

TIME WARNER CABLE INC.  
Form 10-Q  
November 05, 2009

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

**Form 10-Q**

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

**For the quarterly period ended September 30, 2009 or**

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

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission File Number: 001-33335**

**TIME WARNER CABLE INC.**

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

**Delaware**

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

**84-1496755**

*(I.R.S. Employer  
Identification No.)*

**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)*

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

| <b>Description of Class</b>   | <b>Shares Outstanding<br/>as of October 30,<br/>2009</b> |
|-------------------------------|--|
| Common Stock \$0.01 par value | 352,433,901  |

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AND OTHER FINANCIAL INFORMATION**

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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.'s (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 and nine months ended September 30, 2009.

*Financial condition and liquidity.* This section provides an analysis of the Company's financial condition as of September 30, 2009 and cash flows for the nine months ended September 30, 2009.

*Market risk management.* This section discusses how the Company monitors and manages exposure to certain potential gains and losses arising from changes in market rates and prices, such as interest rates. Refer to the Company's Current Report on Form 8-K dated, and filed with the Securities and Exchange Commission (the SEC ) on, June 24, 2009 (the June 2009 Form 8-K ), which recasts certain information in the Company's Annual Report on Form 10-K for the year ended December 31, 2008, for a discussion of additional market risks applicable to the Company.

*Caution concerning forward-looking statements.* This section provides a description of the use of forward-looking information appearing in this report, including in MD&A and the consolidated financial statements. Such information is based on management's current expectations about future events, which are inherently susceptible to uncertainty and changes in circumstances. Refer to the Company's Annual Report on Form 10-K for the year ended December 31, 2008 (the 2008 Form 10-K ) for a discussion of the risk factors applicable to the Company.

**OVERVIEW**

TWC is the second-largest cable operator in the U.S., with technologically advanced, well-clustered systems located mainly in five geographic areas—New York State (including New York City), the Carolinas, Ohio, southern California (including Los Angeles) and Texas. As of September 30, 2009, TWC served approximately 14.6 million residential and commercial customers who subscribed to one or more of its video, high-speed data and voice services, which totaled approximately 26.3 million primary service units and approximately 35.1 million revenue generating units (each as defined in Results of Operations ).

As of December 31, 2008, Time Warner Inc. ( Time Warner ) owned approximately 84% of the common stock of TWC (representing a 90.6% voting interest), and also owned an indirect 12.43% non-voting common stock interest in TW NY Cable Holding Inc. ( TW NY ), a subsidiary of TWC. Additionally, the financial results of TWC were consolidated by Time Warner. As discussed further in Recent Developments, on March 12, 2009, TWC completed its separation from Time Warner. As a result of the separation, Time Warner no longer has an ownership interest in TWC.

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 September 30, 2009,

56% of TWC's customers subscribed to two or more of its primary services, including 23% of its customers who subscribed to all three primary services. In addition to its residential services, TWC offers commercial customers video, high-speed data, voice and networking and transport services. In addition, TWC sells advertising to a variety of national, regional and local advertising customers.

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

Video is TWC's largest service in terms of revenues generated and, as of September 30, 2009, TWC had approximately 13.0 million video subscribers, of which approximately 8.8 million received video service via digital transmissions. TWC expects to continue to increase video revenues for the foreseeable future through the offering of digital video services, including related equipment rentals, as well as through price increases; however, future video revenue growth rates will depend on video subscriber and penetration levels, competition, pricing and the state of the economy. Video programming costs represent a major component of TWC's expenses and are expected to continue to increase, reflecting rate increases on existing programming services, costs associated with retransmission consent agreements, digital video subscriber growth and the expansion of service offerings (e.g., new network channels). TWC expects that its video programming costs as a percentage of video revenues will continue to increase over the next few years as increases in programming costs outpace growth in video revenues.

As of September 30, 2009, TWC had approximately 8.9 million residential high-speed data subscribers. TWC expects continued growth in residential high-speed data subscribers and revenues for the foreseeable future; however, future high-speed data subscriber and revenue growth rates will depend on high-speed data penetration levels, competition, pricing and the state of the economy. TWC also offers commercial high-speed data services and had 293,000 commercial high-speed data subscribers as of September 30, 2009.

As of September 30, 2009, TWC had approximately 4.1 million residential Digital Phone subscribers. TWC expects increases in Digital Phone subscribers and revenues for the foreseeable future; however, future Digital Phone subscriber and revenue growth rates will depend on Digital Phone penetration levels, competition, pricing, the rate of wireless substitution of wireline phone service and the state of the economy. TWC also offers its commercial Digital Phone service, Business Class Phone, in nearly all of its operating areas and had 58,000 commercial Digital Phone subscribers as of September 30, 2009.

TWC faces intense competition for customers 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, further intensifying competition. The more competitive environment may negatively affect the growth of revenue generating units and average monthly subscription revenues per revenue generating unit and, additionally, may increase TWC's cost to obtain certain video programming.

Since the end of the third quarter of 2008, the Company has experienced a slowdown in growth across all revenue generating unit categories, which the Company believes is partly a result of a challenging economic environment and a related reduction in consumer spending and increase in housing foreclosures. The impact of a continuing economic downturn on the Company's financial and subscriber results is difficult to estimate; however, the Company believes that the slower growth in revenue generating units and the lower growth or declines in other video services (e.g., digital video recorders, premium channels and transactional video-on-demand) experienced during the first nine months of 2009 will result in lower revenue growth for the full year of 2009 as compared to 2008. In addition, the Company expects that Advertising revenues will decline in the fourth quarter of 2009 as compared to the fourth quarter of 2008 due to lower political advertising revenues and continued weakness in Advertising revenues from national, regional and local businesses.

Management believes that cash generated by or available to TWC should be sufficient to fund its capital and liquidity needs for the foreseeable future. As of September 30, 2009, the Company had approximately \$4.0 billion of unused committed capacity (including cash and equivalents). Additionally, there are no 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.

During the first quarter of 2009, TWC began a significant restructuring, primarily consisting of headcount reductions. TWC expects to incur total restructuring charges of approximately \$75 million, including \$64 million incurred through September 30, 2009.

