

TIME WARNER CABLE INC.

Form 10-K

February 20, 2009

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

**Form 10-K**

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

**For the fiscal year ended December 31, 2008**

**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.)*

**60 Columbus Circle**

**New York, New York 10023**

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

**(212) 364-8200**

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

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

<b>Title of each class</b>	<b>Name of each exchange on which registered</b>
Class A Common Stock, par value \$0.01	New York Stock Exchange

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

**None**

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

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Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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, and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

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

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

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 Act). Yes ☐ No ☒

As of the close of business on February 13, 2009, there were 902,014,340 shares of the registrant's Class A Common Stock and 75,000,000 shares of the registrant's Class B Common Stock outstanding. The aggregate market value of the registrant's voting and non-voting common equity securities held by non-affiliates of the registrant (based upon the closing price of such shares on the New York Stock Exchange on June 30, 2008) was approximately \$4.1 billion.

**DOCUMENTS INCORPORATED BY REFERENCE**

<b>Description of document</b>	<b>Part of the Form 10-K</b>
Portions of the definitive Proxy Statement to be used in connection with the registrant's 2009 Annual Meeting of Stockholders	Part III (Item 10 through Item 14) (Portions of Items 10 and 12 are not incorporated by reference and are provided herein)

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**PART I**

**Item 1. *Business.***

**Overview**

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 December 31, 2008, TWC served approximately 14.6 million customers who subscribed to one or more of its video, high-speed data and voice services, representing approximately 34.2 million revenue generating units (RGUs), which reflects the total of all TWC basic video, digital video, high-speed data and voice service subscribers.

As of December 31, 2008, TWC served approximately 13.1 million basic video subscribers. Of those, approximately 8.6 million (or 66%) received some portion of their video services at their dwelling or commercial establishment via digital transmissions (digital video subscribers). Also, as of December 31, 2008, TWC served approximately 8.4 million residential high-speed data subscribers (or 32% of estimated high-speed data service-ready homes passed) and approximately 3.7 million residential Digital Phone subscribers (or 14% of estimated voice service-ready homes passed). TWC markets its services separately and in bundled packages of multiple services and features. As of December 31, 2008, 54% of TWC's customers subscribed to two or more of its primary services, including 21% of its customers who subscribed to all three primary services. As part of an increased emphasis on its commercial business, TWC began selling its commercial Digital Phone service, Business Class Phone, to small- and medium-sized businesses in the majority of its operating areas during 2007, and substantially completed the roll-out in the remainder of its operating areas during 2008. TWC believes providing commercial services will generate additional opportunities for growth. As of December 31, 2008, TWC served 283,000 commercial high-speed data subscribers and 30,000 commercial Digital Phone subscribers. In addition, TWC sells advertising to a variety of national, regional and local customers.

In July 2006, Time Warner NY Cable LLC (TW NY Cable), a subsidiary of TWC, and Comcast Corporation (together with its subsidiaries, Comcast) completed their respective acquisitions of assets comprising in aggregate substantially all of the cable assets of Adelphia Communications Corporation (Adelphia) (the Adelphia Acquisition). In February 2007, Adelphia's Chapter 11 reorganization plan became effective. Under the terms of the reorganization plan, substantially all of the shares of TWC Class A common stock, par value \$.01 per share (TWC Class A common stock), that Adelphia received as part of the payment for the systems TW NY Cable acquired from Adelphia were distributed to Adelphia's creditors. As a result, under applicable securities law regulations and provisions of the U.S. bankruptcy code, TWC became a public company subject to the requirements of the Securities Exchange Act of 1934, as amended (the Securities Exchange Act). On March 1, 2007, the TWC Class A common stock began trading on the New York Stock Exchange under the symbol TWC. Time Warner Inc. (Time Warner) currently owns approximately 84.0% of the common stock of TWC (representing a 90.6% voting interest) and also currently owns an indirect 12.43% non-voting common stock interest in TW NY Cable Holding Inc. (TW NY), a subsidiary of TWC. The financial results of TWC's operations are consolidated by Time Warner.

**Recent Developments**

***Separation from Time Warner, Recapitalization and Reverse Stock Split of TWC Common Stock***

On May 20, 2008, TWC and its subsidiaries, Time Warner Entertainment Company, L.P. (TWE) and TW NY, entered into a Separation Agreement (the Separation Agreement) with Time Warner and its subsidiaries, Warner

Communications Inc. ( WCI ), Historic TW Inc. ( Historic TW ) and American Television and Communications Corporation ( ATC ), the terms of which will govern TWC's legal and structural separation from Time Warner. TWC's separation from Time Warner will take place through a series of related transactions, the occurrence of each of which is a condition to the next. First, Time Warner will complete certain internal restructuring transactions not affecting TWC. Next, following the satisfaction or waiver of certain conditions, including those mentioned below, Historic TW will transfer its 12.43% non-voting common stock interest in TW NY to TWC in exchange for 80 million newly issued shares of TWC's Class A common stock (the TW NY Exchange ).

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Following the TW NY Exchange, Time Warner will complete certain additional restructuring steps that will make Time Warner the direct owner of all shares of TWC's Class A common stock and Class B common stock previously held by its subsidiaries (all of Time Warner's restructuring transaction steps being referred to collectively as the TW Internal Restructuring). Upon completion of the TW Internal Restructuring, TWC's board of directors or a committee thereof will declare a special cash dividend to holders of TWC's outstanding Class A common stock and Class B common stock, including Time Warner, in an amount equal to \$10.27 per share (aggregating \$10.855 billion) (the Special Dividend). The Special Dividend will be paid prior to the completion of TWC's separation from Time Warner. Following the receipt by Time Warner of its share of the Special Dividend, TWC will file with the Secretary of State of the State of Delaware an amended and restated certificate of incorporation, pursuant to which, among other things, each outstanding share of TWC Class A common stock (including any shares of Class A common stock issued in the TW NY Exchange) and TWC Class B common stock will automatically be converted into one share of common stock, par value \$0.01 per share (the TWC Common Stock) (the Recapitalization). Once the TW NY Exchange, the TW Internal Restructuring, the payment of the Special Dividend and the Recapitalization have been completed, TWC's separation from Time Warner (the Separation) will proceed in the form of a pro rata dividend of all shares of TWC Common Stock held by Time Warner to holders of Time Warner's common stock (the Distribution). The Separation, the TW NY Exchange, the TW Internal Restructuring, the Special Dividend, the Recapitalization and the Distribution collectively are referred to as the Separation Transactions.

The Separation Agreement contains customary covenants, and consummation of the Separation Transactions is subject to customary closing conditions. As of February 12, 2009, all regulatory and other necessary governmental reviews of the Separation Transactions have been satisfactorily completed. Time Warner and TWC expect the Separation Transactions to be consummated in the first quarter of 2009. See Item 1A, Risk Factors, for a discussion of risk factors relating to the Separation.

In connection with the Separation Transactions, the Company has been authorized to effectuate a reverse stock split of the TWC Common Stock at a 1-for-3 ratio.

### ***2008 Bond Offerings and Credit Facilities***

On June 16, 2008, TWC filed a shelf registration statement on Form S-3 (the Shelf Registration Statement) with the Securities and Exchange Commission (the SEC) that allows TWC to offer and sell from time to time senior and subordinated debt securities and debt warrants. TWC issued, in total, \$7.0 billion in aggregate principal amount of senior unsecured notes and debentures under the Shelf Registration Statement in two underwritten public offerings on June 19, 2008 and November 18, 2008 (collectively, the 2008 Bond Offerings). Pending the payment of the Special Dividend, a portion of the net proceeds from the 2008 Bond Offerings was used to repay variable-rate debt with lower interest rates than the interest rates on the debt securities issued in the 2008 Bond Offerings, and the remainder was invested in accordance with the Company's investment policy. If the Separation is not consummated and the Special Dividend is not paid, the Company will use the remainder of the net proceeds from the 2008 Bond Offerings for general corporate purposes, including repayment of indebtedness.

In addition to issuing the debt securities in the 2008 Bond Offerings described above, on June 30, 2008, the Company entered into a credit agreement with a geographically diverse group of major financial institutions for a senior unsecured term loan facility in an initial aggregate principal amount of \$9.0 billion with an initial maturity date that is 364 days after the borrowing date (the 2008 Bridge Facility) in order to finance, in part, the Special Dividend. TWC may elect to extend the maturity date of the loans outstanding under the 2008 Bridge Facility for an additional year. As a result of the 2008 Bond Offerings, the amount of the commitments of the lenders under the 2008 Bridge Facility was reduced to \$2.070 billion. TWC may not borrow any amounts under the 2008 Bridge Facility unless and until the Special Dividend is declared. The financial institutions' commitments to fund borrowings under the 2008 Bridge Facility will expire upon the earliest of (i) May 19, 2009, (ii) the date on which the Separation Agreement is

terminated in accordance with its terms or (iii) the completion of the Separation.

On December 10, 2008, Time Warner (as lender) and TWC (as borrower) entered into a credit agreement for a two-year \$1.535 billion senior unsecured supplemental term loan facility (the Supplemental Credit Agreement ).



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TWC may borrow under the Supplemental Credit Agreement only to repay amounts outstanding at the final maturity of the 2008 Bridge Facility, if any.

TWC's obligations under the debt securities issued in the 2008 Bond Offerings and under the 2008 Bridge Facility and the Supplemental Credit Agreement are guaranteed by TWE and TW NY. For more information about the 2008 Bond Offerings, the 2008 Bridge Facility and the Supplemental Credit Agreement, see Management's Discussion and Analysis of Results of Operations and Financial Condition Overview Recent Developments 2008 Bond Offerings and Credit Facilities and Note 7 to the accompanying consolidated financial statements.

## **Caution Concerning Forward-Looking Statements and Risk Factors**

This Annual Report on Form 10-K includes certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are based on management's current expectations and beliefs and are inherently susceptible to uncertainty and changes in circumstances. Actual results may vary materially from the expectations contained herein due to changes in economic, business, competitive, technological, strategic and/or regulatory factors and other factors affecting the operation of TWC's business, including the Separation. For more detailed information about these factors, and risk factors with respect to the Company's operations, see Item 1A, Risk Factors, below and Caution Concerning Forward-Looking Statements in Management's Discussion and Analysis of Results of Operations and Financial Condition in the financial section of this report. TWC 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.

## **Available Information and Website**

Although TWC and its predecessors have been in the cable business for over 40 years in various legal forms, Time Warner Cable Inc. was incorporated as a Delaware corporation on March 21, 2003. TWC's annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments to such reports filed with or furnished to the Securities and Exchange Commission (SEC) pursuant to Section 13(a) or 15(d) of the Exchange Act are available free of charge on the Company's website at [www.timewarnercable.com](http://www.timewarnercable.com) as soon as reasonably practicable after such reports are electronically filed with the SEC.

## **Corporate Structure**

The following charts illustrate TWC's corporate structure and its direct or indirect ownership interest in its principal subsidiaries (i) on an actual basis as of December 31, 2008 and (ii) after giving effect to the Separation Transactions. The subscriber numbers and RGUs, long-term debt and preferred equity balances presented below are approximate as of December 31, 2008. Certain intermediate entities and certain preferred interests held by TWC or subsidiaries of TWC are not reflected. The subscriber numbers and RGUs within each entity indicate the approximate number of basic video subscribers and RGUs attributable to cable systems owned by such entity. Basic video subscriber numbers reflect billable subscribers who receive at least TWC's basic video service. RGUs reflect the total of all TWC basic video, digital video, high-speed data and voice subscribers. Therefore, a subscriber who purchases basic video, digital video, high-speed data and voice services will count as four RGUs.

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**Structure Chart prior to the Separation Transactions:**

- (1) The principal amount of TWE's debt securities excludes an unamortized fair value adjustment of \$114 million.
- (2) TWC is also the obligor under an intercompany loan from TWE with an aggregate principal amount of \$5.2 billion.
- (3) The bank facilities exclude \$2.070 billion in commitments of the lenders under the 2008 Bridge Facility, \$1.535 billion in commitments of Time Warner under the Supplemental Credit Agreement and the \$125 million undrawn commitment of Lehman Brothers Bank, FSB ( LBB ) from TWC's available borrowing capacity under its \$6.0 billion senior unsecured five-year revolving credit facility (the Revolving Credit Facility ). For more about the Lehman Brothers Holdings Inc. bankruptcy, see Management's Discussion and Analysis of Results of Operations and Financial Condition Financial Condition and Liquidity Outstanding Debt and Mandatorily Redeemable Preferred Equity and Available Financial Capacity Lending Commitments.
- (4) TW NY Cable is also the obligor under an intercompany loan from TWC with an aggregate principal amount of \$8.7 billion.
- (5) The subscribers, RGUs and economic ownership interests listed in the chart for Time Warner Entertainment-Advance/Newhouse Partnership ( TWE-A/N ) relate only to those TWE-A/N systems in which TWC has an economic interest and over which TWC exercises day-to-day management. See Operating Partnerships and Joint Ventures TWE-A/N Partnership Agreement for a more detailed description of the TWE-A/N capital structure.

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**Structure Chart after the Separation Transactions:**

- (1) The principal amount of TWE's debt securities excludes an unamortized fair value adjustment of \$114 million.
- (2) TWC is also the obligor under an intercompany loan from TWE with an aggregate principal amount of \$5.2 billion.
- (3) The bank facilities exclude the \$138 million commitment of Lehman Brothers Commercial Bank under the 2008 Bridge Facility and the \$125 million undrawn commitment of LBB from TWC's available borrowing capacity under the Revolving Credit Facility. For more about the Lehman Brothers Holdings Inc. bankruptcy, see Management's Discussion and Analysis of Results of Operations and Financial Condition Financial Condition and Liquidity Outstanding Debt and Mandatorily Redeemable Preferred Equity and Available Financial Capacity Lending Commitments.
- (4) TW NY Cable is also the obligor under an intercompany loan from TWC with an aggregate principal amount of \$8.7 billion.
- (5) The subscribers, RGUs and economic ownership interests listed in the chart for Time Warner Entertainment-Advance/Newhouse Partnership ( TWE-A/N ) relate only to those TWE-A/N systems in which TWC has an economic interest and over which TWC exercises day-to-day management. See Operating Partnerships and Joint Ventures TWE-A/N Partnership Agreement for a more detailed description of the TWE-A/N capital structure.

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TWC offers residential and commercial video, high-speed data and voice services over its broadband cable systems.

**Residential Services*****Video Services***

*Programming tiers.* TWC offers three main levels or tiers of video programming Basic Service Tier ( BST ), Expanded Basic Service Tier (or Cable Programming Service Tier) ( CPST ) and Digital Basic Service Tier ( DBT ). BST generally includes broadcast television signals, satellite-delivered broadcast networks and superstations, local origination channels, a few specialty networks, such as C-SPAN and QVC, and public access, educational and government channels. CPST enables BST subscribers to add to their service national, regional and local cable news, entertainment and other specialty networks, such as CNN, A&E, ESPN, CNBC and Discovery. In certain areas, BST and CPST also include proprietary local programming devoted to the communities TWC serves, including 24-hour local news channels in a number of cities. Together, BST and CPST provide customers with approximately 70 channels. DBT enables digital video subscribers to add to their CPST service up to approximately 50 additional cable networks, including spin-off and successor networks to national cable services, news networks and niche programming services, such as History International and Biography. Generally, subscribers to CPST and DBT can purchase thematically-linked programming tiers, including movies, sports and Spanish language tiers, and subscribers to any tier of video programming can purchase premium services, such as HBO and Showtime.

TWC's video subscribers pay a fixed monthly fee based on the video programming tier they receive. Subscribers to specialized tiers and premium services are charged an additional monthly fee, with discounts generally available for the purchase of packages of more than one such service. The rates TWC can charge for its BST service in areas not subject to effective competition and certain video equipment, including set-top boxes, are subject to regulation under federal law. See Regulatory Matters below.

*Transmission technology.* TWC's video subscribers may receive service through analog transmissions, a combination of digital and analog transmissions or, in systems where TWC has fully deployed digital technology, digital transmissions only. Customers who receive any level of video service at their dwelling or commercial establishment via digital transmissions over TWC's systems are referred to as digital video subscribers. As of December 31, 2008, 66% of TWC's basic video subscribers were digital video subscribers.

Digital video subscribers using a TWC-provided set-top box generally have access to an interactive program guide, Video on Demand ( VOD ), which is discussed below, music channels and seasonal sports packages. Digital video subscribers who receive premium services generally also receive multiplex versions of these services. Digital video subscribers will also have access to these services using a television enabled with tru2way™ technology, which TWC expects will be made available by third-parties in mid-2009. See Technology Cable Systems Set-top Boxes below.

The following table presents selected statistical data regarding TWC's video subscribers:

	<b>December 31,</b>		
	<b>2008</b>	<b>2007</b>	<b>2006</b>
	<b>(in thousands, except percentages)</b>		
Homes passed <sup>(a)</sup>	26,766	26,526	26,062
Basic video subscribers <sup>(b)</sup>	13,069	13,251	13,402

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Basic video penetration <sup>(c)</sup>	48.8%	50.0%	51.4%
Digital video subscribers <sup>(d)</sup>	8,627	8,022	7,270
Digital video penetration <sup>(e)</sup>	66.0%	60.5%	54.2%

- (a) Homes passed represent the estimated number of service-ready single residence homes, apartment and condominium units and commercial establishments passed by TWC's cable systems without further extending the transmission lines.
- (b) Basic video subscriber numbers reflect billable subscribers who receive at least basic video service.
- (c) Basic video penetration represents basic video subscribers as a percentage of homes passed.
- (d) Digital video subscriber numbers reflect billable subscribers who receive any level of video service at their dwelling or commercial establishment via digital transmissions.
- (e) Digital video penetration represents digital video subscribers as a percentage of basic video subscribers.

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*On-Demand services.* On-Demand services are available to digital video subscribers using a TWC-provided set-top box or, when available, a tru2way-enabled television. Available On-Demand services include a wide selection of featured movies and special events, for which separate per-use fees are generally charged, and free access to selected movies, programs and program excerpts from broadcast and cable networks, music videos, local programming and other content. In addition, premium service (e.g., HBO) subscribers receiving services via a TWC-provided digital set-top box generally have access to the premium service's On-Demand content without additional fees.

*Enhanced TV services.* TWC is expanding the use of VOD technology to introduce additional enhancements to the video experience. For instance, as of December 31, 2008, Start Over™, which allows digital video subscribers using a TWC-provided set-top box to restart select in progress programs airing on participating cable networks and broadcast stations directly from the relevant channel, without the ability to fast-forward through commercials, was available to 47%, or approximately 4.0 million, of TWC's digital video subscribers. TWC received an Emmy™ award in 2007 for its Start Over service. TWC has begun rolling out other Enhanced TV features such as Look Back™, which utilizes the Start Over technology to allow viewing of recently aired programs, and Quick Clips™, which allows customers to view short-form content tied to the cable network or broadcast station then being watched. TWC is also working to make available Catch Up, which will allow customers to view previously aired programs they have missed.

*HD television.* In its more advanced divisions, as of December 31, 2008, TWC offered up to 95 channels of high-definition ( HD ) television, or HDTV, and expects to continue to add additional HD programming during 2009. In most divisions, HD simulcasts (i.e., HD channels that are the same as their standard-definition counterparts but for picture quality) are provided at no additional charge, and additional charges apply only for HD channels that do not have standard definition counterparts. In addition to its linear HD channels, TWC also offers VOD programming in HD and, on select channels, HD programming viewed using Start Over is presented in HD.

*DVRs.* Set-top boxes equipped with digital video recorders ( DVRs ) enable customers, among other things, to pause and/or rewind live television programs and record programs on the hard drive built into the set-top box. TWC also offers HD DVRs, which enable customers to record HD programming. Subscribers pay an additional monthly fee for TWC's DVR service. As of December 31, 2008, 47%, or approximately 4.0 million, of TWC's digital video subscribers also subscribed to its DVR service.

***High-speed Data Services***

TWC offered residential high-speed data services to nearly all of its homes passed as of December 31, 2008. TWC's high-speed data services provide customers with a fast, always-on connection to the Internet. High-speed data subscribers connect to TWC's cable systems using a cable modem, which TWC provides at no charge or which subscribers can purchase on their own. Generally, subscribers pay a flat monthly fee based on the level of service received.

The following table presents selected statistical data regarding TWC's residential high-speed data subscribers:

	<b>December 31,</b>		
	<b>2008</b>	<b>2007</b>	<b>2006</b>
	<b>(in thousands, except percentages)</b>		
Homes passed <sup>(a)</sup>	26,592	26,248	25,691
Residential high-speed data subscribers <sup>(b)(c)</sup>	8,444	7,620	6,644
Residential high-speed data penetration <sup>(d)</sup>	31.8%	29.0%	25.9%

- (a) Homes passed represent the estimated number of high-speed data service-ready single residence homes, apartment and condominium units and commercial establishments passed by TWC's cable systems without further extending the transmission lines.
- (b) Residential high-speed data subscriber numbers reflect billable subscribers who receive TWC's Road Runner<sup>®</sup> high-speed data service or any other residential high-speed data service offered by TWC.
- (c) The determination of whether a high-speed data subscriber is categorized as commercial or residential is generally based upon the type of service provided to the subscriber. For example, if the Company provides a commercial service, the subscriber is classified as commercial.
- (d) Residential high-speed data penetration represents residential high-speed data subscribers as a percentage of homes passed.

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*Road Runner.* TWC offers four tiers of its Road Runner™ high-speed data service in all of its systems: Turbo™, Standard, Basic and Lite and, in New York City, it also offers Extreme. Generally, each tier offers different speeds at a different monthly fee, although TWC is testing consumption-based pricing in one of its operating areas. In TWC's more advanced operating areas, Turbo offers subscribers speeds of up to 20 mbps downstream and 2 mbps upstream. In addition, in the majority of its systems, TWC provides Turbo subscribers with Powerboost™, which allows users to initiate brief download speed bursts when TWC's network capacity permits, and it is in the process of rolling Powerboost out to its Standard subscribers.

TWC's Road Runner service provides communication tools and personalized services, including e-mail, PC security, parental controls, news groups and online radio, without any additional charge. The Road Runner portal provides access to content and media from local, national and international providers and topic-specific channels, including entertainment, games, news, sports, travel, music, movie listings and shopping sites. In addition, in 2008, TWC launched the Road Runner Video Store, which permits subscribers to rent or purchase television shows and movies for online viewing.

TWC provides high-speed data service over its hybrid fiber coax (HFC) network using Data Over Cable Service Interface Specification (DOCSIS). In the majority of its systems, TWC has deployed DOCSIS 2.0, and it plans to deploy DOCSIS 3.0 selectively in its systems during 2009, which will enable TWC to deliver speeds significantly faster than currently achievable.

In addition to Road Runner, most of TWC's cable systems provide their high-speed data subscribers with access to the services of certain other on-line providers, including Earthlink.

***Voice Services***

*Digital Phone.* TWC offered its Digital Phone service to nearly all of its homes passed as of December 31, 2008. Most Digital Phone customers receive unlimited local, in-state and U.S., Canada and Puerto Rico calling and a number of calling features, including call waiting, caller ID and Enhanced 911 (E911) services, for a fixed monthly fee. TWC also offers additional calling plans with a variety of options that are designed to meet customers' particular needs, including a local-only calling plan, an unlimited in-state calling plan and an international calling plan.

The following table presents selected statistical data regarding TWC's residential Digital Phone subscribers:

	<b>2008</b>	<b>December 31, 2007</b>	<b>2006</b>
	<b>(in thousands, except percentages)</b>		
Homes passed <sup>(a)</sup>	25,941	24,611	16,623
Residential Digital Phone subscribers <sup>(b)(c)</sup>	3,747	2,890	1,860
Residential Digital Phone penetration <sup>(d)</sup>	14.4%	11.7%	11.2%

<sup>(a)</sup> Homes passed represent the estimated number of Digital Phone service-ready single residence homes, apartment and condominium units and commercial establishments passed by TWC's cable systems without further extending the transmission lines.

<sup>(b)</sup> Residential Digital Phone subscriber numbers reflect billable subscribers who receive a residential internet protocol (IP)-based telephony service. Residential Digital Phone subscriber numbers as of December 31, 2007



and 2006 exclude 9,000 and 106,000 subscribers, respectively, who received traditional, circuit-switched telephone service.

- (c) The determination of whether a Digital Phone subscriber is categorized as commercial or residential is generally based upon the type of service provided to the subscriber. For example, if the Company provides a commercial service, the subscriber is classified as commercial.
- (d) Residential Digital Phone penetration represents residential Digital Phone subscribers as a percentage of Digital Phone service-ready homes passed.

### **Commercial Services**

TWC has provided video, high-speed data and network and transport services to commercial customers for over a decade. During 2007, TWC began selling Business Class Phone to small- and medium-sized businesses in the majority of its operating areas and substantially completed the roll-out in the remainder of its operating areas during 2008. The introduction of Business Class Phone enables TWC to offer its commercial customers a bundle of video, high-speed data and voice services and to compete against bundled services from its competitors.

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### ***Video Services***

TWC offers commercial customers a full range of video programming tiers marketed under the Time Warner Cable Business Class brand. Packages are designed to meet the demands of a business environment by offering a wide variety of video services that enable businesses to entertain customers and stay abreast of news, weather and financial information. Similar to residential customers, commercial customers receive video services through analog transmissions, a combination of digital and analog transmissions or, in systems where TWC has fully deployed digital technology, digital transmissions only.

### ***High-speed Data Services***

TWC offers commercial customers a variety of high-speed data services, including Internet access, website hosting and managed security. These services are offered to a broad range of businesses and are marketed under the Road Runner Business Class brand. Commercial subscribers pay a flat monthly fee based on the level of service received. Due to their different characteristics, commercial subscribers are charged at different rates than residential subscribers. As of December 31, 2008, TWC had 283,000 commercial high-speed data subscribers. In addition, TWC provides its high-speed data services to other cable operators for a fee, who in turn provide high-speed data services to their customers.

### ***Voice Services***

Business Class Phone service includes unlimited local, intrastate and long distance in the United States, Canada, Puerto Rico, US Virgin Islands, Guam and Saipan as well as a toll-free service for a flat monthly rate. As of December 31, 2008, TWC had 30,000 Business Class Phone subscribers.

### ***Commercial Networking and Transport Services***

TWC provides dedicated transmission capacity on its network to customers that desire high-bandwidth connections among locations. TWC also offers point-to-point circuits to wireless telephone providers and to other carrier and wholesale customers. TWC's virtual private network, or VPN, services enable customers to use IP-based business applications for secure communications among geographically dispersed locations, while also providing customers high-speed access to the Internet, and provide secure access to the Internet for remote users, such as traveling employees and employees working from home or a remote location. TWC also offers a variety of Ethernet services that are designed to provide high-speed, high-capacity connections among customers' local area networks, or LANs, within and between metropolitan areas.

### ***Service Bundles***

In addition to selling its services separately, TWC is focused on marketing differentiated packages of multiple services and features, or bundles, for a single price. TWC offers bundled services to both its residential and commercial customers and, increasingly, these customers subscribe to two or three of TWC's primary services. TWC customers who subscribe to a bundle receive a discount from the price of buying the services separately as well as the convenience of a single monthly bill. TWC also is continuing to develop services that are available only to customers who subscribe to a bundle. See Cross-platform Features below. TWC believes that bundled offerings increase its customers' satisfaction with TWC, increase customer retention and encourage subscription to additional features.

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The following table presents selected statistical data regarding TWC's customer relationships and double play and triple play subscribers:

	<b>December 31,</b>		
	<b>2008</b>	<b>2007</b>	<b>2006</b>
	<b>(in thousands, except percentages)</b>		
Customer relationships <sup>(a)</sup>	14,582	14,626	14,565
Double play <sup>(b)</sup>	4,794	4,703	4,647
Double play penetration <sup>(c)</sup>	32.9%	32.2%	31.9%
Triple play <sup>(d)</sup>	3,099	2,363	1,523
Triple play penetration <sup>(e)</sup>	21.3%	16.2%	10.5%

- (a) 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.
- (b) Double play subscriber numbers reflect TWC customers who subscribe to two of TWC's primary services (video, high-speed data and voice).
- (c) Double play penetration represents double play subscribers as a percentage of customer relationships.
- (d) Triple play subscriber numbers reflect TWC customers who subscribe to all three of TWC's primary services (video, high-speed data and voice).
- (e) Triple play penetration represents triple play subscribers as a percentage of customer relationships.

**Cross-platform Features**

In support of its bundled services strategy, TWC continues to introduce features that operate across two or more of its services. For example, TWC provides nearly two-thirds of its digital video subscribers who also subscribe to its Digital Phone service a Caller ID on TV feature that displays incoming call information on the customer's television set, at no extra charge. TWC has also introduced a feature called PhotoShowTV in the majority of its operating areas that gives digital video subscribers who use both a TWC-provided set-top box and subscribe to TWC's Road Runner high-speed data service the ability to create and share their personal photo shows and videos with other TWC digital video subscribers using its VOD technology. In addition, TWC has launched a website, [www.twondemand.com](http://www.twondemand.com), and an iPhone application, which provide subscribers with access to the entire catalog of available VOD titles and the ability to conduct various searches, including searching for VOD titles that are most popular in the subscriber's local area. In 2009, TWC expects to launch remote DVR management, which will allow customers who subscribe to TWC's DVR service to use the Internet to program their DVRs, and a residential phone web portal, which will allow Digital Phone subscribers to use the Internet to modify Digital Phone features, make payments and listen to voicemail.

**Advertising**

TWC earns revenues by selling advertising to national, regional and local customers. As part of the agreements under which it acquires video programming, TWC typically receives an allocation of scheduled advertising time in such programming, generally two or three minutes per hour, into which its systems can insert commercials, subject, in some instances, to certain subject matter limitations. The clustering of TWC's systems expands the share of viewers that TWC reaches within a local designated market area, which helps its local advertising sales business to compete

more effectively with broadcast and other media. In addition, TWC has a strong presence in the country's two largest advertising market areas, New York, NY, and Los Angeles, CA.

In many locations, TWC has formed advertising interconnects or entered into representation agreements with contiguous cable system operators to deliver locally inserted commercials across wider geographic areas, replicating the reach of the local broadcast stations as much as possible. TWC also sells the advertising inventory of certain regional sports programming networks. In addition, TWC's local cable news channels and VOD offerings provide it with opportunities to generate advertising revenue.

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### ***Advanced Advertising***

TWC is exploring various means by which it could utilize its VOD and other advanced capabilities to deliver to television advertisers the same kind of advanced advertising offerings and measurement data currently available to Internet advertisers. For example, in several divisions, TWC provides overlays that enable digital video subscribers with a TWC-provided set-top box to request additional information regarding certain advertised products, using the remote control, to telescope from a traditional advertisement to a long-form VOD segment regarding the advertised product, to vote on a relevant topic or to receive more specific additional information. These tools can be used to provide advertisers with important feedback about the impact of their advertising efforts. TWC also currently provides anonymized VOD and enhanced TV viewing data to its programming partners. In addition, in 2008, TWC and certain other cable operators formed a joint venture, Canoe Ventures LLC ( Canoe ), focused on developing a common technology platform among cable operators for the delivery of advanced advertising products and services to be offered to programmers and advertisers. TWC plans, through Canoe, to expand its measurement capabilities in order to provide anonymized viewing data to marketers and strategic partners to serve as the foundation of its advanced advertising platform.

### **Wireless Ventures**

TWC is investing in technology to provide subscribers with the ability to access its video, high-speed data and voice services outside the home. In November 2008, TWC and several other companies collectively invested \$3.2 billion in Clearwire Corporation, a wireless broadband communications company ( Clearwire Corp ), and one of its operating subsidiaries, Clearwire Communications LLC ( Clearwire LLC, and, collectively with Clearwire Corp, Clearwire ). TWC invested \$550 million for membership interests in Clearwire LLC and received voting and board of director nomination rights in Clearwire Corp. Clearwire LLC was formed by the combination of Sprint Nextel Corporation s ( Sprint ) and Clearwire Corp s respective wireless broadband businesses and is focused on deploying the first nationwide fourth-generation wireless network to provide mobile broadband services to wholesale and retail customers. In connection with the transaction, TWC entered into a wholesale agreement with Sprint that allows TWC to offer wireless services utilizing Sprint s second-generation and third-generation network and a wholesale agreement with Clearwire that will allow TWC to offer wireless services utilizing Clearwire s mobile broadband wireless network. TWC is also a participant in a joint venture with several other cable companies that holds advanced wireless spectrum licenses. For more information about these wireless investments, see Operating Partnerships and Joint Ventures below.

### **Marketing and Sales**

TWC s marketing strategy primarily focuses on bundles of video, high-speed data and voice services, including premium services, offered in differentiated, but easy to understand packages that also provide a discount from the price of buying the services separately and the convenience of a single bill. Bundles are generally marketed with entry level pricing, which provides TWC s customer care representatives the opportunity to offer additional services or upgraded levels of existing services that may be appealing to targeted customer groups. In addition, TWC offers its customers a price lock guarantee, which allows customers to enter into a longer-term contract with TWC at a set rate. As of December 31, 2008, more than 1.0 million of TWC s customers had a price lock guarantee.

TWC utilizes its brand and the brand statement, *The Power of You*<sup>™</sup>, in conjunction with a variety of integrated marketing, promotional and sales campaigns and techniques generally on a local or regional basis. TWC s advertising is intended to let its diverse base of subscribers and potential subscribers know that it is a customer-centric company committed to exceeding customers expectations through innovative service offerings and customer service. This message is delivered via broadcast, TWC s website, its cable systems, print, radio and other outlets including outdoor advertising, direct mail, e-mail, on-line advertising, local grassroots efforts and non-traditional media.

TWC also employs a wide range of direct channels to reach its customers, including outbound telemarketing, door-to-door sales and marketing in retail stores. In addition, TWC uses customer care channels and inbound call centers to increase awareness of its service offerings. Promotional offers with third parties are also a key part of its strategy, and an area in which TWC works with third parties such as consumer electronics manufacturers and cable programmers.

