end of the applicable vesting period. The stock options granted by Time Warner to employees of TWC were granted with exercise prices equal to, or in excess of, the fair market value of a share of Time Warner common stock at the date of grant. Generally, the stock options vest ratably over a four-year vesting period and expire ten years from the date of grant. The awards of restricted stock or RSUs generally vest between three to five years from the date of grant. Holders of Time Warner restricted stock and RSU awards are generally entitled to receive cash dividends or dividend equivalents, respectively, paid by Time Warner during the period of time that the restricted stock or RSU awards are unvested. Certain Time Warner stock options and RSU awards provide for accelerated vesting upon an election to retire pursuant to TWC's defined benefit retirement plans or after reaching a specified age and years of service.

TWC Equity Plan

The Time Warner Cable Inc. 2006 Stock Incentive Plan (the "2006 Plan") provides for the issuance of up to 100 million shares of TWC Class A common stock to directors, employees and certain non-employee advisors of TWC. The Company made its first grant of equity awards in April 2007. Stock options have been granted under the 2006 Plan with exercise prices equal to the fair market value of TWC Class A common stock at the date of grant. Generally, the stock options vest ratably over a four-year vesting period and expire ten years from the date of grant. Certain stock option awards provide for accelerated vesting upon an election to retire pursuant to TWC's defined benefit retirement plans or after reaching a specified age and years of service. For the three months ended March 31, 2008, TWC granted approximately 4.6 million stock options at a weighted-average grant date fair value of \$10.22 (\$6.03, net of tax) per option. The table below presents the weighted-average values of the assumptions used to value TWC stock options at their grant date for the three months ended March 31, 2008.

Expected volatility	30.0%
Expected term to exercise from grant date	6.52 years
Risk-free rate	3.2%
Expected dividend yield	0.0%

Pursuant to the 2006 Plan, the Company also granted RSU awards, which generally vest over a four-year period from the date of grant. Certain RSU awards provide for accelerated vesting upon an election to retire pursuant to TWC's defined benefit retirement plans or after reaching a specified age and years of service. Shares of TWC Class A common stock will generally be issued in connection with the vesting of an RSU. RSUs awarded to non-employee directors are not subject to vesting restrictions and the shares underlying the RSUs will be issued in connection with a director's termination of service as a director. For the three months ended March 31, 2008, TWC granted approximately 2.8 million RSUs at a weighted-average grant date fair value of \$27.51 per RSU.

Table of Contents

TIME WARNER CABLE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

Equity-based Compensation Expense

Compensation expense and the related tax benefit recognized for Time Warner and TWC equity-based compensation plans for the three months ended March 31, 2008 and 2007 is as follows (in millions):

	Three Months Ended March	
	31,	
	2008	2007
Time Warner Equity Plans:		
Compensation cost recognized:		
Stock options	\$ 3	\$ 4
Restricted stock and restricted stock units	1	1
Total impact on Operating Income	\$ 4	\$ 5
Tax benefit recognized	\$ 2	\$ 2
TWC Equity Plan:		
Compensation cost recognized:		
Stock options	\$ 13	\$
Restricted stock units	17	
Total impact on Operating Income	\$ 30	\$
Tax benefit recognized	\$ 12	\$

5. PENSION COSTS

The Company participates in various funded and unfunded noncontributory defined benefit pension plans administered by Time Warner. Pension benefits are determined based on formulas that reflect the employees' years of service and compensation during their employment period and participation in the plans. TWC uses a December 31 measurement date for its plans. A summary of the components of the net periodic benefit costs is as follows (in millions):

	Three Months Ended March	
	31,	
	2008	2007
Service cost	\$ 25	\$ 17
Interest cost	20	17
Expected return on plan assets	(25)	(23)
Amounts amortized	4	3
Net periodic benefit costs	\$ 24	\$ 14
Contributions	\$ 50	\$

After considering the funded status of the Company's defined benefit pension plans, movements in the discount rate, investment performance and related tax consequences, the Company may choose to make contributions to its pension plans in any given year. As of March 31, 2008, there were no minimum required contributions for TWC's funded plans. However, the Company anticipates making discretionary cash contributions of approximately \$150 million to its funded defined benefit pension plans in 2008, subject to market conditions and other considerations, \$50 million of which has been contributed as of March 31, 2008. For the Company's unfunded plan, contributions will continue to be made to the extent benefits are paid. Benefit payments for the unfunded plan are expected to be \$2 million in 2008.