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

**Recent Developments*****Separation from Time Warner, Recapitalization and TWC Reverse Stock Split***

On March 12, 2009, the separation of TWC from Time Warner was completed pursuant to a Separation Agreement dated as of May 20, 2008 (the Separation Agreement) between TWC and its subsidiaries, Time Warner Entertainment Company, L.P. (TWE) and TW NY, and Time Warner and its subsidiaries, Warner Communications Inc. (WCI), Historic TW Inc. (Historic TW) and American Television and Communications Corporation (ATC). In accordance with the Separation Agreement, on February 25, 2009, Historic TW transferred its 12.43% non-voting common stock interest in TW NY to TWC in exchange for 80 million newly issued shares (approximately 27 million shares after giving effect to the 1-for-3 reverse stock split discussed below) of TWC's Class A common stock (the TW NY Exchange). On March 12, 2009, TWC paid a special cash dividend of \$10.27 per share (\$30.81 per share after giving effect to the 1-for-3 reverse stock split, aggregating \$10.856 billion) to holders of record on March 11, 2009 of TWC's outstanding Class A common stock and Class B common stock, which included Time Warner (the Special Dividend). Following the receipt by Time Warner of its share of the Special Dividend, TWC filed 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 the shares of Class A common stock issued in the TW NY Exchange) and TWC Class B common stock was automatically converted (the Recapitalization) into one share of common stock, par value \$0.01 per share (the TWC Common Stock). After the Recapitalization, TWC's separation from Time Warner (the Separation) was effected as a pro rata dividend of all shares of TWC Common Stock held by Time Warner to holders of record of Time Warner's common stock (the Spin-Off Dividend or the Distribution) as of 8:00 pm on March 12, 2009, the record date for the Spin-Off Dividend. On March 12, 2009, Time Warner deposited its shares of TWC Common Stock with an agent and, at the record date for the Spin-Off Dividend, was deemed to no longer beneficially own such shares. On March 27, 2009, the distribution date for the Spin-Off Dividend, all of these shares of TWC Common Stock were distributed. The TW NY Exchange, the Special Dividend, the Recapitalization, the Separation and the Distribution collectively are referred to as the Separation Transactions.

To pay a portion of the Special Dividend, on March 12, 2009, TWC borrowed (i) the full committed amount of \$1.932 billion under its 364-day senior unsecured term loan facility (the 2008 Bridge Facility) and (ii) approximately \$3.3 billion under its senior unsecured five-year revolving credit facility (the Revolving Credit Facility). The Company funded the remainder of the Special Dividend with approximately \$5.6 billion of cash on hand. See 2009 Bond Offerings and Termination of Lending Commitments below for further details regarding the termination of the 2008 Bridge Facility.

In connection with the Separation Transactions, on March 12, 2009, the Company implemented a reverse stock split of the TWC Common Stock (the TWC reverse stock split) at a 1-for-3 ratio, effective immediately after the Recapitalization. The shares of TWC Common Stock distributed in the Spin-Off Dividend gave effect to both the Recapitalization and the TWC reverse stock split.

During the three and nine months ended September 30, 2009 and 2008, the Company incurred pretax costs related to the Separation, which have been reflected in the Company's consolidated statement of operations as follows (in millions):

|  | <b>Three Months<br/>Ended<br/>September 30,<br/>2009</b> |             | <b>Nine Months<br/>Ended<br/>September 30,<br/>2009</b> |             |
|--|--|-------------|---|-------------|
|  | <b>2009</b>  | <b>2008</b> | <b>2009</b>   | <b>2008</b> |
| Other income (expense), net            | \$   | \$ (3)      | \$ (28)   | \$ (15)     |
| Interest expense, net                  |  | (2)         | (13)  | (33)        |
| Pretax costs related to the Separation | \$   | \$ (5)      | \$ (41)   | \$ (48)     |



The Separation-related costs recorded in other income (expense), net, consist of direct transaction costs (e.g., legal and professional fees) and such costs recorded in interest expense, net, consist of debt issuance costs. The debt issuance costs for the nine months ended September 30, 2009 primarily relate to the portion of the upfront loan fees for the 2008 Bridge Facility that was expensed due to the repayment of all borrowings outstanding under, and the resulting termination of, such facility with a portion of the net proceeds of the March 2009 Bond Offering (as defined below).

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

***2009 Bond Offerings and Termination of Lending Commitments***

On March 26, 2009, TWC issued \$3.0 billion in aggregate principal amount of senior unsecured notes (the March 2009 Bond Offering ) and, on June 29, 2009, TWC issued \$1.5 billion in aggregate principal amount of senior unsecured debentures (the June 2009 Bond Offering ) and, together with the March 2009 Bond Offering, the 2009 Bond Offerings ) under a shelf registration statement on Form S-3 filed during 2008 (the Shelf Registration Statement ) with the SEC that allows TWC to offer and sell from time to time senior and subordinated debt securities and debt warrants. The March 2009 Bond Offering consisted of \$1.0 billion principal amount of 7.50% notes due 2014 and \$2.0 billion principal amount of 8.25% notes due 2019. The June 2009 Bond Offering consisted of \$1.5 billion principal amount of 6.75% debentures due 2039. TWC's obligations under the debt securities issued in the 2009 Bond Offerings are guaranteed by TWE and TW NY.

The Company used \$1.934 billion of the net proceeds from the March 2009 Bond Offering to repay all of the borrowings outstanding under the 2008 Bridge Facility, as well as accrued interest and commitment fees, and such facility was terminated by the parties thereto in accordance with its terms. Additionally, as a result of the March 2009 Bond Offering and the termination of the 2008 Bridge Facility, the Company terminated Time Warner's commitment (as lender) under a two-year \$1.535 billion senior unsecured supplemental term loan facility, and the credit agreement governing such facility was terminated in accordance with its terms. The Company used the remaining net proceeds from the March 2009 Bond Offering to repay a portion of the borrowings outstanding under the Revolving Credit Facility.

The Company used the net proceeds of \$1.444 billion from the June 2009 Bond Offering to repay a portion of the outstanding indebtedness under its five-year term loan facility.

See Note 4 to the accompanying consolidated financial statements for further details regarding the 2009 Bond Offerings.

***Recent Regulatory Developments***

On October 22, 2009, the Federal Communications Commission (the FCC ) initiated a proceeding in which it proposes to adopt so-called net neutrality rules that it describes as intended to preserve the openness of the Internet. The proposed rules would apply to all providers of broadband Internet access services, whether wireline or wireless, but would not apply to providers of applications, content or other services. The FCC indicated that its comment process will seek comment both on its rationales for the draft proposals as well as their form and scope. Initial comments are due in January 2010. Any final rules that ultimately may be adopted, depending upon their scope and terms, could have a significant adverse effect on the Company's high-speed data services.

**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 any tier of video service from both residential and commercial subscribers. Video revenues from digital services, or digital video revenues, include revenues from digital tiers, premium channels, transactional video-on-demand (e.g., events, movies and pay-per-view) 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 home networking fees and installation charges. Additionally, high-speed data revenues include fees received from certain distributors of TWC's Road Runner™ 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. In addition, high-speed data revenues include fees received from third-party internet service providers whose on-line services are provided to some of TWC's customers and revenues generated by the sale of commercial networking and transport services (e.g., cellular backhaul).

Voice revenues include subscriber fees from residential and commercial Digital Phone subscribers, along with related installation charges.