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**Customer Care**

TWC believes that improving customer care contributes to customer satisfaction and lasting customer relationships, which results in increased penetration and retention of its services. TWC's customer care strategy is focused on four key components, including:

*Continuous Technical Improvement* Focusing on continuous improvement in network performance through technology and operational enhancements, including deploying redundant fiber networks, high capacity optical transport and IP elements, next generation DOCSIS services and support for two-way customer premise equipment. Operationally, advanced work force management and remote network surveillance and restoration tools provide for increased efficiencies in dispatching TWC's technicians and resolving customer-reported issues quickly;

*Ease of Access* Providing customers several means of gaining information, answering questions, placing orders and reporting service trouble. Multiple platforms, including phone conversation, web based interactions (chat and email) and interactive interfaces all contribute to making TWC easy to access and do business with;

*First Call Resolution* Enabling front line employees to solve customer inquiries quickly and on the first call with targeted answers and solutions to customer questions, problems and needs with desktop tools, improved care network capabilities and enhanced troubleshooting capabilities; and

*Expand Capacities* Providing additional care capacity to support customer inquiries, order placement and trouble reporting, and ensuring that each call center has the means to route high call volumes to alternative supporting centers in an efficient and streamless manner.

**Technology**

**Cable Systems**

TWC's cable systems employ a HFC network. TWC transmits signals on these systems via laser-fed fiber optic cable from origination points known as headends and hubs to a group of distribution nodes, and uses coaxial cable to deliver these signals from the individual nodes to the homes they serve. TWC pioneered this architecture and received an Emmy award in 1994 for its HFC development efforts. HFC architecture allows the delivery of two-way video and broadband transmissions, which is essential to providing advanced video services like VOD, Road Runner high-speed data service and Digital Phone. As of December 31, 2008, virtually all of the homes passed by TWC's cable systems were served by plant that had been upgraded to provide at least 750MHz of capacity.

TWC believes that its network architecture is sufficiently flexible and extensible to support its current requirements. However, in order for TWC to continue to innovate and deliver new services to its customers, as well as meet its competitive needs, TWC anticipates that it will need to use the bandwidth available to its systems more efficiently over the next few years. TWC believes that this can be achieved without costly upgrades. For example, to accommodate increasing demands for greater capacity in its network, TWC is deploying a technology known as switched digital video (SDV). SDV technology expands network capacity by transmitting only those digital and HD video channels that are being watched within a given grouping of households at any given moment. Since it is generally the case that not all such channels are being watched at all times by a given group of households, SDV technology frees up capacity that can then be made available for other uses. TWC received an Emmy award in 2008 for its efforts in the development of SDV technology. As of December 31, 2008, approximately 5.2 million (or 60%) of digital video subscribers received some portion of their video service via SDV technology, and TWC expects to continue to deploy SDV technology during 2009.

***Set-top Boxes***

Each of TWC's cable systems uses one of two conditional access systems to secure signals from unauthorized receipt, the intellectual property rights to which are controlled by set-top box manufacturers. In part as a result of the proprietary nature of these conditional access systems, TWC currently purchases set-top boxes from a



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limited number of suppliers. For more information, see **Risk Factors** **Risks Related to Dependence on Third Parties** TWC may not be able to obtain necessary hardware, software and operational support.

Historically, TWC has also relied primarily on set-top box suppliers to create the applications and interfaces TWC makes available to its customers. More recently, TWC has developed and, in a number of its divisions, uses its Open Cable Digital Navigator ( ODN ) and Mystro Digital Navigator ( MDN ) program guides. Although TWC believes that its current applications and interfaces are compelling to subscribers, the lack of compatibility among set-top box operating systems has in the past hindered application development. CableLabs, a nonprofit research and development consortium founded by members of the cable industry, has put forward a set of hardware and software specifications known as tru2way, which represent an effort to create a common platform for set-top box applications regardless of the box's operating system. Several consumer electronics companies, including LG Corporation, Sony Corporation, Panasonic Corporation and Samsung Electronics, Co. Ltd. ( Samsung ), have contracted to produce televisions and other devices with tru2way technology and cable operators, including TWC, have agreed to support the technology in their operating areas. TWC expects that tru2way-enabled televisions and other devices will be available by mid-2009.

Currently, TWC's digital video subscribers must have either a TWC-provided digital set-top box or a digital cable-ready television or similar device equipped with a conditional-access security card ( CableCARD ) in order to receive digital video programming. However, a digital cable-ready television or similar device equipped with a CableCARD cannot request certain digital signals that are necessary to receive TWC's two-way video services, such as VOD, channels delivered via SDV technology and TWC's interactive program guide. In order to receive TWC's two-way video services, customers generally must have a TWC-provided digital set-top box. Tru2way-enabled televisions and other devices with tru2way technology will also be able to receive TWC's two-way video services.

## ***Suppliers***

TWC contracts with certain third parties for goods and services related to the delivery of its video, high-speed data and voice services.

*Video programming.* TWC carries local broadcast stations pursuant to either the Federal Communications Commission (the FCC ) must carry rules or a written retransmission consent agreement with the relevant station owner. Broadcasters recently made their elections for the current three-year carriage cycle, which began on January 1, 2009, and TWC has multi-year transmission consent agreements in place with most of the retransmission consent stations that it carries. For more information, see **Regulatory Matters** below. Cable networks, including premium services, are carried pursuant to written affiliation agreements. TWC generally pays a monthly per subscriber fee for cable services and sometimes pays a fee for broadcast stations that elect retransmission consent. Such fees typically cover the network or station's linear feed as well as its free On-Demand content. Payments to the providers of some premium services may be based on a percentage of TWC's gross receipts from subscriptions to the services. Generally, TWC obtains rights to carry VOD movies and Pay-Per-View events and to sell and/or rent online video programming via the Road Runner Video Store through iN Demand L.L.C., a company in which TWC holds a minority interest. In some instances, TWC contracts directly with film studios for VOD carriage rights for movies. Such VOD content is generally provided to TWC under revenue-sharing arrangements.

*Set-top boxes, program guides and network equipment.* TWC purchases set-top boxes and CableCARDS from a limited number of suppliers, including Cisco Systems Inc. ( Cisco Systems ), Motorola Inc. and Samsung and leases these devices to subscribers at monthly rates. See **Technology** **Cable Systems** **Set-top Boxes** above and **Regulatory Matters** below. TWC purchases routers, switches and other network equipment from a variety of providers, the most significant of which is Cisco Systems. See **Risk Factors** **Risks Related to Dependence on Third Parties** TWC may not be able to obtain necessary hardware, software and operational support. In addition to its ODN and MDN program guides, TWC purchases program guides from Cisco Systems and Macrovision Corporation.

*High-speed data and voice connectivity.* TWC delivers high-speed data and voice services through TWC's HFC network, regional fiber networks that are either owned or leased from third parties and through backbone networks that provide connectivity to the Internet and are operated by third parties. TWC pays fees for leased

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circuits based on the amount of capacity available to it and pays for Internet connectivity based on the amount of data and voice traffic received from and sent over the provider's network. TWC also has entered into a number of settlement-free peering arrangements with affiliated and third-party networks that allow TWC to exchange traffic with those networks without a fee.

*Digital Phone.* Under a multi-year agreement between TWC and Sprint Corporation (Sprint), Sprint assists TWC in providing Digital Phone service by routing voice traffic to and from destinations outside of TWC's network via the public switched telephone network, delivering E911 service and assisting in local number portability and long-distance traffic carriage. See Risk Factors Risks Related to Dependence on Third Parties TWC may not be able to obtain necessary hardware, software and operational support.

## **Competition**

TWC faces intense competition from a variety of alternative information and entertainment delivery sources, principally from direct-to-home satellite video providers and certain telephone companies, each of which offers a broad range of services that provide features and functions comparable to those provided by TWC. The services are also offered in bundles of video, high-speed data and voice services similar to TWC's and, in certain cases, these offerings include wireless services. The availability of these bundled service offerings and of wireless offerings, whether as a single offering or as part of a bundle, has intensified competition. In addition, technological advances and product innovations have increased and will likely continue to increase the number of alternatives available to TWC's customers from other providers and intensify the competitive environment. See Risk Factors Risks Related to Competition.

### ***Principal Competitors***

*Direct broadcast satellite.* TWC's video services face competition from direct broadcast satellite (DBS) services, such as DISH Network Corporation (Dish Network) and DirecTV Group Inc. (DirecTV). Dish Network and DirecTV offer satellite-delivered pre-packaged programming services that can be received by relatively small and inexpensive receiving dishes. These providers offer aggressive promotional pricing, exclusive programming (e.g., NFL League Pass) and video services that are comparable in many respects to TWC's digital video services, including its DVR service and some of its interactive programming features.

In some areas, incumbent local telephone companies and DBS operators have entered into co-marketing arrangements that allow both parties to offer synthetic bundles (i.e., video service provided principally by the DBS operator, and digital subscriber line (DSL), traditional phone service and, in some cases, wireless service provided by the telephone company). From a consumer standpoint, the synthetic bundles appear similar to TWC's bundles and also result in a single bill.

*Local telephone companies.* TWC's video, high-speed data and Digital Phone services face competition from the video, DSL, wireless broadband and traditional and wireless phone offerings of AT&T Inc. (AT&T) and Verizon Communications Inc. (Verizon). In a number of TWC's operating areas, AT&T and Verizon have upgraded portions of their networks to carry two-way video, high-speed data and IP-based telephony services, each of which is similar to the corresponding service offered by TWC. Moreover, AT&T and Verizon market and sell service bundles of video, high-speed data and voice services plus wireless services, and they market cross-platform features with their wireless services, such as remote DVR control from a wireless handset. TWC also faces competition from the DSL, wireless broadband and phone offerings of smaller incumbent local telephone companies, such as Frontier Communications Corporation and Cincinnati Bell, Inc.

*Cable overbuilds.* TWC operates its cable systems under non-exclusive franchises granted by state or local authorities. The existence of more than one cable system, including municipality-owned systems, operating in the same territory is referred to as an overbuild. In some of TWC's operating areas, other operators have overbuilt TWC's systems and offer video, high-speed data and voice services in competition with TWC.

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***Other Competition and Competitive Factors***

Aside from competing with the video, high-speed data and voice services offered by DBS providers, local incumbent telephone companies and cable overbuilders, each of TWC's services also faces competition from other companies that provide services on a stand-alone basis.

*Video competition.* TWC's video services face competition from a number of different sources, including companies that deliver movies, television shows and other video programming over broadband Internet connections, such as Hulu.com, as well as online order services with mail delivery, and video stores and home video services. Increasingly, content owners are utilizing Internet-based delivery of content directly to consumers, often without charging a fee for access to the content. Furthermore, due to consumer electronics innovations, consumers will over time be more readily able to watch such Internet-delivered content on television sets.

*Online competition.* TWC's high-speed data services face or may face competition from a variety of companies that offer other forms of online services, including low cost dial-up services over ordinary telephone lines and third-generation wireless broadband services, such as those offered by Verizon, AT&T, Sprint and T-Mobile USA, Inc. (T-Mobile), and developing technologies, such as fourth-generation wireless services, Internet service via power lines, satellite and various other wireless services (e.g., Wi-Fi).

*Digital Phone competition.* TWC's Digital Phone service competes with traditional and wireless phone providers. An increasing number of homes in the U.S. are replacing their traditional telephone service with wireless phone service, a trend commonly referred to as wireless substitution. This trend may be sensitive to economic conditions and consumer spending trends. TWC also competes with national providers of IP-based telephony products, such as Vonage, Skype and magicJack, and companies that sell phone cards at a cost per minute for both national and international service. The increase in the number of different technologies capable of carrying voice services has intensified the competitive environment in which TWC operates its Digital Phone service.

*Additional competition.* In addition to multi-channel video providers, cable systems compete with all other sources of news, information and entertainment, including over-the-air television broadcast reception, live events, movie theaters and the Internet. In general, TWC also faces competition from other media for advertising dollars. To the extent that TWC's services converge with theirs, TWC competes with the manufacturers of consumer electronics products. For instance, TWC's DVRs compete with similar devices manufactured by consumer electronics companies.

*Commercial competition.* TWC's commercial video, high-speed data, voice and networking and transport services face competition from local incumbent telephone companies, especially AT&T and Verizon, as well as from a variety of other national and regional business services competitors. These companies include facilities-based business service providers, such as Level 3 Communications, Inc. and tw telecom inc., which provide fiber optic services to enterprise and small- to medium-sized business customers, smaller regional competitive local exchange carriers (CLECs) that offer voice and high-speed data services using local access lines leased from local incumbent telephone operators, and national providers of IP-telephony products such as Vonage, which provide voice and/or high-speed data services on a residential broadband connection.

*Franchise process.* Under the Cable Television Consumer Protection and Competition Act of 1992, franchising authorities are prohibited from unreasonably refusing to award additional franchises. In December 2006, the FCC adopted an order intended to make it easier for competitors to obtain franchises, by defining when the actions of county- and municipal-level franchising authorities will be deemed to be unreasonable as part of the franchising process. Furthermore, legislation supported by regional telephone companies has been enacted in a number of states to allow these companies to enter the video distribution business without obtaining local franchise approval. Legislation of this kind has been enacted in California, Kansas, New Jersey, North Carolina, Ohio, South Carolina, Texas and

Wisconsin, which include some of the Company's largest operating areas. See Regulatory Matters Video Services Franchising and Risk Factors Risks Related to Government Regulation.

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**Employees**

As of December 31, 2008, TWC had approximately 46,600 employees, including approximately 1,460 part-time employees. Approximately 5.1% of TWC's employees are represented by labor unions. TWC considers its relations with its employees to be good.

**Regulatory Matters**

TWC's business is subject, in part, to regulation by the Federal Communications Commission (FCC) and by most local and some state governments where TWC has cable systems. In addition, TWC's business is operated subject to compliance with the terms of the Memorandum Opinion and Order issued by the FCC in July 2006 in connection with the regulatory clearance of the transactions related to TWC's 2006 acquisition of cable systems from Adelphia and Comcast (the Adelphia/Comcast Transactions Order). Various legislative and regulatory proposals under consideration from time to time by the United States Congress (Congress) and various federal agencies have in the past materially affected TWC and may do so in the future.

The Communications Act of 1934, as amended (the Communications Act), and the regulations and policies of the FCC affect significant aspects of TWC's cable system operations, including video subscriber rates; carriage of broadcast television signals and cable programming, as well as the way TWC sells its program packages to subscribers; the use of cable systems by franchising authorities and other third parties; cable system ownership; offering of voice and high-speed data services; and its use of utility poles and conduits.

The following is a summary of current significant federal, state and local laws and regulations affecting the growth and operation of TWC's business as well as a summary of the terms of the Adelphia/Comcast Transactions Order. The summary of the Adelphia/Comcast Transactions Order herein does not purport to be complete and is subject to, and is qualified in its entirety by reference to, the provisions of the Adelphia/Comcast Transactions Order.

***Video Services***

*Subscriber rates.* The Communications Act and the FCC's rules regulate rates for basic cable service and equipment in communities that are not subject to effective competition, as defined by federal law. Where there has been no finding by the FCC of effective competition, federal law authorizes franchising authorities to regulate the monthly rates charged by the operator for the minimum level of video programming service, referred to as basic service tier or BST, which generally includes broadcast television signals, satellite-delivered broadcast networks and superstations, local origination channels, a few specialty networks and public access, educational and government channels. This regulation also applies to the installation, sale and lease of equipment used by subscribers to receive basic service, such as set-top boxes and remote control units. In many localities, TWC is no longer subject to rate regulation, either because the local franchising authority has not become certified by the FCC to regulate these rates or because the FCC has found that there is effective competition.

*Carriage of broadcast television stations and other programming regulation.* The Communications Act and the FCC's regulations contain broadcast signal carriage requirements that allow local commercial television broadcast stations to elect once every three years to require a cable system to carry their stations, subject to some exceptions, commonly called must carry, or to negotiate with cable systems the terms by which the cable systems may carry their stations, commonly called retransmission consent. Broadcasters recently made their elections for the current carriage cycle, which began on January 1, 2009.

The Communications Act and the FCC's regulations require a cable operator to devote up to one-third of its activated channel capacity for the mandatory carriage of local commercial television stations that elect must carry and certain

low-power stations. The Communications Act and the FCC's regulations give local non-commercial television stations mandatory carriage rights, but non-commercial stations do not have the option to negotiate retransmission consent for the carriage of their signals by cable systems. Additionally, cable systems must obtain retransmission consent for all distant commercial television stations (i.e., those television stations outside the designated market area to which a community is assigned) except for commercial satellite-delivered independent superstations and some low-power television stations.



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In 2005, the FCC reaffirmed its earlier decision rejecting multi-casting (i.e., carriage of more than one program stream per broadcaster) requirements with respect to carriage of broadcast signals pursuant to must-carry rules. Certain parties filed petitions for reconsideration. To date, no action has been taken on these reconsideration petitions, and TWC is unable to predict what requirements, if any, the FCC might adopt.

In September 2007, the FCC adopted rules that will require cable operators that offer at least some analog service (i.e., that are not operating all-digital systems) to provide subscribers down-converted analog versions of must-carry broadcast stations' digital signals. In addition, must-carry stations broadcasting in HD format must be carried in HD on cable systems with greater than 552 MHz capacity; standard-definition signals may be carried only in analog format. These rules will become effective after the broadcast television transition from analog to digital service for full power television stations, and are currently scheduled to terminate after three years, subject to FCC review. Congress recently extended the digital transition deadline from February 17, 2009 to June 12, 2009.

The Communications Act also permits franchising authorities to negotiate with cable operators for channels for public, educational and governmental access programming. It also requires a cable system with 36 or more activated channels to designate a significant portion of its channel capacity for commercial leased access by third parties, which limits the amount of capacity TWC has available for other programming. The FCC regulates various aspects of such third-party commercial use of channel capacity on TWC's cable systems, including the rates and some terms and conditions of the commercial use. These rules are the subject of an ongoing FCC proceeding, and recent revisions to such rules are stayed pursuant to an appeal in the U.S. Court of Appeals for the Sixth Circuit. The FCC also has an open proceeding to examine its substantive and procedural rules for program carriage. TWC is unable to predict whether any such proceedings will lead to any material changes in existing regulations.

In connection with certain changes in TWC's programming line-up, the Communications Act and FCC regulations also require TWC to give various kinds of advance notice. Under certain circumstances, TWC must give as much as 30 days' advance notice to subscribers, programmers and franchising authorities, and notice may have to be given in the form of bill inserts, on-screen announcements and/or newspaper advertisements. DBS operators and other non-cable programming distributors are not subject to analogous duties.

As part of the FCC's collection of information for its Video Competition Report, the FCC released on January 16, 2009 a notice of inquiry, requiring that cable operators submit to the agency information concerning the number of homes that their systems pass and information concerning their subscribers in order to determine whether the FCC's so-called 70/70 test has been met. If the FCC were to determine that cable systems with 36 or more activated channels are available to 70% of households within the United States and that 70% of those households subscribe to such systems, it may have the authority to promulgate certain additional regulations covering cable operators.

*Ownership limitations.* There are various rules prohibiting joint ownership of cable systems and other kinds of communications facilities, including local telephone companies and multichannel multipoint distribution service facilities. The Communications Act also requires the FCC to adopt reasonable limits on the number of subscribers a cable operator may reach through systems in which it holds an ownership interest. In December 2007, the FCC adopted an order establishing a 30% limit on the percentage of nationwide multichannel video subscribers that any single cable provider can serve. This rule is now under appellate review. The Communications Act also requires the FCC to adopt reasonable limits on the number of channels that cable operators may fill with programming services in which they hold an ownership interest. The matter remains pending before the FCC. It is uncertain when the FCC will rule on this issue or how any regulation it adopts might affect TWC.

*Pole attachment regulation.* The Communications Act requires that utilities provide cable systems and telecommunications carriers with non-discriminatory access to any pole, conduit or right-of-way controlled by investor-owned utilities. The Communications Act also permits the FCC to regulate the rates, terms and conditions

imposed by these utilities for cable systems' use of utility poles and conduit space. States are permitted to preempt FCC jurisdiction over pole attachments through certifying that they regulate the terms of attachments themselves. Many states in which TWC operates have done so. Most of these certifying states have generally followed the FCC's pole attachment rate standards and guidelines. The FCC or a certifying state could increase pole attachment rates paid by cable operators. In addition, the FCC has adopted a higher pole attachment rate applicable to pole attachments made by companies providing telecommunications services. The applicability of and method for

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calculating pole attachment rates for cable operators that provide digital voice services remains unclear. In November 2007, the FCC issued a Notice of Proposed Rulemaking that proposes to establish a new unified pole attachment rate that would apply to attachments made by a cable operator that are used to provide high-speed Internet services and, potentially, digital voice services as well. The proposed rate would be higher than the current rate paid by cable service providers. If adopted, this proposal could materially increase TWC's current payments for pole attachments.

*Set-top box regulation.* Certain regulatory requirements are also applicable to set-top boxes and other equipment that can be used to receive digital video services. Currently, many cable subscribers rent from their cable operator a set-top box that performs both signal-reception functions and conditional-access security functions. The lease rates cable operators charge for this equipment are subject to rate regulation to the same extent as basic cable service. Under these regulations, cable operators are allowed to set equipment rates for set-top boxes, CableCARDs and remote controls on the basis of actual capital costs, plus an annual after-tax rate of return of 11.25%, on the capital cost (net of depreciation). In 1996, Congress enacted a statute requiring the FCC to pass rules fostering the availability of set-top boxes. An implementing regulation, which became effective on July 1, 2007, requires cable operators to cease placing into service new set-top boxes that have integrated security. Direct broadcast operators are not subject to this requirement.

In December 2002, cable operators and consumer-electronics companies entered into a standard-setting agreement relating to reception equipment that uses a conditional-access security card—a CableCARD—provided by the cable operator to receive one-way cable services. To implement the agreement, the FCC adopted regulations that (i) establish a voluntary labeling system for such one-way devices; (ii) require most cable systems to support these devices; and (iii) adopt various content-encoding rules, including a ban on the use of “selectable output controls” to direct program content only through authorized outputs. In June 2007, the FCC initiated a notice of proposed rulemaking that may lead to regulations covering equipment sold at retail that is designed to receive two-way products and services, which, if adopted, could increase TWC's cost in supporting such equipment. This notice of proposed rulemaking remains pending.

*Switched digital video.* The deployment of SDV allows TWC to save bandwidth by transmitting particular programming services only to groups of homes or nodes where subscribers are viewing the programming at a particular time, rather than broadcasting it to all subscriber homes. The Enforcement Bureau of the FCC has issued preliminary decisions finding that TWC's notice of its deployment of SDV technology violates FCC rules. These staff-level decisions do not constitute final agency action on the substantive legal issues, and are the subject of a pending appeal. However, if these decisions are upheld, they could impose significant costs upon TWC and/or impede its ability to make additional capacity available for new services through the use of SDV.

On August 22, 2008, the Enforcement Bureau released a Notice of Apparent Liability for Forfeiture (“NAL”) concluding that Oceanic Time Warner Cable (“Oceanic”), an operating division of TWC, violated FCC rules by not providing 30 days' advance notice to the local franchising authority prior to initiating the delivery of certain existing services using SDV technology. The Enforcement Bureau concluded that this constituted a change in service for which notice is required and fined TWC \$7,500. On September 22, 2008, TWC filed its response to this NAL. On January 19, 2009, the Enforcement Bureau issued a Forfeiture Order for this alleged rule violation.

On October 15, 2008, the Enforcement Bureau released two additional NALs/Orders against Oceanic, concluding that the deployment of SDV technology in two cable systems in Hawaii violated FCC rules that require cable operators to support unidirectional cable products and prohibit cable operators from preventing subscribers' use of navigation devices. The NALs found that moving certain programming channels to the SDV platform prevents subscribers with CableCARD-equipped digital cable products from using their navigation devices to access those channels. Each NAL/Order fined Oceanic \$20,000 and ordered Oceanic to provide refunds to customers impacted by the deployment of SDV to reimburse them for the cost of programming channels they are unable to access with their devices. On

November 14, 2008, TWC filed its response to these NALs/Orders. On January 19, 2009, the Enforcement Bureau issued Forfeiture Orders for these two SDV deployments and two NALs proposing fines of \$25,000 each for failure to describe the methodology TWC would use to provide refunds to subscribers who could not view SDV channels. TWC intends to seek further review by the full FCC and, if necessary, the courts.

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*Analog to digital migration.* The migration of analog programming channels to digital tiers also allows TWC to save bandwidth. On January 19, 2009, the FCC's Enforcement Bureau issued two NALs concluding that TWC moved channels in the Palmdale, California and San Diego systems from analog to digital tiers of service without the required notice to customers, in violation of FCC rules. Each NAL proposes a fine of \$7,500. These staff-level decisions do not constitute final agency action, and TWC intends to seek further review by the full Commission.

*Multiple dwelling units and inside wiring.* In November 2007, the FCC adopted an order declaring null and void all exclusive access arrangements between cable operators and multiple dwelling units and other centrally managed real estate developments ( MDUs ). In connection with the order, the FCC also issued a Further Notice of Proposed Rulemaking regarding whether to expand the ban on exclusivity to other types of multi-channel video programming distributors ( MVPDs ) in addition to cable operators, including DBS providers, and whether to expand the scope of the rules to prohibit exclusive marketing and bulk billing agreements. The order has been appealed by the National Cable and Telecommunications Association ( NCTA ), the cable industry's principal trade organization. The FCC also has adopted rules facilitating competitors' access to the cable wiring inside such MDUs. This order, which also has been appealed by the NCTA, could have an adverse impact on TWC's business because it would allow competitors to use wiring inside MDUs that the cable industry has already deployed.

*Copyright regulation.* TWC's cable systems provide subscribers with, among other things, local and distant television broadcast stations. TWC generally does not obtain a license to use the copyrighted performances contained in these stations' programming directly from program owners. Instead, in exchange for filing reports with the U.S. Copyright Office and contributing a percentage of revenue to a federal copyright royalty pool, cable operators obtain rights to retransmit copyrighted material contained in broadcast signals pursuant to a compulsory license. The elimination or substantial modification of this compulsory copyright license has been the subject of ongoing legislative and administrative review, and, if eliminated or modified, could adversely affect TWC's ability to obtain suitable programming and could substantially increase TWC's programming costs. Additionally, the U.S. Copyright Office has released a ruling on issues relating to the calculation of compulsory license fees that could increase the amount cable operators are required to pay into the copyright royalty pool. Further, the U.S. Copyright Office has not yet made any determinations as to how the compulsory license will apply to digital broadcast signals and services.

In addition, when TWC obtains programming from third parties, TWC generally obtains licenses that include any necessary authorizations to transmit the music included in it. When TWC creates its own programming and provides various other programming or related content, including local origination programming and advertising that TWC inserts into cable-programming networks, TWC is required to obtain any necessary music performance licenses directly from the rights holders. These rights are generally controlled by three music performance rights organizations, each with rights to the music of various composers. TWC generally has obtained the necessary licenses, either through negotiated licenses or through procedures established by consent decrees entered into by some of the music performance rights organizations.

*Program access and Adelphia/Comcast Transactions Order.* In the Adelphia/Comcast Transactions Order, the FCC imposed conditions on TWC, which will expire in July 2012, related to regional sports networks ( RSNs ), as defined in the Adelphia/Comcast Transactions Order, and the resolution of disputes pursuant to the FCC's leased access regulations. In particular, the Adelphia/Comcast Transactions Order provides that (i) neither TWC nor its affiliates may offer an affiliated RSN on an exclusive basis to any MVPD; (ii) TWC may not unduly or improperly influence the decision of any affiliated RSN to sell programming to an unaffiliated MVPD or the prices, terms and conditions of sale of programming by an affiliated RSN to an unaffiliated MVPD; (iii) if an MVPD and an affiliated RSN cannot reach an agreement on the terms and conditions of carriage, the MVPD may elect commercial arbitration to resolve the dispute; (iv) if an unaffiliated RSN is denied carriage by TWC, it may elect commercial arbitration to resolve the dispute in accordance with the FCC's program carriage rules; and (v) with respect to leased access, if an unaffiliated programmer is unable to reach an agreement with TWC, that programmer may elect commercial arbitration to resolve

the dispute, with the arbitrator being required to resolve the dispute using the FCC's existing rate formula relating to pricing terms. The FCC has suspended this baseball style arbitration procedure as it relates to TWC's carriage of unaffiliated RSNs, although it allowed the arbitration of a claim brought by the Mid-Atlantic Sports Network because the claim was brought prior to the suspension. In that case, in October 2008, the FCC's Media Bureau upheld the arbitrator's ruling in favor of the Mid-Atlantic Sports Network, and TWC

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has petitioned for review by the full FCC. In addition, Herring Broadcasting, Inc., which does business as WealthTV, filed a program carriage complaint against TWC and other cable operators alleging discrimination against WealthTV's programming in favor of a similarly situated video programming vendors in violation of the FCC's rules. These proceedings remain pending.

*Other federal regulatory requirements.* The Communications Act also includes provisions regulating customer service, subscriber privacy, marketing practices, equal employment opportunity, technical standards and equipment compatibility, antenna structure notification, marking, lighting, emergency alert system requirements and the collection from cable operators of annual regulatory fees, which are calculated based on the number of subscribers served and the types of FCC licenses held. The FCC also actively regulates other aspects of TWC's video services, including the mandatory blackout of syndicated, network and sports programming; customer service standards; political advertising; indecent or obscene programming; Emergency Alert System requirements for analog and digital services; closed captioning requirements for the hearing impaired; commercial restrictions on children's programming; equal employment opportunity; recordkeeping and public file access requirements; and technical rules relating to operation of the cable network.

*Franchising.* Cable operators generally operate their systems under non-exclusive franchises. Franchises are awarded, and cable operators are regulated, by state franchising authorities, local franchising authorities, or both.

Franchise agreements typically require payment of franchise fees and contain regulatory provisions addressing, among other things, upgrades, service quality, cable service to schools and other public institutions, insurance and indemnity bonds. The terms and conditions of cable franchises vary from jurisdiction to jurisdiction. The Communications Act provides protections against many unreasonable terms. In particular, the Communications Act imposes a ceiling on franchise fees of five percent of revenues derived from cable service. TWC generally passes the franchise fee on to its subscribers, listing it as a separate item on the bill.

Franchise agreements usually have a term of ten to 15 years from the date of grant, although some renewals may be for shorter terms. Franchises usually are terminable only if the cable operator fails to comply with material provisions. TWC has not had a franchise terminated due to breach. After a franchise agreement expires, a local franchising authority may seek to impose new and more onerous requirements, including requirements to upgrade facilities, to increase channel capacity and to provide various new services. Federal law, however, provides significant substantive and procedural protections for cable operators seeking renewal of their franchises. In addition, although TWC occasionally reaches the expiration date of a franchise agreement without having a written renewal or extension, TWC generally has the right to continue to operate, either by agreement with the local franchising authority or by law, while continuing to negotiate a renewal. In the past, substantially all of the material franchises relating to TWC's systems have been renewed by the relevant local franchising authority, though sometimes only after significant time and effort.

In June 2008, the U.S. Court of Appeals for the Sixth Circuit upheld regulations adopted by the FCC in December 2006 intended to limit the ability of local franchising authorities to delay or refuse the grant of competitive franchises (by, for example, imposing deadlines on franchise negotiations). The FCC has applied most of these rules to incumbent cable operators which, although immediately effective, in some cases may not alter existing franchises prior to renewal.

At the state level, several states, including California, Kansas, New Jersey, North Carolina, Ohio, South Carolina, Texas and Wisconsin have enacted statutes intended to streamline entry by additional video competitors, some of which provide more favorable treatment to new entrants than to existing providers. Similar bills are pending or may be enacted in additional states. Despite TWC's efforts and the protections of federal law, it is possible that some of TWC's franchises may not be renewed, and TWC may be required to make significant additional investments in its cable systems in response to requirements imposed in the course of the franchise renewal process. See Competition Other

Competition and Competitive Factors Franchise process.

***High-Speed Data Internet Access Services***

TWC provides high-speed data services over its existing cable facilities. In 2002, the FCC released an order in which it determined that cable-provided high-speed Internet access service is an interstate information service



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rather than a cable service or a telecommunications service, as those terms are defined in the Communications Act. That determination was sustained by the U.S. Supreme Court. The information service classification means that the service is not subject to regulation as a cable service or as a telecommunications service under federal, state, or local law. Nonetheless, TWC's high-speed data access service is subject to a number of regulatory requirements, including compliance with the Communications Assistance for Law Enforcement Act (CALEA) requirement that high-speed data service providers implement certain network capabilities to assist law enforcement agencies in conducting surveillance of criminal suspects. In addition, the American Recovery and Reinvestment Act of 2009, enacted on February 17, 2009, provides approximately \$7 billion to stimulate investment in broadband. The eligibility and use of these funds has not yet been determined. TWC could be placed at a disadvantage if these funds are not made available in a competitively neutral way.

*Net neutrality legislative and regulatory proposals.* In previous Congressional sessions, legislation has been introduced proposing net neutrality requirements. These legislative proposals would have limited to a greater or lesser extent the ability of broadband providers to adopt pricing models and network management policies.

In September 2005, the FCC issued its Net Neutrality Policy Statement, which at the time, the agency characterized as a non-binding policy statement. The principles contained in the Net Neutrality Policy Statement set forth the FCC's view that consumers are entitled to access and use lawful Internet content and applications of their choice, to connect to lawful devices of their choosing that do not harm the broadband provider's network and to competition among network, application, service and content providers. The Net Neutrality Policy Statement notes that these principles are subject to reasonable network management. Subsequently, the FCC made these principles binding as to certain telecommunications companies for specified periods of time pursuant to voluntary commitments in orders adopted in connection with mergers undertaken by those companies.

Several parties have sought to persuade the FCC to adopt net neutrality-type regulations in a number of proceedings before the agency; however, none of these proceedings has resulted in the adoption of formal regulations. Despite this, a formal complaint was filed against Comcast alleging that its use of reset packets to manage peer-to-peer file-sharing traffic constituted an unreasonable network management practice. In August 2008, the FCC released a decision finding in favor of the complainant relying in part on the FCC's Net Neutrality Policy Statement. That decision is under appeal. For further discussion of net neutrality and the impact such proposals could have on TWC if adopted, see the discussion in Risk Factors Risks Related to Government Regulation Net neutrality legislation or regulation could limit TWC's ability to operate its high-speed data business profitably and to manage its broadband facilities efficiently to respond to growing bandwidth usage by TWC's high-speed data customers.