6. MERGER-RELATED AND RESTRUCTURING COSTS

Cumulatively, through December 31, 2007, the Company expensed non-capitalizable merger-related costs of \$56 million associated with transactions with Adelphia Communications Corporation and Comcast, which had been fully paid as of December 31, 2007. For the three months ended March 31, 2007, the Company incurred costs of \$4 million and made payments of \$6 million associated with merger-related activities.

Table of Contents

TIME WARNER CABLE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

The Company has incurred cumulative restructuring costs of \$65 million as part of its broader plans to simplify its organizational structure and enhance its customer focus, and payments of \$53 million have been made against this accrual as of March 31, 2008. Of the remaining \$12 million liability, \$6 million is classified as a current liability and \$6 million is classified as a noncurrent liability in the consolidated balance sheet as of March 31, 2008. Amounts are expected to be paid through 2011.

Information relating to the restructuring costs is as follows (in millions):

	Employee Terminations	Other Exit Costs	Total
Remaining liability as of December 31, 2006	\$ 18	\$ 5	\$ 23
Accruals	7	6	13
Cash paid	(12)	(8)	(20)
Remaining liability as of December 31, 2007	13	3	16
Cash paid	(3)	(1)	(4)
Remaining liability as of March 31, 2008	\$ 10	\$ 2	\$ 12

7. COMMITMENTS AND CONTINGENCIES**Legal Proceedings**

On September 20, 2007, *Brantley, et al. v. NBC Universal, Inc., et al.* was filed in the U.S. District Court for the Central District of California against the Company and Time Warner. The complaint, which also names as defendants several other programming content providers (collectively, the programmer defendants) as well as other cable and satellite providers (collectively, the distributor defendants), alleges violations of Sections 1 and 2 of the Sherman Antitrust Act. Among other things, the complaint alleges coordination between and among the programmer defendants to sell and/or license programming on a bundled basis to the distributor defendants, who in turn purportedly offer that programming to subscribers in packaged tier, rather than on a per channel (or à la carte) basis. Plaintiffs, who seek to represent a purported nationwide class of cable and satellite subscribers, demand, among other things, unspecified treble monetary damages and an injunction to compel the offering of channels to subscribers on an à la carte basis. On December 3, 2007, plaintiffs filed an amended complaint in this action (the First Amended Complaint) that, among other things, dropped the Section 2 claims and all allegations of horizontal coordination. On December 21, 2007, the programmer defendants, including Time Warner, and the distributor defendants, including TWC, filed motions to dismiss the First Amended Complaint. On March 10, 2008, the court granted these motions, dismissing the First Amended Complaint with leave to amend. On March 20, 2008, plaintiffs filed a second amended complaint (the Second Amended Complaint) that modified certain aspects of the First Amended Complaint in an attempt to address the deficiencies noted by the court in its prior dismissal order. On April 22, 2008 the programmer defendants, including Time Warner, and the distributor defendants, including the Company, filed motions to dismiss the Second Amended Complaint. The Company intends to defend against this lawsuit vigorously.

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. TWE-A/N intends to defend against this lawsuit vigorously.