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.

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

***Costs and Expenses***

Costs of revenues include the following costs directly associated with the delivery of services to subscribers or the maintenance of the Company's delivery systems: video programming costs; high-speed data connectivity costs and certain high-speed data customer care support service costs; voice network costs; other service-related expenses, including non-administrative labor; franchise fees; and other related costs.

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

***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 net income (loss) attributable to noncontrolling interests, income tax benefit (provision), other income (expense), net, and interest expense, net. In this regard, Operating Income (Loss) before Depreciation and Amortization is a significant component of measures used in the Company's annual incentive compensation programs.

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 noncontrolling interests, 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) attributable to TWC and net income (loss) attributable to TWC per common 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, cash paid for other intangible assets, 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) attributable to TWC 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.

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

**RESULTS OF OPERATIONS****Changes in Basis of Presentation*****Noncontrolling Interests***

In December 2007, the Financial Accounting Standards Board issued authoritative guidance that establishes accounting and reporting standards for a noncontrolling interest in a subsidiary, including the accounting treatment upon the deconsolidation of a subsidiary. This guidance became effective for TWC on January 1, 2009 and has been applied prospectively, except for the provisions related to the presentation of noncontrolling interests, which have been applied retrospectively for all periods presented. As required by this guidance, the Company has recast the presentation of noncontrolling interests in the prior year financial statements so that they are comparable to those of 2009. During the first quarter of 2009, noncontrolling interests of \$1.110 billion as of December 31, 2008 were reclassified to a component of total equity as reflected in the accompanying consolidated balance sheet. For the three and nine months ended September 30, 2008, minority interest expense of \$57 million and \$144 million, respectively (\$34 million and \$86 million, respectively, net of tax), is excluded from net income in the accompanying consolidated statement of operations. Net income attributable to TWC per common share for prior periods is not impacted.

***Reverse Stock Split***

In connection with the Separation Transactions, on March 12, 2009, the Company implemented the TWC reverse stock split at a 1-for-3 ratio. The Company has recast the presentation of share and per share data in the prior year financial statements to reflect the TWC reverse stock split.

***Reclassifications***

Certain reclassifications have been made to the prior year financial information to conform to the September 30, 2009 presentation.

**Recent Accounting Standards**

See Note 2 to the accompanying consolidated financial statements for other accounting standards adopted in 2009 and accounting standards not yet adopted.

**Three and Nine Months Ended September 30, 2009 Compared to Three and Nine Months Ended September 30, 2008**

The following discussion provides an analysis of the Company's results of operations and should be read in conjunction with the accompanying consolidated statement of operations, as well as the consolidated financial statements and notes thereto and MD&A included in the June 2009 Form 8-K.

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

|                    | <b>Three Months Ended September 30,</b> |             |                 | <b>Nine Months Ended September 30,</b> |             |                 |
|--------------------|---|-------------|-----------------|--|-------------|-----------------|
|                    | <b>2009</b>                             | <b>2008</b> | <b>% Change</b> | <b>2009</b>                            | <b>2008</b> | <b>% Change</b> |
| Subscription:      |   |             |                 |  |             |                 |
| Video              | \$ 2,698                                | \$ 2,639    | 2%              | \$ 8,071                               | \$ 7,878    | 2%              |
| High-speed data    | 1,138                                   | 1,056       | 8%              | 3,362                                  | 3,082       | 9%              |
| Voice              | 480                                     | 421         | 14%             | 1,402                                  | 1,184       | 18%             |
| Total Subscription | 4,316                                   | 4,116       | 5%              | 12,835                                 | 12,144      | 6%              |
| Advertising        | 182                                     | 224         | (19%)           | 501                                    | 654         | (23%)           |
| Total              | \$ 4,498                                | \$ 4,340    | 4%              | \$ 13,336                              | \$ 12,798   | 4%              |



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

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

|  | <b>September 30,</b> |             | <b>% Change</b> |
|--|----------------------|-------------|-----------------|
|  | <b>2009</b>          | <b>2008</b> |                 |
| Video <sup>(a)</sup>                             | 12,964               | 13,266      | (2%)            |
| Residential high-speed data <sup>(b)(c)(d)</sup> | 8,874                | 8,339       | 6%              |
| Commercial high-speed data <sup>(b)(c)(d)</sup>  | 293                  | 295         | (1%)            |
| Residential Digital Phone <sup>(c)(e)</sup>      | 4,078                | 3,621       | 13%             |
| Commercial Digital Phone <sup>(c)(e)</sup>       | 58                   | 23          | 152%            |
| Primary service units <sup>(f)</sup>             | 26,267               | 25,544      | 3%              |
| Digital video <sup>(g)</sup>                     | 8,810                | 8,607       | 2%              |
| Revenue generating units <sup>(h)</sup>          | 35,077               | 34,151      | 3%              |
| Customer relationships <sup>(i)</sup>            | 14,627               | 14,750      | (1%)            |
| Double play <sup>(j)</sup>                       | 4,873                | 4,811       | 1%              |
| Triple play <sup>(k)</sup>                       | 3,384                | 2,992       | 13%             |

(a) Video subscriber numbers reflect billable subscribers who receive at least basic video service.

(b) 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.

(c) 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.

(d) During the three months ended December 31, 2008, the Company reclassified 15,000 commercial high-speed data subscribers to residential high-speed data subscribers. Additionally, during the three months ended March 31, 2009, the Company recorded an adjustment that reduced commercial high-speed data subscribers by 3,000 subscribers. These items are reflected in the Company's subscriber numbers as of September 30, 2009.

(e) Digital Phone subscriber numbers reflect billable subscribers who receive an

- IP-based telephony service.
- (f) Primary service unit numbers represent the total of all video, high-speed data and voice subscribers.
  - (g) Digital video subscriber numbers reflect billable video subscribers who receive any level of video service at their dwelling or commercial establishment via digital transmissions.
  - (h) Revenue generating unit numbers represent the total of all video, digital video, high-speed data and voice subscribers.
  - (i) Customer relationships represent the number of subscribers who receive at least one of the Company's primary services. For example, a subscriber who purchases only high-speed data service and no video service will count as one customer relationship, and a subscriber who

purchases both video and high-speed data services will also count as only one customer relationship.

(j) Double play subscriber numbers reflect customers who subscribe to two of the Company's primary services.