## ***Voice Services***

TWC currently offers residential Digital Phone and Business Class Phone voice services using interconnected Voice over Internet Protocol (VoIP) technology. Traditional providers of circuit-switched telephone services generally are subject to significant regulation. It is unclear whether and to what extent regulators will subject interconnected VoIP services such as TWC's residential Digital Phone and Business Class Phone services to the same regulations that apply to these traditional voice services provided by incumbent telephone companies. In February 2004, the FCC opened a broad-based rulemaking proceeding to consider these and other issues. That rulemaking remains pending. The FCC has, however, extended a number of traditional telephone carrier regulations to interconnected VoIP providers, including requiring interconnected VoIP providers: to provide E911 capabilities as a standard feature to their subscribers; to comply with the requirements of CALEA to assist law enforcement investigations in providing, after a lawful request, call content and call identification information; to contribute to the federal universal service fund; to pay regulatory fees; to comply with subscriber privacy rules; to provide access to their services to persons with disabilities; and to comply with local number portability (LNP) rules when subscribers change telephone providers. With respect to LNP requirements, however, the FCC clarified that local exchange carriers and commercial mobile

radio service providers have an obligation to port numbers to interconnected VoIP providers.

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Certain other issues related to interconnected VoIP services remain unclear. In particular, in November 2004, the FCC determined that regardless of their regulatory classification, certain interconnected VoIP services qualify as interstate services with respect to economic regulation. The FCC preempted state regulations that address such issues as entry certification, tariffing and E911 requirements, as applied to certain interconnected VoIP services. On March 21, 2007, the U.S. Court of Appeals for the Eighth Circuit affirmed the FCC's November 2004 order with respect to these VoIP services, particularly those having portable or nomadic capability. The jurisdictional classification of other types of interconnected VoIP services, particularly fixed services such as that provided by TWC remains uncertain. The Wisconsin and Missouri public utility commissions, for instance, have ruled that TWC's Digital Phone service is subject to traditional, circuit-switched telephone regulation, while other state commissions have opened investigations into how such VoIP services should be treated in their respective states.

The FCC and various states are also considering how interconnected VoIP services should interconnect with incumbent phone company networks. Because the FCC has yet to classify interconnected VoIP service, the precise scope of interconnection rules as applied to interconnected VoIP service is not clear. As a result, some small incumbent telephone companies may resist interconnecting directly with TWC. Finally, the FCC is considering comprehensive intercarrier compensation reform including the appropriate compensation regime applicable to interconnected VoIP traffic over the public switched telephone network. It is unclear whether and when the FCC or Congress will adopt further rules relating to VoIP interconnection and how such rules would affect TWC's interconnected VoIP service.

### ***Commercial Networking and Transport Services***

Entities providing point-to-point and other transport services generally have been subjected to various kinds of regulation. In particular, in connection with intrastate transport services, state regulatory authorities commonly require such providers to obtain and maintain certificates of public convenience and necessity and to file tariffs setting forth the service's rates, terms, and conditions and to have just, reasonable, and non-discriminatory rates, terms and conditions. Interstate transport services are governed by similar federal regulations. In addition, providers generally may not transfer assets or ownership without receiving approval from or providing notice to state and federal authorities. Finally, providers of point-to-point and similar transport services are generally required to contribute to various state and federal regulatory funds, including the Federal Universal Service Fund.

### **Operating Partnerships and Joint Ventures**

#### ***Time Warner Entertainment Company, L.P.***

TWE is a Delaware limited partnership that was formed in 1992. At the time of the restructuring of TWE (the "TWE Restructuring"), which was completed on March 31, 2003, subsidiaries of Time Warner owned general and limited partnership interests in TWE consisting of 72.36% of the pro-rata priority capital and residual equity capital and 100% of the junior priority capital, and a trust established for the benefit of Comcast ("Comcast Trust I") owned limited partnership interests in TWE consisting of 27.64% of the pro-rata priority capital and residual equity capital. Prior to the TWE Restructuring, TWE's business consisted of interests in cable systems, cable networks and filmed entertainment.

Through a series of steps executed in connection with the TWE Restructuring, TWE transferred its non-cable businesses, including its filmed entertainment and cable network businesses, along with associated liabilities, to WCI, a wholly owned subsidiary of Time Warner, and the ownership structure of TWE was reorganized so that (i) TWC owned 94.3% of the residual equity interests in TWE, (ii) Comcast Trust I owned 4.7% of the residual equity interests in TWE and (iii) ATC, a wholly owned subsidiary of Time Warner, owned 1.0% of the residual equity interests in TWE and \$2.4 billion in mandatorily redeemable preferred equity issued by TWE. In addition, following the TWE

Restructuring, Time Warner indirectly held shares of TWC Class A common stock and Class B common stock representing, in the aggregate, 89.3% of the voting power and 82.1% of TWC's outstanding equity.

On July 28, 2006, the partnership interests and preferred equity originally held by ATC, were contributed to TW NY Cable, a wholly owned subsidiary of TWC, in exchange for a 12.43% non-voting common stock economic interest in TW NY, and Comcast Trust I's ownership interest in TWE was redeemed. As a result, Time Warner has

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no direct interest in TWE and Comcast no longer has any interest in TWE. As of December 31, 2008, TWE had \$2.6 billion in principal amount of outstanding debt securities with maturities ranging from 2012 to 2033 and fixed interest rates ranging from 8.375% to 10.15%. See Management's Discussion and Analysis of Results of Operations and Financial Condition Financial Condition and Liquidity Outstanding Debt and Mandatorily Redeemable Preferred Equity and Available Financial Capacity.

The TWE partnership agreement requires that transactions between TWC and its subsidiaries, on the one hand, and TWE and its subsidiaries, on the other hand, be conducted on an arm's-length basis, with management, corporate or similar services being provided by TWC on a no mark-up basis with fair allocations of administrative costs and general overhead.

### ***TWE-A/N Partnership Agreement***

The following description summarizes certain provisions of the partnership agreement relating to TWE-A/N. Such description does not purport to be complete and is subject to, and is qualified in its entirety by reference to, the provisions of the TWE-A/N partnership agreement.

*Partners of TWE-A/N.* The general partnership interests in TWE-A/N are held by TW NY Cable and TWE (together with TW NY Cable, the TW Partners) and A/N, a partnership owned by wholly owned subsidiaries of Advance Publications Inc. and Newhouse Broadcasting Corporation. The TW Partners also hold preferred partnership interests. TWE acquired its interest in TWE-A/N as the result of a merger of its wholly-owned subsidiary, TWE-A/N Holdco, L.P. (which previously held the interest), into TWE on December 31, 2008.

*2002 restructuring of TWE-A/N.* The TWE-A/N cable television joint venture was formed by TWE and A/N in December 1995. A restructuring of the partnership was completed during 2002. As a result of this restructuring, cable systems and their related assets and liabilities serving approximately 2.1 million subscribers as of December 31, 2002 (which amount is not included in TWE-A/N's 4.8 million consolidated subscribers, as of December 31, 2008) located primarily in Florida (the A/N Systems), were transferred to a subsidiary of TWE-A/N (the A/N Subsidiary). As part of the restructuring, effective August 1, 2002, A/N's interest in TWE-A/N was converted into an interest that tracks the economic performance of the A/N Systems, while the TW Partners retain the economic interests and associated liabilities in the remaining TWE-A/N cable systems. Also, in connection with the restructuring, TWC effectively acquired A/N's interest in Road Runner. TWE-A/N's financial results, other than the results of the A/N Systems, are consolidated with TWC's.

*Management and operations of TWE-A/N.* Subject to certain limited exceptions, TWE is the managing partner, with exclusive management rights of TWE-A/N, other than with respect to the A/N Systems. Also, subject to certain limited exceptions, A/N has authority for the supervision of the day-to-day operations of the A/N Subsidiary and the A/N Systems. In connection with the 2002 restructuring, TWE entered into a services agreement with A/N and the A/N Subsidiary under which TWE agreed to exercise various management functions, including oversight of programming and various engineering-related matters. TWE and A/N also agreed to periodically discuss cooperation with respect to new product development. TWC receives a fee for providing the A/N Subsidiary with high-speed data services and the management functions noted above.

*Restrictions on transfer TW Partners.* Each TW Partner is generally permitted to directly or indirectly dispose of its entire partnership interest at any time to a wholly owned affiliate of TWE (in the case of transfers by TWE) or to TWE, Time Warner or a wholly owned affiliate of TWE or Time Warner (in the case of transfers by TW NY Cable). In addition, the TW Partners are also permitted to transfer their partnership interests through a pledge to secure a loan, or a liquidation of TWE in which Time Warner, or its affiliates, receives a majority of the interests of TWE-A/N held by the TW Partners. TWE is allowed to issue additional partnership interests in TWE so long as Time Warner

continues to own, directly or indirectly, either 35% or 43.75% of the residual equity capital of TWE, depending on when the issuance occurs.

*Restrictions on transfer A/N Partner.* A/N is generally permitted to directly or indirectly transfer its entire partnership interest at any time to certain members of the Newhouse family or specified affiliates of A/N. A/N is also permitted to dispose of its partnership interest through a pledge to secure a loan and in connection with specified restructurings of A/N.

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*Restructuring rights of the partners.* TWE and A/N each has the right to cause TWE-A/N to be restructured at any time. Upon a restructuring, TWE-A/N is required to distribute the A/N Subsidiary with all of the A/N Systems to A/N in complete redemption of A/N's interests in TWE-A/N, and A/N is required to assume all liabilities of the A/N Subsidiary and the A/N Systems. To date, neither TWE nor A/N has delivered notice of the intent to cause a restructuring of TWE-A/N.

*TWE's regular right of first offer.* Subject to exceptions, A/N and its affiliates are obligated to grant TWE a right of first offer prior to any sale of assets of the A/N Systems to a third party.

*TWE's special right of first offer.* Within a specified time period following the first, seventh, thirteenth and nineteenth anniversaries of the deaths of two specified members of the Newhouse family (those deaths have not yet occurred), A/N has the right to deliver notice to TWE stating that it wishes to transfer some or all of the assets of the A/N Systems, thereby granting TWE the right of first offer to purchase the specified assets. Following delivery of this notice, an appraiser will determine the value of the assets proposed to be transferred. Once the value of the assets has been determined, A/N has the right to terminate its offer to sell the specified assets. If A/N does not terminate its offer, TWE will have the right to purchase the specified assets at a price equal to the value of the specified assets determined by the appraiser. If TWE does not exercise its right to purchase the specified assets, A/N has the right to sell the specified assets to an unrelated third party within 180 days on substantially the same terms as were available to TWE.

## ***Clearwire Investment***

In November 2008, TWC, Intel Corporation ( Intel ), Google Inc., Comcast and Bright House Networks, LLC (together with TWC, Intel Corporation, Google Inc. and Comcast, the Clearwire Investors ) collectively invested \$3.2 billion in Clearwire Corp and one of its operating subsidiaries, Clearwire LLC. TWC's final ownership interest in Clearwire will be determined based on the trading price of Clearwire Corp's Class A common stock during a post-closing measuring period ending on February 26, 2009. If the volume weighted average trading price is \$17 or below, TWC's ownership interest will be approximately 4.4%. The closing price of Clearwire Corp's Class A common stock on February 13, 2009 was \$3.60.

In connection with the transaction, affiliates of TWC and the other Clearwire Investors entered into an operating agreement, an equity holders' agreement and a registration rights agreement (the Registration Rights Agreement ) with Clearwire, and, other than Intel, a strategic investor agreement governing certain rights and obligations of the parties with respect to the governance of Clearwire Corp, including director nominations, transfer and purchase restrictions on Clearwire Corp's common stock, rights of first refusal, pre-emptive rights and tag-along rights. Under the Registration Rights Agreement, TWC is entitled to two demand registration rights (other than demands to file a Form S-3) as long as the securities to be registered have an aggregate price to the public of not less than \$50 million. After Clearwire becomes eligible to use Form S-3, Clearwire is required to file a shelf registration statement providing for the registration and sale of securities on a delayed or continuous basis and TWC also has the right to demand that Clearwire file a Form S-3. The Registration Rights Agreement also provides TWC with customary piggyback registration rights.

## ***Wireless Spectrum Joint Venture***

TWC is a participant in a joint venture with certain other cable companies ( SpectrumCo ) that holds advanced wireless spectrum ( AWS ) licenses. Under certain circumstances, the members of SpectrumCo have the ability to exit the venture and receive from the venture, subject to certain limitations and adjustments, AWS licenses covering the areas in which they provide cable services. In January 2009, SpectrumCo redeemed the 10.9% interest held by an affiliate of Cox Communications, Inc. ( Cox ), and Cox received AWS licenses, principally covering areas in which Cox has cable services, and approximately \$70 million in cash (of which TWC's share was \$22 million). Following the closing of the

Cox transaction, SpectrumCo's AWS licenses cover 20 MHz over 80% of the continental United States and Hawaii.



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**TWC's Governing Documents**

***Management and Operations***

The following description summarizes certain provisions of TWC's constituent documents and certain agreements that affect and govern TWC's ongoing operations. Such description does not purport to be complete and is qualified in its entirety by reference to the provisions of such agreements and constituent documents.

*TWC common stock.* A subsidiary of Time Warner owns 746,000,000 shares of the TWC Class A common stock, which has one vote per share, and 75,000,000 shares of TWC's Class B common stock, which has ten votes per share, which together represent 90.6% of the voting power of TWC's common stock and approximately 84% of the common stock. TWC's existing amended and restated certificate of incorporation (the "TWC Certificate of Incorporation") does not include a mechanism to convert Class B common stock into Class A common stock. The TWC Class A common stock and Class B common stock vote together as a single class on all matters, except with respect to the election of directors and certain matters described below. In connection with the Separation, prior to the Distribution, TWC will file the Second Amended and Restated Certificate of Incorporation with the Secretary of State of the State of Delaware. Effective upon the filing, each outstanding share of TWC Class A common stock and TWC Class B common stock will be automatically converted into one fully paid and non-assessable share of TWC Common Stock. Holders of TWC Common Stock will have identical rights and one vote per share on all matters submitted to a vote of stockholders.

*Board of directors.* Under the terms of the TWC Certificate of Incorporation and TWC's existing by-laws (the "TWC By-laws"), the TWC Class A common stock votes as a separate class with respect to the election of the Class A directors (the "Class A Directors"), and the Class B common stock votes as a separate class with respect to the election of the Class B directors (the "Class B Directors"). In addition, the Class A Directors must represent not less than one-sixth and not more than one-fifth of TWC's directors, and the Class B Directors must represent not less than four-fifths of TWC's directors. As a result of its holdings, Time Warner has the ability to cause the election of all Class A Directors and Class B Directors, subject to certain restrictions on the identity of these directors discussed below. Under the TWC Second Amended and Restated Certificate of Incorporation, TWC will have a single class of directors and a single class of common stock and holders of TWC Common Stock will vote as one class for the election of all of the members of TWC's board of directors.

Under the terms of the TWC Certificate of Incorporation, until August 1, 2009, at least 50% of TWC's board of directors must be independent directors as defined under the NYSE listed company rules. This provision will also be retained in the TWC Second Amended and Restated Certificate of Incorporation.

*Protections of minority Class A common stockholders.* Under the terms of the TWC Certificate of Incorporation, the approval of the holders of a majority of the voting power of the outstanding shares of TWC Class A common stock held by persons other than Time Warner and its subsidiaries is necessary for any merger, consolidation or business combination in which the holders of TWC Class A common stock do not receive per share consideration identical to that received by the holders of TWC Class B common stock (other than with respect to voting power) or that would otherwise adversely affect the specific rights and privileges of the holders of the TWC Class A common stock relative to the specific rights and privileges of the holders of the TWC Class B common stock. In addition, the approval of (i) the holders of a majority of the voting power of the outstanding shares of TWC Class A common stock held by persons other than Time Warner and (ii) the majority of the independent directors on TWC's board of directors is required to:

change or adopt a provision inconsistent with the TWC Certificate of Incorporation if such change would have a material adverse effect on the rights of the holders of TWC Class A common stock in a manner

different from the effect on the rights of the holders of TWC Class B common stock;

through July 31, 2011, (a) change any of the provisions of the TWC By-laws concerning restrictions on transactions between TWC and Time Warner and its affiliates or (b) adopt any provision of the TWC Certificate of Incorporation or By-laws inconsistent with such restrictions; and

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change or adopt a provision inconsistent with the provisions of the TWC Certificate of Incorporation that set forth:

the approvals required in connection with any merger, consolidation or business combination of TWC;

the number of independent directors required on the TWC board of directors;

the approvals required to change the TWC By-laws; and

the approvals required to change the TWC Certificate of Incorporation.

The TWC Second Amended and Restated Certificate of Incorporation will include provisions regarding required approvals that are substantially similar to those described above, except that, while the approval of the holders of a majority of the voting power of the outstanding shares of TWC Class A common stock held by persons other than Time Warner is currently required in certain circumstances, pursuant to the TWC Second Amended and Restated Certificate of Incorporation, the approval of the holders of a majority of the voting power of the outstanding shares of TWC Common Stock held by persons other than Time Warner will be required.

***Matters Affecting the Relationship between Time Warner and TWC***

*Indebtedness approval right.* Pursuant to a shareholder agreement between TWC and Time Warner (the Shareholder Agreement), until such time as the indebtedness of TWC is no longer attributable to Time Warner, in Time Warner's reasonable judgment, TWC, its subsidiaries and entities that it manages may not, without the consent of Time Warner, create, incur or guarantee any indebtedness (except for the issuance of commercial paper or borrowings under TWC's current revolving credit facility up to the limit of that credit facility, to which Time Warner has consented), including preferred equity, or rental obligations if its ratio of indebtedness plus six times its annual rental expense to EBITDA (as EBITDA is defined in the Shareholder Agreement) plus rental expense, or EBITDAR, then exceeds or would exceed 3:1. In the Separation Agreement, Time Warner agreed that the calculation of indebtedness under the Shareholder Agreement would exclude (i) any indebtedness incurred pursuant to the 2008 Bridge Facility to fund, in part, the Special Dividend and (ii) any indebtedness that reduces, on a dollar-for-dollar basis, the commitments of the lenders under the 2008 Bridge Facility.

*Time Warner standstill.* Under the Shareholder Agreement, so long as Time Warner has the power to elect a majority of TWC's board of directors, Time Warner has agreed that, prior to August 1, 2009, Time Warner will not make or announce a tender offer or exchange offer for TWC Class A common stock without the approval of a majority of the independent directors of TWC; and prior to August 1, 2016, Time Warner will not enter into any business combination with TWC, including a short-form merger, without the approval of a majority of the independent directors of TWC.

*Other Time Warner rights.* Pursuant to the Shareholder Agreement, so long as Time Warner has the power to elect a majority of TWC's board of directors, TWC must obtain Time Warner's consent before (i) entering into any agreement that binds or purports to bind Time Warner or its affiliates or that would subject TWC or its subsidiaries to significant penalties or restrictions as a result of any action or omission of Time Warner or its affiliates; or (ii) adopting a stockholder rights plan, becoming subject to section 203 of the Delaware General Corporation Law, adopting a fair price provision in the TWC Certificate of Incorporation or taking any similar action.

Furthermore, pursuant to the Shareholder Agreement, so long as Time Warner has the power to elect a majority of TWC's board of directors, Time Warner may purchase debt securities issued by TWE only after giving notice to TWC

of the approximate amount of debt securities it intends to purchase and the general time period for the purchase, which period may not be greater than 90 days, subject to TWC's right to give notice to Time Warner that it intends to purchase such amount of TWE debt securities itself.

Concurrently with the execution of the Separation Agreement, TWC and Time Warner entered into Amendment No. 1 to the Shareholder Agreement. Under this amendment, all of Time Warner's and TWC's rights and obligations under the Shareholder Agreement will terminate upon the completion of the Separation.

*Transactions between Time Warner and TWC.* The TWC By-laws provide that Time Warner may only enter into transactions with TWC and its subsidiaries, including TWE, that are on terms that, at the time of entering into

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such transaction, are substantially as favorable to TWC or its subsidiaries as they would be able to receive in a comparable arm's-length transaction with a third party. Any such transaction involving reasonably anticipated payments or other consideration of \$50 million or greater also requires the prior approval of a majority of the independent directors of TWC. The TWC By-laws also prohibit TWC from entering into any transaction having the intended effect of benefiting Time Warner and any of its affiliates (other than TWC and its subsidiaries) at the expense of TWC or any of its subsidiaries in a manner that would deprive TWC or any of its subsidiaries of the benefit it would have otherwise obtained if the transaction were to have been effected on arm's-length terms. Each of these By-law provisions terminates in the event that Time Warner and TWC cease to be affiliates.

The provisions described above will not be included in TWC's amended and restated By-laws that will become effective in connection with the Separation.

*Time Warner Registration Rights.* At the closing of the TWE Restructuring, Time Warner and TWC entered into a registration rights agreement (the "Time Warner Registration Rights Agreement") relating to Time Warner's shares of TWC common stock. Subject to several exceptions, including TWC's right to defer a demand registration under some circumstances, Time Warner may, under that agreement, require that TWC take commercially reasonable steps to register for public resale under the Securities Act of 1933, as amended, all shares of common stock that Time Warner requests to be registered. Time Warner may demand an unlimited number of registrations. In addition, Time Warner has been granted "piggyback" registration rights subject to customary restrictions and TWC is permitted to piggyback on Time Warner's registrations. TWC has also agreed that, in connection with a registration and sale by Time Warner under the Time Warner Registration Rights Agreement, it will indemnify Time Warner and bear all fees, costs and expenses, except underwriting discounts and selling commissions.

Concurrently with the execution of the Separation Agreement, TWC and Time Warner entered into Amendment No. 1 to the Time Warner Registration Rights Agreement, which provides Time Warner with the right to require TWC to file any registration statement necessary to consummate the Separation. In addition, under this amendment, all of TWC's and Time Warner's rights and obligations under the Time Warner Registration Rights Agreement will terminate upon the consummation of the Distribution.

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### **Item 1A. Risk Factors.**

#### **Risks Related to Competition**

***TWC faces a wide range of competition, which could negatively affect its business and financial results.***

TWC's industry is, and will continue to be, highly competitive. Some of TWC's principal competitors, DBS operators and incumbent local telephone companies, in particular, offer services that provide features and functions comparable to the video, high-speed data and/or voice services that TWC offers, and they offer them in bundles similar to TWC's. In a number of TWC's operating areas, AT&T and Verizon have upgraded portions of their networks to carry two-way video, high-speed data with substantial bandwidth and IP-based telephony services, which they market and sell in bundles along with their wireless service. TWC's competitors try to distinguish their services from TWC's by offering aggressive promotional pricing, exclusive programming, and/or assertions of superior service or offerings.

In addition, TWC faces competition from a range of other competitors, including, increasingly, companies that deliver content to consumers over the Internet, often without charging a fee for access to the content. This trend could negatively impact customer demand for TWC's video services, especially premium and On-Demand services, and could encourage content owners to seek higher license fees from TWC in order to subsidize their free distribution of content. TWC also faces competition in high speed data from second- and third-generation wireless broadband services provided by mobile carriers such as Verizon, AT&T, Sprint and T-Mobile and broadband over power lines. Competition in voice services is increasing as more homes in the United States are replacing their traditional telephone service with wireless service.

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

Future advances in technology, as well as changes in the marketplace, in the economy and in the regulatory and legislative environments, may result in changes to the competitive landscape. For additional information regarding the regulatory and legal environment, see Risks Related to Government Regulation, Risks Related to TWC's Operations. Weakening economic conditions, including a continued downturn in the housing market, may negatively impact TWC's ability to attract new subscribers, increase rates and maintain or increase revenues and Business Competition and Regulatory Matters.

***TWC operates its cable systems under franchises that are non-exclusive. State and local franchising authorities can grant additional franchises and foster additional competition.***

TWC's cable systems are constructed and operated under non-exclusive franchises granted by state or local governmental authorities. Federal law prohibits franchising authorities from unreasonably denying requests for additional franchises. Consequently, competing operators may build systems in areas in which TWC holds franchises. The existence of more than one cable system operating in the same territory is referred to as an overbuild. In the past, competing operators most of them relatively small have obtained such franchises and offered competing services in some areas in which TWC holds franchises. More recently, incumbent local telephone companies with significant

resources, particularly Verizon and AT&T, have obtained such franchises in order to offer video, high-speed data and voice services in some of TWC's service areas. See TWC faces a wide range of competition, which could negatively affect its business and financial results above. Verizon and AT&T are continuing to upgrade their networks to expand the geographic areas in which they can deliver video and high-speed data services, in addition to their existing telephone services.

Increased competition from any source, including overbuilders, could require TWC to charge lower prices for existing or future services than TWC otherwise might or require TWC to invest in or obtain additional services more

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quickly or at higher costs than TWC otherwise might. These actions, or the failure to take steps to allow TWC to compete effectively, could adversely affect TWC's growth, financial condition and results of operations.

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

In addition to the various competitive factors discussed above, TWC's business is subject to risks relating to increasing competition for the leisure and entertainment time of consumers. TWC's business competes with all other sources of entertainment and information delivery, including broadcast television, movies, live events, radio broadcasts, home video products, console games, sports, print media and the Internet. Technological advancements, such as VOD, new video formats, and Internet streaming and downloading, many of which have been beneficial to TWC's business, have nonetheless increased the number of entertainment and information delivery choices available to consumers and intensified the challenges posed by audience fragmentation. Increasingly, content owners are delivering their content directly to consumers over the Internet, often without charging any fee for access to the content. Furthermore, due to consumer electronics innovations, consumers are more readily able to watch such Internet-delivered content on television sets. The increasing number of choices available to audiences could negatively impact not only consumer demand for TWC's products and services, but also advertisers' willingness to purchase advertising from TWC. If TWC does not respond appropriately to further increases in the leisure and entertainment choices available to consumers, TWC's competitive position could deteriorate, and TWC's financial results could suffer.

***TWC's competitive position and business and financial results could suffer if it does not develop a compelling wireless offering.***

TWC believes that broadband cable networks currently provide the most efficient means to deliver its services, but consumers are increasingly interested in accessing information, entertainment and communication services outside the home as well. TWC is exploring various means by which it can offer its customers mobile services. TWC has entered into a wholesale agreement with Sprint that allows TWC to offer wireless services utilizing Sprint's second-generation and third-generation network and a wholesale agreement with Clearwire that will allow TWC to offer wireless services utilizing Clearwire's mobile broadband wireless network, once constructed. TWC also is a participant in SpectrumCo, which holds AWS licenses covering 20 MHz over 80% of the continental United States and Hawaii. There can be no assurance that Clearwire will successfully finance, develop, construct and deploy a nationwide mobile broadband wireless network or that Clearwire, SpectrumCo or the Company will successfully develop wireless services. If TWC incurs significant costs in developing or marketing mobile voice and/or related wireless offerings, and the resulting offerings are not competitive with the offerings of TWC's competitors or appealing to TWC's customers, TWC's business and financial results could suffer. In addition, if TWC's competitors expand their service bundles to include compelling mobile features before TWC has developed and rolled out equivalent or more compelling offerings, TWC may not be in a position to provide a competitive service offering and its growth, business and financial results may be adversely affected.

## **Risks Related to TWC's Operations**

***Weakening economic conditions, including a continued downturn in the housing market, may negatively impact TWC's ability to attract new subscribers, increase rates and maintain or increase revenues.***

The United States economy is currently undergoing a period of slowdown and the future economic environment may continue to be less favorable than that of recent years. A continuation or further weakening of these economic conditions could lead to further reductions in consumer demand for the Company's services, especially premium services and DVRs, and a continued increase in the number of homes that replace their traditional telephone service with wireless service, which would negatively impact TWC's ability to attract customers, increase rates and maintain



or increase subscription revenues. In addition, providing basic video services is an established and highly penetrated business. TWC's ability to achieve incremental growth in basic video subscribers is dependent to a large extent on growth in occupied housing in TWC's service areas, which is influenced by both national and local economic conditions. If growth in the number of occupied homes continues to decline, it may negatively impact TWC's ability to gain new basic video subscribers. In addition, TWC's advertising revenues have

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been negatively impacted by the weakening economic conditions, and a continuation or further weakening of these conditions could lead to further reduced advertising revenue in the foreseeable future.

***TWC's business is characterized by rapid technological change, and if TWC does not respond appropriately to technological changes, its competitive position may be harmed.***

TWC operates in a highly competitive, consumer-driven and rapidly changing environment and is, to a large extent, dependent on its ability to acquire, develop, adopt and exploit new and existing technologies to distinguish its services from those of its competitors. If TWC chooses technologies or equipment that are less effective, cost-efficient or attractive to its customers than those chosen by its competitors, or if TWC offers services that fail to appeal to consumers, are not available at competitive prices or that do not function as expected, TWC's competitive position could deteriorate, and TWC's business and financial results could suffer.

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

***Significant unanticipated increases in the use of bandwidth-intensive Internet-based services could increase TWC's costs.***

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

***TWC may encounter unforeseen difficulties as it increases the scale of its service offerings to commercial customers.***

TWC has sold video, high-speed data and network and transport services to businesses for some time and, in 2007, introduced an IP-based telephony service, Business Class Phone, geared to small- and medium-sized businesses. In order to provide its commercial customers with reliable services, TWC may need to increase expenditures, including spending on technology, equipment and personnel. If the services are not sufficiently reliable or TWC otherwise fails to meet commercial customers' expectations, the growth of its commercial services business may be limited. In addition, TWC faces competition from the existing local telephone companies as well as from a variety of other national and regional business services competitors. If TWC is unable to successfully attract and retain commercial customers, its growth, financial condition and results of operations may be adversely affected.



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

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

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

***TWC's business may be adversely affected if TWC cannot continue to license or enforce the intellectual property rights on which its business depends.***

TWC relies on patent, copyright, trademark and trade secret laws and licenses and other agreements with its employees, customers, suppliers, and other parties, to establish and maintain its intellectual property rights in technology and the products and services used in TWC's operations. However, any of TWC's intellectual property rights could be challenged or invalidated, or such intellectual property rights may not be sufficient to permit TWC to take advantage of current industry trends or otherwise to provide competitive advantages, which could result in costly redesign efforts, discontinuance of certain product or service offerings or other competitive harm. 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, which could require TWC to change its business practices or offerings and limit its ability to compete effectively. Even claims without merit can be time-consuming and costly to defend and may divert management's attention and resources away from TWC's businesses. Also, because of the rapid pace of technological change, TWC relies on technologies developed or licensed by third parties, and TWC may not be able to obtain or continue to obtain licenses from these third parties on reasonable terms, if at all.

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

Financial Accounting Standards Board (FASB) Statement No. 142, *Goodwill and Other Intangible Assets* (FAS 142) requires that goodwill, including the goodwill included in the carrying value of investments accounted for using the equity method of accounting, and other intangible assets deemed to have indefinite useful lives, such as cable franchise rights, cease to be amortized. FAS 142 requires that goodwill and certain intangible assets be tested annually

for impairment or earlier upon the occurrence of certain events or substantive changes in circumstances. If TWC finds that the carrying value of goodwill or a certain intangible asset exceeds its estimated fair value, it will reduce the carrying value of the goodwill or intangible asset to the estimated fair value, and TWC will recognize an impairment. Any such impairment is required to be recorded as a noncash operating loss.

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TWC's 2008 annual impairment analysis, which was performed as of December 31, 2008, resulted in a noncash pretax impairment on its cable franchise rights of \$14.822 billion, and as a result, the carrying values of the Company's impaired cable franchise rights were re-set to their estimated fair values as of December 31, 2008. Consequently, any further decline in the estimated fair values of these cable franchise rights could result in additional cable franchise rights impairments. It is possible that such impairments, if required, could be material and may need to be recorded prior to the fourth quarter of 2009 (i.e., during an interim period) if the Company's results of operations or other factors require such assets to be tested for impairment at an interim date. See Management's Discussion and Analysis of Results of Operations and Financial Condition Critical Accounting Policies and Estimates Asset Impairments Goodwill and Indefinite-lived Intangible Assets and Long-lived Assets.

***The IRS and state and local tax authorities may challenge the tax characterizations of the Adelphia Acquisition, the Redemptions (as defined below) and the Exchange (as defined below), or TWC's related valuations, and any successful challenge by the IRS or state or local tax authorities could materially adversely affect TWC's tax profile, significantly increase TWC's future cash tax payments and significantly reduce TWC's future earnings and cash flow.***

The Adelphia Acquisition was designed to be a fully taxable asset sale, the redemption by TWC of Comcast's interests in TWC (the TWC Redemption) was designed to qualify as a tax-free split-off under section 355 of the Internal Revenue Code of 1986, as amended (the Tax Code), the redemption by TWE of Comcast's interests in TWE (the TWE Redemption) and collectively with the TWC Redemption, the Redemptions) was designed as a redemption of Comcast's partnership interest in TWE, and the exchange between TW NY Cable and Comcast immediately after the Adelphia Acquisition (the Exchange) was designed as an exchange of designated cable systems. There can be no assurance, however, that the Internal Revenue Service (the IRS) or state or local tax authorities (collectively with the IRS, the Tax Authorities) will not challenge one or more of such characterizations or TWC's related valuations. Such a successful challenge by the Tax Authorities could materially adversely affect TWC's tax profile (including TWC's ability to recognize the intended tax benefits from the Adelphia/Comcast Transactions), significantly increase TWC's future cash tax payments and significantly reduce TWC's future earnings and cash flow. The tax consequences of the Adelphia Acquisition, the Redemptions and the Exchange are complex and, in many cases, subject to significant uncertainties, including, but not limited to, uncertainties regarding the application of federal, state and local income tax laws to various transactions and events contemplated therein and regarding matters relating to valuation.

***TWC has incurred substantial debt, which may limit its flexibility, prevent it from taking advantage of business opportunities and negatively affect its ability to refinance existing debt.***

In connection with the Separation, TWC incurred \$7.0 billion of indebtedness pursuant to the 2008 Bond Offerings to fund, in part, the Special Dividend and expects to incur additional indebtedness to fund the Special Dividend and expenses related to the Separation Transactions through a combination of borrowings under the 2008 Bridge Facility, additional financing in the public debt markets and/or borrowings under TWC's \$6 billion senior unsecured five-year revolving credit facility (the Revolving Credit Facility). The increased indebtedness and the terms of these financing arrangements and any future indebtedness will impose various restrictions on TWC that could limit its ability to respond to market conditions, provide for capital investment needs or take advantage of business opportunities. Also, as a result of TWC's increased borrowings, its interest expense will be higher than it has been in the past, which will affect TWC's profitability and cash flows.