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

Table of Contents

TIME WARNER CABLE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

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 the Company opposed. On October 25, 2005, the court granted preliminary approval of a class settlement arrangement on terms that were not material to the Company. A final settlement approval hearing was held on May 19, 2006, but final approval of that settlement was denied on January 26, 2007. The parties subsequently reached a revised settlement to resolve this action and submitted their agreement to the district court on April 2, 2008. The revised settlement is subject to preliminary and final approval by the district court; there can be no assurance that the settlement will receive either approval. Absent the issuance of all required court approvals of the revised settlement, the Company intends to defend against this lawsuit vigorously.

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 TWC and several other cable operators, among other defendants, infringe a number of patents purportedly relating to the Company's customer call center operations and/or voicemail 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 for the Central District of California. The Company intends to defend against this lawsuit vigorously.

On July 14, 2006, Hybrid Patents Inc. filed a complaint in the U.S. District Court for the Eastern District of Texas alleging that the Company and a number of other cable operators infringed a patent purportedly relating to high-speed data and IP-based telephony services. The plaintiff is seeking unspecified monetary damages as well as injunctive relief. The Company intends to defend against the claim vigorously.

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 the Company and a number of other cable operators infringed several patents purportedly related to a variety of technologies, including high-speed data and IP-based telephony 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 the Company infringes 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. The Company intends to defend against these lawsuits vigorously.

On April 26, 2005, Acacia Media Technologies (AMT) filed suit against TWC in the U.S. District Court for the Southern District of New York alleging that TWC infringes 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, VOD 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, the TWC action was consolidated into the MDL proceedings. The plaintiff is seeking unspecified monetary damages as well as injunctive relief. The Company intends to defend against this lawsuit vigorously.

Table of Contents

TIME WARNER CABLE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

From time to time, the Company receives notices from third parties claiming that it infringes their intellectual property rights. Claims of intellectual property infringement could require TWC 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 entered may require the Company to indemnify the other party for certain third-party intellectual property infringement claims, which could increase the Company's damages and its 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 the Company relating to intellectual property rights and intellectual property licenses, could have a material adverse effect on the Company's business, financial condition and operating results.

8. ADDITIONAL FINANCIAL INFORMATION**Other Cash Flow Information**

Additional financial information with respect to cash (payments) and receipts is as follows (in millions):

	Three Months Ended March	
	31,	
	2008	2007
Cash paid for interest	\$ (215)	\$ (257)
Interest income received	3	2
Cash paid for interest, net	\$ (212)	\$ (255)
Cash paid for income taxes	\$ (1)	\$ (4)
Cash refunds of income taxes	2	5
Cash refunds of income taxes, net	\$ 1	\$ 1

Noncash financing activities for the three months ended March 31, 2007 included TWC's 50% equity interest in the Houston Pool of TKCCP, valued at \$880 million, delivered as the purchase price for Comcast's 50% equity interest in the Kansas City Pool of TKCCP.

Additional information with respect to capital expenditures is as follows (in millions):

	Three Months Ended March	
	31,	
	2008	2007
Cash paid for capital expenditures	\$ (846)	\$ (720)
Decrease in accruals for capital expenditures	85	104

Accrual basis capital expenditures	\$	(761)	\$	(616)
------------------------------------	----	-------	----	-------

26

Table of Contents

TIME WARNER CABLE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

Interest Expense, Net

Interest expense, net consists of (in millions):

	Three Months Ended March 31,	
	2008	2007
Interest income	\$ 3	\$ 2
Interest expense	(202)	(229)
Total interest expense, net	\$ (199)	\$ (227)

Video, High-speed Data and Voice Direct Costs

Direct costs associated with the video, high-speed data and voice services (included within costs of revenues) consist of (in millions):

	Three Months Ended March 31,	
	2008	2007
Video	\$ 929	\$ 880
High-speed data	40	44
Voice	128	112
Total direct costs	\$ 1,097	\$ 1,036

The direct costs associated with the video service include video programming costs. The direct costs associated with the high-speed data and voice services include network connectivity and certain other costs.