(k) 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 video price increases and the continued growth of digital video subscribers, which were partially offset by a decrease in basic video subscribers (resulting, in part, from the December 2008 sale of certain non-core cable systems serving 78,000 video subscribers) and a decline in premium channel subscribers and transactional video-on-demand revenues. Commercial video revenues were \$65 million and \$188 million for the three and nine months ended September 30, 2009, respectively, compared to \$62 million and \$177 million for the three and nine months ended September 30, 2008, respectively. Additional information regarding the major components of video revenues was as follows (in millions):

|   | Three Months Ended September 30, |          |          | Nine Months Ended September 30, |          |          |
|---|----------------------------------|----------|----------|---------------------------------|----------|----------|
|   | 2009                             | 2008     | % Change | 2009                            | 2008     | % Change |
| Basic video services                      | \$ 1,586                         | \$ 1,569 | 1%       | \$ 4,757                        | \$ 4,697 | 1%       |
| Digital video services                    | 656                              | 638      | 3%       | 1,958                           | 1,907    | 3%       |
| Equipment rental and installation charges | 302                              | 283      | 7%       | 895                             | 827      | 8%       |
| Franchise fees                            | 119                              | 116      | 3%       | 356                             | 344      | 3%       |
| Other                                     | 35                               | 33       | 6%       | 105                             | 103      | 2%       |
| Total                                     | \$ 2,698                         | \$ 2,639 | 2%       | \$ 8,071                        | \$ 7,878 | 2%       |

High-speed data revenues increased primarily due to growth in high-speed data subscribers and an increase in commercial networking and transport revenues. Commercial high-speed data revenues were \$152 million and \$436 million for the three and nine months ended September 30, 2009, respectively, compared to \$136 million and

\$386 million for the three and nine months ended September 30, 2008, respectively.

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

The increase in voice revenues was due to growth in Digital Phone subscribers, partially offset by a decrease in average revenues per subscriber. Commercial voice revenues were \$19 million and \$48 million for the three and nine months ended September 30, 2009, respectively, compared to \$8 million and \$17 million for the three and nine months ended September 30, 2008, respectively.

Average monthly subscription revenues (which includes video, high-speed data and voice revenues) per unit were as follows:

|  | <b>Three Months Ended September 30,</b> |             |                 | <b>Nine Months Ended September 30,</b> |             |                 |
|--|---|-------------|-----------------|--|-------------|-----------------|
|  | <b>2009</b>                             | <b>2008</b> | <b>% Change</b> | <b>2009</b>                            | <b>2008</b> | <b>% Change</b> |
| Average monthly subscription revenues per: |   |             |                 |  |             |                 |
| Video subscriber                           | \$ 110.65                               | \$ 103.38   | 7%              | \$ 109.32                              | \$ 101.63   | 8%              |
| Customer relationship                      | 98.34                                   | 93.15       | 6%              | 97.48                                  | 91.77       | 6%              |
| Primary service unit                       | 54.93                                   | 54.19       | 1%              | 54.84                                  | 54.28       | 1%              |
| Revenue generating unit                    | 41.12                                   | 40.53       | 1%              | 41.04                                  | 40.63       | 1%              |

Advertising revenues decreased due to a decline in Advertising revenues from national, regional and local businesses and political advertising revenues. The Company expects that Advertising revenues will decline in the fourth quarter of 2009 as compared to the fourth quarter of 2008 due to lower 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>Three Months Ended September 30,</b> |             |                 | <b>Nine Months Ended September 30,</b> |             |                 |
|------------------------------|---|-------------|-----------------|--|-------------|-----------------|
|                              | <b>2009</b>                             | <b>2008</b> | <b>% Change</b> | <b>2009</b>                            | <b>2008</b> | <b>% Change</b> |
| Video programming            | \$ 1,009                                | \$ 949      | 6%              | \$ 3,013                               | \$ 2,817    | 7%              |
| Employee                     | 627                                     | 597         | 5%              | 1,861                                  | 1,752       | 6%              |
| High-speed data              | 33                                      | 35          | (6%)            | 99                                     | 112         | (12%)           |
| Voice                        | 161                                     | 144         | 12%             | 470                                    | 406         | 16%             |
| Video franchise fees         | 119                                     | 116         | 3%              | 356                                    | 344         | 3%              |
| Other direct operating costs | 214                                     | 231         | (7%)            | 624                                    | 666         | (6%)            |
| Total                        | \$ 2,163                                | \$ 2,072    | 4%              | \$ 6,423                               | \$ 6,097    | 5%              |

|   |     |     |     |     |
|---|-----|-----|-----|-----|
| Costs of revenues as a percentage of revenues | 48% | 48% | 48% | 48% |
|---|-----|-----|-----|-----|

For the three and nine months ended September 30, 2009, costs of revenues increased 4% and 5%, respectively, primarily related to increases in video programming, employee and voice costs.

The increase in video programming costs was primarily due to contractual rate increases, incremental costs associated with the continued retransmission of certain local broadcast stations and the expansion of service offerings, partially offset by a decline in basic video and premium channel subscriptions. Average programming costs per video

subscriber increased 8% to \$25.85 per month for the three months ended September 30, 2009 from \$23.85 per month for the three months ended September 30, 2008. Average programming costs per video subscriber increased 9% to \$25.66 per month for the nine months ended September 30, 2009 from \$23.58 per month for the nine months ended September 30, 2008. The Company expects video programming costs to increase in the fourth quarter of 2009 at a rate comparable to that experienced during the first nine months of 2009, reflecting programming rate increases on existing services, costs associated with retransmission consent agreements, digital video subscriber growth and the expansion of service offerings.

Employee costs for the three and nine months ended September 30, 2009 increased primarily due to an increase in employee medical and pension expenses. Employee costs for the nine-month period were also impacted by salary increases.

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.

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

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

|   | Three Months<br>Ended<br>September 30, |               |           | Nine Months<br>Ended<br>September 30, |                 |             |
|---|--|---------------|-----------|---------------------------------------|-----------------|-------------|
|   | 2009                                   | 2008          | %         | 2009                                  | 2008            | %           |
| Employee                                      | \$ 284                                 | \$ 278        | 2%        | \$ 863                                | \$ 865          |             |
| Marketing                                     | 140                                    | 138           | 1%        | 408                                   | 447             | (9%)        |
| Separation-related make-up equity award costs | 4                                      |               | NM        | 6                                     |                 | NM          |
| Other   | 288                                    | 290           | (1%)      | 860                                   | 849             | 1%          |
| <b>Total</b>                                  | <b>\$ 716</b>                          | <b>\$ 706</b> | <b>1%</b> | <b>\$ 2,137</b>                       | <b>\$ 2,161</b> | <b>(1%)</b> |

NM Not meaningful.

Selling, general and administrative expenses for the three months ended September 30, 2009 increased slightly primarily as a result of an increase in casualty insurance expense and higher employee costs (primarily due to higher pension expense), partially offset by a decrease in bad debt expense. Selling, general and administrative expenses for the nine months ended September 30, 2009 decreased slightly primarily as a result of lower marketing costs, partially offset by an increase in casualty insurance expense. Casualty insurance expense increased for the three and nine months ended September 30, 2009 primarily as the result of a benefit of approximately \$13 million recorded during the third quarter of 2008 due to changes in estimates of previously established casualty insurance accruals. Employee costs for the nine months ended September 30, 2009 remained essentially flat as an increase in pension expense was more than offset by a decrease in other employee costs.