In addition, the Revolving Credit Facility and TWC's \$3.045 billion five-year term loan facility both mature in 2011. At this time it is difficult to forecast the future state of the bank loan market. As a result of TWC's substantial debt levels and the uncertain state of various financial institutions and the credit markets generally, TWC may be unable to refinance its bank facilities in the same amount and on the same terms as its current facilities, which could negatively impact its liquidity and results of operations.

*TWC is exposed to risks associated with turmoil in the financial markets.*

U.S. and global credit and equity markets have recently undergone significant disruption, making it difficult for many businesses to obtain financing on acceptable terms. In addition, equity markets are continuing to

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experience wide fluctuations in value. As a result, an increasing number of financial institutions and insurance companies have reported significant deterioration in their financial condition. If any of the significant lenders, insurance companies or other financial institutions are unable to perform their obligations under the Company's credit agreements, insurance policies or other contracts, and the Company is unable to find suitable replacements on acceptable terms, the Company's results of operations, liquidity and cash flows could be adversely affected. The Company also faces challenges relating to the impact of the disruption in the global financial markets on other parties with which the Company does business, such as vendors and retailers. The inability of these parties to obtain financing on acceptable terms could impair their ability to perform under their agreements with the Company and lead to various negative effects on the Company, including business disruption, decreased revenues and increases in bad debt write-offs. A sustained decline in the financial stability of these parties could have an adverse impact on TWC's business and results of operations.

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

***Increases in programming and retransmission costs or the inability to obtain popular programming could adversely affect TWC's operations, business or financial results.***

Video programming costs represent a major component of TWC's expenses and are expected to continue to increase primarily due to the increasing cost of obtaining desirable programming, particularly broadcast and sports programming. TWC's video service margins have declined over recent years and will continue to decline over the next coming years as cable programming and broadcast station retransmission consent cost increases outpace growth in video revenues. Furthermore, providers of desirable content may be unwilling to enter into distribution arrangements with TWC on acceptable terms. In addition, owners of non-broadcast video programming content may enter into exclusive distribution arrangements with TWC's competitors. A failure to carry programming that is attractive to TWC's subscribers could adversely impact subscription and advertising revenues.

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

TWC depends on third party suppliers and licensors to supply some of the hardware, software and operational support necessary to provide some of TWC's services. Some of TWC's hardware, software and operational support vendors represent TWC's sole source of supply or have, either through contract or as a result of intellectual property rights, a position of some exclusivity. If demand exceeds these vendors' capacity or if these vendors experience operating or financial difficulties, especially in light of current economic and market conditions, TWC's ability to provide some services might be materially adversely affected. These events could materially and adversely affect TWC's ability to retain and attract subscribers, and have a material negative impact on TWC's operations, business, financial results and financial condition.

TWC has an agreement with Sprint under which it provides certain functions and services necessary to TWC in providing Digital Phone service to customers by routing voice traffic to and from destinations outside of TWC's network via the public switched telephone network, delivering E911 service and assisting in local number portability and long-distance traffic carriage. TWC's reliance on a single provider for these services may render TWC vulnerable to service disruptions and other operational difficulties, which could have an adverse effect on TWC's business and financial results.

***TWC may encounter substantially increased pole attachment costs.***

Under federal law, TWC has the right to attach cables carrying video services to telephone and similar poles of investor-owned utilities at regulated rates. However, because these cables carry services other than video services, such as high-speed data services or new forms of voice services, some utility pole owners have sought to impose



additional fees for pole attachment. The U.S. Supreme Court has rejected the efforts of some utility pole owners to make cable attachments carrying Internet traffic ineligible for regulatory protection. Pole owners have, however, made arguments in other areas of pole regulation that, if successful, could significantly increase TWC's costs. In November 2007, the FCC issued a Notice of Proposed Rulemaking that proposes to establish a single pole attachment rate for all utility pole owners carrying broadband Internet access services that would be higher than the rate charged for video and cable modem service.

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

## **Risks Related to Government Regulation**

***TWC's business is subject to extensive governmental regulation, which could adversely affect its business.***

TWC's video and voice services are subject to extensive regulation at the federal, state, and local levels. In addition, the federal government has extended some regulation to high-speed data services and is considering additional regulations. TWC is also subject to regulation of its video services relating to rates, equipment, technologies, programming, levels and types of services, taxes and other charges. Modification to existing regulations or the imposition of new regulations could have an adverse impact on TWC's services. If the Congress or regulators were to disallow the use of certain technologies TWC uses today or to mandate the implementation of other technologies, TWC's services and results of operations could suffer. TWC expects that legislative enactments, court actions, and regulatory proceedings will continue to clarify and, in some cases, change the rights of cable companies and other entities providing video, high-speed data and voice services under the Communications Act and other laws, possibly in ways that TWC has not foreseen. The results of these legislative, judicial, and administrative actions may materially affect TWC's business operations in areas such as:

*Voice Communications.* Traditional providers of voice services generally are subject to significant state and federal regulations. It is unclear to what extent certain of those regulations (or other regulations) apply to certain providers of interconnected voice-over IP services, including TWC's. In orders over the past several years, the FCC subjected voice-over IP providers to a number of regulatory obligations applicable to traditional voice service. To the extent that the FCC, Congress or individual states impose additional burdens, TWC's operations could be adversely affected. See *Business Regulatory Matters Voice Services*.

*Phantom Signals.* In May 2008, the U.S. Copyright Office (the "Copyright Office") published an order stating its view that where cable operators carry a distant station in any portion of a cable system as defined in the Copyright Act of 1976, basic service revenues from all portions of such system where such station would be distant must be used to compute copyright compulsory license royalties, even if the station is not actually carried in such areas. The Copyright Office's reading of the relevant law could significantly increase the Company's costs of carrying distant television stations.

***Changes in broadcast carriage regulations could impose significant additional costs on TWC.***

Although TWC would likely choose to carry the majority of primary feeds of full power stations voluntarily, so-called "must carry" rules require TWC to carry some local broadcast television signals on some of its cable systems that it might not otherwise carry. If the FCC seeks to revise or expand the "must carry" rules, such as to require carriage of multicast streams, TWC would be forced to carry video programming that it would not otherwise carry and potentially to drop other, more popular programming in order to free capacity for the required programming, which could make TWC less competitive. Moreover, if the FCC adopts rules that are not competitively neutral, cable operators could be placed at a disadvantage versus other multi-channel video providers.

***Under the program carriage rules, TWC could be compelled to carry programming services that it would not otherwise carry.***

The Communications Act and the FCC's program carriage rules restrict cable operators and MVPDs from unreasonably restraining the ability of an unaffiliated programming vendor to compete fairly by discriminating against the programming vendor on the basis of its non-affiliation in the selection, terms or conditions for carriage. The FCC's Adelphia/Comcast Transactions Order imposes certain additional obligations related to these rules. Under a successful program carriage complaint, TWC might be compelled to carry programming services it would

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not otherwise carry and/or to do so on economic and other terms that it would not accept absent such compulsion. TWC is currently the defendant in two program carriage complaints. See Business Regulatory Matters Video Services Program access and Adelphia/Comcast Transactions Order. Compelled government carriage could reduce TWC's ability to carry other, more desirable programming and non-video services, decrease its ability to manage its bandwidth efficiently and increase TWC's costs, adversely affecting TWC's competitive position.

***Net neutrality legislation or regulation could limit TWC's ability to operate its high-speed data business profitably and to manage its broadband facilities efficiently to respond to growing bandwidth usage by TWC's high-speed data customers.***

Several disparate groups have adopted the term "net neutrality" in connection with their efforts to persuade Congress and regulators to adopt rules that could limit the ability of broadband providers to effectively manage or operate their broadband networks. Proponents of net neutrality advocate a variety of regulations, including regulations which prohibit broadband providers from recovering the costs of rising bandwidth usage from any parties other than retail customers; require absolute nondiscrimination for any Internet traffic; and require forms of "open access."

The average bandwidth usage of TWC's high-speed data customers has been increasing significantly in recent years as the amount of high-bandwidth content and the number of applications available on the Internet continue to grow. In order to continue to provide quality service at attractive prices, TWC needs the continued flexibility to develop and refine business models that respond to changing consumer uses and demands and to manage bandwidth usage efficiently. As a result, depending on the form it might take, "net neutrality" legislation or regulation could adversely impact TWC's ability to operate its high-speed data network profitably and to undertake the upgrades that may be needed to continue to provide high quality high-speed data services and could negatively impact its ability to compete effectively. For a description of current regulatory proposals, see Business Regulatory Matters High-Speed Data Internet Access Services Net neutrality legislative and regulatory proposals.

***If TWC is prohibited by regulation from using SDV technology, it may be forced to make costly upgrades to its system in order to remain competitive.***

As of December 31, 2008, TWC had deployed switched digital video, or SDV, technology to approximately 5.2 million digital video subscribers. SDV technology allows TWC to save bandwidth by transmitting particular programming services only to groups of homes or nodes where subscribers are viewing the programming at a particular time rather than broadcasting it to all subscriber homes. The FCC may interpret existing regulation or introduce new regulation to restrict cable operators' ability to use SDV technology. If TWC is prohibited by regulation from using SDV technology, it may have difficulty carrying the volume of HDTV channels and other bandwidth-intensive traffic carried by competitors and may be forced to make costly upgrades to its systems in order to remain competitive. See Business Regulatory Matters Video Services Switched digital video.

***Rate regulation could materially adversely impact TWC's operations, business, financial results or financial condition.***

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

*TWC may have to pay fees in connection with its cable modem service.*

Local franchising authorities generally require cable operators to pay a franchise fee of five percent of revenue, which cable operators collect in turn from their subscribers. TWC has taken the position that under the

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Communications Act, local franchising authorities are allowed to impose a franchise fee only on revenue from cable services. Following the FCC's March 2002 determination that cable modem service does not constitute a cable service, TWC and most other multiple system operators stopped collecting and paying franchise fees on cable modem revenue.

The FCC has initiated a rulemaking proceeding to explore the consequences of its March 2002 order. If either the FCC or a court were to determine that, despite the March 2002 order, TWC is required to pay franchise fees on cable modem revenue, TWC's franchise fee burden could increase going forward. TWC would be permitted to collect those increased fees from its subscribers, but doing so could impair its competitive position as compared to high-speed data service providers who are not required to collect and pay franchise fees. TWC could also become liable for franchise fees back to the time TWC stopped paying them. TWC may not be able to recover those fees from subscribers. Most courts interpreting the rules, including several instances involving TWC, have determined that cable operators are not required to pay these fees on cable modem service.

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

The exact requirements of applicable law are not always clear, and the rules affecting TWC's businesses are always subject to change. For example, the FCC may interpret its rules and regulations in enforcement proceedings in a manner that is inconsistent with the judgments TWC has made. Likewise, regulators and legislators at all levels of government may sometimes change existing rules or establish new rules. Congress, for example, considers new legislative requirements for cable operators virtually every year, and there is always a risk that such proposals will ultimately be enacted. In addition, federal, state or local governments and/or tax authorities may change tax laws, regulations or administrative practices that could negatively impact TWC's operating results and financial condition. See Business Regulatory Matters.

## **Risks Related to the Separation**

### ***TWC may not realize some or all of the benefits that it expects from the Separation.***

TWC believes that the Separation will result in several benefits to the Company, including increased long-term strategic, operational and regulatory flexibility and a more efficient capital structure. The Company cannot predict with certainty the extent to which these benefits actually will be achieved, if at all. Furthermore, even if some or all of these benefits are achieved, they may not result in the creation of value for TWC's stockholders.

***If the Separation Transactions, including the Distribution, do not qualify as tax-free, either as a result of actions taken or not taken by TWC or as a result of the failure of certain representations by TWC to be true, TWC has agreed to indemnify Time Warner for its taxes resulting from such disqualification, which would be significant. In addition, the restrictions imposed on TWC in connection with the tax treatment of the Distribution could limit TWC's ability to engage in certain corporate transactions.***

The Separation Transactions are conditioned upon Time Warner's receipt of a private letter ruling from the IRS and Time Warner's and TWC's receipt of opinions of tax counsel confirming that the Separation Transactions should generally qualify as tax-free to Time Warner and its stockholders for U.S. federal income tax purposes. The ruling and opinions rely on certain facts, assumptions, representations, and undertakings from Time Warner and TWC regarding the past and future conduct of the companies' businesses and other matters. If any of these facts, assumptions, representations or undertakings are incorrect or not otherwise satisfied, Time Warner and its stockholders may not be able to rely on the ruling or the opinions and could be subject to significant tax liabilities. Notwithstanding the private letter ruling and opinions, the IRS could determine on audit that the Separation Transactions should be treated as taxable transactions if it determines that any of these facts, assumptions, representations or undertakings are not correct or have been violated, or for other reasons, including as a result of significant changes in the stock ownership

of Time Warner or TWC after the Distribution.

Under the tax sharing agreement among Time Warner and TWC, TWC generally would be required to indemnify Time Warner against its taxes resulting from the failure of any of the Separation Transactions to qualify as tax-free as a result of (i) certain actions or failures to act by TWC or (ii) the failure of certain representations to be made by TWC to be true. Due to the potential impact of significant stock ownership changes on the taxability of the

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Separation Transactions, TWC's indemnification obligations may prevent it from entering into transactions that might otherwise be advantageous, such as issuing equity securities to satisfy financing needs or acquiring businesses or assets with equity securities if such issuances would exceed certain thresholds and such actions could be considered part of a plan or series of related transactions that include the Distribution.

In addition, even if TWC bears no contractual responsibility for taxes related to a failure of the Separation Transactions to qualify for their intended tax treatment, Treasury regulation section 1.1502-6 imposes on TWC several liability for all Time Warner federal income tax obligations relating to the period during which TWC was a member of the Time Warner federal consolidated tax group, including the date of the Separation Transactions. Similar provisions may apply under foreign, state, or local law. Absent TWC causing the Separation Transactions to not qualify as tax-free, Time Warner has indemnified TWC against such several liability arising from a failure of the Separation Transactions to qualify for their intended tax treatment.

### **Risks Related to TWC's Relationship with Time Warner**

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

Time Warner indirectly holds all of TWC's outstanding Class B common stock and approximately 82.7% of TWC's outstanding Class A common stock. The common stock held by Time Warner represents approximately 90.6% of TWC's combined voting power and 84.0% of the total number of shares of capital stock outstanding of all classes of TWC's voting stock. Accordingly, Time Warner can control the outcome of most matters submitted to a vote of TWC's stockholders. In addition, Time Warner, because it is the indirect holder of all of TWC's outstanding Class B common stock, and because it also indirectly holds a majority of TWC's outstanding Class A common stock, is able to elect all of TWC's directors and will continue to be able to do so as long as it owns a majority of TWC's Class A common stock and Class B common stock. As a result of Time Warner's share ownership and representation on TWC's board of directors, Time Warner is able to influence all of TWC's affairs and actions, including matters requiring stockholder approval such as the election of directors and approval of significant corporate transactions. The interests of Time Warner may differ from the interests of TWC's other stockholders. The TWC Certificate of Incorporation requires that TWC's board of directors include independent members, subject to certain limitations, and the TWC By-laws require that certain related party transactions be approved by a majority of these independent directors.

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

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

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



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

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

Time Warner and its affiliates are engaged in a diverse range of entertainment and media-related businesses, including filmed entertainment, home video and Internet-related businesses, and these businesses may have interests that conflict with or compete in some manner with TWC's business. Time Warner and its affiliates are generally under no obligation to share any future business opportunities available to it with TWC and the TWC Certificate of Incorporation contains provisions that release Time Warner and its affiliates, including TWC's directors who are also Time Warner's employees or executive officers, from this obligation and any liability that would result from breach of this obligation. Time Warner may deliver video, high-speed data, voice and wireless services over DSL, satellite or other means using the Time Warner brand name or similar brand names, potentially causing confusion among customers and complicating TWC's marketing efforts. Any competition directly with Time Warner or its affiliates could materially adversely impact TWC's business, financial results or financial condition.

***TWC is currently party to agreements and, following the Separation, will be party to new agreements with Time Warner governing the use of TWC's brand names, including the Time Warner Cable brand name, that may be terminated by Time Warner if TWC fails to perform its obligations under those agreements or if TWC undergoes a specified change of control.***

TWC is currently party to agreements with Time Warner and, has entered into new agreements with Time Warner that will be effective at the Separation, governing the use of TWC's brand name. These agreements may be terminated by Time Warner if TWC:

commits a significant breach of its obligations under such agreements;

undergoes a specified change of control; or

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

TWC licenses its brand name, Time Warner Cable, from Time Warner and the trademark Road Runner from an affiliate of Time Warner and will continue to do so following the Separation. If Time Warner terminates these brand name license agreements, TWC would lose the goodwill associated with its brand names and be forced to develop new brand names, which would likely require substantial expenditures, and TWC's business, financial results or financial condition would likely be materially adversely affected.

***A change in Time Warner's controlling interest in TWC may cause short-term volatility in trading volume and market price of TWC's common stock.***

Time Warner currently owns approximately 84.0% of TWC's common stock, which represents a 90.6% voting interest. Time Warner and TWC have entered into a Separation Agreement. In connection with the Separation Transactions, if a number of TWC's resulting new stockholders chose to sell their shares, or if there is a perception that such sales might occur, it may cause short-term volatility in the trading volume and market price of TWC's common stock.

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

Prior to the Separation, TWC's ability to obtain financing in the capital markets and from other private sources may be adversely affected by future capital markets activity undertaken by Time Warner and its other subsidiaries. Capital

raised by or committed to Time Warner for matters unrelated to TWC may reduce the supply of capital available for TWC as a result of increased leverage of Time Warner on a consolidated basis or reluctance in the market to incur additional credit exposure to Time Warner on a consolidated basis. In addition, TWC's ability to undertake significant capital raising activities may be constrained by competing capital needs of other Time Warner businesses unrelated to TWC. As of December 31, 2008, Time Warner had unused committed capacity of approximately \$4.4 billion under its \$7.0 billion committed credit facility, and approximately \$1.2 billion of cash and equivalents, and TWC had approximately \$5.7 billion of available borrowing capacity under the Revolving Credit Facility, and approximately \$5.4 billion of cash and equivalents.

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

Time Warner controls more than 50% of the voting power of TWC's outstanding common stock. As a result, TWC is considered to be a controlled company for the purposes of the NYSE listing requirements and therefore is permitted to, and has, opted out of the NYSE listing requirements that would otherwise require TWC's compensation and nominating and governance committees to be comprised entirely of independent directors. Accordingly, TWC's stockholders do not have the same protections afforded to stockholders of companies that are subject to all of the NYSE corporate governance requirements. However, the TWC Certificate of Incorporation contains provisions requiring that independent directors constitute at least 50% of TWC's board of directors and the TWC By-laws require that certain related party transactions be approved by a majority of these independent directors.

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

### **Item 1B. *Unresolved Staff Comments.***

Not applicable.

### **Item 2. *Properties.***

TWC's principal physical assets consist of operating plant and equipment, including signal receiving, encoding and decoding devices, headends and distribution systems and equipment at or near subscribers' homes for each of TWC's cable systems. The signal receiving apparatus typically includes a tower, antenna, ancillary electronic equipment and earth stations for reception of satellite signals. Headends, consisting of electronic equipment necessary for the reception, amplification and modulation of signals, are located near the receiving devices. TWC's distribution system consists primarily of coaxial and fiber optic cables, lasers, routers, switches and related electronic equipment. TWC's cable plant and related equipment generally are either attached to utility poles under pole rental agreements with local public utilities or the distribution cable is buried in underground ducts or trenches. Customer premise equipment consists principally of set-top boxes and cable modems. The physical components of cable systems require periodic maintenance.

TWC's high-speed data backbone consists of fiber owned by TWC or circuits leased from third-party vendors, and related equipment. TWC also operates regional and national data centers with equipment that is used to provide services, such as e-mail, news and web services to TWC's high-speed data subscribers and to provide services to TWC's Digital Phone customers. In addition, TWC maintains a network operations center with equipment necessary to monitor and manage the status of TWC's high-speed data network.

As of December 31, 2008, TWC leased and owned real property housing national operations centers and regional data centers used in its high-speed data services business in Herndon, VA; Raleigh, NC; Syracuse, NY; Austin, TX; Kansas City, MO; Orange County, CA; New York, NY; Coudersport, PA; and Columbus, OH, and TWC also leased and owned locations for its corporate offices in New York, NY; Stamford, CT; and Charlotte, NC as well as numerous business offices, warehouses and properties housing divisional operations throughout the country. TWC's signal reception sites, primarily antenna towers and headends, and microwave facilities are located on owned and leased parcels of land, and TWC owns or leases space on the towers on which certain of its equipment is located. TWC owns most of its service vehicles.

TWC believes that its properties, both owned and leased, taken as a whole, are in good operating condition and are suitable and adequate for its business operations.

**Table of Contents****Item 3. 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 named as defendants several other programming content providers (collectively, the programmer defendants) as well as other cable and satellite providers (collectively, the distributor defendants), alleged violations of Sections 1 and 2 of the Sherman Antitrust Act. Among other things, the complaint alleged 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 tiers, 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 TWC, filed motions to dismiss the Second Amended Complaint, which motions were denied by the court on June 25, 2008. On July 14, 2008, the programmer defendants and the distributor defendants filed motions requesting the court to certify its June 25, 2008 order for interlocutory appeal to the U.S. Court of Appeals for the Ninth Circuit, which motions were denied by the district court on August 4, 2008. On November 14, 2008, Time Warner was dismissed as a programmer defendant, and Turner Broadcasting System, Inc. was substituted in its place. 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 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, but final approval of that settlement was denied on January 26, 2007. The parties subsequently reached a revised settlement to resolve this action on terms that are not material to the Company and submitted their agreement to the district court on April 2, 2008. On May 8, 2008, the district court granted preliminary approval of the settlement, but it is still subject to final approval by the district court,

and there can be no assurance that the settlement will receive this approval. Absent the issuance of final court approval 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

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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. In April 2008, TWC and other defendants filed common motions for summary judgment, which argued, among other things, that a number of claims in the patents at issue are invalid under Sections 112 and 103 of the Patent Act. On June 19 and August 4, 2008, the court issued orders granting, in part, and denying, in part, those motions. Defendants filed additional individual motions for summary judgment in August 2008, which argued, among other things, that defendants' respective products do not infringe the surviving claims in plaintiff's patents. Those motions have been fully briefed, but no decision has been reached. The Company intends to defend against this lawsuit 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.

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 into 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.

**Item 4. *Submission of Matters to a Vote of Security Holders.***

On November 21, 2008, WCI, in its capacity as the holder of a majority of TWC's outstanding Class A common stock and all of its Class B common stock (representing in the aggregate 1,496,000,000 votes), consented to amendments to TWC's 2006 Stock Incentive Plan that were approved by TWC's Board of Directors on August 1,

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2008, with respect to the treatment of TWC's outstanding restricted stock units in connection with the Separation. On December 8, 2008, TWC filed an Information Statement pursuant to Section 14(c) of the Securities Exchange Act with the SEC and furnished it to its stockholders. The amendments to TWC's 2006 Stock Incentive Plan will not become effective until certain conditions set forth in the Separation Agreement have been satisfied or waived.

**Table of Contents****EXECUTIVE OFFICERS OF THE COMPANY**

Pursuant to General Instruction G(3) to Form 10-K, the information regarding the Company's executive officers required by Item 401(b) of Regulation S-K is hereby included in Part I of this report.

The following table sets forth the name of each executive officer of the Company, the office held by such officer and the age of such officer as of February 20, 2009.

<b>Name</b>	<b>Age</b>	<b>Office</b>
Glenn A. Britt	59	President and Chief Executive Officer
Ellen East	47	Executive Vice President, Chief Communications Officer
Landel C. Hobbs	46	Chief Operating Officer
Michael LaJoie	54	Executive Vice President and Chief Technology Officer
Marc Lawrence-Apfelbaum	53	Executive Vice President, General Counsel and Secretary
Gail MacKinnon	46	Executive Vice President, Government Relations
Robert D. Marcus	43	Senior Executive Vice President and Chief Financial Officer
Carl U.J. Rossetti	60	Executive Vice President, Corporate Development
Peter C. Stern	37	Executive Vice President and Chief Strategy Officer

Set forth below are the principal positions held during at least the last five years by each of the executive officers named above:

Mr. Britt	Glenn A. Britt has served as the Company's President and Chief Executive Officer since February 15, 2006. Prior to that, he served as the Company's Chairman and Chief Executive Officer from March 2003. Prior to that, Mr. Britt was the Chairman and Chief Executive Officer of the Time Warner Cable division of TWE, now the Company's subsidiary, from August 2001 and its President from January 1999 to August 2001. Prior to assuming that position, he held various senior positions with Time Warner Cable Ventures, a unit of TWE, certain of the Company's predecessor entities, and Time Warner and its predecessor Time Inc. Effective at the Separation, Mr. Britt will serve as Chairman of the Board in addition to his other positions at the Company.
Ms. East	Ellen East has served as the Company's Executive Vice President, Chief Communications Officer since October 2007. Prior to that, she served as Vice President of Communications and Public Affairs at Cox Communications Inc., a provider of video, internet and telephone services, from January 2000 having served in various other positions there from 1993. In that capacity, she oversaw internal, external and shareholder communications and community relations and provided strategic advice on public and media relations, industry affairs and regulatory issues.
Mr. Hobbs	Landel C. Hobbs has served as the Company's Chief Operating Officer since August 2005. Prior to that, he served as the Company's Executive Vice President and Chief Financial Officer from March 2003 and in the same capacity for the Time Warner Cable division of TWE from October

2001. Prior to that, he was Vice President, Financial Analysis and Operations Support for Time Warner from September 2000 to October 2001. Prior to that, beginning in 1993, Mr. Hobbs was employed by Turner Broadcasting System, Inc. ( TBS ) (a subsidiary of Time Warner since 1996), including as Senior Vice President and Chief Accounting Officer from 1996 until September 2000.

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Mr. LaJoie	Michael L. LaJoie has served as the Company's Executive Vice President and Chief Technology Officer since January 2004. Prior to that, he served as Executive Vice President of Advanced Technology from March 2003 and in the same capacity for the TWC division of TWE from August 2002. Mr. LaJoie served as Vice President of Corporate Development of the Time Warner Cable division of TWE from 1998.
Mr. Lawrence-Apfelbaum	Marc Lawrence-Apfelbaum has served as the Company's Executive Vice President, General Counsel and Secretary since January 2003. Prior to that, he served as Senior Vice President, General Counsel and Secretary of the Time Warner Cable division of TWE from 1996 and other positions in the law department prior to that.
Ms. MacKinnon	Gail MacKinnon has served as the Company's Executive Vice President, Government Relations since August 2008. Prior to that, she served as Senior Vice President of Global Public Policy for Time Warner from January 2007. Prior to joining Time Warner, Ms. MacKinnon served as Senior Vice President for Government Relations at the National Cable and Telecommunications Association, where she managed the cable industry's outreach to members of Congress and the Executive Branch from January 2006. Prior to that, she served as Vice President of Government Relations at Viacom Inc. (Viacom), an entertainment company, from May 2000 following Viacom's merger with CBS Corporation, a radio and television broadcasting company, where she served as Vice President, Federal Relations from 1997. Prior to that, beginning in 1994, Ms. MacKinnon worked at TBS as Director of Government Relations.
Mr. Marcus	Robert D. Marcus has served as the Company's Senior Executive Vice President and Chief Financial Officer since January 1, 2008. Prior to that, he served as the Company's Senior Executive Vice President from August 2005, joining the Company from Time Warner where he had served as Senior Vice President, Mergers and Acquisitions from 2002. Mr. Marcus joined Time Warner in 1998 as Vice President of Mergers and Acquisitions.
Mr. Rossetti	Carl U.J. Rossetti has served as the Company's Executive Vice President, Corporate Development since August 2002. Previously, Mr. Rossetti served as an Executive Vice President of the Time Warner Cable division of TWE from 1998 and in various other positions since 1976.
Mr. Stern	Peter C. Stern has served as the Company's Executive Vice President and Chief Strategy Officer since March 2008. Prior to that, he served as the Company's Executive Vice President of Product Management from 2005, after serving as Senior Vice President of Strategic Planning from 2004. Mr. Stern joined the Company from Time Warner where he had served as Vice President of Strategic Initiatives from 2001.



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**PART II**

**Item 5. *Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.***

The principal market for TWC Class A common stock is the NYSE. The TWC Class A common stock began trading on the NYSE on March 1, 2007. For quarterly price information with respect to the TWC Class A common stock since that date, see "Quarterly Financial Information" at page 141 herein, which information is incorporated herein by reference. There were approximately 5,800 holders of record of TWC Class A common stock as of January 30, 2009. There is no established public trading market for the Company's Class B common stock, which was held of record by one holder as of February 20, 2009.

TWC has not paid any cash dividends on its common stock over the last two years. Pursuant to the terms of the Separation Agreement, TWC's board of directors has authorized the payment of a special cash dividend to holders of TWC's outstanding Class A common stock and Class B common stock, including Time Warner, in an amount equal to \$10.27 per share (aggregating \$10.855 billion). TWC's board of directors will determine whether to pay other dividends in the future based on conditions then existing, including TWC's earnings, financial condition and capital requirements, as well as economic and other conditions TWC's board of directors may deem relevant. In addition, TWC's ability to declare and pay dividends on its common stock is subject to requirements under Delaware law and covenants in TWC's senior unsecured revolving credit facility.

In connection with the Separation Transactions, the Company will effectuate the Recapitalization, causing each share of TWC Class A common stock and Class B common stock to be converted into one share of TWC Common Stock. The Company also has been authorized to effectuate a reverse stock split of the TWC Common Stock at a 1-for-3 ratio.

**Item 6. *Selected Financial Data.***

The selected financial information of TWC for the five years ended December 31, 2008 is set forth at pages 139 through 140 herein and is incorporated herein by reference.

**Item 7. *Management's Discussion and Analysis of Financial Condition and Results of Operations.***

The information set forth under the caption "Management's Discussion and Analysis of Results of Operations and Financial Condition" at pages 50 through 87 herein is incorporated herein by reference.

**Item 7A. *Quantitative and Qualitative Disclosures About Market Risk.***

The information set forth under the caption "Market Risk Management" at pages 80 through 81 herein is incorporated herein by reference.

**Item 8. *Financial Statements and Supplementary Data.***

The consolidated financial statements of TWC and the report of independent registered public accounting firm thereon set forth at pages 88 through 135 and 137 herein are incorporated herein by reference.

Quarterly Financial Information set forth at page 141 herein is incorporated herein by reference.

**Item 9. *Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.***

Not Applicable.



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**Item 9A. *Controls and Procedures.***

**Evaluation of Disclosure Controls and Procedures**

TWC, 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 TWC'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 TWC's disclosure controls and procedures are effective to ensure that information required to be disclosed in reports filed or submitted by TWC 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 TWC is accumulated and communicated to TWC's management to allow timely decisions regarding the required disclosure.

**Management's Report on Internal Control Over Financial Reporting**

Management's report on internal control over financial reporting and the report of the independent registered public accounting firm thereon set forth at pages 136 and 138 is incorporated herein by reference.

**Changes in Internal Control Over Financial Reporting**

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

**Item 9B. *Other Information.***

Not applicable.

**PART III**

**Items 10, 11, 12, *Directors, Executive Officers and Corporate Governance; Executive Compensation; Security*  
13 and 14. *Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters;  
Certain Relationships and Related Transactions and Director Independence; Principal  
Accountant Fees and Services.***

Information called for by Items 10, 11, 12, 13 and 14 of Part III is incorporated by reference from the Company's definitive Proxy Statement to be filed in connection with its 2009 Annual Meeting of Stockholders pursuant to Regulation 14A, except that (i) the information regarding the Company's executive officers called for by Item 401(b) of Regulation S-K has been included in Part I of this Annual Report and (ii) the information regarding certain Company equity compensation plans called for by Item 201(d) of Regulation S-K is set forth below.

The Company has adopted a Code of Ethics for its Senior Executive and Senior Financial Officers. A copy of the Code is publicly available on the Company's website at [www.timewarnercable.com/investors](http://www.timewarnercable.com/investors). Amendments to the Code or any grant of a waiver from a provision of the Code requiring disclosure under applicable SEC rules will also be disclosed on the Company's website.



**Table of Contents****Equity Compensation Plan Information**

The following table summarizes information as of December 31, 2008, about the Company's outstanding equity compensation awards and shares of Class A common stock reserved for future issuance under the Company's equity compensation plans.

	<b>Number of securities to be issued upon exercise of outstanding options, warrants and rights<sup>(2)</sup> (a)</b>	<b>Weighted-average exercise price of outstanding options, warrants and rights<sup>(2)</sup> (b)</b>	<b>Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))<sup>(3)</sup> (c)</b>
Equity compensation plans approved by security holders <sup>(1)</sup>	12,069,236	\$ 30.81	79,464,096
Equity compensation plans not approved by security holders			
<b>Total</b>	<b>12,069,236</b>	<b>\$ 30.81</b>	<b>79,464,096</b>

- (1) Equity compensation plans approved by security holders covers the Time Warner Cable Inc. 2006 Stock Incentive Plan (the "2006 Stock Plan"), which was approved by the Company's stockholders in May 2007 and is currently the Company's only compensation plan pursuant to which the Company's equity is awarded.
- (2) Column (a) includes 4,688,633 shares of Class A common stock underlying outstanding restricted stock units. Because there is no exercise price associated with restricted stock units, such equity awards are not included in the weighted-average exercise price calculation in column (b).
- (3) A total of 100,000,000 shares of Class A common stock have been authorized for issuance pursuant to the terms of the 2006 Stock Plan. Any shares of Class A common stock issued in connection with awards other than stock options or stock appreciation rights (a "Non-option Award") are counted against the shares remaining available under the 2006 Stock Plan as the number of shares equal to a ratio (the "Ratio") for every share issued in connection with a Non-option Award and any shares issued in connection with stock options or stock appreciation rights are counted against the limit as one share for every share issued. The Ratio is the quotient resulting from dividing (a) the grant date fair value of such Non-option Award, as determined for financial reporting purposes, by (b) the grant date fair value of a stock option granted under the 2006 Stock Plan. As a result, based on the Ratio determined on December 31, 2008, of the shares of Class A common stock available for future issuance under the 2006 Stock Plan listed in column (c), as of December 31, 2008, a maximum of 29,650,782 shares may be issued in connection with awards of restricted stock or restricted stock units.