Other Current Liabilities

Other current liabilities consist of (in millions):

	March 31, 2008	December 31, 2007
Accrued compensation and benefits	\$ 245	\$ 310
Accrued franchise fees	149	169
Accrued sales and other taxes	161	127
Accrued insurance	139	133
Accrued interest	182	193
Accrued advertising and marketing support	85	71
Other accrued expenses	226	234
Total other current liabilities	\$ 1,187	\$ 1,237

Table of Contents

**TIME WARNER CABLE INC.
SUPPLEMENTARY INFORMATION
CONDENSED CONSOLIDATING FINANCIAL STATEMENTS**

Time Warner Entertainment Company, L.P. (TWE) and TW NY Cable Holding Inc. (TW NY Holding) and, together with TWE, the Guarantor Subsidiaries) are subsidiaries of Time Warner Cable Inc. (the Parent Company). The Guarantor Subsidiaries have fully and unconditionally, jointly and severally, directly or indirectly, guaranteed the debt issued by the Parent Company in its 2007 registered exchange offer. The Parent Company owns 100% of the voting interests, directly or indirectly, of both TWE and TW NY Holding.

The Securities and Exchange Commission's rules require that condensed consolidating financial information be provided for subsidiaries that have guaranteed debt of a registrant issued in a public offering, where each such guarantee is full and unconditional and where the voting interests of the subsidiaries are 100% owned by the registrant. Set forth below are condensed consolidating financial statements presenting the financial position, results of operations, and cash flows of (i) the Parent Company, (ii) the Guarantor Subsidiaries on a combined basis (as such guarantees are joint and several), (iii) the direct and indirect non-guarantor subsidiaries of the Parent Company (the Non-Guarantor Subsidiaries) on a combined basis and (iv) the eliminations necessary to arrive at the information for Time Warner Cable Inc. on a consolidated basis.

There are no legal or regulatory restrictions on the Parent Company's ability to obtain funds from any of its subsidiaries through dividends, loans or advances.

These condensed consolidating financial statements should be read in conjunction with the consolidated financial statements of Time Warner Cable Inc.

Basis of Presentation

In presenting the condensed consolidating financial statements, the equity method of accounting has been applied to (i) the Parent Company's interests in the Guarantor Subsidiaries and the Non-Guarantor Subsidiaries and (ii) the Guarantor Subsidiaries' interests in the Non-Guarantor Subsidiaries, where applicable, even though all such subsidiaries meet the requirements to be consolidated under U.S. generally accepted accounting principles. All intercompany balances and transactions between the Parent Company, the Guarantor Subsidiaries and the Non-Guarantor Subsidiaries have been eliminated, as shown in the column Eliminations.

The accounting bases in all subsidiaries, including goodwill and identified intangible assets, have been allocated to the applicable subsidiaries. Interest income (expense) is determined based on third-party debt and the relevant intercompany amounts within the respective legal entity.

Time Warner Cable Inc. is not a separate taxable entity for U.S. federal and various state income tax purposes and its results are included in the consolidated U.S. federal and certain state income tax returns of Time Warner Inc. In the condensed consolidating financial statements, tax expense has been presented based on each subsidiary's legal entity basis. Deferred taxes of the Parent Company, the Guarantor Subsidiaries and the Non-Guarantor Subsidiaries have been presented based upon the temporary differences between the carrying amounts of the respective assets and liabilities of the applicable entities.

Costs incurred by the Parent Company, the Guarantor Subsidiaries or the Non-Guarantor Subsidiaries are allocated to the various entities based on the relative usage of such expenses.