As a result of the Separation, pursuant to their terms, Time Warner equity awards held by TWC employees were forfeited and/or experienced a reduction in value. During the three and nine months ended September 30, 2009, the Company recorded \$4 million and \$6 million, respectively, of costs associated with TWC stock options and restricted stock units granted to its employees to offset these forfeitures and/or reduced values.

*Restructuring costs.* The results include restructuring costs of \$14 million and \$64 million for three and nine months ended September 30, 2009, respectively, and \$8 million and \$14 million for the three and nine months ended September 30, 2008, respectively. TWC expects to incur total restructuring charges of approximately \$75 million, including \$64 million incurred through September 30, 2009. The Company expects to eliminate approximately 1,400 positions, of which approximately 1,100 positions were eliminated during the nine months ended September 30, 2009. The remainder are expected to be eliminated in the fourth quarter of 2009 or early 2010.

*Gain (loss) on sale of cable systems.* During the nine months ended September 30, 2008, the Company recorded a pretax impairment loss of \$45 million as a result of the then-anticipated sale of certain non-core cable systems, which closed in December 2008. During the fourth quarter of 2008, the Company recorded an additional pretax loss on the sale of these systems of \$13 million (primarily representing post-closing and working capital adjustments). During the second quarter of 2009, \$2 million of these losses were recovered as a result of a post-closing purchase price adjustment.

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

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

|   | Three Months<br>Ended<br>September 30, |                  |          | Nine Months<br>Ended<br>September 30, |                  | %     |
|---|--|------------------|----------|---------------------------------------|------------------|-------|
|   | 2009                                   | 2008<br>(recast) | % Change | 2009                                  | 2008<br>(recast) |       |
| Operating Income before Depreciation and Amortization     | \$ 1,605                               | \$ 1,554         | 3%       | \$ 4,714                              | \$ 4,481         | 5%    |
| Depreciation  | (713)                                  | (700)            | 2%       | (2,105)                               | (2,123)          | (1%)  |
| Amortization  | (64)                                   | (66)             | (3%)     | (183)                                 | (196)            | (7%)  |
| Operating Income  | 828                                    | 788              | 5%       | 2,426                                 | 2,162            | 12%   |
| Interest expense, net                                     | (348)                                  | (229)            | 52%      | (974)                                 | (647)            | 51%   |
| Other income (expense), net                               | (19)                                   | 2                | NM       | (83)                                  | (1)              | NM    |
| Income before income taxes                                | 461                                    | 561              | (18%)    | 1,369                                 | 1,514            | (10%) |
| Income tax provision                                      | (193)                                  | (226)            | (15%)    | (600)                                 | (608)            | (1%)  |
| Net income  | 268                                    | 335              | (20%)    | 769                                   | 906              | (15%) |
| Less: Net income attributable to noncontrolling interests |  | (34)             | (100%)   | (21)                                  | (86)             | (76%) |
| Net income attributable to TWC                            | \$ 268                                 | \$ 301           | (11%)    | \$ 748                                | \$ 820           | (9%)  |

NM Not meaningful.

*Operating Income before Depreciation and Amortization.* As discussed above, for the three and nine months ended September 30, 2009, Operating Income before Depreciation and Amortization was impacted by restructuring costs and Separation-related make-up equity award costs, and, for the nine months ended September 30, 2009, the gain on sale of cable systems. For the three and nine months ended September 30, 2008, Operating Income before Depreciation and Amortization was impacted by restructuring costs, and, for the nine months ended September 30, 2008, the loss on sale of cable systems. Excluding these items, Operating Income before Depreciation and Amortization for the three and nine months ended September 30, 2009 increased principally as a result of revenue growth, partially offset by higher costs of revenues, as discussed above. Additionally, Operating Income before Depreciation and Amortization for the three and nine months ended September 30, 2008 was negatively impacted by approximately \$10 million as a result of the effect of Hurricane Ike on certain of the Company's cable systems in southeast Texas and Ohio.

*Depreciation expense.* Depreciation expense for the three and nine months ended September 30, 2009 was impacted by continued purchases of customer premise equipment, scalable infrastructure and line extensions occurring during or subsequent to the comparable period in 2008. Depreciation expense for the three and nine months ended September 30, 2008 was impacted by certain property, plant and equipment acquired in the 2006 transactions



with Adelphia Communications Corporation and Comcast Corporation, which was fully depreciated as of July 31, 2008.

*Amortization expense.* Amortization expense for the nine months ended September 30, 2009 benefited from an approximate \$13 million adjustment to reduce excess amortization recorded in prior years.

*Operating Income.* As discussed above, Operating Income for the three and nine months ended September 30, 2009 was impacted by restructuring costs and Separation-related make-up equity award costs, and, for the nine months ended September 30, 2009, the gain on sale of cable systems. Operating Income for the three and nine months ended September 30, 2008 was impacted by restructuring costs, and, for the nine months ended September 30, 2008, the loss on sale of cable systems. Excluding these items, Operating Income increased for the three months ended September 30, 2009 primarily due to the increase in Operating Income before Depreciation and Amortization, partially offset by the increase in depreciation expense, and Operating Income increased for the nine months ended September 30, 2009 primarily due to the increase in Operating Income before Depreciation and Amortization and the decreases in depreciation and amortization expenses, as discussed above. Additionally, Operating Income for the three and nine months ended September 30, 2008 was negatively impacted by approximately \$10 million as a result of the effect of Hurricane Ike on certain of the Company's cable systems in southeast Texas and Ohio.

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

*Interest expense, net.* Interest expense, net, increased for the three and nine months ended September 30, 2009 primarily due to higher average debt outstanding during the periods. Additionally, interest expense, net, for the nine months ended September 30, 2009 included \$13 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 repayment of all borrowings outstanding under, and the resulting termination of, such facility with a portion of the net proceeds of the March 2009 Bond Offering. Interest expense, net, for the three and nine months ended September 30, 2008 included \$2 million and \$33 million, respectively, 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 public offering of notes and debentures in June 2008 (the June 2008 Bond Offering). As a result of the debt incurred to finance the Special Dividend, including the Company's public offering of notes in November 2008 and the 2009 Bond Offerings, the Company expects that interest expense, net, will increase significantly during the fourth quarter of 2009 as compared to 2008. See Note 4 to the accompanying consolidated financial statements for further details regarding the 2009 Bond Offerings.