The Company's stockholders approved amendments to the 2006 Stock Plan, effective upon the date of the Separation. These amendments will increase the number of shares of TWC common stock available for future issuances under the 2006 Stock Plan by an aggregate of (1) 25 million shares, (2) the number of additional shares subject to options as a result of adjustments made to stock options outstanding under the 2006 Stock Plan immediately prior to the Separation

to account for any decrease in the value of TWC common stock resulting from the payment of the Special Dividend and (3) the number of shares that will be underlying additional RSUs awarded to certain holders of outstanding RSUs pursuant to the terms of their award agreements in connection with the payment of the Special Dividend. The table above does not reflect these additional authorized shares or the impact of the Recapitalization or the reverse stock split, which are anticipated to be effected in connection with the Separation.

## **PART IV**

### **Item 15. *Exhibits, Financial Statement Schedules.***

#### *(a)(1)-(2) Financial Statements and Schedules:*

(i) The list of consolidated financial statements and schedules set forth in the accompanying Index to Consolidated Financial Statements and Other Financial Information at page 49 herein is incorporated herein by reference. Such consolidated financial statements and schedules are filed as part of this Annual Report.

(ii) All other financial statement schedules are omitted because the required information is not applicable, or because the information required is included in the consolidated financial statements and notes thereto.

#### *(3) Exhibits:*

The exhibits listed on the accompanying Exhibit Index are filed or incorporated by reference as part of this Annual Report and such Exhibit Index is incorporated herein by reference. Exhibits 10.30 through 10.40 and 10.43 through 10.48 listed on the accompanying Exhibit Index identify management contracts or compensatory plans or arrangements required to be filed as exhibits to this Annual Report, and such listing is incorporated herein by reference.

**Table of Contents****SIGNATURES**

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

TIME WARNER CABLE INC.

By: /s/ Glenn A. Britt

Name: Glenn A. Britt

Title: President and Chief Executive Officer

Dated: February 20, 2009

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<b>Signature</b>	<b>Title</b>	<b>Date</b>
/s/ Glenn A. Britt Glenn A. Britt	Director, President and Chief Executive Officer (principal executive officer)	February 20, 2009
/s/ Robert D. Marcus Robert D. Marcus	Senior Executive Vice President and Chief Financial Officer (principal financial officer)	February 20, 2009
/s/ William F. Osbourn, Jr. William F. Osbourn, Jr.	Senior Vice President and Controller (principal accounting officer)	February 20, 2009
/s/ Jeffrey L. Bewkes Jeffrey L. Bewkes	Director	February 20, 2009
/s/ Carole Black Carole Black	Director	February 20, 2009
/s/ Thomas H. Castro Thomas H. Castro	Director	February 20, 2009
/s/ David C. Chang David C. Chang	Director	February 20, 2009

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/s/ James E. Copeland, Jr.	Director	February 20, 2009
James E. Copeland, Jr.		
/s/ Peter R. Haje	Director	February 20, 2009
Peter R. Haje		
/s/ Don Logan	Director	February 20, 2009
Don Logan		
/s/ N.J. Nicholas, Jr.	Director	February 20, 2009
N.J. Nicholas, Jr.		
/s/ Wayne H. Pace	Director	February 20, 2009
Wayne H. Pace		

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

**INTRODUCTION**

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

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

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

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

*Financial condition and liquidity.* This section provides an analysis of the Company's cash flows for the three years ended December 31, 2008, as well as a discussion of the Company's outstanding debt and commitments that existed as of December 31, 2008. Included in the analysis of outstanding debt is a discussion of the amount of financial capacity available to fund the Company's future commitments, as well as a discussion of other financing arrangements.

*Market risk management.* This section discusses how the Company monitors and manages exposure to potential gains and losses arising from changes in market rates and prices, such as interest rates.

*Critical accounting policies and estimates.* This section discusses accounting policies and estimates that require the use of assumptions that were uncertain at the time the estimate was made and that could have a material effect on the Company's consolidated results of operations or financial condition if there were changes in the estimate or if a different estimate was made. The Company's significant accounting policies, including those considered to be critical accounting policies and estimates, are summarized in Note 3 to the accompanying consolidated financial statements.

*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 Item 1A, Risk Factors in Part I of this report, 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 December 31, 2008, TWC served approximately 14.6 million customers who subscribed to one or more of its video, high-speed data and voice services, representing approximately



34.2 million revenue generating units.

Time Warner Inc. ( Time Warner ) currently owns approximately 84% of the common stock of TWC (representing a 90.6% voting interest), and also currently owns an indirect 12.43% non-voting common stock interest in TW NY Cable Holding Inc. ( TW NY ), a subsidiary of TWC. The financial results of TWC s operations are consolidated by Time Warner. On May 20, 2008, TWC and its subsidiaries, Time Warner Entertainment Company, L.P. ( TWE ) and TW NY, entered into a Separation Agreement (the Separation Agreement ) with Time Warner and its subsidiaries, Warner Communications Inc. ( WCI ), Historic TW Inc. ( Historic TW ) and American Television and Communications Corporation ( ATC ), the terms of which will govern TWC s legal and structural separation from Time Warner. Refer to Recent Developments for further details.

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

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 December 31, 2008, 54% of TWC's customers subscribed to two or more of its primary services, including 21% 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 networking and transport services to commercial customers. As part of an increased emphasis on its commercial business, TWC also began selling its commercial Digital Phone service, Business Class Phone, to small- and medium-sized businesses during 2007. During 2008, TWC generated nearly \$800 million of revenues from its commercial services. TWC believes providing commercial services will generate additional opportunities for growth. In addition, TWC sells advertising to a variety of national, regional and local customers.

Video is TWC's largest service in terms of revenues generated and, as of December 31, 2008, TWC had approximately 13.1 million basic video subscribers, of which approximately 8.6 million subscribed to TWC's digital video service. 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. 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 programming rate increases on existing services, costs associated with retransmission consent agreements, subscriber growth and the expansion of service offerings (e.g., new network channels). TWC expects that its video service margins as a percentage of video revenues will continue to decline over the next few years as increases in programming costs outpace growth in video revenues.

As of December 31, 2008, TWC had approximately 8.4 million residential high-speed data subscribers. TWC expects continued growth in residential high-speed data subscribers and revenues for the foreseeable future; however, the rate of growth of both subscribers and revenues is expected to slow over time as high-speed data services become increasingly penetrated. TWC also offers commercial high-speed data services and had 283,000 commercial high-speed data subscribers as of December 31, 2008.

As of December 31, 2008, TWC had approximately 3.7 million residential Digital Phone subscribers. TWC expects increases in Digital Phone subscribers and revenues for the foreseeable future; however, the rate of growth of both subscribers and revenues is expected to slow over time as Digital Phone services become increasingly penetrated and as an increasing number of homes in the U.S. replace their traditional telephone service with wireless phone service. TWC rolled out Business Class Phone to small- and medium-sized businesses during 2007 in the majority of its operating areas and substantially completed the roll-out in the remainder of its operating areas during 2008. As of December 31, 2008, TWC had 30,000 commercial Digital Phone subscribers.

TWC faces intense competition from a variety of alternative information and entertainment delivery sources, principally from direct-to-home satellite video providers and certain telephone companies, each of which offers a broad range of services that provide features and functions comparable to those provided by TWC. The services are also offered in bundles of video, high-speed data and voice services similar to TWC's and, in certain cases, these offerings include wireless services. The availability of these bundled service offerings and of wireless offerings, whether as a single offering or as part of a bundle, has intensified competition. In addition, technological advances and product innovations have increased and will likely continue to increase the number of alternatives available to TWC's customers from other providers and intensify the competitive environment. TWC expects that competition will continue to intensify in the future, which may negatively affect the growth of revenue generating units. By continuing

to enhance its services with innovative offerings and continuing to focus on customer service, TWC believes it will distinguish its services from those of its competitors.

The recent events affecting the U.S. and international financial markets have had a significant and adverse impact on the global economy. These events have served to increase capital market volatility and reduce future expectations for economic growth. Since the end of the third quarter of 2008, the Company has experienced a

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

slowdown in growth across all revenue generating unit categories, which the Company believes is partly a result of the challenging economic environment and a general reduction in consumer spending. The Company believes it is premature to determine if this is a long- or short-term development and that the impact of a protracted economic downturn on its financial and subscriber results is difficult to estimate; however, the Company believes that growth in revenue generating unit net additions, as well as growth in other digital services (e.g., digital video recorders and video-on-demand), will slow in 2009 as compared to 2008. In addition, the Company has continued to see a decline in its Advertising revenues from national, regional and local businesses, which it expects to continue in 2009.

Excluding the \$14.822 billion noncash impairment of cable franchise rights and the \$58 million loss on sale of certain cable systems (as discussed below), the Company expects that its year-over-year growth rate in Operating Income will be lower in 2009 (as compared to the same measure in 2008) as a result of, among other things, slower growth in revenues and higher video programming costs, pension expense and restructuring charges, partially offset by various cost saving initiatives. The Company also expects that capital expenditures will decline in 2009 as compared to 2008.

Despite the current economic environment, the Company believes it continues to have strong liquidity to meet its needs for the foreseeable future. As of December 31, 2008, the Company had \$13.130 billion of unused committed capacity (including cash and equivalents and credit facilities containing commitments from a geographically diverse group of major financial institutions), \$10.855 billion of which TWC expects to use to finance the Special Dividend (as defined below). Additionally, there are no significant maturities of the Company's long-term debt prior to February 2011. See Financial Condition and Liquidity for further details regarding the Company's committed capacity.

Beginning in the first quarter of 2009, TWC is undertaking a significant restructuring, primarily consisting of headcount reductions, and expects to incur restructuring charges ranging from approximately \$50 million to \$100 million during 2009.

**Recent Developments**

***Impairment of Cable Franchise Rights***

As discussed in more detail in Critical Accounting Policies Asset Impairments Goodwill and Indefinite-lived Intangible Assets, during the fourth quarter of 2008, the Company recorded a noncash impairment of \$14.822 billion to reduce the carrying value of its cable franchise rights as a result of its annual impairment testing of goodwill and indefinite-lived intangible assets.

***Separation from Time Warner, Recapitalization and Reverse Stock Split of TWC Common Stock***

On May 20, 2008, TWC and its subsidiaries, TWE and TW NY, entered into the Separation Agreement with Time Warner and its subsidiaries, WCI, Historic TW and ATC. TWC's separation from Time Warner will take place through a series of related transactions, the occurrence of each of which is a condition to the next. First, Time Warner will complete certain internal restructuring transactions not affecting TWC. Next, following the satisfaction or waiver of certain conditions, including those mentioned below, Historic TW will transfer its 12.43% non-voting common stock interest in TW NY to TWC in exchange for 80 million newly issued shares of TWC's Class A common stock (the TW NY Exchange). Following the TW NY Exchange, Time Warner will complete certain additional restructuring steps that will make Time Warner the direct owner of all shares of TWC's Class A common stock and Class B common

stock previously held by its subsidiaries (all of Time Warner's restructuring transaction steps being referred to collectively as the "TW Internal Restructuring"). Upon completion of the TW Internal Restructuring, TWC's board of directors or a committee thereof will declare a special cash dividend to holders of TWC's outstanding Class A common stock and Class B common stock, including Time Warner, in an amount equal to \$10.27 per share (aggregating \$10.855 billion) (the "Special Dividend"). The Special Dividend will be paid prior to the completion of TWC's separation from Time Warner. Following the receipt by Time Warner of its share of the Special Dividend, TWC will file with the Secretary of State of the State of Delaware an amended and restated

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

certificate of incorporation, pursuant to which, among other things, each outstanding share of TWC Class A common stock (including any shares of Class A common stock issued in the TW NY Exchange) and TWC Class B common stock will automatically be converted into one share of common stock, par value \$0.01 per share (the TWC Common Stock) (the Recapitalization). Once the TW NY Exchange, the TW Internal Restructuring, the payment of the Special Dividend and the Recapitalization have been completed, TWC's separation from Time Warner (the Separation) will proceed in the form of a pro rata dividend of all shares of TWC Common Stock held by Time Warner to holders of Time Warner's common stock (the Distribution). The Separation, the TW NY Exchange, the TW Internal Restructuring, the Special Dividend, the Recapitalization and the Distribution collectively are referred to as the Separation Transactions.

The Separation Agreement contains customary covenants, and consummation of the Separation Transactions is subject to customary closing conditions. As of February 12, 2009, all regulatory and other necessary governmental reviews of the Separation Transactions have been satisfactorily completed. Time Warner and TWC expect the Separation Transactions to be consummated in the first quarter of 2009. See Item 1A, Risk Factors, in Part I of this report for a discussion of risk factors relating to the Separation.

In connection with the Separation Transactions, the Company has been authorized to effectuate a reverse stock split of the TWC Common Stock at a 1-for-3 ratio.

During the year ended December 31, 2008, the Company incurred pretax costs related to the Separation of \$62 million, which consisted of direct transaction costs (e.g., legal and professional fees) of \$17 million (which are included in other expense, net, in the accompanying consolidated statement of operations) and debt issuance costs of \$45 million (which are included in interest expense, net, in the accompanying consolidated statement of operations). The debt issuance costs are primarily related to the portion of the upfront loan fees for the 2008 Bridge Facility that was expensed due to the reduction of commitments under such facility as a result of the 2008 Bond Offerings. The Company expects to incur additional direct transaction costs and financing costs related to the Separation.

In addition, in connection with the Separation Transactions, and as provided for in Time Warner's equity plans, the number of Time Warner stock options and restricted stock units outstanding at the Separation and the exercise prices of such stock options will be adjusted to maintain the fair value of those awards. The changes in the number of equity awards and the exercise prices will be determined by comparing the fair value of such awards immediately prior to the Separation Transactions to the fair value of such awards immediately after the Separation Transactions. In performing this analysis, the only assumptions that would change relate to the Time Warner stock price and the employee's exercise price. The modifications to the outstanding equity awards will be made pursuant to existing antidilution provisions in Time Warner's equity plans.

Under the terms of Time Warner's equity plans and related award agreements, as a result of the Separation, TWC employees who hold Time Warner equity awards will be treated as if their employment with Time Warner had been terminated without cause at the time of the Separation. For most TWC employees, this treatment will result in the forfeiture of unvested stock options and shortened exercise periods for vested stock options and pro rata vesting of the next installment of (and forfeiture of the remainder of) the restricted stock units. TWC plans to grant make-up TWC equity awards or make cash payments to TWC employees that are generally intended to offset any loss of economic value in Time Warner equity awards as a result of the Separation.

Finally, in connection with the Special Dividend, and as provided for in the Company's equity plans and related award agreements, the number and the exercise prices of outstanding TWC stock options will be adjusted to maintain the fair value of those awards. The changes in the number of shares subject to options and the exercise prices will be determined by comparing the fair value of such awards immediately prior to the Special Dividend to the fair value of such awards immediately after the Special Dividend. The modifications to the outstanding equity awards will be made pursuant to existing antidilution provisions in TWC's equity plans and related award agreements.

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**TIME WARNER CABLE INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS  
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***2008 Bond Offerings and Credit Facilities***

On June 16, 2008, TWC filed a shelf registration statement on Form S-3 (the "Shelf Registration Statement") with the Securities and Exchange Commission (the "SEC") that allows TWC to offer and sell from time to time senior and subordinated debt securities and debt warrants. On June 19, 2008, TWC issued \$5.0 billion in aggregate principal amount of senior unsecured notes and debentures under the Shelf Registration Statement (the "June 2008 Bond Offering"), consisting of \$1.5 billion principal amount of 6.20% notes due 2013, \$2.0 billion principal amount of 6.75% notes due 2018 and \$1.5 billion principal amount of 7.30% debentures due 2038. On November 18, 2008, TWC issued \$2.0 billion in aggregate principal amount of senior unsecured notes under the Shelf Registration Statement (the "November 2008 Bond Offering" and, together with the June 2008 Bond Offering, the "2008 Bond Offerings"), consisting of \$750 million principal amount of 8.25% notes due 2014 and \$1.250 billion principal amount of 8.75% notes due 2019. The Company expects to use the net proceeds from the 2008 Bond Offerings to finance, in part, the Special Dividend. Pending the payment of the Special Dividend, a portion of the net proceeds from the 2008 Bond Offerings was used to repay variable-rate debt with lower interest rates than the interest rates on the debt securities issued in the 2008 Bond Offerings, and the remainder was invested in accordance with the Company's investment policy. If the Separation is not consummated and the Special Dividend is not paid, the Company will use the remainder of the net proceeds from the 2008 Bond Offerings for general corporate purposes, including repayment of indebtedness.

In addition to issuing the debt securities in the 2008 Bond Offerings described above, on June 30, 2008, the Company entered into a credit agreement with a geographically diverse group of major financial institutions for a senior unsecured term loan facility originally in an aggregate principal amount of \$9.0 billion with an initial maturity date that is 364 days after the borrowing date (the "2008 Bridge Facility") in order to finance, in part, the Special Dividend. The Company may elect to extend the maturity date of the loans outstanding under the 2008 Bridge Facility for an additional year. As a result of the 2008 Bond Offerings, the amount of the commitments of the lenders under the 2008 Bridge Facility was reduced to \$2.070 billion. As discussed below in "Financial Condition and Liquidity Outstanding Debt and Mandatorily Redeemable Preferred Equity and Available Financial Capacity Lending Commitments," the Company does not expect that Lehman Brothers Commercial Bank ("LBCB") will fund its \$138 million in commitments under the 2008 Bridge Facility, and, therefore, the Company has included only \$1.932 billion of commitments under the 2008 Bridge Facility in its unused committed capacity as of December 31, 2008. TWC may not borrow any amounts under the 2008 Bridge Facility unless and until the Special Dividend is declared.

On December 10, 2008, Time Warner (as lender) and TWC (as borrower) entered into a credit agreement for a two-year \$1.535 billion senior unsecured supplemental term loan facility (the "Supplemental Credit Agreement"). TWC may borrow under the Supplemental Credit Agreement only to repay amounts outstanding at the final maturity of the 2008 Bridge Facility, if any.

TWC's obligations under the debt securities issued in the 2008 Bond Offerings and under the 2008 Bridge Facility and the Supplemental Credit Agreement are guaranteed by TWE and TW NY.

See Note 7 to the accompanying consolidated financial statements for further details regarding the 2008 Bond Offerings, the 2008 Bridge Facility and the Supplemental Credit Agreement.

***Investment in Clearwire***



In November 2008, TWC, Intel Corporation, Google Inc., Comcast Corporation (together with its subsidiaries, Comcast ) and Bright House Networks, LLC collectively invested \$3.2 billion in Clearwire Corporation, a wireless broadband communications company ( Clearwire Corp ), and one of its operating subsidiaries ( Clearwire LLC, and, collectively with Clearwire Corp, Clearwire ). TWC invested \$550 million for membership interests in Clearwire LLC and received voting and board of director nomination rights in Clearwire Corp. Clearwire LLC was formed by the combination of Sprint Nextel Corporation s ( Sprint ) and Clearwire Corp s respective wireless broadband businesses and is focused on deploying the first nationwide fourth-generation wireless network to provide mobile broadband services to wholesale and retail customers. In connection with the

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

transaction, TWC entered into a wholesale agreement with Sprint that allows TWC to offer wireless services utilizing Sprint's second-generation and third-generation network and a wholesale agreement with Clearwire that will allow TWC to offer wireless services utilizing Clearwire's mobile broadband wireless network. The Company allocated \$20 million of its \$550 million investment in Clearwire LLC to its rights under these agreements, which the Company believes represents the fair value of favorable pricing provisions contained in the agreements. Such assets are included in other assets in the accompanying consolidated balance sheet as of December 31, 2008 and will be amortized over the estimated lives of the agreements. The Company's investment in Clearwire LLC is being accounted for under the equity method of accounting. During the fourth quarter of 2008, the Company recorded a noncash pretax impairment of \$367 million on its investment in Clearwire LLC as a result of a significant decline in the estimated fair value of Clearwire, reflecting the Clearwire Corp stock price decline from May 2008, when TWC agreed to make its investment. The Company expects that Clearwire will incur losses in its early periods of operation.

***SpectrumCo Joint Venture***

TWC is a participant in a joint venture with certain other cable companies (SpectrumCo) that holds advanced wireless spectrum (AWS) licenses. Under certain circumstances, the members of SpectrumCo have the ability to exit the venture and receive from the venture, subject to certain limitations and adjustments, AWS licenses covering the areas in which they provide cable services. In January 2009, SpectrumCo redeemed the 10.9% interest held by an affiliate of Cox Communications, Inc. (Cox) and Cox received AWS licenses, principally covering areas in which Cox has cable services, and approximately \$70 million in cash (of which TWC's share was \$22 million). Following the closing of the Cox transaction, SpectrumCo's AWS licenses cover 20 MHz over 80% of the continental United States and Hawaii.

***Sale of Certain Cable Systems***

In December 2008, the Company sold a group of small cable systems, serving 78,000 basic video subscribers and 126,000 revenue generating units as of November 30, 2008, located in areas outside of the Company's core geographic clusters. The sale price was \$54 million, of which \$3 million is included in receivables in the accompanying consolidated balance sheet as of December 31, 2008. The Company does not expect that the sale of these systems will have a material impact on the Company's future financial results. The Company recorded a pretax loss of \$58 million on the sale of these systems during 2008, of which \$13 million (primarily post-closing and working capital adjustments) was recorded during the fourth quarter.

***Hurricane Ike***

During the third quarter of 2008, Hurricane Ike caused significant damage to a portion of TWC's operations in Texas, particularly in the Port Arthur, Beaumont, Orange and Bridge City areas. TWC's cable systems in these areas experienced significant damage, business interruption and a loss of customer relationships. As a result of Hurricane Ike, the Company lost a small number of basic video subscribers and revenue generating units in its southeast Texas cable systems. In addition to Texas, Hurricane Ike also caused physical damage and service outages in parts of Ohio.

For the year ended December 31, 2008, the Company estimates that both Operating Loss before Depreciation and Amortization and Operating Loss were negatively impacted by \$14 million as a result of service outages and damage to the plant infrastructure caused by the storm. Additionally, the Company estimates that it incurred approximately \$10 million of capital expenditures during the fourth quarter of 2008 to replace property, plant and equipment

damaged by Hurricane Ike.

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

**FINANCIAL STATEMENT PRESENTATION**

***Revenues***

The Company's revenues consist of Subscription and Advertising revenues. Subscription revenues consist of revenues from video, high-speed data and voice services.

Video revenues include subscriber 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 transmission towers owned by the Company.

High-speed data revenues include 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 Runner<sup>®</sup> high-speed data service (including cable systems managed by the Advance/Newhouse Partnership). High-speed data revenues also include fees paid to TWC by the Advance/Newhouse Partnership for managing certain functions for the Advance/Newhouse Partnership, including, among others, programming and engineering. The aggregate of such fees from the Advance/Newhouse Partnership and other third-party distributors totaled \$139 million, \$132 million and \$112 million in 2008, 2007 and 2006, respectively. High-speed data revenues also include fees received from third-party internet service providers whose on-line services are provided to some of TWC's customers. High-speed data revenues in 2008 included \$7 million generated by the sale of commercial networking and transport services (i.e., cellular backhaul). Additionally, in 2006, high-speed data revenues included fees received from Texas and Kansas City Cable Partners, L.P. (TKCCP), which was a 50-50 joint venture between a consolidated subsidiary of TWC (Time Warner Entertainment-Advance/Newhouse Partnership (TWE-A/N)) and Comcast that distributed its assets to TWC and Comcast on January 1, 2007.

Voice revenues include subscriber fees from residential and commercial Digital Phone subscribers, along with related installation charges. For the years ended December 31, 2007 and December 31, 2006, voice revenues also included subscriber fees from circuit-switched telephone (9,000 and 106,000 subscribers as of December 31, 2007 and December 31, 2006, respectively). During the first half of 2008, TWC completed the process of discontinuing the provision of circuit-switched telephone service in accordance with regulatory requirements. As a result, during 2008, Digital Phone was the only voice service offered by TWC.

Advertising revenues primarily 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 advertising placed on the Company's video service.

***Costs and Expenses***

Costs of revenues include: video programming costs (including fees paid to 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 market rates based on the number of subscribers to which the Company provides the programming 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,

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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. Additionally, management fees received from TKCCP prior to August 1, 2006 were recorded as a reduction of selling, general and administrative expenses.

***Use of Operating Income (Loss) before Depreciation and Amortization and Free Cash Flow***

Operating Income (Loss) before Depreciation and Amortization is a financial measure not calculated and presented in accordance with U.S. generally accepted accounting principles ( GAAP ). The Company defines Operating Income (Loss) before Depreciation and Amortization as Operating Income (Loss) before depreciation of tangible assets and amortization of intangible assets. Management utilizes Operating Income (Loss) before Depreciation and Amortization, among other measures, in evaluating the performance of the Company's business because Operating Income (Loss) before Depreciation and Amortization 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 Operating Income (Loss) before Depreciation and Amortization 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 benefit (provision), other income (expense), net, minority interest income (expense), net, and interest expense, net. In this regard, Operating Income (Loss) before Depreciation and Amortization is a significant measure used in the Company's annual incentive compensation programs. Operating Income (Loss) before Depreciation and Amortization 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 Operating Income (Loss) before Depreciation and Amortization 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 (loss) and earnings (loss) per share.

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 Operating Income (Loss) before Depreciation and Amortization and Free Cash Flow should be considered in addition to, not as a substitute for, the Company's Operating Income (Loss), net income (loss) 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 Operating Income (Loss) before Depreciation and Amortization to Operating Income (Loss) 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.

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

**RESULTS OF OPERATIONS****Changes in Basis of Presentation***Reclassifications*

Certain reclassifications have been made to the prior years' financial information to conform to the December 31, 2008 presentation.

**Recent Accounting Standards**

See Note 2 to the accompanying consolidated financial statements for a discussion of the accounting standards adopted in 2008 and accounting standards not yet adopted.

**2008 vs. 2007**

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

	<b>Year Ended December 31,</b>		
	<b>2008</b>	<b>2007</b>	<b>% Change</b>
Subscription:			
Video	\$ 10,524	\$ 10,165	4%
High-speed data	4,159	3,730	12%
Voice	1,619	1,193	36%
Total Subscription	16,302	15,088	8%
Advertising	898	867	4%
Total	\$ 17,200	\$ 15,955	8%



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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS**  
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Selected subscriber-related statistics were as follows (in thousands):

	<b>December 31,</b>		
	<b>2008</b>	<b>2007</b>	<b>% Change</b>
Basic video <sup>(a)</sup>	13,069	13,251	(1%)
Digital video <sup>(b)</sup>	8,627	8,022	8%
Residential high-speed data <sup>(c)(d)</sup>	8,444	7,620	11%
Commercial high-speed data <sup>(c)(d)</sup>	283	280	1%
Residential Digital Phone <sup>(d)(e)</sup>	3,747	2,890	30%
Commercial Digital Phone <sup>(d)(e)</sup>	30	5	500%
Revenue generating units <sup>(f)</sup>	34,200	32,077	7%
Customer relationships <sup>(g)</sup>	14,582	14,626	
Double play <sup>(h)</sup>	4,794	4,703	2%
Triple play <sup>(i)</sup>	3,099	2,363	31%

- (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 at their dwelling or commercial establishment 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) The determination of whether a high-speed data or Digital Phone subscriber is categorized as commercial or residential is generally based upon the type of service provided to that subscriber. For example, if TWC provides a commercial service, the subscriber is classified as commercial.
- (e) Digital Phone subscriber numbers reflect billable subscribers who receive an IP-based telephony service. Residential Digital Phone subscriber numbers as of December 31, 2007 exclude 9,000 subscribers who received traditional, circuit-switched telephone service.
- (f) Revenue generating units represent the total of all basic video, digital video, high-speed data and voice (including circuit-switched telephone service, as applicable) subscribers.
- (g) 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.
- (h) Double play subscriber numbers reflect customers who subscribe to two of the Company's primary services (video, high-speed data and voice).
- (i) Triple play subscriber numbers reflect customers who subscribe to all three of the Company's primary services.

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 subscriptions and video price increases. Additional information regarding the major components of video revenues was as follows (in millions):

	Year Ended December 31,		
	2008	2007	% Change
Basic video services	\$ 6,259	\$ 6,188	1%
Digital video services	2,551	2,359	8%
Equipment rental and installation charges	1,114	1,026	9%
Franchise fees	459	437	5%
Other	141	155	(9%)
Total	\$ 10,524	\$ 10,165	4%

High-speed data revenues increased primarily due to growth in high-speed data subscribers.

The increase in voice revenues was due to growth in Digital Phone subscribers. Voice revenues in 2007 also included \$34 million of revenues associated with subscribers who received traditional, circuit-switched telephone service.

Average monthly subscription revenue (which includes video, high-speed data and voice revenues) per basic video subscriber ( subscription ARPU ) increased 9% to \$102.52 in 2008 from \$94.09 in 2007. This increase was

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**TIME WARNER CABLE INC.**  
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primarily a result of the increased penetration of digital video, high-speed data and Digital Phone and higher video prices, as discussed above. Average monthly subscription revenue per revenue generating unit remained essentially flat at \$40.61 in 2008 as compared to \$40.75 in 2007.

Advertising revenues increased primarily due to an increase in political advertising revenues, partially offset by a decline in Advertising revenues from national, regional and local businesses. The Company expects that Advertising revenues will decline in 2009 due to a decline in political advertising revenues and continued weakness in Advertising revenues from national, regional and local businesses.

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

	<b>Year Ended December 31,</b>		
	<b>2008</b>	<b>2007</b>	<b>% Change</b>
Video programming	\$ 3,753	\$ 3,534	6%
Employee	2,338	2,164	8%
High-speed data	146	164	(11%)
Voice	552	455	21%
Video franchise fees	459	437	5%
Other direct operating costs	897	788	14%
Total	\$ 8,145	\$ 7,542	8%

Costs of revenues increased 8%, primarily related to increases in video programming, employee, voice and other direct operating costs. As a percentage of revenues, costs of revenues were 47% in both 2008 and 2007.

The increase in video programming costs was primarily due to contractual rate increases and an increase in the percentage of basic video subscribers who also subscribe to expanded tiers of video services. Average programming costs per basic video subscriber increased 7% to \$23.60 per month in 2008 from \$22.04 per month in 2007. The Company expects video programming costs to increase in 2009 at a rate greater than that experienced in 2008, reflecting programming rate increases on existing services, costs associated with retransmission consent agreements, subscriber growth and the expansion of service offerings.

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 primarily due to a decrease in per-subscriber connectivity costs, partially offset by growth in subscribers and usage per subscriber.

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 due to volume discounts received in 2008.

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.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS**  
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*Selling, general and administrative expenses.* The major components of selling, general and administrative expenses were as follows (in millions):

	<b>Year Ended December 31,</b>		
	<b>2008</b>	<b>2007</b>	<b>% Change</b>
Employee	\$ 1,146	\$ 1,059	8%
Marketing	569	499	14%
Other	1,139	1,090	4%
Total	\$ 2,854	\$ 2,648	8%

Selling, general and administrative expenses increased primarily due to higher employee and marketing costs. Employee costs increased primarily due to headcount and salary increases and marketing costs increased primarily due to intensified marketing efforts. Other costs in 2008 included a benefit of approximately \$16 million due to changes in estimates of previously established casualty insurance accruals. Excluding this benefit, other costs increased primarily due to higher miscellaneous administrative costs.

*Merger-related and restructuring costs.* The results for 2008 and 2007 included restructuring costs of \$15 million and \$13 million, respectively. In addition, during 2007, the Company expensed non-capitalizable merger-related costs associated with the 2006 transactions with Adelphia Communications Corporation ( Adelphia ) and Comcast (the Adelphia/Comcast Transactions ) of \$10 million. Beginning in the first quarter of 2009, TWC is undertaking a significant restructuring, primarily consisting of headcount reductions, and expects to incur restructuring charges ranging from approximately \$50 million to \$100 million during 2009.

*Impairment of cable franchise rights.* During the fourth quarter of 2008, the Company recorded a noncash impairment of \$14.822 billion to reduce the carrying value of its cable franchise rights as a result of its annual impairment testing of goodwill and indefinite-lived intangible assets. See Critical Accounting Policies Asset Impairments Goodwill and Indefinite-lived Intangible Assets for further details.

*Loss on sale of cable systems.* During 2008, the Company recorded a loss of \$58 million as a result of the sale of certain non-core cable systems, which closed in December 2008. See Overview Recent Developments Sale of Certain Cable Systems for further details.

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

	<b>Year Ended December 31,</b>		
	<b>2008</b>	<b>2007</b>	<b>% Change</b>

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Net income (loss)	\$ (7,344)	\$ 1,123	NM
Income tax provision (benefit)	(4,706)	740	NM
Income (loss) before income taxes	(12,050)	1,863	NM
Interest expense, net	923	894	3%
Minority interest expense (income), net	(1,022)	165	NM
Other expense (income), net	367	(156)	NM
Operating Income (Loss)	(11,782)	2,766	NM
Depreciation	2,826	2,704	5%
Amortization	262	272	(4%)
Operating Income (Loss) before Depreciation and Amortization	\$ (8,694)	\$ 5,742	NM

NM Not meaningful.

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

*Operating Income (Loss) before Depreciation and Amortization.* As discussed above, Operating Loss before Depreciation and Amortization in 2008 was negatively impacted by the \$14.822 billion impairment of cable franchise rights and the \$58 million loss on the sale of certain non-core cable systems. Excluding these items, Operating Income before Depreciation and Amortization increased principally as a result of revenue growth (particularly in high margin high-speed data revenues), partially offset by higher costs of revenues and selling, general and administrative expenses. Additionally, as discussed in Overview Recent Developments Hurricane Ike, Operating Income before Depreciation and Amortization in 2008 included the \$14 million negative impact of Hurricane Ike on the cable systems in southeast Texas and Ohio.