Table of Contents

TIME WARNER CABLE INC.
SUPPLEMENTARY INFORMATION
CONDENSED CONSOLIDATING FINANCIAL STATEMENTS (Continued)
Consolidating Balance Sheet
March 31, 2008
(Unaudited)

	Parent	Guarantor	Non- Guarantor	Eliminations	TWC Consolidated
	Company	Subsidiaries	Subsidiaries	Subsidiaries	Subsidiaries
	(in millions)				
ASSETS					
Current assets					
Cash and equivalents ^(a)	\$ 170	\$ 3,894	\$	\$ (3,838)	\$ 226
Receivables, net		152	475		627
Receivables from affiliated parties	805	3	409	(1,213)	4
Prepaid expenses and other current assets	7	56	64		127
Deferred income tax assets	80	41	41	(82)	80
Total current assets	1,062	4,146	989	(5,133)	1,064
Investments in and amounts due (to) from consolidated subsidiaries	51,183	23,319	10,139	(84,641)	
Investments		33	696		729
Property, plant and equipment, net		3,279	9,653		12,932
Intangible assets subject to amortization, net		6	658		664
Intangible assets not subject to amortization		8,150	30,780		38,930
Goodwill	4	3	2,099		2,106
Other assets	64	5	29		98
Total assets	\$ 52,313	\$ 38,941	\$ 55,043	\$ (89,774)	\$ 56,523
LIABILITIES AND SHAREHOLDERS					
EQUITY					
Current liabilities					
Accounts payable	\$	\$ 21	\$ 297	\$	\$ 318
Deferred revenue and subscriber-related liabilities		62	118		180
Payables to affiliated parties		462	932	(1,213)	181
Accrued programming expense		317	207		524
Other current liabilities	152	515	520		1,187
Total current liabilities	152	1,377	2,074	(1,213)	2,390
Long-term debt	9,893	3,333			13,226
Mandatorily redeemable preferred membership units issued by a subsidiary			300		300
Mandatorily redeemable preferred equity issued by a subsidiary		2,400		(2,400)	
Deferred income tax liabilities, net	13,387	7,065	7,115	(14,135)	13,432

Edgar Filing: TIME WARNER CABLE INC. - Form 10-Q

Long-term payables to affiliated parties	3,838	443	8,703	(12,962)	22
Other liabilities	46	155	204		405
Minority interests		3,271		(1,520)	1,751
Shareholders equity					
Due (to) from TWC and subsidiaries		559	(102)	(457)	
Other shareholders equity	24,997	20,338	36,749	(57,087)	24,997
Total shareholders equity	24,997	20,897	36,647	(57,544)	24,997
Total liabilities and shareholders equity	\$ 52,313	\$ 38,941	\$ 55,043	\$ (89,774)	\$ 56,523

(a) Cash and equivalents at the Guarantor Subsidiaries primarily represents TWE s intercompany amounts receivable from TWC under TWC s internal investment program. Amounts bear interest at TWC s prevailing commercial paper rates minus 0.025% and are settled daily.

Table of Contents

TIME WARNER CABLE INC.
SUPPLEMENTARY INFORMATION
CONDENSED CONSOLIDATING FINANCIAL STATEMENTS (Continued)
Consolidating Balance Sheet
December 31, 2007

	Parent Company	Guarantor Subsidiaries	Non- Guarantor Subsidiaries (in millions)	Eliminations	TWC Consolidated
ASSETS					
Current assets					
Cash and equivalents ^(a)	\$ 185	\$ 3,458	\$	\$ (3,411)	\$ 232
Receivables, net		171	572		743
Receivables from affiliated parties	719	2	359	(1,078)	2
Prepaid expenses and other current assets	5	40	50		95
Deferred income tax assets	91	52	52	(104)	91
Total current assets	1,000	3,723	1,033	(4,593)	1,163
Investments in and amounts due (to) from consolidated subsidiaries	50,704	23,223	9,752	(83,679)	
Investments	13	38	684		735
Property, plant and equipment, net		3,268	9,605		12,873
Intangible assets subject to amortization, net		6	713		719
Intangible assets not subject to amortization		8,150	30,775		38,925
Goodwill	4	3	2,110		2,117
Other assets	35	4	29		68
Total assets	\$ 51,756	\$ 38,415	\$ 54,701	\$ (88,272)	\$ 56,600
LIABILITIES AND SHAREHOLDERS					
EQUITY					
Current liabilities					
Accounts payable	\$	\$ 41	\$ 376	\$	\$ 417
Deferred revenue and subscriber-related liabilities		59	105		164
Payables to affiliated parties	30	408	844	(1,078)	204
Accrued programming expense		308	201		509
Other current liabilities	82	569	586		1,237
Current liabilities of discontinued operations		3	2		5
Total current liabilities	112	1,388	2,114	(1,078)	2,536
Long-term debt	10,240	3,337			13,577
Mandatorily redeemable preferred membership units issued by a subsidiary			300		300
Mandatorily redeemable preferred equity issued by a subsidiary		2,400		(2,400)	
Deferred income tax liabilities, net	13,244	7,008	7,008	(13,969)	13,291