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

|  | <b>Three Months<br/>Ended<br/>September 30,<br/>2009</b> |      | <b>Nine Months<br/>Ended<br/>September 30,<br/>2008</b> |      |
|--|--|------|---|------|
| Direct transaction costs related to the Separation Transactions <sup>(a)</sup> | \$   | (3)  | \$  | (15) |
| Income (loss) from equity investments, net                                     | (13)   | 2    | (36)  | 12   |
| Impairment of investment in The Reserve Fund <sup>(b)</sup>                    |  |      | (10)  |      |
| Other investment gains <sup>(c)</sup>  |  |      | 3   | 1    |
| Equity award reimbursement obligation to Time Warner <sup>(d)</sup>            | (5)  |      | (13)  |      |
| Other  | (1)  | 3    | 1   | 1    |
| Other income (expense), net  | \$   | (19) | \$  | (83) |
|  |  | 2    | \$  | (1)  |

(a) Amounts primarily consist of legal and professional fees.

(b) See Financial Condition and Liquidity Current Financial Condition for additional discussion about The Reserve Fund.

(c) Amount for the nine months ended September 30,

2008 includes a \$9 million gain recorded on the sale of a cost-method investment, partially offset by an \$8 million pretax impairment on an investment.

During the nine months ended September 30, 2009, the Company recovered a portion of this investment, resulting in a \$3 million gain.

- (d) See Note 5 for a discussion of the Company's accounting for its equity award reimbursement obligation to Time Warner.

The change in income (loss) from equity investments, net, for the three and nine months ended September 30, 2009 was primarily due to the impact of losses incurred during 2009 by Clearwire Communications LLC, an investment of the Company accounted for under the equity method of accounting.

*Income tax provision.* TWC's income tax provision has been prepared as if the Company operated as a stand-alone taxpayer for all periods presented. For the three months ended September 30, 2009 and 2008, the Company recorded income tax provisions of \$193 million and \$226 million, respectively. For the nine months ended September 30, 2009 and 2008, the Company recorded income tax provisions of \$600 million and \$608 million, respectively. The effective tax rate was 42% and 40% for the three months ended September 30, 2009 and 2008, respectively, and was 44% and 40% for the nine months ended September 30, 2009 and 2008, respectively. The increase in the effective tax rate for the nine months ended September 30, 2009 was primarily a result of the passage of the California state budget during the first quarter of 2009 that, in part, changed the methodology of income tax apportionment in California. This tax law change resulted in an increase in state deferred tax liabilities and a corresponding noncash tax provision of \$38 million, which was recorded in the first quarter of 2009. Absent this tax law change, the effective tax rate for the nine months ended September 30, 2009 would have been 41%.

*Net income attributable to noncontrolling interests.* Net income attributable to noncontrolling interests decreased principally due to the changes in the ownership structure of the Company as a result of the TW NY Exchange, which occurred in February 2009.

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

*Net income attributable to TWC and net income attributable to TWC per common share.* Net income attributable to TWC and net income attributable to TWC per common share were as follows for the three and nine months ended September 30, 2009 and 2008 (in millions, except per share data):

|   | Three Months<br>Ended<br>September 30, |                  |          | Nine Months<br>Ended<br>September 30, |                  |          |
|---|--|------------------|----------|---------------------------------------|------------------|----------|
|   | 2009                                   | 2008<br>(recast) | % Change | 2009                                  | 2008<br>(recast) | % Change |
| Net income attributable to TWC                      | \$ 268                                 | \$ 301           | (11%)    | \$ 748                                | \$ 820           | (9%)     |
| Net income attributable to TWC per<br>common share: |  |                  |          |                                       |                  |          |
| Basic   | \$ 0.76                                | \$ 0.92          | (17%)    | \$ 2.15                               | \$ 2.52          | (15%)    |
| Diluted   | \$ 0.76                                | \$ 0.92          | (17%)    | \$ 2.14                               | \$ 2.52          | (15%)    |

As discussed above, net income attributable to TWC for the three and nine months ended September 30, 2009 was impacted by restructuring costs and Separation-related make-up equity award costs, and, for the nine months ended September 30, 2009, the gain on sale of cable systems. Net income attributable to TWC for the three and nine months ended September 30, 2008 was impacted by restructuring costs, and, for the nine months ended September 30, 2008, the loss on sale of cable systems. Excluding these items, net income attributable to TWC and net income attributable to TWC per common share for the three and nine months ended September 30, 2009 decreased primarily due to the increase in interest expense, net, and the change in other income (expense), net, partially offset by an increase in Operating Income and a decrease in net income attributable to noncontrolling interests, each as discussed above. Additionally, net income attributable to TWC and net income attributable to TWC per common share for the three months ended September 30, 2009 benefited from the decrease in income tax provision, as discussed above.

**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. There are no 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 facility and commercial paper program, as well as access to capital markets.

TWC's unused committed capacity was \$4.023 billion as of September 30, 2009, reflecting \$506 million of cash and equivalents and \$3.517 billion of available borrowing capacity under the Company's \$5.875 billion Revolving Credit Facility.

**Current Financial Condition**

As of September 30, 2009, the Company had \$22.168 billion of debt, \$506 million of cash and equivalents (net debt of \$21.662 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 \$8.215 billion of total TWC shareholders equity. 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), \$300 million of TW NY Cable Preferred Membership Units and \$17.164 billion of total TWC shareholders equity.

The following table shows the significant items contributing to the increase in net debt from December 31, 2008 to September 30, 2009 (in millions):

|                                       |           |
|---------------------------------------|-----------|
| Balance as of December 31, 2008       | \$ 12,279 |
| Payment of the Special Dividend       | 10,856    |
| Cash provided by operating activities | (3,805)   |
| Capital expenditures                  | 2,287     |
| All other, net                        | 45        |
| Balance as of September 30, 2009      | \$ 21,662 |

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

As discussed in Overview Recent Developments 2009 Bond Offerings and Termination of Lending Commitments, 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.

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 net 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 September 30, 2009, the Company received \$441 million from The Reserve Fund representing its pro rata share of partial distributions made by The Reserve Fund. The Company believes that it is legally entitled to a return of its entire investment in The Reserve Fund. However, during the first quarter of 2009, The Reserve Fund announced that it was establishing a \$3.5 billion special reserve for legal and other costs that would not be distributed to investors until all claims are resolved. As a result, the Company recorded a \$10 million impairment of its investment in The Reserve Fund during the first quarter of 2009, which is included in other income (expense), net, in the accompanying consolidated statement of operations. The \$39 million net receivable from The Reserve Fund as of September 30, 2009 is classified as prepaid expenses and other current assets in the accompanying consolidated balance sheet. On October 2, 2009, the Company received an additional \$10 million from The Reserve Fund reducing its remaining net receivable to \$29 million.