*Depreciation expense.* The increase in depreciation expense was primarily associated with purchases of customer premise equipment, scalable infrastructure and line extensions occurring during or subsequent to 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 TWE, which were fully amortized as of the end of the first quarter of 2007.

*Operating Income (Loss).* Operating Loss in 2008 included the impairment of cable franchise rights and the loss on the sale of cable systems, as discussed above. Excluding these items, Operating Income increased primarily due to the increase in Operating Income before Depreciation and Amortization, partially offset by the increase in depreciation expense, as discussed above.

*Interest expense, net.* Interest expense, net, increased primarily due to an increase in fixed-rate debt with higher average interest rates as a result of the 2008 Bond Offerings. Additionally, interest expense, net, was impacted by the April 2007 issuance of fixed-rate debt securities and, for 2008, also included \$45 million of debt issuance costs primarily related to the portion of the upfront loan fees for the 2008 Bridge Facility that was expensed due to the reduction of commitments under such facility as a result of the 2008 Bond Offerings. These items were partially offset by a decrease in interest on the Company's variable-rate debt, which resulted from both a decrease in variable-rate debt and lower variable interest rates, and an increase in interest income. As a result of the 2008 Bond Offerings and additional debt that the Company expects to issue in 2009 in connection with the Separation Transactions, the Company expects that interest expense, net, will increase significantly in 2009.

*Minority interest expense (income), net.* Minority interest income, net, in 2008 included the impacts of the impairment of cable franchise rights and the loss on the sale of cable systems, as discussed above. Excluding these items, minority interest expense, net, increased primarily due to larger profits recorded by TW NY during 2008. Due to pending changes in the ownership structure of the Company as a result of the Separation Transactions, the Company expects that minority interest expense, net, will decrease significantly in 2009.

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

	<b>Year Ended December 31,</b>
	<b>2008                      2007</b>

Investment losses (gains) <sup>(a)</sup>	\$ 366	\$ (146)
Income from equity investments, net	(16)	(11)
Direct transaction costs related to the Separation Transactions <sup>(b)</sup>	17	
Other		1
Other expense (income), net	\$ 367	\$ (156)

(a) 2008 amount consists of pretax impairments on equity-method investments totaling \$375 million (primarily consisting of the \$367 million impairment on the Company's investment in Clearwire LLC) and a pretax gain of \$9 million recorded on the sale of a cost-method investment. 2007 amount consists of a pretax gain of \$146 million as a result of the distribution of the assets of TKCCP 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).

(b) Amount primarily consists of legal and professional fees.



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MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS  
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*Income tax provision (benefit).* TWC's income tax provision (benefit) has been prepared as if the Company operated as a stand-alone taxpayer for all periods presented. In 2008, the Company recorded an income tax benefit of \$4.706 billion and in 2007, the Company recorded an income tax provision of \$740 million. The effective tax rate was 39% in 2008, which included the impacts of the impairment of cable franchise rights and the loss on the sale of cable systems, as compared to 40% in 2007. Absent these items, the effective tax rate for 2008 would have been 45%. The increase in the Company's effective tax rate for 2008 (excluding the impairment of cable franchise rights and the loss on the sale of cable systems) was primarily due to the tax impact of the 2008 impairment on the Company's investment in Clearwire LLC, as discussed above.

On February 19, 2009, California's legislature approved the state's budget, which is expected to be signed into law during the first quarter of 2009, that, in part, changes the methodology of income tax apportionment in California. This tax law change is likely to result in an increase in state deferred tax liabilities and a corresponding noncash tax provision, which would be recorded in the first quarter of 2009.

*Net income (loss) and net income (loss) per common share.* Net loss was \$7.344 billion in 2008 compared to net income of \$1.123 billion in 2007. Basic and diluted net loss per common share were \$7.52 in 2008 compared to basic and diluted net income per common share of \$1.15 in 2007. Net loss in 2008 included the impairment of cable franchise rights and the loss on the sale of cable systems, as discussed above. Excluding these items, net income decreased primarily due to the change in other expense (income), net, (which included the 2008 impairment on the Company's investment in Clearwire LLC and the 2007 TKCCP Gain) and increases in minority interest expense, net, and interest expense, net, partially offset by an increase in Operating Income and a decrease in income tax provision.

**2007 vs. 2006**

As further discussed in Notes 5 and 10 to the accompanying consolidated financial statements, the Company completed the Adelphia/Comcast Transactions and began consolidating the results of the systems acquired in and retained after the Adelphia/Comcast Transactions (the "Acquired Systems") on July 31, 2006. Additionally, on January 1, 2007, the Company began consolidating the results of certain cable systems located in Kansas City, south and west Texas and New Mexico (the "Kansas City Pool") upon the distribution of the assets of TKCCP to TWC and Comcast. Accordingly, the operating results for 2007 include the results for the systems TWC owned before and retained after the Adelphia/Comcast Transactions (the "Legacy Systems"), the Acquired Systems and the Kansas City Pool for the full twelve-month period, and the operating results for 2006 include the results of the Legacy Systems for the full twelve-month period and the Acquired Systems for only the five months following the closing of the Adelphia/Comcast Transactions and do not include the consolidation of the results of the Kansas City Pool. The impact of the incremental seven months of revenues and expenses of the Acquired Systems on the results for 2007 is referred to as the "impact of the Acquired Systems" in this report. Additionally, the Company has reflected the financial position, results of operations and cash flows of the systems transferred to Comcast in connection with the Adelphia/Comcast Transactions as discontinued operations for all periods presented.

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**TIME WARNER CABLE INC.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS**  
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*Revenues.* Revenues by major category were as follows (in millions):

	<b>Year Ended December 31,</b>		
	<b>2007</b>	<b>2006</b>	<b>% Change</b>
Subscription:			
Video	\$ 10,165	\$ 7,632	33%
High-speed data	3,730	2,756	35%
Voice	1,193	715	67%
Total Subscription	15,088	11,103	36%
Advertising	867	664	31%
Total	\$ 15,955	\$ 11,767	36%

Revenues by major category for the Legacy Systems, the Acquired Systems, the Kansas City Pool and the total systems were as follows (in millions):

	<b>Year Ended December 31, 2007</b>				<b>Year Ended December 31, 2006</b>		
	<b>Legacy</b>	<b>Acquired</b>	<b>Kansas</b>	<b>Total</b>	<b>Legacy</b>	<b>Acquired</b>	<b>Total</b>
	<b>Systems</b>	<b>Systems</b>	<b>City Pool</b>	<b>Systems</b>	<b>Systems</b>	<b>Systems<sup>(a)</sup></b>	<b>Systems</b>
Subscription:							
Video	\$ 6,830	\$ 2,788	\$ 547	\$ 10,165	\$ 6,467	\$ 1,165	\$ 7,632
High-speed data	2,692	835	203	3,730	2,435	321	2,756
Voice	1,011	97	85	1,193	687	28	715
Total Subscription	10,533	3,720	835	15,088	9,589	1,514	11,103
Advertising	539	286	42	867	527	137	664
Total	\$ 11,072	\$ 4,006	\$ 877	\$ 15,955	\$ 10,116	\$ 1,651	\$ 11,767

<sup>(a)</sup> Amounts reflect revenues for the Acquired Systems for the five months following the closing of the Adelphia/Comcast Transactions.

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

	<b>Consolidated Subscribers as of December 31,</b>			<b>Managed Subscribers<sup>(a)</sup> as of December 31,</b>		
	<b>2007</b>	<b>2006</b>	<b>% Change</b>	<b>2007</b>	<b>2006</b>	<b>% Change</b>
Basic video <sup>(b)</sup>	13,251	12,614	5%	13,251	13,402	(1%)
Digital video <sup>(c)</sup>	8,022	6,938	16%	8,022	7,270	10%
Residential high-speed data <sup>(d)(e)</sup>	7,620	6,270	22%	7,620	6,644	15%
Commercial high-speed data <sup>(d)(e)</sup>	280	230	22%	280	245	14%
Residential Digital Phone <sup>(e)(f)</sup>	2,890	1,719	68%	2,890	1,860	55%
Commercial Digital Phone <sup>(e)(f)</sup>	5		NM	5		NM
Revenue generating units <sup>(g)</sup>	32,077	27,877	15%	32,077	29,527	9%
Customer relationships <sup>(h)</sup>	14,626	13,710	7%	14,626	14,565	
Double play <sup>(i)</sup>	4,703	4,406	7%	4,703	4,647	1%
Triple play <sup>(j)</sup>	2,363	1,411	67%	2,363	1,523	55%

NM Not meaningful.

- (a) For 2006, managed subscribers included TWC's consolidated subscribers and subscribers in the Kansas City Pool of TKCCP, which TWC received on January 1, 2007 in the TKCCP asset distribution. Beginning January 1, 2007, subscribers in the Kansas City Pool are included in both managed and consolidated subscriber results as a result of the consolidation of the Kansas City Pool.
- (b) Basic video subscriber numbers reflect billable subscribers who receive at least basic video service.
- (c) Digital video subscriber numbers reflect billable subscribers who receive any level of video service at their dwelling or commercial establishment via digital transmissions.
- (d) 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.
- (e) The determination of whether a high-speed data or Digital Phone subscriber is categorized as commercial or residential is generally based upon the type of service provided to that subscriber. For example, if TWC provides a commercial service, the subscriber is classified as commercial.
- (f) Digital Phone subscriber numbers reflect billable subscribers who receive an IP-based telephony service. Residential Digital Phone subscriber numbers as of December 31, 2007 and 2006 exclude 9,000 and 106,000 subscribers, respectively, who received traditional, circuit-switched telephone service.
- (g) Revenue generating units represent the total of all basic video, digital video, high-speed data and voice (including circuit-switched telephone service) subscribers.
- (h) 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.

- (i) Double play subscriber numbers reflect customers who subscribe to two of the Company's primary services (video, high-speed data and voice).
- (j) Triple play subscriber numbers reflect customers who subscribe to all three of the Company's primary services.

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 impact of the Acquired Systems, the consolidation of the Kansas City Pool, the continued penetration of digital video services and video price increases. Digital video revenues represented 23% and 22% of video revenues in 2007 and 2006, respectively.

High-speed data revenues increased primarily due to the impact of the Acquired Systems, the consolidation of the Kansas City Pool and growth in high-speed data subscribers.

The increase in voice revenues was primarily due to growth in Digital Phone subscribers and the consolidation of the Kansas City Pool. Voice revenues for the Acquired Systems also included revenues associated with subscribers acquired from Comcast who received traditional, circuit-switched telephone service of \$34 million and \$27 million in 2007 and 2006, respectively.

Subscription ARPU increased 5% to \$94.09 in 2007 from \$89.75 in 2006. This increase was primarily a result of the increased penetration of advanced services (including digital video, high-speed data and Digital Phone) in the Legacy Systems and higher video prices, as discussed above, partially offset by lower penetration of advanced services in both the Acquired Systems and the Kansas City Pool as compared to the Legacy Systems.

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Advertising revenues increased due to a \$176 million increase in local advertising and a \$27 million increase in national advertising. These increases were primarily due to the impact of the Acquired Systems and, to a lesser extent, the consolidation of the Kansas City Pool.

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

	<b>Year Ended December 31,</b>		
	<b>2007</b>	<b>2006</b>	<b>% Change</b>
Video programming	\$ 3,534	\$ 2,523	40%
Employee	2,164	1,505	44%
High-speed data	164	156	5%
Voice	455	309	47%
Video franchise fees	437	357	22%
Other direct operating costs	788	506	56%
Total	\$ 7,542	\$ 5,356	41%

Costs of revenues increased 41%, and, as a percentage of revenues, were 47% in 2007 compared to 46% in 2006. The increase in costs of revenues was primarily related to the impact of the Acquired Systems and the consolidation of the Kansas City Pool, as well as increases in video programming, employee, voice and other direct operating costs. The increase in costs of revenues as a percentage of revenues in 2007 reflected lower margins in the Acquired Systems.

Video programming costs for the Legacy Systems, the Acquired Systems, the Kansas City Pool and the total systems were as follows (in millions):

	<b>Year Ended December 31,</b>	
	<b>2007</b>	<b>2006</b>
Video programming costs:		
Legacy Systems	\$ 2,305	\$ 2,114
Acquired Systems <sup>(a)</sup>	1,027	409
Kansas City Pool	202	
Total systems	\$ 3,534	\$ 2,523

<sup>(a)</sup> 2006 amounts reflect video programming costs for the Acquired Systems for the five months following the closing of the Adelphia/Comcast Transactions.

The increase in video programming costs was primarily due to the impact of the Acquired Systems and the consolidation of the Kansas City Pool, as well as contractual rate increases and the expansion of service offerings. Average programming costs per basic video subscriber increased 8% to \$22.04 per month in 2007 from \$20.33 per month in 2006.

Employee costs increased primarily due to the impact of the Acquired Systems, the consolidation of the Kansas City Pool, higher headcount resulting from the continued roll-out of advanced services and salary increases. Additionally, employee costs in 2006 included a benefit of \$32 million (with an additional benefit of \$8 million included in selling, general and administrative expenses) related to both changes in estimates and a correction of prior period medical benefit accruals.

High-speed data costs increased due to the impact of the Acquired Systems, the consolidation of the Kansas City Pool and subscriber growth, offset by a decrease in per-subscriber connectivity costs.

Voice costs increased primarily due to growth in Digital Phone subscribers and the consolidation of the Kansas City Pool, partially offset by a decline in per-subscriber connectivity costs.

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Other direct operating costs increased primarily due to the impact of the Acquired Systems and the consolidation of the Kansas City Pool, as well as certain other increases in costs associated with the continued roll-out of advanced services.

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

	<b>Year Ended December 31,</b>		
	<b>2007</b>	<b>2006</b>	<b>% Change</b>
Employee	\$ 1,059	\$ 872	21%
Marketing	499	414	21%
Other	1,090	840	30%
Total	\$ 2,648	\$ 2,126	25%

Selling, general and administrative expenses increased as a result of higher employee, marketing and other costs. Employee costs increased primarily due to the impact of the Acquired Systems, the consolidation of the Kansas City Pool, increased headcount resulting from the continued roll-out of advanced services and salary increases. Marketing costs increased as a result of the impact of the Acquired Systems and higher marketing costs associated with the continued roll-out of advanced services. Other costs increased primarily due to the impact of the Acquired Systems, the consolidation of the Kansas City Pool and increases in administrative costs associated with the increase in headcount discussed above.

*Merger-related and restructuring costs.* In 2007 and 2006, the Company expensed non-capitalizable merger-related costs associated with the Adelphia/Comcast Transactions of \$10 million and \$38 million, respectively. In addition, the results for 2007 and 2006 included restructuring costs of \$13 million and \$18 million, respectively.

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

	<b>Year Ended December 31,</b>		
	<b>2007</b>	<b>2006</b>	<b>% Change</b>
Net income	\$ 1,123	\$ 1,976	(43%)
Discontinued operations, net of tax		(1,038)	(100%)
Cumulative effect of accounting change, net of tax		(2)	(100%)
Income from continuing operations	1,123	936	20%

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Income tax provision	740	620	19%
Income from continuing operations before income taxes	1,863	1,556	20%
Interest expense, net	894	646	38%
Minority interest expense, net	165	108	53%
Other income, net	(156)	(131)	19%
Operating Income	2,766	2,179	27%
Depreciation	2,704	1,883	44%
Amortization	272	167	63%
Operating Income before Depreciation and Amortization	\$ 5,742	\$ 4,229	36%



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*Operating Income before Depreciation and Amortization.* Operating Income before Depreciation and Amortization increased principally due to revenue growth (particularly growth in high margin high-speed data revenues), partially offset by higher costs of revenues and selling, general and administrative expenses, as discussed above.

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

*Amortization expense.* Amortization expense increased primarily as a result of the amortization of intangible assets related to customer relationships associated with the Acquired Systems. This was partially offset by the absence after the first quarter of 2007 of amortization expense associated with customer relationships recorded in connection with the 2003 restructuring of TWE, which were fully amortized as of the end of the first quarter of 2007.

*Operating Income.* Operating Income increased primarily due to the increase in Operating Income before Depreciation and Amortization, partially offset by increases in both depreciation and amortization expense, as discussed above.

*Interest expense, net.* Interest expense, net, increased primarily due to an increase in long-term debt and mandatorily redeemable preferred membership units issued by a subsidiary in connection with the Adelphia/Comcast Transactions, partially offset by a decrease in mandatorily redeemable preferred equity issued by a subsidiary as a result of ATC's contribution in 2006 of its 1% common equity interest and \$2.4 billion preferred equity interest in TWE to TW NY in exchange for a 12.43% non-voting common stock interest in TW NY (the ATC Contribution).

*Minority interest expense, net.* Minority interest expense, net, increased primarily reflecting the change in the ownership structure of the Company and TWE as a result of the ATC Contribution and the redemption of Comcast's interest in TWC and TWE.

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

	<b>Year Ended December 31,</b>	
	<b>2007</b>	<b>2006</b>
Investment gains <sup>(a)</sup>	\$ (146)	\$
Income from equity investments, net	(11)	(129)
Other	1	(2)
Other income, net	\$ (156)	\$ (131)

<sup>(a)</sup> 2007 amount consists of the TKCCP Gain recorded as a result of the distribution of TKCCP's assets.

Income from equity investments, net, decreased primarily due to the Company no longer treating TKCCP as an equity-method investment.

*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. In 2007 and 2006, the Company recorded income tax provisions of \$740 million and \$620 million, respectively. The effective tax rate was approximately 40% in both 2007 and 2006.

*Income from continuing operations.* Income from continuing operations was \$1.123 billion in 2007 compared to \$936 million in 2006. Basic and diluted income per common share from continuing operations were \$1.15 in 2007 compared to \$0.95 in 2006. These increases were due to an increase in Operating Income and other income, net, partially offset by increases in interest expense, net, income tax provision and minority interest expense, net, and a decrease in income from equity investments, net.

*Discontinued operations, net of tax.* Discontinued operations, net of tax, in 2006 reflected the impact of treating the systems transferred to Comcast in connection with the Adelphia/Comcast Transactions as discontinued

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operations. In 2006, the Company recognized pretax income applicable to these systems of \$285 million (\$1.038 billion, net of a tax benefit). Included in the 2006 results were a pretax gain of \$165 million on the systems transferred to Comcast in connection with the Adelphia/Comcast Transactions and a net tax benefit of \$800 million comprised of a tax benefit of \$814 million on the redemption of Comcast's interest in TWC and TWE, partially offset by a provision of \$14 million on the exchange of cable systems with Comcast in connection with the Adelphia/Comcast Transactions. The tax benefit of \$814 million resulted primarily from the reversal of historical deferred tax liabilities that had existed on systems transferred to Comcast in the redemption of Comcast's interest in TWC. The redemption of Comcast's interest in TWC was designed to qualify as a tax-free split-off under section 355 of the Internal Revenue Code of 1986, as amended, and, as a result, such liabilities were no longer required. However, if the Internal Revenue Service were successful in challenging the tax-free characterization of the redemption of Comcast's interest in TWC, an additional cash liability on account of taxes of up to an estimated \$900 million could become payable by the Company.

*Cumulative effect of accounting change, net of tax.* In 2006, the Company recorded a benefit of \$2 million, net of tax, as the cumulative effect of a change in accounting principle upon the adoption of Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (Statement) No. 123 (revised 2004), *Share-Based Payment* (FAS 123R) to recognize the effect of estimating the number of Time Warner equity-based awards granted to TWC employees prior to January 1, 2006 that are not ultimately expected to vest.

*Net income and net income per common share.* Net income was \$1.123 billion in 2007 compared to \$1.976 billion in 2006. Basic and diluted net income per common share were \$1.15 in 2007 compared to \$2.00 in 2006.

**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, including the expected payment of \$10.855 billion for the Special Dividend. There are no significant maturities of the Company's long-term debt prior to February 2011. TWC's sources of cash include cash provided by operating activities, cash and equivalents on hand, borrowing capacity under its committed credit facilities (including the 2008 Bridge Facility, under which TWC may not borrow any amounts unless and until the Special Dividend is declared) and commercial paper program, as well as access to capital markets.

TWC's unused committed capacity was \$13.130 billion as of December 31, 2008, reflecting \$5.449 billion of cash and equivalents, \$5.749 billion of available borrowing capacity under the Company's \$6.0 billion senior unsecured five-year revolving credit facility (the Revolving Credit Facility) and \$1.932 billion of borrowing capacity under the 2008 Bridge Facility. TWC may not borrow any amounts under the 2008 Bridge Facility unless and until the Special Dividend is declared. Borrowings under the Supplemental Credit Agreement are only available to the Company at the final maturity of the 2008 Bridge Facility to repay amounts then outstanding under the 2008 Bridge Facility, if any, and are not included in TWC's unused committed capacity. See Outstanding Debt and Mandatorily Redeemable Preferred Equity and Available Financial Capacity Lending Commitments below for a discussion regarding the Company's decision to exclude funding commitments from subsidiaries of Lehman Brothers Holdings Inc. in determining the amount of its unused committed capacity.

**Current Financial Condition**

As of December 31, 2008, the Company had \$17.728 billion of debt, \$5.449 billion of cash and equivalents (net debt of \$12.279 billion, defined as total debt less cash and equivalents), \$300 million of mandatorily redeemable non-voting Series A Preferred Equity Membership Units (the TW NY Cable Preferred Membership Units ) issued by a subsidiary of TWC, Time Warner NY Cable LLC ( TW NY Cable ), and \$17.164 billion of shareholders equity. As of December 31, 2007, the Company had \$13.577 billion of debt, \$232 million of cash and equivalents

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(net debt of \$13.345 billion), \$300 million of TW NY Cable 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 December 31, 2008 (in millions):

Balance as of December 31, 2007 <sup>(a)</sup>	\$ 13,345
Cash provided by operating activities	(5,300)
Capital expenditures	3,522
Debt issuance costs	97
Investments and acquisitions, net of cash acquired and distributions received <sup>(b)</sup>	685
Proceeds from the sale of cable systems	(51)
All other, net	(19)
Balance as of December 31, 2008 <sup>(a)</sup>	\$ 12,279

- (a) Amounts include unamortized fair value adjustments of \$114 million and \$126 million as of December 31, 2008 and December 31, 2007, respectively, which include the fair value adjustment 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.).
- (b) Amount primarily includes the Company's investment of \$536 million in Clearwire LLC (which includes \$6 million of transaction-related costs) and the \$103 million reclassification of the Company's investment in The Reserve Fund. See below for further discussion.

As discussed in *Overview*, *Recent Developments*, *2008 Bond Offerings and Credit Facilities*, the Shelf Registration Statement on file with the SEC allows TWC to offer and sell from time to time senior and subordinated debt securities and debt warrants.

As discussed in *Overview*, *Recent Developments*, *Separation from Time Warner, Recapitalization and Reverse Stock Split of TWC Common Stock*, upon completion of the TW Internal Restructuring, TWC's board of directors or a committee thereof will declare the Special Dividend to holders of TWC's outstanding Class A common stock and Class B common stock, including Time Warner, in an amount equal to \$10.27 per share (aggregating \$10.855 billion), which will be paid prior to the completion of the Separation.

As discussed in *Overview*, *Recent Developments*, *2008 Bond Offerings and Credit Facilities*, pending the payment of the Special Dividend, a portion of the net proceeds of the 2008 Bond Offerings was used to repay variable-rate debt with lower interest rates, and the remainder was invested in accordance with the Company's investment policy.

The Company invests its cash and equivalents in a combination of money market, government and treasury funds, as well as bank certificates of deposit, in accordance with the Company's investment policy of diversifying its investments and limiting the amount of its investments in a single entity or fund. Consistent with the foregoing, the Company invested a portion of the cash proceeds of the June 2008 Bond Offering in The Reserve Fund's Primary Fund (The Reserve Fund). On the morning of September 15, 2008, the Company requested a full redemption of its

\$490 million investment in The Reserve Fund, but the redemption request was not honored. On September 22, 2008, The Reserve Fund announced that redemptions of shares were suspended pursuant to an SEC order requested by The Reserve Fund so that an orderly liquidation could be effected. Through December 31, 2008, the Company has received \$387 million from The Reserve Fund representing its pro rata share of partial distributions made by The Reserve Fund. The Company has not been informed as to when the remaining amount will be returned. However, the Company believes its remaining receivable is recoverable. As a result of the status of The Reserve Fund, the Company has classified the remaining \$103 million receivable from The Reserve Fund as of December 31, 2008 as prepaid expenses and other current assets in the Company's consolidated balance sheet and within investments and acquisitions, net of cash acquired and distributions received, in the Company's consolidated statement of cash flows.

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In addition, as discussed in Overview Recent Developments Investment in Clearwire, TWC invested \$550 million in Clearwire LLC on November 28, 2008. Of such investment, \$20 million was allocated to the additional agreements entered into in connection with its investment in Clearwire LLC.

TWE's 7.25% debentures due September 1, 2008 (aggregate principal amount of \$600 million) matured and were retired on September 1, 2008.

**Cash Flows**

Cash and equivalents increased by \$5.217 billion, \$181 million and \$39 million in 2008, 2007 and 2006, respectively. Components of these changes are discussed below in more detail.

***Operating Activities***

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

	<b>Year Ended December 31,</b>		
	<b>2008</b>	<b>2007</b>	<b>2006</b>
Operating Income (Loss) before Depreciation and Amortization	\$ (8,694)	\$ 5,742	\$ 4,229
Noncash impairment of cable franchise rights	14,822		
Noncash loss on sale of cable systems	58		
Net interest payments <sup>(a)</sup>	(707)	(845)	(662)
Pension plan contributions	(402)	(1)	(101)
Noncash equity-based compensation	78	59	33
Net income taxes paid <sup>(b)</sup>	(36)	(292)	(474)
Merger-related and restructuring payments, net of accruals <sup>(c)</sup>	(7)	(11)	(3)
Net cash flows from discontinued operations <sup>(d)</sup>		47	112
All other, net, including working capital changes	188	(136)	461
Cash provided by operating activities	\$ 5,300	\$ 4,563	\$ 3,595

(a) Amounts include interest income received of \$38 million, \$10 million and \$5 million in 2008, 2007 and 2006, respectively.

(b) Amounts include income tax refunds received of \$4 million, \$6 million and \$4 million in 2008, 2007 and 2006, respectively.

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

(d) Amounts reflect net income from discontinued operations of \$1.038 billion in 2006 (none in 2008 and 2007), as well as noncash gains and expenses and working capital-related adjustments of \$47 million and \$(926) million in 2007 and 2006, respectively (none in 2008).

Cash provided by operating activities increased from \$4.563 billion in 2007 to \$5.300 billion in 2008. This increase was primarily related to an increase in Operating Income before Depreciation and Amortization excluding the noncash items noted in the table above (primarily due to revenue growth, partially offset by increases in costs of revenues and selling, general and administrative expenses, as previously discussed), a favorable change in working capital requirements and decreases in net income tax and net interest payments, partially offset by 2008 pension plan contributions. The change in working capital requirements was primarily due to the timing of payments and collections of accounts receivable. The decrease in net income tax payments was primarily due to the impact of the Economic Stimulus Act of 2008, which was enacted in the first quarter of 2008 and provided for a bonus first year depreciation deduction of 50% of qualified property. The benefits of this legislation were applicable to certain of the Company's capital expenditures during 2008. With the passage of the American Recovery and Reinvestment Act of 2009, signed by the President on February 17, 2009, this bonus depreciation benefit will continue.

As a result of the 2008 Bond Offerings and additional debt that the Company expects to incur in 2009 in connection with the Separation Transactions, the Company expects that its net interest payments will increase significantly in 2009.



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The Company expects to make discretionary cash contributions of at least \$150 million to its defined benefit pension plans during 2009, subject to market conditions and other considerations. See Note 13 to the accompanying consolidated financial statements for additional discussion of the funded status of the Company's defined benefit pension plans.

Cash provided by operating activities increased from \$3.595 billion in 2006 to \$4.563 billion in 2007. This increase was primarily related to an increase in Operating Income before Depreciation and Amortization (due to revenue growth, partially offset by increases in costs of revenues and selling, general and administrative expenses, as described above) and a decrease in net income taxes paid (primarily as a result of the timing of tax-related payments to Time Warner under the Company's tax sharing arrangement, as well as tax benefits related to the Adelphia/Comcast Transactions) and a decrease in pension plan contributions, which were partially offset by a change in working capital requirements, an increase in net interest payments reflecting the increase in debt levels attributable to the Adelphia/Comcast Transactions and a decrease in cash relating to discontinued operations. The change in working capital requirements was primarily due to the timing of payments and collections of accounts receivable.

***Investing Activities***

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

	<b>Year Ended December 31,</b>		
	<b>2008</b>	<b>2007</b>	<b>2006</b>
Investments and acquisitions, net of cash acquired and distributions received:			
Clearwire LLC	\$ (536)	\$	\$
The Reserve Fund	(103)		
SpectrumCo <sup>(a)</sup>	(3)	(33)	(633)
Distributions received from an investee <sup>(b)</sup>		51	
Acquisition of Adelphia assets and exchange of systems with Comcast <sup>(c)</sup>	2	(25)	(9,080)
Redemption of Comcast's interest in TWE			(147)
All other	(45)	(53)	(2)
Capital expenditures from continuing operations	(3,522)	(3,433)	(2,718)
Capital expenditures from discontinued operations			(56)
Proceeds from the sale of cable systems	51	52	
Proceeds from the repayment by Comcast of TKCCP debt owed to TWE-A/N			631
Other investing activities	16	9	6
Cash used by investing activities	\$ (4,140)	\$ (3,432)	\$ (11,999)

(a) 2006 amount represents the Company's initial investment in SpectrumCo. 2007 amount includes a contribution of \$28 million to SpectrumCo to fund the Company's share of a payment to Sprint to purchase Sprint's interest in

SpectrumCo for an amount equal to Sprint's capital contributions.

- (b) Distributions received from an investee represent distributions received from Sterling Entertainment Enterprises, LLC (d/b/a SportsNet New York), an equity-method investee.
- (c) 2006 amount consists of cash paid at closing of \$8.935 billion, a contractual closing adjustment of \$67 million and other transaction-related costs of \$78 million. 2007 amount primarily represents additional transaction-related costs, including working capital adjustments.

Cash used by investing activities increased from \$3.432 billion in 2007 to \$4.140 billion in 2008. This increase was principally due to the Company's investment in Clearwire LLC and the classification of the Company's investment in The Reserve Fund as prepaid expenses and other current assets on the Company's consolidated balance sheet as a result of the status of the investment (as discussed above), as well as an increase in capital expenditures.

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Cash used by investing activities decreased from \$11.999 billion in 2006 to \$3.432 billion in 2007. This decrease was principally due to payments associated with the Adelphia/Comcast Transactions, which closed on July 31, 2006, and a decrease in investment spending related to the Company's investment in SpectrumCo. This decrease was partially offset by an increase in capital expenditures from continuing operations, driven by the Acquired Systems, as well as the continued roll-out of advanced digital services in the Legacy Systems, and the receipt of proceeds associated with the repayment by Comcast of TKCCP debt owed to TWE-A/N during 2006.

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

	<b>Year Ended December 31,</b>		
	<b>2008</b>	<b>2007</b>	<b>2006</b>
Customer premise equipment <sup>(a)</sup>	\$ 1,628	\$ 1,485	\$ 1,125
Scalable infrastructure <sup>(b)</sup>	600	604	568
Line extensions <sup>(c)</sup>	350	372	280
Upgrades/rebuilds <sup>(d)</sup>	315	315	151
Support capital <sup>(e)</sup>	629	657	594
Total capital expenditures	\$ 3,522	\$ 3,433	\$ 2,718

- (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. Amounts include capitalized software costs of \$201 million, \$196 million and \$137 million in 2008, 2007 and 2006, respectively.

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. 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.

The Company expects that capital expenditures will decline in 2009 as compared to 2008.

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***Financing Activities***

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

	<b>Year Ended December 31,</b>		
	<b>2008</b>	<b>2007</b>	<b>2006</b>
Borrowings (repayments), net <sup>(a)</sup>	\$ (206)	\$ (1,545)	\$ 651
Borrowings	7,182	8,387	10,300
Repayments	(2,817)	(7,679)	(975)
Debt issuance costs	(97)	(29)	(17)
Issuance of TW NY Cable Preferred Membership Units			300
Redemption of Comcast's interest in TWC			(1,857)
Other financing activities	(5)	(84)	41
Cash provided (used) by financing activities	\$ 4,057	\$ (950)	\$ 8,443

<sup>(a)</sup> 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 \$950 million in 2007 compared to cash provided by financing activities of \$4.057 billion in 2008. Cash provided by financing activities in 2008 primarily included borrowings from the 2008 Bond Offerings, partially offset by repayments under the Revolving Credit Facility and commercial paper program, repayment of matured long-term debt as previously discussed, and debt issuance costs relating to the 2008 Bond Offerings and the 2008 Bridge Facility. Cash used by financing activities for 2007 included net repayments under the Company's debt obligations and payments for other financing activities.

Cash used by financing activities was \$950 million in 2007 compared to cash provided by financing activities of \$8.443 billion in 2006. Cash used by financing activities for 2007 included net repayments under the Company's debt obligations and payments for other financing activities, while cash provided by financing activities for 2006 included significant net borrowings primarily associated with the financing of the Adelphia/Comcast Transactions, the issuance of the TW NY Cable Preferred Membership Units in connection with the Adelphia/Comcast Transactions and other financing activities, net of cash used in the TWC Redemption on July 31, 2006.

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***Free Cash Flow***

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

	<b>Year Ended December 31,</b>		
	<b>2008</b>	<b>2007</b>	<b>2006</b>
Cash provided by operating activities	\$ 5,300	\$ 4,563	\$ 3,595
Reconciling items:			
Discontinued operations, net of tax			(1,038)
Adjustments relating to the operating cash flow of discontinued operations		(47)	926
Cash provided by continuing operating activities	5,300	4,516	3,483
Add: Excess tax benefit from exercise of stock options		5	4
Less:			
Capital expenditures from continuing operations	(3,522)	(3,433)	(2,718)
Partnership tax distributions, stock option distributions and principal payments on capital leases of continuing operations	(5)	(28)	(34)
Free Cash Flow	\$ 1,773	\$ 1,060	\$ 735

Free Cash Flow increased from \$1.060 billion in 2007 to \$1.773 billion in 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.