Edgar Filing: TIME WARNER CABLE INC. - Form 10-Q

Long-term payables to affiliated parties	3,411	416	8,704	(12,495)	36
Other liabilities	43	180	207		430
Minority interests		3,116		(1,392)	1,724
Shareholders equity					
Due (to) from TWC and subsidiaries		450	(350)	(100)	
Other shareholders equity	24,706	20,120	36,718	(56,838)	24,706
Total shareholders equity	24,706	20,570	36,368	(56,938)	24,706
Total liabilities and shareholders equity	\$ 51,756	\$ 38,415	\$ 54,701	\$ (88,272)	\$ 56,600

(a) Cash and equivalents at the Guarantor Subsidiaries primarily represents TWE s intercompany amounts receivable from TWC under TWC s internal investment program. Amounts bear interest at TWC s prevailing commercial paper rates minus 0.025% and are settled daily.

Table of Contents

TIME WARNER CABLE INC.
SUPPLEMENTARY INFORMATION
CONDENSED CONSOLIDATING FINANCIAL STATEMENTS (Continued)
Consolidating Statement of Operations
Three Months Ended March 31, 2008
(Unaudited)

	Parent	Guarantor	Non- Guarantor	Eliminations	TWC Consolidated					
	Company	Subsidiaries	Subsidiaries	Subsidiaries	Subsidiaries					
	(in millions)									
Revenues	\$	\$	817	\$	3,386	\$	(43)	\$	4,160	
Costs of revenues			436		1,614		(43)		2,007	
Selling, general and administrative		1	141		609				751	
Depreciation			164		537				701	
Amortization					65				65	
Total costs and expenses		1	741		2,825		(43)		3,524	
Operating Income		(1)	76		561				636	
Equity in pretax income (loss) of consolidated subsidiaries		485	345		(80)		(750)			
Interest expense, net		(75)	(124)						(199)	
Income from equity investments, net					5				5	
Minority interest expense, net			17				(58)		(41)	
Other income (expense), net		(2)	9		(1)				6	
Income before income taxes		407	323		485		(808)		407	
Income tax provision		(165)	(130)		(134)		264		(165)	
Net income	\$	242	\$	193	\$	351	\$	(544)	\$	242

Table of Contents

TIME WARNER CABLE INC.
SUPPLEMENTARY INFORMATION
CONDENSED CONSOLIDATING FINANCIAL STATEMENTS (Continued)
Consolidating Statement of Operations
Three Months Ended March 31, 2007
(Unaudited)

	Parent	Guarantor	Non- Guarantor	Eliminations	TWC Consolidated					
	Company	Subsidiaries	Subsidiaries	Subsidiaries	Subsidiaries					
	(in millions)									
Revenues	\$	\$	881	\$	3,010	\$	(40)	\$	3,851	
Costs of revenues			443		1,480		(40)		1,883	
Selling, general and administrative			121		530				651	
Depreciation			169		480				649	
Amortization			16		63				79	
Merger-related and restructuring costs			6		4				10	
Total costs and expenses			755		2,557		(40)		3,272	
Operating Income			126		453				579	
Equity in pretax income (loss) of consolidated subsidiaries	535	304	(37)	(802)						
Interest expense, net	(69)	(126)	(32)						(227)	
Income (loss) from equity investments, net	(3)	1	5						3	
Minority interest expense, net				(38)					(38)	
Other income, net					146				146	
Income before income taxes	463	305	535	(840)					463	
Income tax provision	(187)	(123)	(126)	249					(187)	
Net income	\$	276	\$	182	\$	409	\$	(591)	\$	276