On April 3, 2009, the Company filed suit in the New York State Supreme Court against The Reserve Fund alleging, among other things, that The Reserve Fund has breached its contractual obligations to the Company and seeking full payment of the amount of its outstanding obligation with interest. This case has been removed to federal district court in New York. On May 5, 2009, the SEC filed an Order to Show Cause with the federal district court in New York seeking to enjoin The Reserve Fund's plan of distribution, and to compel a pro rata distribution of The Reserve Fund's assets.

**Cash Flows**

Cash and equivalents decreased \$4.943 billion and increased \$2.858 billion for the nine months ended September 30, 2009 and 2008, 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>Nine Months Ended</b> |             |
|---|--------------------------|-------------|
|   | <b>September 30,</b>     |             |
|   | <b>2009</b>              | <b>2008</b> |
| Operating Income before Depreciation and Amortization | \$ 4,714                 | \$ 4,481    |
| Loss (gain) on sale of cable systems                  | (2)                      | 45          |
| Noncash equity-based compensation                     | 77                       | 64          |
| Net interest payments <sup>(a)</sup>                  | (909)                    | (544)       |
| Pension plan contributions <sup>(b)</sup>             | (129)                    | (176)       |
| Net income taxes paid <sup>(c)</sup>                  | (27)                     | (30)        |
| Restructuring accruals (payments), net                | 13                       | (3)         |
| All other, net, including working capital changes     | 68                       | 27          |
| Cash provided by operating activities                 | \$ 3,805                 | \$ 3,864    |

- (a) Amounts include interest income received of \$7 million and \$31 million for the nine months ended September 30, 2009 and 2008, respectively.
- (b) Amounts represent contributions to the Company's funded and unfunded defined benefit pension plans.
- (c) Amounts include income tax refunds received of \$52 million and \$3 million for the nine months ended September 30, 2009 and 2008, respectively.

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

Cash provided by operating activities decreased from \$3.864 billion for the nine months ended September 30, 2008 to \$3.805 billion for the nine months ended September 30, 2009. This decrease was primarily related to an increase in net interest payments, partially offset by an increase in Operating Income before Depreciation and Amortization (as previously discussed), the decrease in pension plan contributions and the change in working capital requirements. The increase in net interest payments resulted from higher average debt outstanding during 2009, as well as the timing of interest payments.

Net income taxes paid during the nine months ended September 30, 2009 benefited from reimbursements from Time Warner in accordance with a tax sharing arrangement between TWC and Time Warner, as well as the impact of the accelerated depreciation deductions provided by the American Recovery and Reinvestment Act of 2009, partially offset by the reversal of a portion of similar benefits received in 2008 from the Economic Stimulus Act of 2008. These Acts provide for a first year bonus depreciation deduction of 50% of the cost of the Company's qualified capital expenditures for the year, and the net benefit is expected to continue during the fourth quarter of 2009.

As a result of the 2009 Bond Offerings, the Company expects that its net interest payments will increase significantly during the fourth quarter of 2009 as compared to 2008.

The Company contributed \$120 million to its funded defined benefit pension plans during the nine months ended September 30, 2009 and anticipates making additional discretionary contributions of at least \$30 million during the fourth quarter. The Company may make greater contributions to its defined benefit pension plans during the fourth quarter depending on the funded status of the plans and liquidity considerations.

***Investing Activities***

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

|  | <b>Nine Months Ended</b> |             |
|--|--------------------------|-------------|
|  | <b>September 30,</b>     |             |
|  | <b>2009</b>              | <b>2008</b> |
| Investments and acquisitions, net of cash acquired and distributions received: |                          |             |
| The Reserve Fund <sup>(a)</sup>  | \$ 54                    | \$ (490)    |
| SpectrumCo <sup>(b)</sup>  | (27)                     | (3)         |
| All other  | (21)                     | (32)        |
| Capital expenditures   | (2,287)                  | (2,582)     |
| Other investing activities   | 9                        | 12          |
| Cash used by investing activities  | \$ (2,272)               | \$ (3,095)  |

<sup>(a)</sup> 2008 amount reflects 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 Company's investment. 2009 amount reflects the receipt of the Company's pro rata share of partial distributions made by The Reserve Fund during 2009. See Current Financial Condition for additional discussion of the Company's investment in The Reserve Fund.

- (b) 2009 amount includes a January 2009 contribution of \$22 million to SpectrumCo LLC (SpectrumCo) to fund the Company's share of a \$70 million payment to Cox Communications, Inc. (Cox) to redeem a 10.9% interest in SpectrumCo held by an affiliate of Cox. Cox also received advanced wireless spectrum (AWS) licenses, principally covering areas in which Cox has cable services. Following the closing of the Cox transaction, SpectrumCo's licenses cover 20 MHz of AWS in over 80% of the

continental United  
States and  
Hawaii.

Cash used by investing activities decreased from \$3.095 billion for the nine months ended September 30, 2008 to \$2.272 billion for the nine months ended September 30, 2009. This decrease was principally due to the change in investments and acquisitions, net, and a decrease in capital expenditures. The Company expects that capital expenditures will be less than \$3.3 billion for the full year of 2009.

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

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

|   | <b>Nine Months Ended</b> |              |
|---|--------------------------|--------------|
|   | <b>September 30,</b>     |              |
|   | <b>2009</b>              | <b>2008</b>  |
| Customer premise equipment <sup>(a)</sup> | \$ 951                   | \$ 1,257     |
| Scalable infrastructure <sup>(b)</sup>    | 530                      | 415          |
| Line extensions <sup>(c)</sup>            | 215                      | 253          |
| Upgrades/rebuilds <sup>(d)</sup>          | 125                      | 233          |
| Support capital <sup>(e)</sup>            | 466                      | 424          |
| <br>Total capital expenditures            | <br>\$ 2,287             | <br>\$ 2,582 |

(a) Amounts represent costs incurred in the purchase and installation of equipment that resides at a customer's home or business for the purpose of receiving/sending video, high-speed data and/or voice signals. Such equipment includes 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 \$123 million and \$137 million for the nine months ended September 30, 2009 and 2008, 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.

***Financing Activities***

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

|  | <b>Nine Months Ended</b> |             |
|--|--------------------------|-------------|
|  | <b>September 30,</b>     |             |
|  | <b>2009</b>              | <b>2008</b> |
| Borrowings (repayments), net <sup>(a)</sup>  | \$ 2,215                 | \$ (207)    |
| Borrowings                                   | 10,071                   | 5,203       |
| Repayments                                   | (7,877)                  | (2,817)     |
| Debt issuance costs                          | (26)                     | (87)        |
| Payment of Special Dividend                  | (10,856)                 |             |
| Other financing activities                   | (3)                      | (3)         |
| Cash provided (used) by financing activities | \$ (6,476)               | \$ 2,089    |

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

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

Cash provided by financing activities was \$2.089 billion for the nine months ended September 30, 2008 compared to cash used by financing activities of \$6.476 billion for the nine months ended September 30, 2009. Cash used by financing activities for the nine months ended September 30, 2009 primarily included the payment of the Special Dividend, partially offset by the net proceeds of the 2009 Bond Offerings. Cash provided by financing activities for the nine months ended September 30, 2008 primarily included net proceeds from the June 2008 Bond Offering, partially offset by repayments under the Revolving Credit Facility and commercial paper program, repayment of TWE's 7.25% debentures due September 1, 2008 (aggregate principal amount of \$600 million), and debt issuance costs relating to the June 2008 Bond Offering and the 2008 Bridge Facility.