Free Cash Flow increased from \$735 million in 2006 to \$1.060 billion in 2007 primarily as a result of an increase in cash provided by continuing operating activities, partially offset by an increase in capital expenditures from continuing operations, as discussed above.

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**Outstanding Debt and Mandatorily Redeemable Preferred Equity and Available Financial Capacity**

Debt and mandatorily redeemable preferred equity as of December 31, 2008 and 2007 were as follows:

	Interest Rate at December 31, 2008	Maturity	Outstanding Balance as of December 31, 2008                      2007 (in millions)	
Credit facilities <sup>(a)(b)</sup>	1.353% <sup>(c)</sup>	2011	\$ 3,045	\$ 5,256
TWC notes and debentures	6.752% <sup>(c)</sup>	2012-2038	11,956	4,985
TWE notes and debentures <sup>(d)(e)</sup>	7.809% <sup>(c)</sup>	2012-2033	2,714	3,326
Capital leases and other <sup>(f)</sup>			13	10
Total debt			17,728	13,577
TW NY Cable Preferred Membership Units	8.210%	2013	300	300
Total debt and mandatorily redeemable preferred equity			\$ 18,028	\$ 13,877

- (a) TWC's unused committed capacity was \$13.130 billion as of December 31, 2008, reflecting \$5.449 billion in cash and equivalents, \$5.749 billion of available borrowing capacity under the Revolving Credit Facility (which reflects a reduction of \$126 million for outstanding letters of credit backed by the Revolving Credit Facility and \$125 million for commitments of LBB, as defined and discussed below) and \$1.932 billion of borrowing capacity under the 2008 Bridge Facility (excluding \$138 of commitments of LBCB). TWC may not borrow any amounts under the 2008 Bridge Facility unless and until the Special Dividend is declared.
- (b) Outstanding balance amount as of December 31, 2007 excludes an unamortized discount on commercial paper of \$5 million (none as of December 31, 2008).
- (c) Rate represents an effective weighted-average interest rate.
- (d) Outstanding balance amount as of December 31, 2008 and 2007 includes an unamortized fair value adjustment of \$114 million and \$126 million, respectively.
- (e) As of December 31, 2007, the Company classified \$601 million of TWE 7.25% debentures due September 1, 2008 as long-term in the consolidated balance sheet to reflect management's intent and ability to refinance the obligation on a long-term basis through the utilization of the Company's unused committed capacity.
- (f) Amount includes \$1 million of debt due within one year as of December 31, 2008 (none as of December 31, 2007), which primarily relates to capital lease obligations.

See Overview Recent Developments 2008 Bond Offerings and Credit Facilities and Note 7 to the accompanying consolidated financial statements for further details regarding the Company's outstanding debt and mandatorily redeemable preferred equity and other financing arrangements, including certain information about maturities, covenants, rating triggers and bank credit agreement leverage ratios relating to such debt and financing arrangements.

### ***Lending Commitments***

As noted above, as of December 31, 2008, TWC had \$5.749 billion of available borrowing capacity under the Revolving Credit Facility and \$1.932 billion of borrowing capacity under the 2008 Bridge Facility. TWC may not borrow any amounts under the 2008 Bridge Facility unless and until the Special Dividend is declared. The 2008 Bridge Facility consists of commitments of approximately \$138 million from each of 14 institutions, consisting of affiliates of Bank of America, N.A., The Bank of Tokyo-Mitsubishi UFJ, LTD., Barclays Bank Plc, BNP Paribas Securities Corp., Citibank, N.A., Deutsche Bank AG, Fortis Bank SA/NV, Goldman Sachs Bank USA, Mizuho Corporate Bank, LTD., Morgan Stanley Bank, The Royal Bank of Scotland PLC, Sumitomo Mitsui Banking Corporation, UBS Loan Finance LLC and Wachovia Bank, National Association. These same financial institutions also comprise approximately 70% of the commitments under the Revolving Credit Facility. Recently, a number of these lenders have entered into agreements to acquire or to be acquired by other financial institutions. TWC believes that these transactions will not adversely affect the commitments under the 2008 Bridge Facility or the Revolving Credit Facility. The Company's bank credit agreements do not contain borrowing restrictions due to material adverse changes in the Company's business or market disruption. See Note 7 to the accompanying consolidated financial statements.



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In addition, LBCB and Lehman Brothers Bank, FSB ( LBB ), subsidiaries of Lehman Brothers Holdings Inc. ( Lehman ), are lenders under the 2008 Bridge Facility and the Revolving Credit Facility, respectively, with undrawn commitments of \$138 million and \$125 million, respectively, as of December 31, 2008. On September 15, 2008, Lehman filed a petition under Chapter 11 of the U.S. Bankruptcy Code with the U.S. Bankruptcy Court for the Southern District of New York (the Lehman Bankruptcy ). TWC has not requested to borrow under either the 2008 Bridge Facility or the Revolving Credit Facility since the Lehman Bankruptcy, and neither LBCB nor LBB has been placed in receivership or a similar proceeding as of February 19, 2009. While the Company believes that LBCB and LBB are contractually obligated under the 2008 Bridge Facility and the Revolving Credit Facility, respectively, the Company does not expect that LBCB and LBB will fund any future borrowing requests and is uncertain as to whether another lender might assume either commitment. Accordingly, the Company's unused committed capacity as of December 31, 2008 excludes the undrawn commitments of LBCB and LBB. The Company believes that it continues to have sufficient liquidity to meet its needs for the foreseeable future, including payment of the Special Dividend, even if LBCB and/or LBB fails to fund its portion of any future borrowing requests.

**Contractual and Other Obligations**

***Contractual Obligations***

The Company has obligations under certain contractual arrangements to make future payments for goods and services. These contractual obligations secure the future rights to various assets and services to be used in the normal course of operations. For example, the Company is contractually committed to make certain minimum lease payments for the use of property under operating lease agreements. In accordance with applicable accounting rules, the future rights and obligations pertaining to firm commitments, such as operating lease obligations and certain purchase obligations under contracts, are not reflected as assets or liabilities in the accompanying consolidated balance sheet.

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The following table summarizes the Company's aggregate contractual obligations as of December 31, 2008, and the estimated timing and effect that such obligations are expected to have on the Company's liquidity and cash flows in future periods.

	2009	2010- 2011	2012- 2013 (in millions)	2014 and thereafter	Total
Programming purchases <sup>(a)</sup>	\$ 3,098	\$ 5,076	\$ 2,933	\$ 527	\$ 11,634
Outstanding debt obligations and TW NY Cable Preferred Membership Units <sup>(b)</sup>	1	3,046	3,909	11,002	17,958
Interest and dividends <sup>(c)</sup>	1,078	2,176	1,952	9,234	14,440
Facility leases <sup>(d)</sup>	110	199	159	385	853
Data processing services	48	96	44		188
High-speed data connectivity <sup>(e)</sup>	40	21	7	35	103
Digital Phone connectivity <sup>(f)</sup>	453	704	280	1	1,438
Set-top box and modem purchases	175				175
Other	146	22	14	81	263
Total	\$ 5,149	\$ 11,340	\$ 9,298	\$ 21,265	\$ 47,052

- (a) Programming purchases represent contracts that the Company has with cable television networks and broadcast stations to provide programming services to its subscribers. Typically, these arrangements provide that the Company purchase cable television and broadcast programming for a certain number of subscribers as long as the Company is providing video services to such number of subscribers. There is generally no obligation to purchase these services if the Company is not providing video services. Programming fees represent a significant portion of its costs of revenues. Future fees under such contracts are based on numerous variables, including number and type of customers. The amounts included above represent estimates of future programming costs based on subscriber numbers as of December 31, 2008 applied to the per-subscriber contractual rates contained in the contracts that were in effect as of December 31, 2008, for which the Company does not have the right to cancel the contract or for contracts with a guaranteed minimum commitment.
- (b) Outstanding debt obligations and TW NY Cable Preferred Membership Units represent principal amounts due on outstanding debt obligations and the TW NY Cable Preferred Membership Units as of December 31, 2008. Amounts do not include any fair value adjustments, bond premiums, discounts, interest payments or dividends.
- (c) Amounts are based on the outstanding debt or TW NY Cable Preferred Membership Units balances, respective interest or dividend rates (interest rates on variable-rate debt were held constant through maturity at the December 31, 2008 rates) and maturity schedule of the respective instruments as of December 31, 2008. Interest ultimately paid on these obligations may differ based on changes in interest rates for variable-rate debt, as well as any potential future refinancings entered into by the Company. See Note 7 to the accompanying consolidated financial statements for further details.
- (d) The Company has facility lease obligations under various operating leases including minimum lease obligations for real estate and operating equipment.

- (e) High-speed data connectivity obligations are based on the contractual terms for bandwidth circuits that were in use as of December 31, 2008.
- (f) Digital Phone connectivity obligations relate to transport, switching and interconnection services that allow for the origination and termination of local and long-distance telephony traffic. These expenses also include related technical support services. There is generally no obligation to purchase these services if the Company is not providing Digital Phone service. The amounts included above are based on the number of Digital Phone subscribers as of December 31, 2008 and the per-subscriber contractual rates contained in the contracts that were in effect as of December 31, 2008.

The Company's total rent expense, which primarily includes facility rental expense and pole attachment rental fees, amounted to \$190 million in 2008, \$182 million in 2007 and \$149 million in 2006.

Minimum pension funding requirements have not been presented, as such amounts have not been determined beyond 2008. The Company did not have a required minimum pension contribution obligation for its funded defined benefit pension plans in 2008; however, the Company made discretionary cash contributions of \$400 million to these plans and expects to contribute at least \$150 million to these plans in 2009.

### ***Contingent Commitments***

#### ***The Six Flags Guarantee***

Prior to the restructuring of TWE, which was completed in March 2003 (the "TWE Restructuring"), TWE had various contingent commitments, including guarantees, related to TWE's non-cable businesses, including Warner Bros., Home Box Office, and TWE's interests in The WB Television Network (which has subsequently ceased

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operations), Comedy Central (which was subsequently sold) and the Courtroom Television Network (d/b/a truTV effective January 1, 2008) (collectively, the Non-cable Businesses). In connection with the TWE Restructuring, some of these commitments were not transferred with their applicable Non-cable Business and they remain contingent commitments of TWE. Specifically, in connection with the Non-cable Businesses' former investment in the Six Flags theme parks located in Georgia and Texas (Six Flags Georgia and Six Flags Texas, respectively, and, collectively, the Parks), in 1997, TWE and a subsidiary of Time Warner, Historic TW Inc. (formerly known as Time Warner Inc., Historic TW), each agreed to guarantee (the Six Flags Guarantee) certain obligations of the partnerships that hold the Parks (the Partnerships) for the benefit of the limited partners in such Partnerships, including the following (the Guaranteed Obligations): (a) making a minimum annual distribution to the limited partners of the Partnerships (the minimum was approximately \$61 million in 2008 and is subject to annual cost of living adjustments); (b) making a minimum amount of capital expenditures each year (an amount approximating 6% of the Parks' annual revenues); (c) offering each year to purchase 5% of the limited partnership units of the Partnerships (plus any such units not purchased pursuant to such offer in any prior year) based on an aggregate price for all limited partnership units at the higher of (i) \$250 million in the case of Six Flags Georgia and \$374.8 million in the case of Six Flags Texas (the Base Valuations) and (ii) a weighted average multiple of EBITDA for the respective Park over the previous four-year period (the Cumulative LP Unit Purchase Obligation); (d) making annual ground lease payments; and (e) either (i) purchasing all of the outstanding limited partnership units through the exercise of a call option upon the earlier of the occurrence of certain specified events and the end of the term of each of the Partnerships in 2027 (Six Flags Georgia) and 2028 (Six Flags Texas) (the End of Term Purchase) or (ii) causing each of the Partnerships to have no indebtedness and to meet certain other financial tests as of the end of the term of the Partnership. The aggregate amount payable in connection with an End of Term Purchase option on either Park will be the Base Valuation applicable to such Park, adjusted for changes in the consumer price index from December 1996, in the case of Six Flags Georgia, and December 1997, in the case of Six Flags Texas, through December of the year immediately preceding the year in which the End of Term Purchase occurs, in each case, reduced ratably to reflect limited partnership units previously purchased.

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

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

Transactions, TWE is expected to assign its rights and obligations under the Six Flags Indemnity Agreement to Warner Bros. Entertainment Inc., a subsidiary of Time Warner.

In November 2007, Moody's Investors Service, Standard & Poor's and Fitch Ratings downgraded their credit ratings for Six Flags. In March 2008, Moody's Investors Service changed Six Flags' rating outlook to negative from

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stable and downgraded its speculative-grade liquidity rating. In June 2008, Moody's Investors Service and Fitch Ratings downgraded their senior unsecured credit ratings for Six Flags. In September 2008, Moody's Investors Service downgraded Six Flags' corporate family rating. To date, no payments have been made by Historic TW or TWE pursuant to the Six Flags Guarantee. In its quarterly report on Form 10-Q for the period ended September 30, 2008, Six Flags reported an estimated maximum Cumulative LP Unit Purchase Obligation for 2009 of approximately \$335 million. The aggregate undiscounted estimated future cash flow requirements covered by the Six Flags Guarantee over the remaining term of the agreements are approximately \$1.4 billion. Six Flags has also publicly disclosed that it has deposited approximately \$15 million in an escrow account as a source of funds in the event Historic TW or TWE is required to fund any portion of the Guaranteed Obligations in the future.

Because the Six Flags Guarantee existed prior to the Company's adoption of FASB Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others* (FIN 45), and no modifications to the arrangements have been made since the date the guarantee came into existence, the recognition requirements of FIN 45 are not applicable to the arrangements and the Company has continued to account for the Guaranteed Obligations in accordance with FASB Statement No. 5, *Accounting for Contingencies* (FAS 5). Based on its evaluation of the current facts and circumstances surrounding the Guaranteed Obligations and the Six Flags Indemnity Agreement (including the recent financial performance reported for the Parks and by Six Flags), the Company has concluded that a probable loss does not exist and, consequently, no liability for the arrangements has been recognized at December 31, 2008. Because of the specific circumstances surrounding the arrangements and the fact that no active or observable market exists for this type of financial guarantee, the Company is unable to determine a current fair value for the Guaranteed Obligations and related Six Flags Indemnity Agreement.

*Other Contingent Commitments*

TWC has cable franchise agreements containing provisions requiring the construction of cable plant and the provision of services to customers within the franchise areas. In connection with these obligations under existing franchise agreements, TWC obtains surety bonds or letters of credit guaranteeing performance to municipalities and public utilities and payment of insurance premiums. Such surety bonds and letters of credit as of December 31, 2008 and 2007 totaled \$288 million and \$299 million, respectively. Payments under these arrangements are required only in the event of nonperformance. TWC does not expect that these contingent commitments will result in any amounts being paid in the foreseeable future.

TWC is required to make cash distributions to Time Warner when employees of the Company exercise previously issued Time Warner stock options. For more information, see **Market Risk Management** **Equity Risk** below.

**MARKET RISK MANAGEMENT**

Market risk is the potential gain/loss arising from changes in market rates and prices, such as interest rates.

**Interest Rate Risk**

*Variable-rate Debt*

As of December 31, 2008, TWC had an outstanding balance of variable-rate debt of \$3.045 billion. Based on TWC's variable-rate obligations outstanding at December 31, 2008, each 25 basis point increase or decrease in the level of interest rates would, respectively, increase or decrease TWC's annual interest expense and related cash payments by approximately \$8 million. Such potential increases or decreases are based on certain simplifying assumptions, including a constant level of variable-rate debt for all maturities and an immediate, across-the-board increase or decrease in the level of interest rates with no other subsequent changes for the remainder of the period. Conversely, since almost all of the Company's cash balance of \$5.449 billion is invested in variable-rate interest-

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earning assets, the Company would also earn more (less) interest income due to such an increase (decrease) in interest rates.

***Fixed-rate Debt and TW NY Cable Preferred Membership Units***

As of December 31, 2008, TWC had fixed-rate debt and TW NY Cable Preferred Membership Units with an outstanding balance of \$14.970 billion, including an unamortized fair value adjustment of \$114 million, and an estimated fair value of \$14.587 billion. Based on TWC's fixed-rate debt obligations outstanding at December 31, 2008, a 25 basis point increase or decrease in the level of interest rates would, respectively, decrease or increase the fair value of the fixed-rate debt by approximately \$263 million. Such potential increases or decreases are based on certain simplifying assumptions, including a constant level of fixed-rate debt and an immediate, across-the-board increase or decrease in the level of interest rates with no other subsequent changes for the remainder of the period.

**Equity Risk**

TWC is also exposed to market risk as it relates to changes in the market value of its investments. TWC invests in equity instruments of companies for operational and strategic business purposes. These investments are subject to significant fluctuations in fair market value due to volatility in the general equity markets and the specific industries in which the companies operate. As of December 31, 2008, TWC had \$895 million of investments, which primarily included \$663 million related to SpectrumCo and \$167 million related to Clearwire LLC.

Some of TWC's employees have been granted options to purchase shares of Time Warner common stock in connection with their past employment with subsidiaries and affiliates of Time Warner, including TWC. TWC has agreed that, upon the exercise by any of its officers or employees of any options to purchase Time Warner common stock, TWC will reimburse Time Warner in an amount equal to the excess of the closing price of a share of Time Warner common stock on the date of the exercise of the option over the aggregate exercise price paid by the exercising officer or employee for each share of Time Warner common stock. TWC accrues stock option distributions payable to Time Warner, which are not payable until the underlying options are exercised and then only subject to limitations on cash distributions in accordance with the senior unsecured revolving credit facilities. Any accrued amounts will be adjusted in subsequent accounting periods based on changes in the quoted market prices for Time Warner's common stock. As of December 31, 2008, TWC had no stock option distributions payable to Time Warner. See Note 12 to the accompanying consolidated financial statements.

**CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

The Company's consolidated financial statements are prepared in accordance with GAAP, which requires management to make estimates, judgments and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Management considers an accounting policy and estimate to be critical if it requires the use of assumptions that were uncertain at the time the estimate was made and if changes in the estimate or selection of a different estimate could have a material effect on the Company's consolidated results of operations or financial condition. The development and selection of the following critical accounting policies and estimates have been determined by the management of TWC and the related disclosures have been reviewed with the Audit Committee of the board of directors of TWC. Due to the significant judgment involved in selecting certain of the assumptions used in these areas, it is possible that different parties could choose different assumptions and reach



different conclusions. For a summary of all of the Company's significant accounting policies, see Note 3 to the accompanying consolidated financial statements.

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***Asset Impairments***

*Goodwill and Indefinite-lived Intangible Assets*

Goodwill impairment is determined using a two-step process. The first step involves a comparison of the estimated fair value of each of the Company's eight geographic reporting units to its carrying amount, including goodwill. In performing the first step, the Company determines the fair value of a reporting unit using a combination of a discounted cash flow (DCF) analysis and a market-based approach. Determining fair value requires the exercise of significant judgment, including judgment about appropriate discount rates, perpetual growth rates, the amount and timing of expected future cash flows, as well as relevant comparable company earnings multiples for the market-based approach. The cash flows employed in the DCF analyses are based on the Company's most recent budget and, for years beyond the budget, the Company's estimates, which are based on assumed growth rates. The discount rates used in the DCF analyses are intended to reflect the risks inherent in the future cash flows of the respective reporting units. In addition, the market-based approach utilizes comparable company public trading values, research analyst estimates and, where available, values observed in private market transactions. If the estimated fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is not impaired and the second step of the impairment test is not necessary. If the carrying amount of a reporting unit exceeds its estimated fair value, then the second step of the goodwill impairment test must be performed. The second step of the goodwill impairment test compares the implied fair value of the reporting unit's goodwill with its goodwill carrying amount to measure the amount of impairment, if any. The implied fair value of goodwill is determined in the same manner as the amount of goodwill recognized in a business combination. In other words, the estimated fair value of the reporting unit is allocated to all of the assets and liabilities of that unit (including any unrecognized intangible assets) as if the reporting unit had been acquired in a business combination and the fair value of the reporting unit was the purchase price paid. If the carrying amount of the reporting unit's goodwill exceeds the implied fair value of that goodwill, an impairment is recognized in an amount equal to that excess.

The impairment test for other intangible assets not subject to amortization involves a comparison of the estimated fair value of the intangible asset with its carrying value. If the carrying value of the intangible asset exceeds its fair value, an impairment loss is recognized in an amount equal to that excess. The estimates of fair value of intangible assets not subject to amortization are determined using a DCF valuation analysis. The DCF methodology used to value cable franchise rights entails identifying the projected discrete cash flows related to such cable franchise rights and discounting them back to the valuation date. Significant judgments inherent in this analysis include the selection of appropriate discount rates, estimating the amount and timing of estimated future cash flows attributable to cable franchise rights and identification of appropriate terminal growth rate assumptions. The discount rates used in the DCF analyses are intended to reflect the risk inherent in the projected future cash flows generated by the respective intangible assets.

Goodwill and indefinite-lived intangible assets, primarily the Company's cable franchise rights, are tested annually for impairment during the fourth quarter or earlier upon the occurrence of certain events or substantive changes in circumstances. As a result of entering into the Separation Agreement, the Company tested goodwill and the cable franchise rights for impairment during the second quarter of 2008, and no impairment charges were recognized. The Company's 2008 annual impairment analysis, which was performed as of December 31, 2008, did not result in any goodwill impairments, but did result in a noncash pretax impairment on its cable franchise rights of



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\$14.822 billion. The impairment charge by unit of accounting, as well as the remaining value of the cable franchise rights by unit of accounting as of December 31, 2008, is as follows (in millions):

	Balance as of December 31, 2007	Impairment	Other Activity	Balance as of December 31, 2008
West	\$ 6,908	\$ (3,558)	\$	\$ 3,350
New York City	5,501	(2,156)		3,345
Texas	4,971	(3,270)	(1)	1,700
Midwest	7,863	(2,835)		5,028
Carolinas	5,558	(1,659)	9	3,908
Upstate New York	6,605	(962)	2	5,645
Kansas City	388		5	393
National	1,128	(382)	(24)	722
	\$ 38,922	\$ (14,822)	\$ (9)	\$ 24,091

The aggregate impairment charge was primarily attributable to the use of higher discount rates, which accounted for approximately two-thirds of the decline in fair value as compared to the impairment test performed in May 2008 and lower projected future cash flows related to the cable franchise rights utilized in the DCF valuation analyses (which accounted for the remaining approximately one-third decline). Although the Company continues to project future growth in cash flows, such growth is lower than that estimated at the time the cable franchise rights were acquired. The higher discount rates (on average approximately 12.5% as compared to approximately 10% used in the May 2008 valuation) reflect an increase in the risks inherent in the estimated future cash flows attributable to the individual cable franchise rights; this increase in risk is due to the current economic volatility, which became more pronounced during the fourth quarter of 2008. The discount rates used in both the May 2008 and December 2008 analyses include significant risk premiums of up to 250 basis points to the Company's weighted-average cost of capital to reflect the greater uncertainty in the cash flows attributable to the Company's cable franchise rights. Furthermore, had the Company used a discount rate in assessing the impairment of its cable franchise rights that was 1% higher across all units of accounting (holding all other assumptions unchanged) the Company would have recorded an additional impairment charge of approximately \$3.0 billion.

The reduction in estimated future cash flows since May 2008 reflects the impact of the weaker economy and increased competition, including fourth quarter 2008 subscriber trends (specifically, lower fourth quarter revenue generating unit net additions) lower advertising revenues and higher video programming costs (resulting from, among other things, higher projected costs for acquiring retransmission consent rights) offset in part by reduced capital expenditures and increased cost controls in other areas of the Company. In addition, the terminal growth rates used in the analyses for both the May 2008 and December 2008 impairment tests were the same and in line with historical U.S. gross domestic product growth rates.

As a result of the cable franchise rights impairment taken in 2008, the carrying values of the Company's impaired cable franchise rights (which represented the cable franchise rights in all but one of the Company's eight units of accounting) were re-set to their estimated fair values as of December 31, 2008. Consequently, any further decline in the estimated fair values of these cable franchise rights could result in additional cable franchise rights impairments. Management has no reason to believe that any one unit of accounting is more likely than any other to incur further impairments of its cable franchise rights. It is possible that such impairments, if required, could be material and may need to be recorded prior to the fourth quarter of 2009 (i.e., during an interim period) if the Company's results of operations or other factors require such assets to be tested for impairment at an interim date.

For illustrative purposes only, had the fair values of each of the cable franchise rights been lower by 10% as of December 31, 2008, the Company would have recorded an additional cable franchise rights impairment of

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

approximately \$2.37 billion; had the fair values of the cable franchise rights been lower by 20%, the Company would have recorded an additional cable franchise rights impairment of approximately \$4.74 billion; and had the fair values of the cable franchise rights been lower by 30%, the Company would have recorded an additional cable franchise rights impairment of approximately \$7.11 billion. A decline in the fair values of the reporting units by up to 30% would not result in any goodwill impairments, as the accounting rules first require a company to impair its indefinite-lived intangible assets prior to testing for any goodwill impairments.

*Long-lived Assets*

Long-lived assets (e.g., customer relationships and property, plant and equipment) do not require that an annual impairment test be performed; instead, long-lived assets are tested for impairment upon the occurrence of a triggering event. Triggering events include the more likely than not disposal of a portion of such assets or the occurrence of an adverse change in the market involving the business employing the related assets. Once a triggering event has occurred, the impairment test is based on whether the intent is to hold the asset for continued use or to hold the asset for sale. If the intent is to hold the asset for continued use, the impairment test first requires a comparison of estimated undiscounted future cash flows generated by the asset group against the carrying value of the asset group. If the carrying value of the asset group exceeds the estimated undiscounted future cash flows, the asset would be deemed to be impaired. Impairment would then be measured as the difference between the estimated fair value of the asset and its carrying value. Fair value is generally determined by discounting the future cash flows associated with that asset. If the intent is to hold the asset for sale and certain other criteria are met (e.g., the asset can be disposed of currently, appropriate levels of authority have approved the sale, and there is an active program to locate a buyer), the impairment test involves comparing the asset's carrying value to its estimated fair value. To the extent the carrying value is greater than the asset's estimated fair value, an impairment loss is recognized for the difference.

Significant judgments in this area involve determining whether a triggering event has occurred, determining the future cash flows for the assets involved and selecting the appropriate discount rate to be applied in determining estimated fair value. In 2008, there were no significant long-lived asset impairments. However, as a result of the impairment of cable franchise rights recorded during 2008, the Company determined a triggering event had occurred and tested certain customer relationships for impairment in accordance with FASB Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, concluding that these customer relationships were not impaired.

*Investments*

TWC's investments are primarily accounted for using the equity method of accounting. A subjective aspect of accounting for investments involves determining whether an other-than-temporary decline in value of the investment has been sustained. If it has been determined that an investment has sustained an other-than-temporary decline in its value, the investment is written down to its fair value by a charge to earnings. This evaluation is dependent on the specific facts and circumstances. TWC evaluates available information (e.g., budgets, business plans, financial statements, etc.) in addition to quoted market prices, if any, in determining whether an other-than-temporary decline in value exists. Factors indicative of an other-than-temporary decline include recurring operating losses, credit defaults and subsequent rounds of financing at an amount below the cost basis of the Company's investment. This list is not all-inclusive and the Company weighs all known quantitative and qualitative factors in determining if an other-than-temporary decline in the value of an investment has occurred. As discussed further in Overview Recent Developments Investment in Clearwire, during the fourth quarter of 2008, the Company recorded a noncash pretax

impairment of \$367 million on its investment in Clearwire LLC as a result of a significant decline in the estimated fair value of Clearwire, reflecting the Clearwire Corp stock price decline from May 2008, when TWC agreed to make its investment.

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

***Legal Contingencies***

The Company is subject to legal, regulatory and other proceedings and claims that arise in the ordinary course of business. The Company records an estimated liability for those proceedings and claims arising in the ordinary course of business based upon the probable and reasonably estimable criteria contained in FAS 5. The Company reviews outstanding claims with internal, as well as external, counsel to assess the probability and the estimates of loss. The Company reassesses the risk of loss as new information becomes available and adjusts liabilities as appropriate. The actual cost of resolving a claim may be substantially different from the amount of the liability recorded. Differences between the estimated and actual amounts determined upon ultimate resolution, individually or in the aggregate, are not expected to have a material adverse effect on the Company's consolidated financial position but could possibly be material to the Company's consolidated results of operations or cash flow for any one period.

***Income Taxes***

From time to time, the Company engages in transactions in which the tax consequences may be subject to uncertainty. Examples of such transactions include business acquisitions and dispositions, including dispositions designed to be tax free, issues related to consideration paid or received, and certain financing transactions. Significant judgment is required in assessing and estimating the tax consequences of these transactions. The Company prepares and files tax returns based on interpretation of tax laws and regulations. In the normal course of business, the Company's tax returns are subject to examination by various taxing authorities. Such examinations may result in future tax and interest assessments by these taxing authorities. In determining the Company's tax provision for financial reporting purposes, the Company establishes a reserve for uncertain tax positions unless such positions are determined to be more likely than not of being sustained upon examination, based on their technical merits. That is, for financial reporting purposes, the Company only recognizes tax benefits taken on the tax return that it believes are more likely than not of being sustained. There is considerable judgment involved in determining whether positions taken on the tax return are more likely than not of being sustained.

The Company adjusts its tax reserve estimates periodically because of ongoing examinations by, and settlements with, the various taxing authorities, as well as changes in tax laws, regulations and interpretations. The consolidated tax provision of any given year includes adjustments to prior year income tax accruals that are considered appropriate and any related estimated interest. The Company's policy is to recognize, when applicable, interest and penalties on uncertain tax positions as part of income tax expense. Refer to Note 11 to the accompanying consolidated financial statements for further details.

***Programming Agreements***

The Company exercises significant judgment in estimating programming expense associated with certain video programming contracts. The Company's policy is to record video programming costs based on the Company's contractual agreements with its programming vendors, which are generally multi-year agreements that provide for the Company to make payments to the programming vendors at agreed upon market rates based on the number of subscribers to which the Company provides the programming service. If a programming contract expires prior to the parties' entry into a new agreement and the Company continues to distribute the service, management estimates the programming costs during the period there is no contract in place. In doing so, management considers the previous contractual rates, inflation and the status of the negotiations in determining its estimates. When the programming



contract terms are finalized, an adjustment to programming expense is recorded, if necessary, to reflect the terms of the new contract. Management also makes estimates in the recognition of programming expense related to other items, such as the accounting for free periods and credits from service interruptions, as well as the allocation of consideration exchanged between the parties in multiple-element transactions. Additionally, judgments are also required by management when the Company purchases multiple services from the same programming vendor. In these scenarios, the total consideration provided to the

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

programming vendor is required to be allocated to the various services received based upon their respective fair values. Because multiple services from the same programming vendor may be received over different contractual periods and may have different contractual rates, the allocation of consideration to the individual services will have an impact on the timing of the Company's expense recognition.

***Pension Plans***

TWC has both funded and unfunded noncontributory defined benefit pension plans covering a majority of its employees. Pension benefits are based on formulas that reflect the employees' years of service and compensation during their employment period. The Company recognized pension expense associated with these plans of \$91 million, \$64 million and \$77 million in 2008, 2007 and 2006, respectively. The Company expects pension expense to be approximately \$150 million in 2009. The pension expense recognized by the Company is determined using certain assumptions, including the expected long-term rate of return on plan assets, the interest factor implied by the discount rate and the rate of compensation increases. TWC uses a December 31 measurement date for its plans. See Notes 3 and 13 to the accompanying consolidated financial statements for additional discussion. The determination of these assumptions is discussed in more detail below.

The Company used a discount rate of 6% to compute 2008 pension expense. The discount rate for the plan year ended December 31, 2007 was determined by comparison against the Moody's Aa Corporate Index rate, adjusted for coupon frequency and duration of the obligation, consistent with prior periods. The resulting discount rate was supported by periodic matching of plan liability cash flows to a pension yield curve constructed of a large population of high-quality corporate bonds. Effective for the plan year ending on December 31, 2008, the Company refined the discount rate determination process to rely on the matching of plan liability cash flows to a pension yield curve constructed of a large population of high-quality corporate bonds, without comparison against the Moody's Aa Corporate Index rate. A decrease in the discount rate of 25 basis points, from 6.00% to 5.75%, while holding all other assumptions constant, would have resulted in an increase in the Company's pension expense of approximately \$13 million in 2008.

The Company's expected long-term rate of return on plan assets used to compute 2008 pension expense was 8%. In developing the expected long-term rate of return on assets, the Company considered the pension portfolio's composition, past average rate of earnings and discussions with portfolio managers. The expected long-term rate of return is based on an asset allocation assumption of 75% equity securities and 25% fixed-income securities. A decrease in the expected long-term rate of return of 25 basis points, from 8.00% to 7.75%, while holding all other assumptions constant, would have resulted in an increase in the Company's pension expense of approximately \$3 million in 2008.

The Company used an estimated rate of future compensation increases of 4.5% to compute 2008 pension expense. An increase in the rate of 25 basis points while holding all other assumptions constant would have resulted in an increase in the Company's domestic pension expense of approximately \$4 million in 2008.

***Property, Plant and 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 uses

standard capitalization rates to capitalize installation activities. Significant judgment is involved in the development of these capitalization standards, including the average time required to perform an installation and the determination of the nature and amount of indirect costs to be capitalized. Additionally, the development of capitalization standards for new products involves more estimates than those used for established products because the Company has less historical data related to the installation of new products. The capitalization standards are reviewed at least annually and adjusted, if necessary, based on comparisons to actual costs incurred.

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

**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, Operating Income (Loss) before Depreciation and Amortization, cash provided by operating activities and other financial measures. Words such as anticipates, estimates, expects, projects, intends, plans, believes and words and terms of similar substance 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 Part I of this report, and in TWC's other filings made from time to time with 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 Part I of this report, as well as:

- a longer than anticipated continuation of the current economic slowdown or further deterioration in the economy;
- any reduction in the Company's ability to access the capital markets for debt securities or bank financings, including as a result of current liquidity issues affecting the capital markets;
- 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, including the Company's planned separation from Time Warner; and
- the failure to meet earnings expectations.