Table of Contents

TIME WARNER CABLE INC.
SUPPLEMENTARY INFORMATION
CONDENSED CONSOLIDATING FINANCIAL STATEMENTS (Continued)
Consolidating Statement of Cash Flows
Three Months Ended March 31, 2008
(Unaudited)

	Parent Company	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	TWC Consolidated
	(in millions)				
OPERATING ACTIVITIES					
Net income	\$ 242	\$ 193	\$ 351	\$ (544)	\$ 242
Adjustments for noncash and nonoperating items:					
Depreciation and amortization		164	602		766
Pretax gain on sale of cost-method investment		(9)			(9)
Excess (deficiency) of distributions over equity in pretax income of consolidated subsidiaries	(485)	(345)	80	750	
Minority interest expense, net		(17)		58	41
Deferred income taxes	130	113	113	(226)	130
Equity-based compensation		34			34
Changes in operating assets and liabilities, net of acquisitions	(62)	49	(5)		(18)
Cash provided (used) by operating activities	(175)	182	1,141	38	1,186
INVESTING ACTIVITIES					
Investments and acquisitions, net of cash acquired and distributions received		2	(7)		(5)
Capital expenditures		(219)	(627)		(846)
Proceeds from sale of cost-method investment		9			9
Proceeds from disposal of property, plant and equipment			1		1
Cash used by investing activities		(208)	(633)		(841)
FINANCING ACTIVITIES					
Borrowings (repayments), net	593			(427)	166
Borrowings	141				141
Repayments	(655)				(655)
Net change in investments in and amounts due to and from consolidated subsidiaries	83	462	(507)	(38)	
Distributions to owners, net			(1)		(1)
Other	(2)				(2)
Cash provided (used) by financing activities	160	462	(508)	(465)	(351)
INCREASE (DECREASE) IN CASH AND EQUIVALENTS	(15)	436		(427)	(6)

**CASH AND EQUIVALENTS AT BEGINNING
OF PERIOD**

185 3,458 (3,411) 232

**CASH AND EQUIVALENTS AT END OF
PERIOD**

\$ 170 \$ 3,894 \$ \$ (3,838) \$ 226

33

Table of Contents

TIME WARNER CABLE INC.
SUPPLEMENTARY INFORMATION
CONDENSED CONSOLIDATING FINANCIAL STATEMENTS (Continued)
Consolidating Statement of Cash Flows
Three Months Ended March 31, 2007
(Unaudited)

	Parent	Guarantor	Non- Guarantor	Eliminations	TWC Consolidated
	Company	Subsidiaries	Subsidiaries	Subsidiaries	Consolidated
	(in millions)				
OPERATING ACTIVITIES					
Net income	\$ 276	\$ 182	\$ 409	\$ (591)	\$ 276
Adjustments for noncash and nonoperating items:					
Depreciation and amortization		185	543		728
Pretax gain on sale of 50% equity interest in the Houston Pool of TKCCP			(146)		(146)
Excess (deficiency) of distributions over equity in pretax income of consolidated subsidiaries	(535)	(304)	37	802	
Income from equity investments, net of cash distributions	3	11	8	(13)	9
Minority interest expense, net				38	38
Deferred income taxes	136	104	104	(208)	136
Equity-based compensation		5			5
Changes in operating assets and liabilities, net of acquisitions	(3)	73	(164)		(94)
Adjustments relating to discontinued operations		22	32		54
Cash provided (used) by operating activities	(123)	278	823	28	1,006
INVESTING ACTIVITIES					
Investments and acquisitions, net of cash acquired and distributions received			57		57
Capital expenditures		(207)	(513)		(720)
Proceeds from disposal of property, plant and equipment			3		3
Cash used by investing activities		(207)	(453)		(660)
FINANCING ACTIVITIES					
Borrowings (repayments), net	529			95	624
Borrowings	173				173
Repayments	(1,079)				(1,079)
Net change in investments in and amounts due to and from consolidated subsidiaries	493	(156)	(309)	(28)	
Excess tax benefit from exercise of stock options	3				3
Principal payments on capital leases			(1)		(1)