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

	December 31,	
	2008	2007
	(in millions)	
ASSETS		
Current assets:		
Cash and equivalents	\$ 5,449	\$ 232
Receivables, less allowances of \$90 million and \$87 million as of December 31, 2008 and 2007, respectively	692	743
Receivables from affiliated parties	161	2
Deferred income tax assets	156	91
Prepaid expenses and other current assets	201	95
Total current assets	6,659	1,163
Investments	895	735
Property, plant and equipment, net	13,537	12,873
Intangible assets subject to amortization, net	493	719
Intangible assets not subject to amortization	24,094	38,925
Goodwill	2,101	2,117
Other assets	110	68
Total assets	\$ 47,889	\$ 56,600
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 546	\$ 417
Deferred revenue and subscriber-related liabilities	156	164
Payables to affiliated parties	209	204
Accrued programming expense	530	509
Other current liabilities	1,432	1,237
Current liabilities of discontinued operations		5
Total current liabilities	2,873	2,536
Long-term debt	17,727	13,577
Mandatorily redeemable preferred membership units issued by a subsidiary	300	300
Deferred income tax liabilities, net	8,193	13,291
Long-term payables to affiliated parties		36
Other liabilities	522	430
Minority interests	1,110	1,724
Commitments and contingencies (Note 16)		
Shareholders' equity:		
Class A common stock, \$0.01 par value, 902 million shares issued and outstanding as of December 31, 2008 and 2007, respectively	9	9
	1	1

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

Paid-in-capital	19,507	19,411
Accumulated other comprehensive loss, net	(467)	(174)
Retained earnings (deficit)	(1,886)	5,459
Total shareholders' equity	17,164	24,706
Total liabilities and shareholders' equity	\$ 47,889	\$ 56,600

See accompanying notes.

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**TIME WARNER CABLE INC.**  
**CONSOLIDATED STATEMENT OF OPERATIONS**

	<b>Year Ended December 31,</b>		
	<b>2008</b>	<b>2007</b>	<b>2006</b>
	<b>(in millions, except per share data)</b>		
Revenues:			
Subscription:			
Video	\$ 10,524	\$ 10,165	\$ 7,632
High-speed data	4,159	3,730	2,756
Voice	1,619	1,193	715
 Total Subscription	 16,302	 15,088	 11,103
Advertising	898	867	664
 Total revenues <sup>(a)</sup>	 17,200	 15,955	 11,767
Costs and expenses:			
Costs of revenues <sup>(a)(b)</sup>	8,145	7,542	5,356
Selling, general and administrative <sup>(a)(b)</sup>	2,854	2,648	2,126
Depreciation	2,826	2,704	1,883
Amortization	262	272	167
Merger-related and restructuring costs	15	23	56
Impairment of cable franchise rights	14,822		
Loss on sale of cable systems	58		
 Total costs and expenses	 28,982	 13,189	 9,588
 Operating Income (Loss)	 (11,782)	 2,766	 2,179
Interest expense, net <sup>(a)</sup>	(923)	(894)	(646)
Minority interest income (expense), net	1,022	(165)	(108)
Other income (expense), net	(367)	156	131
 Income (loss) from continuing operations before income taxes	 (12,050)	 1,863	 1,556
Income tax benefit (provision)	4,706	(740)	(620)
 Income (loss) from continuing operations	 (7,344)	 1,123	 936
Discontinued operations, net of tax			1,038
Cumulative effect of accounting change, net of tax			2
 Net income (loss)	 \$ (7,344)	 \$ 1,123	 \$ 1,976
 Basic income (loss) per common share from continuing operations	 \$ (7.52)	 \$ 1.15	 \$ 0.95
Discontinued operations			1.05
Cumulative effect of accounting change			

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Basic net income (loss) per common share	\$	(7.52)	\$	1.15	\$	2.00
Average basic common shares outstanding		977.0		976.9		990.4
Diluted income (loss) per common share from continuing operations	\$	(7.52)	\$	1.15	\$	0.95
Discontinued operations						1.05
Cumulative effect of accounting change						
Diluted net income (loss) per common share	\$	(7.52)	\$	1.15	\$	2.00
Average diluted common shares outstanding		977.0		977.2		990.4

(a) Amounts include the following income (expenses) resulting from transactions with related companies:

	Year Ended December 31,		
	2008	2007	2006
		(in millions)	
Revenues	\$ 29	\$ 20	\$ 94
Costs of revenues	(1,054)	(1,024)	(830)
Selling, general and administrative	(22)	(16)	9
Interest expense, net			(73)

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

See accompanying notes.



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**TIME WARNER CABLE INC.**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**

	Year Ended December 31,		
	2008	2007	2006
	(in millions)		
<b>OPERATING ACTIVITIES</b>			
Net income (loss) <sup>(a)</sup>	\$ (7,344)	\$ 1,123	\$ 1,976
Adjustments for noncash and nonoperating items:			
Cumulative effect of accounting change, net of tax			(2)
Depreciation and amortization	3,088	2,976	2,050
Impairment of cable franchise rights	14,822		
Pretax (gain) loss on asset sales	49	(146)	
(Income) loss from equity investments, net of cash distributions	378	12	(129)
Minority interest (income) expense, net	(1,022)	165	108
Deferred income taxes	(4,557)	317	240
Equity-based compensation expense	78	59	33
Changes in operating assets and liabilities, net of acquisitions:			
Receivables	20	18	(146)
Accounts payable and other liabilities	48	(29)	456
Other changes	(260)	21	(65)
Adjustments relating to discontinued operations <sup>(a)</sup>		47	(926)
Cash provided by operating activities	5,300	4,563	3,595
<b>INVESTING ACTIVITIES</b>			
Investments and acquisitions, net of cash acquired and distributions received	(685)	(60)	(9,862)
Capital expenditures from continuing operations	(3,522)	(3,433)	(2,718)
Capital expenditures from discontinued operations			(56)
Proceeds from asset sales	67	61	6
Other investing activities			631
Cash used by investing activities	(4,140)	(3,432)	(11,999)
<b>FINANCING ACTIVITIES</b>			
Borrowings (repayments), net <sup>(b)</sup>	(206)	(1,545)	651
Borrowings <sup>(c)</sup>	7,182	8,387	10,300
Repayments <sup>(c)</sup>	(2,817)	(7,679)	(975)
Debt issuance costs	(97)	(29)	(17)
Issuance of mandatorily redeemable preferred membership units			300
Redemption of Comcast's interest in TWC			(1,857)
Other financing activities	(5)	(84)	41

Cash provided (used) by financing activities	4,057	(950)	8,443
<b>INCREASE IN CASH AND EQUIVALENTS</b>	<b>5,217</b>	<b>181</b>	<b>39</b>
<b>CASH AND EQUIVALENTS AT BEGINNING OF PERIOD</b>	<b>232</b>	<b>51</b>	<b>12</b>
<b>CASH AND EQUIVALENTS AT END OF PERIOD</b>	<b>\$ 5,449</b>	<b>\$ 232</b>	<b>\$ 51</b>

- (a) Net income (loss) included income from discontinued operations of \$1.038 billion for the year ended December 31, 2006 (none for the years ended December 31, 2008 and 2007). Income from discontinued operations in 2006 included gains, net of taxes, of \$965 million. Net cash flows from discontinued operations were \$47 million and \$112 million for the years ended December 31, 2007 and 2006, respectively.
- (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.

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**TIME WARNER CABLE INC.**  
**CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY**

	Common Stock	Paid-in- Capital	Retained Earnings (Deficit) (in millions)	Total
<b>BALANCE AS OF DECEMBER 31, 2005</b>	\$ 10	\$ 17,950	\$ 2,387	\$ 20,347
Net income <sup>(a)</sup>			1,976	1,976
Change in pension benefit obligation, net of \$1 million income tax impact			1	1
Comprehensive income			1,977	1,977
Change in underfunded / unfunded pension benefit obligation upon adoption of FAS 158, net of \$84 million tax benefit			(124)	(124)
Shares of Class A common stock issued in the Adelphia acquisition	2	5,498		5,500
Reclassification of mandatorily redeemable Class A common stock <sup>(b)</sup>		984		984
Redemption of Comcast's interest in TWC	(2)	(4,325)		(4,327)
Adjustment to goodwill resulting from the pushdown of Time Warner Inc.'s basis in TWC		(719)		(719)
Equity-based compensation		33		33
Allocations from Time Warner Inc. and other, net <sup>(c)</sup>		(107)		(107)
<b>BALANCE AS OF DECEMBER 31, 2006</b>	10	19,314	4,240	23,564
Net income <sup>(a)</sup>			1,123	1,123
Change in underfunded / unfunded pension benefit obligation, net of \$29 million income tax benefit			(43)	(43)
Change in realized and unrealized losses on derivative financial instruments, net of \$1 million income tax benefit			(1)	(1)
Comprehensive income			1,079	1,079
Impact of adopting new accounting pronouncements <sup>(d)</sup>			(34)	(34)
Equity-based compensation		59		59
Allocations from Time Warner Inc. and other, net <sup>(c)</sup>		38		38
<b>BALANCE AS OF DECEMBER 31, 2007</b>	10	19,411	5,285	24,706
Net loss <sup>(a)</sup>			(7,344)	(7,344)
Change in underfunded / unfunded pension benefit obligation, net of \$192 million income tax			(290)	(290)

benefit

Change in realized and unrealized losses on  
derivative financial instruments, net of \$2 million  
income tax benefit

(3) (3)

Comprehensive loss

(7,637) (7,637)

Impact of adopting new accounting  
pronouncements<sup>(d)</sup>

(1) (1)

Equity-based compensation

78 78

Allocations from Time Warner Inc. and other,  
net<sup>(c)</sup>

18 18

**BALANCE AS OF DECEMBER 31, 2008**      \$      10      \$      19,507      \$      (2,353)      \$      17,164

(a) Net income (loss) included income from discontinued operations of \$1.038 billion for the year ended December 31, 2006 (none for the years ended December 31, 2008 and 2007).

(b) The mandatorily redeemable Class A common stock represents shares of TWC's Class A common stock that were held by Comcast Corporation (Comcast) until July 31, 2006. During 2004, these shares were classified as mandatorily redeemable as a result of an agreement with Comcast that under certain circumstances would have required TWC to redeem such shares. During 2006, this requirement terminated upon the closing of the redemption of Comcast's interest in TWC and Time Warner Entertainment Company, L.P., and as a result, these shares were reclassified to shareholders' equity (Class A common stock and paid-in-capital) before ultimately being redeemed on July 31, 2006.

(c) The amounts primarily represent the change in TWC's accrued liability payable to Time Warner Inc. for vested employee stock options, as well as other amounts pursuant to accounting for equity-based compensation plans.

(d) The amount relates 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 year ended December 31, 2008, and EITF 06-2, *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 year ended December 31, 2007.

See accompanying notes.

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**TIME WARNER CABLE INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**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 December 31, 2008, TWC served approximately 14.6 million customers who subscribed to one or more of its video, high-speed data and voice services, representing approximately 34.2 million revenue generating units.

Time Warner Inc. (Time Warner) currently owns approximately 84% of the common stock of TWC (representing a 90.6% voting interest), and also currently owns an indirect 12.43% non-voting common stock interest in TW NY Cable Holding Inc. (TW NY), a subsidiary of TWC. The financial results of TWC's operations are consolidated by Time Warner. On May 20, 2008, TWC and its subsidiaries, Time Warner Entertainment Company, L.P. (TWE) and TW NY, entered into a Separation Agreement (the Separation Agreement) with Time Warner and its subsidiaries, Warner Communications Inc. (WCI), Historic TW Inc. (Historic TW) and American Television and Communications Corporation (ATC), the terms of which will govern TWC's legal and structural separation from Time Warner. Refer to Note 4 for further details.

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 December 31, 2008, 54% of TWC's customers subscribed to two or more of its primary services, including 21% 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 networking and transport services to commercial customers. As part of an increased emphasis on its commercial business, TWC also began selling its commercial Digital Phone service, Business Class Phone, to small- and medium-sized businesses during 2007. During 2008, TWC generated nearly \$800 million of revenues from its commercial services. In addition, TWC sells advertising to a variety of national, regional and local customers.

Video is TWC's largest service in terms of revenues generated and, as of December 31, 2008, TWC had approximately 13.1 million basic video subscribers, of which approximately 8.6 million subscribed to TWC's digital video service. 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. TWC's digital video subscribers provide a broad base of potential customers for additional services.

As of December 31, 2008, TWC had approximately 8.4 million residential high-speed data subscribers. TWC also offers commercial high-speed data services and had 283,000 commercial high-speed data subscribers as of December 31, 2008.

As of December 31, 2008, TWC had approximately 3.7 million residential Digital Phone subscribers. TWC rolled out Business Class Phone to small- and medium-sized businesses during 2007 in the majority of its operating areas and substantially completed the roll-out in the remainder of its operating areas during 2008. As of December 31, 2008, TWC had 30,000 commercial Digital Phone subscribers.

**Basis of Presentation**

***Changes in Basis of Presentation***

*Consolidation of Kansas City Pool.* As discussed more fully in Note 10, on January 1, 2007, the Company began consolidating the results of the Kansas City Pool it received upon the distribution of the assets of TKCCP to TWC and Comcast. Prior to January 1, 2007, the Company accounted for TKCCP as an equity-method investment.

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

*Discontinued Operations.* As discussed more fully in Note 5, the Company has reflected the financial position, results of operations and cash flows of the Transferred Systems (as defined in Note 5) as discontinued operations for all periods presented.

***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. 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. In accordance with Financial Accounting Standards Board (FASB) Interpretation No. 46 (revised 2003), *Consolidation of Variable Interest Entities - an 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. 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, judgments 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 years' financial information to conform to the December 31, 2008 presentation.

**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 Emerging Issues Task Force (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.



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

***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 endorsement and 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 FASB Statement of Financial Accounting Standards ( Statement ) No. 157, *Fair Value Measurements* ( FAS 157 ), which establishes the authoritative definition of fair value, sets out a framework for measuring fair value and expands the 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. These provisions are not expected to have any impact on the Company's historical consolidated financial statements.

***Accounting Standards Not Yet Adopted***

***Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities***

In June 2008, the FASB issued Staff Position ( FSP ) EITF Issue No. 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities* ( FSP EITF 03-6-1 ), in which the FASB concluded that all outstanding unvested share-based payment awards that contain rights to nonforfeitable dividends or dividend equivalents (such as restricted stock units granted by the Company) are considered participating securities. Because the awards are considered participating securities, the issuing entity is required to apply the two-class method of computing basic and diluted earnings per share. The provisions of FSP EITF 03-6-1 will be effective for TWC on January 1, 2009 and will be applied retrospectively to all prior-period earnings per share computations. The adoption of FSP EITF 03-6-1 is not expected to have a material impact on earnings per share amounts in prior periods.

***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 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. In addition, FAS 141R requires that changes in the amount of acquired tax attributes be included in the Company's results of operations. FAS 141R will be effective for TWC on January 1, 2009 and will be applied prospectively to business combinations that have an acquisition date on or after January 1, 2009. While FAS 141R applies only to business combinations with an acquisition date after its

effective date, the amendments to FASB Statement No. 109, *Accounting for Income Taxes* ( FAS 109 ), with respect to deferred tax asset valuation allowances and liabilities for income tax uncertainties, will be applied to all deferred tax valuation allowances and liabilities for income tax uncertainties recognized in prior business combinations. The provisions of FAS 141R will not impact the Company's consolidated financial statements for prior periods.

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

***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 provisions related to the presentation of noncontrolling interests. Beginning in the first quarter of 2009, noncontrolling interests of \$1.110 billion and \$1.724 billion as of December 31, 2008 and 2007, respectively, will be reclassified to shareholders' equity in the consolidated balance sheet. For the year ended December 31, 2008, minority interest income of \$1.022 billion, and for the years ended December 31, 2007 and 2006, minority interest expense of \$165 million and \$108 million, respectively, will be excluded from net income in the consolidated statement of operations. Earnings per share for all prior periods will not be impacted.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Cash and Equivalents**

Cash and equivalents include money market funds, overnight deposits and other investments that are readily convertible into cash and have original maturities of three months or less. Cash equivalents are carried at cost, which approximates fair value.

The Company invests its cash and equivalents in a combination of money market, government and treasury funds, as well as bank certificates of deposit, in accordance with the Company's investment policy of diversifying its investments and limiting the amount of its investments in a single entity or fund. Consistent with the foregoing, the Company invested a portion of the cash proceeds of the June 2008 Bond Offering (as defined in Note 7) in The Reserve Fund's Primary Fund ( The Reserve Fund ). On the morning of September 15, 2008, the Company requested a full redemption of its \$490 million investment in The Reserve Fund, but the redemption request was not honored. On September 22, 2008, The Reserve Fund announced that redemptions of shares were suspended pursuant to a Securities and Exchange Commission ( SEC ) order requested by The Reserve Fund so that an orderly liquidation could be effected. Through December 31, 2008, the Company has received \$387 million from The Reserve Fund representing its pro rata share of partial distributions made by The Reserve Fund. The Company has not been informed as to when the remaining amount will be returned. However, the Company believes its remaining receivable is recoverable. As a result of the status of The Reserve Fund, the Company has classified the remaining \$103 million receivable from The Reserve Fund as of December 31, 2008 as prepaid expenses and other current assets in the Company's consolidated balance sheet and within investments and acquisitions, net of cash acquired and distributions received, in the Company's consolidated statement of cash flows.

**Investments**

Investments in companies in which TWC has significant influence, but less than a controlling voting interest, are accounted for using the equity method. Significant influence is generally presumed to exist when TWC owns between 20% and 50% of the investee or holds substantial management rights.

Under the equity method of accounting, only TWC's investment in and amounts due to and from the equity investee are included in the consolidated balance sheet; only TWC's share of the investee's earnings (losses) is included in the

consolidated statement of operations; and only the dividends, cash distributions, loans or other cash received from the investee, additional cash investments, loan repayments or other cash paid to the investee are included in the consolidated statement of cash flows. Additionally, the carrying value of investments accounted for using the equity method of accounting is adjusted downward to reflect any other-than-temporary declines in value. Refer to Asset Impairments below for further details.

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

**Property, Plant and Equipment**

Property, plant and equipment are stated at cost. 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. 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. Depreciation on these assets is provided generally using the straight-line method over their estimated useful lives.

TWC uses standard capitalization rates to capitalize installation activities. Significant judgment is involved in the development of these capitalization standards, including the average time required to perform an installation and the determination of the nature and amount of indirect costs to be capitalized. Additionally, the development of capitalization standards for new products involves more estimates than those used for established products because the Company has less historical data related to the installation of new products. The capitalization standards are reviewed at least annually and adjusted, if necessary, based on comparisons to actual costs incurred.

TWC generally capitalizes expenditures for tangible fixed assets having a useful life of greater than one year. Types of capitalized expenditures include: customer premise equipment, scalable infrastructure, line extensions, plant upgrades and rebuilds and support capital.

As of December 31, 2008 and 2007, the Company's property, plant and equipment and related accumulated depreciation included the following (in millions):

	<b>December 31, 2008</b>	<b>2007</b>	<b>Estimated Useful Lives</b>
Land, buildings and improvements <sup>(a)</sup>	\$ 1,159	\$ 1,070	10-20 years
Distribution systems	14,492	12,940	3-25 years <sup>(b)</sup>
Converters and modems	5,081	4,447	3-5 years
Capitalized software costs	937	738	3-5 years
Vehicles and other equipment	1,635	1,529	3-10 years
Construction in progress	496	466	
	23,800	21,190	
Less: accumulated depreciation	(10,263)	(8,317)	
Total	\$ 13,537	\$ 12,873	

<sup>(a)</sup> Land, buildings and improvements includes \$147 million related to land as of both December 31, 2008 and 2007, which is not depreciated.

<sup>(b)</sup> Weighted-average useful lives for distribution systems are approximately 12 years.

**Capitalized Software Costs**

TWC capitalizes certain costs incurred for the development of internal use software. These costs, which include the costs associated with coding, software configuration, upgrades and enhancements, are included in property, plant and equipment in the consolidated balance sheet. Such costs are depreciated on a straight-line basis over 3 to 5 years. These costs, net of accumulated depreciation, totaled \$505 million and \$457 million as of December 31, 2008 and 2007, respectively. Amortization of capitalized software costs was \$157 million in 2008, \$115 million in 2007 and \$81 million in 2006.

### **Intangible Assets**

TWC has a significant number of intangible assets, including customer relationships and cable franchise rights. Customer relationships and cable franchise rights acquired in business combinations are recorded at fair value on the Company's consolidated balance sheet. Other costs incurred to negotiate and renew cable franchise

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

agreements are capitalized as incurred. Customer relationships acquired are amortized on a straight-line basis over their estimated useful life (4 years) and other costs incurred to gain access to sell services to a particular property and to negotiate and renew cable franchise agreements are amortized over the term of such franchise agreements.

**Asset Impairments**

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

Goodwill impairment is determined using a two-step process. The first step involves a comparison of the estimated fair value of each of the Company's eight geographic reporting units to its carrying amount, including goodwill. In performing the first step, the Company determines the fair value of a reporting unit using a combination of a discounted cash flow (DCF) analysis and a market-based approach. Determining fair value requires the exercise of significant judgment, including judgment about appropriate discount rates, perpetual growth rates, the amount and timing of expected future cash flows, as well as relevant comparable company earnings multiples for the market-based approach. The cash flows employed in the DCF analyses are based on the Company's most recent budget and, for years beyond the budget, the Company's estimates, which are based on assumed growth rates. The discount rates used in the DCF analyses are intended to reflect the risks inherent in the future cash flows of the respective reporting units. In addition, the market-based approach utilizes comparable company public trading values, research analyst estimates and, where available, values observed in private market transactions. If the estimated fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is not impaired and the second step of the impairment test is not necessary. If the carrying amount of a reporting unit exceeds its estimated fair value, then the second step of the goodwill impairment test must be performed. The second step of the goodwill impairment test compares the implied fair value of the reporting unit's goodwill with its goodwill carrying amount to measure the amount of impairment, if any. The implied fair value of goodwill is determined in the same manner as the amount of goodwill recognized in a business combination. In other words, the estimated fair value of the reporting unit is allocated to all of the assets and liabilities of that unit (including any unrecognized intangible assets) as if the reporting unit had been acquired in a business combination and the fair value of the reporting unit was the purchase price paid. If the carrying amount of the reporting unit's goodwill exceeds the implied fair value of that goodwill, an impairment is recognized in an amount equal to that excess.

The impairment test for other intangible assets not subject to amortization involves a comparison of the estimated fair value of the intangible asset with its carrying value. If the carrying value of the intangible asset exceeds its fair value, an impairment loss is recognized in an amount equal to that excess. The estimates of fair value of intangible assets not subject to amortization are determined using a DCF valuation analysis. The DCF methodology used to value cable franchise rights entails identifying the projected discrete cash flows related to such cable franchise rights and discounting them back to the valuation date. Significant judgments inherent in this analysis include the selection of appropriate discount rates, estimating the amount and timing of estimated future cash flows attributable to cable franchise rights and identification of appropriate terminal growth rate assumptions. The discount rates used in the DCF analyses are intended to reflect the risk inherent in the projected future cash flows generated by the respective intangible assets.

Goodwill and indefinite-lived intangible assets, primarily the Company's cable franchise rights, are tested annually for impairment during the fourth quarter or earlier upon the occurrence of certain events or substantive changes in circumstances. As a result of entering into the Separation Agreement, the Company tested goodwill and the cable franchise rights for impairment during the second quarter of 2008, and no impairment charges were recognized. The

Company's 2008 annual impairment analysis, which was performed as of December 31, 2008, did not result in any goodwill impairments, but did result in a noncash pretax impairment on its cable franchise rights of



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

\$14.822 billion. The impairment charge by unit of accounting, as well as the remaining value of the cable franchise rights by unit of accounting as of December 31, 2008, is as follows (in millions):

	Balance as of December 31, 2007	Impairment	Other Activity	Balance as of December 31, 2008
West	\$ 6,908	\$ (3,558)	\$	\$ 3,350
New York City	5,501	(2,156)		3,345
Texas	4,971	(3,270)	(1)	1,700
Midwest	7,863	(2,835)		5,028
Carolinas	5,558	(1,659)	9	3,908
Upstate New York	6,605	(962)	2	5,645
Kansas City	388		5	393
National	1,128	(382)	(24)	722
	\$ 38,922	\$ (14,822)	\$ (9)	\$ 24,091

The aggregate impairment charge was primarily attributable to the use of higher discount rates, which accounted for approximately two-thirds of the decline in fair value as compared to the impairment test performed in May 2008 and lower projected future cash flows related to the cable franchise rights utilized in the DCF valuation analyses (which accounted for the remaining approximately one-third decline). Although the Company continues to project future growth in cash flows, such growth is lower than that estimated at the time the cable franchise rights were acquired. The higher discount rates (on average approximately 12.5% as compared to approximately 10% used in the May 2008 valuation) reflect an increase in the risks inherent in the estimated future cash flows attributable to the individual cable franchise rights; this increase in risk is due to the current economic volatility, which became more pronounced during the fourth quarter of 2008. The discount rates used in both the May 2008 and December 2008 analyses include significant risk premiums of up to 250 basis points to the Company's weighted-average cost of capital to reflect the greater uncertainty in the cash flows attributable to the Company's cable franchise rights. Furthermore, had the Company used a discount rate in assessing the impairment of its cable franchise rights that was 1% higher across all units of accounting (holding all other assumptions unchanged) the Company would have recorded an additional impairment charge of approximately \$3.0 billion.

The reduction in estimated future cash flows since May 2008 reflects the impact of the weaker economy and increased competition, including fourth quarter 2008 subscriber trends (specifically, lower fourth quarter revenue generating unit net additions) lower advertising revenues and higher video programming costs (resulting from, among other things, higher projected costs for acquiring retransmission consent rights) offset in part by reduced capital expenditures and increased cost controls in other areas of the Company. In addition, the terminal growth rates used in the analyses for both the May 2008 and December 2008 impairment tests were the same and in line with historical U.S. gross domestic product growth rates.

As a result of the cable franchise rights impairment taken in 2008, the carrying values of the Company's impaired cable franchise rights (which represented the cable franchise rights in all but one of the Company's eight units of accounting) were re-set to their estimated fair values as of December 31, 2008. Consequently, any further decline in the estimated fair values of these cable franchise rights could result in additional cable franchise rights impairments. Management has no reason to believe that any one unit of accounting is more likely than any other to incur further impairments of its cable franchise rights. It is possible that such impairments, if required, could be material and may need to be recorded prior to the fourth quarter of 2009 (i.e., during an interim period) if the Company's results of operations or other factors require such assets to be tested for impairment at an interim date.

For illustrative purposes only, had the fair values of each of the cable franchise rights been lower by 10% as of December 31, 2008, the Company would have recorded an additional cable franchise rights impairment of approximately \$2.37 billion; had the fair values of the cable franchise rights been lower by 20%, the Company

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**TIME WARNER CABLE INC.  
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would have recorded an additional cable franchise rights impairment of approximately \$4.74 billion; and had the fair values of the cable franchise rights been lower by 30%, the Company would have recorded an additional cable franchise rights impairment of approximately \$7.11 billion. A decline in the fair values of the reporting units by up to 30% would not result in any goodwill impairments, as the accounting rules first require a company to impair its indefinite-lived intangible assets prior to testing for any goodwill impairments.

***Long-lived Assets***

Long-lived assets (e.g., customer relationships and property, plant and equipment) do not require that an annual impairment test be performed; instead, long-lived assets are tested for impairment upon the occurrence of a triggering event. Triggering events include the more likely than not disposal of a portion of such assets or the occurrence of an adverse change in the market involving the business employing the related assets. Once a triggering event has occurred, the impairment test is based on whether the intent is to hold the asset for continued use or to hold the asset for sale. If the intent is to hold the asset for continued use, the impairment test first requires a comparison of estimated undiscounted future cash flows generated by the asset group against the carrying value of the asset group. If the carrying value of the asset group exceeds the estimated undiscounted future cash flows, the asset would be deemed to be impaired. Impairment would then be measured as the difference between the estimated fair value of the asset and its carrying value. Fair value is generally determined by discounting the future cash flows associated with that asset. If the intent is to hold the asset for sale and certain other criteria are met (e.g., the asset can be disposed of currently, appropriate levels of authority have approved the sale, and there is an active program to locate a buyer), the impairment test involves comparing the asset's carrying value to its estimated fair value. To the extent the carrying value is greater than the asset's estimated fair value, an impairment loss is recognized for the difference.

Significant judgments in this area involve determining whether a triggering event has occurred, determining the future cash flows for the assets involved and selecting the appropriate discount rate to be applied in determining estimated fair value. In 2008, there were no significant long-lived asset impairments. However, as a result of the impairment of cable franchise rights recorded during 2008, the Company determined a triggering event had occurred and tested certain customer relationships for impairment in accordance with FASB Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, concluding that these customer relationships were not impaired.

***Investments***

TWC's investments are primarily accounted for using the equity method of accounting. A subjective aspect of accounting for investments involves determining whether an other-than-temporary decline in value of the investment has been sustained. If it has been determined that an investment has sustained an other-than-temporary decline in its value, the investment is written down to its fair value by a charge to earnings. This evaluation is dependent on the specific facts and circumstances. TWC evaluates available information (e.g., budgets, business plans, financial statements, etc.) in addition to quoted market prices, if any, in determining whether an other-than-temporary decline in value exists. Factors indicative of an other-than-temporary decline include recurring operating losses, credit defaults and subsequent rounds of financing at an amount below the cost basis of the Company's investment. This list is not all-inclusive and the Company weighs all known quantitative and qualitative factors in determining if an other-than-temporary decline in the value of an investment has occurred. As discussed further in Note 10, during the fourth quarter of 2008, the Company recorded a noncash pretax impairment of \$367 million on its investment in Clearwire LLC as a result of a significant decline in the estimated fair value of Clearwire, reflecting the Clearwire Corp stock price decline from May 2008, when TWC agreed to make its investment.

### **Accounting for Pension Plans**

TWC has both funded and unfunded noncontributory defined benefit pension plans covering a majority of its employees. Pension benefits are based on formulas that reflect the employees' years of service and compensation

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

during their employment period. The pension expense recognized by the Company is determined using certain assumptions, including the expected long-term rate of return on plan assets, the interest factor implied by the discount rate and the rate of compensation increases. The determination of these assumptions is discussed in more detail in Note 13.

**Equity-based Compensation**

The Company follows the provisions of FASB Statement No. 123 (revised 2004), *Share-Based Payment* ( FAS 123R ), which require that a company measure the cost of employee services received in exchange for an award of equity instruments based on the grant date fair value of the award. That cost is recognized in the consolidated statement of operations over the period during which an employee is required to provide service in exchange for the award. FAS 123R also requires that excess tax benefits, as defined, realized from the exercise of stock options be reported as a financing cash inflow rather than as a reduction of taxes paid in cash flow from operations.

Historically, TWC employees were granted equity awards under Time Warner's equity plans. Since April 2007, grants of equity awards to TWC employees have been and will continue to be made under TWC's equity plans.

With respect to Time Warner equity grants to TWC employees, the grant date fair value of a stock option is estimated using the Black-Scholes option-pricing model, consistent with the provisions of FAS 123R and SEC Staff Accounting Bulletin ( SAB ) No. 107, *Share-Based Payment*. Because the option-pricing model requires the use of subjective assumptions, changes in these assumptions can materially affect the fair value of the Time Warner stock options granted to TWC employees. Time Warner determines the volatility assumption for these stock options using implied volatilities data from its traded options. The expected term, which represents the period of time that options granted are expected to be outstanding, is estimated based on the historical exercise experience of Time Warner employees. Groups of employees that have similar historical exercise behavior are considered separately for valuation purposes. The risk-free rate assumed in valuing the options is based on the U.S. Treasury yield curve in effect at the time of grant for the expected term of the option. The Company determines the expected dividend yield percentage by dividing the expected annual dividend by the market price of Time Warner common stock at the date of grant.

In April 2007, TWC made its first grant of stock options and restricted stock units based on TWC Class A common stock. The valuation of, as well as the expense recognition for, such awards is generally consistent with the treatment of Time Warner awards granted to TWC employees as described above. However, because TWC's Class A common stock has a limited trading history, the volatility assumption was calculated using a 75%-25% weighted average of implied volatility of TWC traded options and the historical stock price volatility of a comparable peer group of publicly traded companies.

For Time Warner awards granted prior to the adoption of FAS 123R on January 1, 2006, the Company recognizes equity-based compensation expense for awards with graded vesting by treating each vesting tranche as a separate award and recognizing compensation expense ratably for each tranche. For equity awards granted subsequent to the adoption of FAS 123R, the Company treats such awards as a single award and recognizes equity-based compensation expense on a straight-line basis (net of estimated forfeitures) over the employee service period. Equity-based compensation expense is recorded in costs of revenues or selling, general and administrative expense depending on the job function of the grantee.

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

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

**Revenues and Costs**

Revenues are principally derived from video, high-speed data and voice services and advertising. Subscriber fees are recorded as revenues in the period during which the service is provided. Subscription revenues received from subscribers who purchase bundled services at a discounted rate are allocated to each product in a pro-rata manner based on the individual product's determined fair value. Installation revenues obtained from subscriber service connections are recognized in accordance with FASB Statement No. 51, *Financial Reporting by Television Cable Companies*, as a component of Subscription revenues as the connections are completed, as installation revenues recognized are less than the related direct selling costs. Advertising revenues, including those from advertising purchased by programmers, are recognized in the period during which the advertisements are exhibited.

Video programming, high-speed data and voice costs are recorded as the services are provided. Video programming costs are recorded based on the Company's contractual agreements with its programming vendors. These contracts are generally multi-year agreements that provide for the Company to make payments to the programming vendors at agreed upon market rates based on the number of subscribers to which the Company provides the programming service. If a programming contract expires prior to the parties' entry into a new agreement and the Company continues to distribute the service, management estimates the programming costs during the period there is no contract in place. In doing so, management considers the previous contractual rates, inflation and the status of the negotiations in determining its estimates. When the programming contract t