Edgar Filing: TIME WARNER CABLE INC. - Form 10-Q

Distributions to owners, net		(10)			(10)
Other			(60)		(60)
Cash provided (used) by financing activities	119	(166)	(370)	67	(350)
DECREASE IN CASH AND EQUIVALENTS	(4)	(95)		95	(4)
CASH AND EQUIVALENTS AT BEGINNING					
OF PERIOD	51	2,304		(2,304)	51
CASH AND EQUIVALENTS AT END OF					
PERIOD	\$ 47	\$ 2,209	\$	\$ (2,209)	\$ 47

34

Table of Contents

Part II. Other Information

Item 1. Legal Proceedings.

Reference is made to the class action lawsuit filed by Brantley, *et al.* described on page 37 of the Company's Annual Report on Form 10-K for the year ended December 31, 2007 (the 2007 Form 10-K). On March 10, 2008, the court granted the programmer defendants and the distributor defendants motions, dismissing the First Amended Complaint with leave to amend. On March 20, 2008, plaintiffs filed a second amended complaint (the Second Amended Complaint) that modified certain aspects of the First Amended Complaint in an attempt to address the deficiencies noted by the court in its prior dismissal order. On April 22, 2008, the programmer defendants, including Time Warner, and the distributor defendants, including the Company, filed motions to dismiss the Second Amended Complaint.

Reference is made to the class action lawsuit filed by Andrew Parker and Eric DeBrauwere, *et al.* described on page 38 of the 2007 Form 10-K. The parties have reached a revised settlement to resolve this action and submitted their agreement to the district court on April 2, 2008. The revised settlement is subject to preliminary and final approval by the district court; there can be no assurance that the settlement will receive either approval. Absent the issuance of all required court approvals of the revised settlement, the Company intends to defend against this lawsuit vigorously.

Item 6. Exhibits.

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

Table of Contents

SIGNATURES

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

TIME WARNER CABLE INC.

By: /s/ Robert D. Marcus

Name: Robert D. Marcus

Title: Senior Executive Vice President and
Chief Financial Officer

Date: April 30, 2008

Table of Contents

EXHIBIT INDEX

Pursuant to Item 601 of Regulation S-K

Exhibit Number	<u>Description</u>
10.1	Amended and Restated Employment and Termination Agreement, dated as of June 1, 2000, by and between Time Warner Entertainment Company, L.P. (TWE) and Carl U.J. Rossetti (as extended by Letter Agreements dated November 21, 2000, November 30, 2001, November 22, 2002, November 24, 2003, November 17, 2004, November 10, 2005, November 27, 2006 and December 4, 2007).
10.2	First Amendment to Employment Agreement, effective as of January 1, 2008, by and between TWE and Carl U.J. Rossetti.
31.1	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, with respect to the Company s Quarterly Report on Form 10-Q for the quarter ended March 31, 2008.
31.2	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, with respect to the Company s Quarterly Report on Form 10-Q for the quarter ended March 31, 2008.
32	Certification of Principal Executive Officer and Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, with respect to the Company s Quarterly Report on Form 10-Q for the quarter ended March 31, 2008.

This certification will not be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934 (15 U.S.C. 78r), or otherwise subject to the liability of that section. Such certification will not be deemed to be incorporated by reference into any filing under the Securities Act or Securities Exchange Act, except to the extent that the

Company
specifically
incorporates it
by reference.