**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>Nine Months Ended</b> |                 |
|--|--------------------------|-----------------|
|  | <b>September 30,</b>     |                 |
|  | <b>2009</b>              | <b>2008</b>     |
| Cash provided by operating activities                              | \$ 3,805                 | \$ 3,864        |
| Capital expenditures   | (2,287)                  | (2,582)         |
| Cash paid for other intangible assets                              | (17)                     | (25)            |
| Partnership distributions and principal payments on capital leases | (5)                      | (3)             |
| <b>Free Cash Flow</b>  | <b>\$ 1,496</b>          | <b>\$ 1,254</b> |

Free Cash Flow increased from \$1.254 billion for the nine months ended September 30, 2008 to \$1.496 billion for the nine months ended September 30, 2009, primarily as a result of a decrease in capital expenditures, partially offset by a decrease in cash provided by operating activities, as discussed above.

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

Debt and mandatorily redeemable preferred equity as of September 30, 2009 and December 31, 2008 were as follows:

|  | <b>Interest Rate</b>  | <b>Maturity</b> | <b>Outstanding Balance as</b> |                  |
|--|-----------------------|-----------------|-------------------------------|------------------|
|  | <b>at</b>             |                 | <b>of</b>                     |                  |
|  | <b>September 30,</b>  |                 | <b>September</b>              | <b>December</b>  |
|  | <b>2009</b>           |                 | <b>30,</b>                    | <b>31,</b>       |
|  |                       |                 | <b>2009</b>                   | <b>2008</b>      |
|  |                       |                 | <b>(in millions)</b>          |                  |
| Credit facilities and commercial paper program <sup>(a)(b)</sup> | 0.559% <sup>(c)</sup> | 2011            | \$ 3,015                      | \$ 3,045         |
| TWE notes and debentures <sup>(d)</sup>                          | 7.835% <sup>(c)</sup> | 2012-2033       | 2,705                         | 2,714            |
| TWC notes and debentures   | 6.721% <sup>(e)</sup> | 2012-2039       | 16,436                        | 11,956           |
| Capital leases and other <sup>(f)</sup>                          |                       |                 | 12                            | 13               |
| <b>Total debt</b>  |                       |                 | <b>22,168</b>                 | <b>17,728</b>    |
| TW NY Cable Preferred Membership Units                           | 8.210%                | 2013            | 300                           | 300              |
| <b>Total debt and mandatorily redeemable preferred equity</b>    |                       |                 | <b>\$ 22,468</b>              | <b>\$ 18,028</b> |

- (a) TWC's unused committed capacity was \$4.023 billion as of September 30, 2009, reflecting \$506 million in cash and equivalents and \$3.517 billion of available borrowing capacity under the Revolving Credit Facility (which reflects a reduction of \$142 million for outstanding letters of credit backed by the Revolving Credit Facility).
- (b) Outstanding balance amount as of September 30, 2009 excludes an unamortized discount on commercial paper of \$1 million (none as of December 31, 2008).
- (c) Rate represents a weighted-average effective interest rate.
- (d) Outstanding balance amount as of September 30, 2009 and December 31, 2008 includes an unamortized fair value adjustment of \$105 million and \$114 million, respectively, which includes 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.).
- (e) Rate represents a weighted-average effective interest rate and includes the effects of derivative financial instruments.
- (f) Amount includes \$1 million of debt due within one year as of December 31, 2008 (none as of September 30, 2009), which primarily relates to capital lease obligations.

See Overview Recent Developments 2009 Bond Offerings and Termination of Lending Commitments and Note 4 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.

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

***Lending Commitments***

Lehman Brothers Bank, FSB (LBB), a subsidiary of Lehman Brothers Holding Inc. (Lehman), was a lender under the Revolving Credit Facility. 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. On March 3, 2009, the Company entered into an amendment to the Revolving Credit Facility to terminate LBB's \$125 million commitment under such facility. As a result of this termination, the borrowing capacity under the Revolving Credit Facility was reduced from \$6.000 billion to \$5.875 billion.

**MARKET RISK MANAGEMENT**

Market risk is the potential gain/loss arising from changes in market rates and prices, such as interest rates. During 2009, the Company entered into interest rate swap contracts to increase the Company's percentage of variable-rate debt. The Company is subject to market risk with respect to its fixed-rate debt for the portion that is not covered by an interest rate swap agreement (\$16.905 billion as of September 30, 2009). Refer to the June 2009 Form 8-K for a discussion of additional market risks applicable to the Company.

**Interest Rate Risk**

The Company is exposed to the market risk of adverse changes in interest rates. To manage the volatility relating to these exposures, the Company's policy is to maintain a mix of fixed-rate and variable-rate debt and to enter into various interest rate derivative transactions as described below. Using interest rate swaps, the Company agrees to exchange, at specified intervals, the difference between fixed and variable interest amounts calculated by reference to an agreed-upon notional principal amount.

The following table summarizes the terms of the Company's existing fixed to variable interest rate swaps as of September 30, 2009:

|  |           |
|--|-----------|
| Maturities   | 2012-2014 |
| Notional amount (in millions)                                    | \$ 2,200  |
| Average pay rate (variable based on LIBOR plus variable margins) | 4.00%     |
| Average receive rate (fixed)                                     | 6.36%     |
| Estimated fair value (in millions)                               | \$ 36     |

The notional amounts of interest rate instruments, as presented in the above table, are used to measure interest to be paid or received and do not represent the amount of exposure to credit loss. The estimated fair value approximates the proceeds (costs) to settle the outstanding contracts. While interest rate swaps represent an integral part of the Company's interest rate risk management program, their incremental effect on interest expense for the three and nine months ended September 30, 2009 was not significant.

**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.

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

Various factors could adversely affect the operations, business or financial results of TWC in the future and cause TWC's actual results to differ materially from those contained in the forward-looking statements, including those factors discussed in detail in Item 1A, Risk Factors, in the 2008 Form 10-K, and in TWC's other filings made from time to time with the SEC after the date of this report. In addition, the Company operates in a highly competitive, consumer and technology-driven and rapidly changing business. The Company's business is affected by government regulation, economic, strategic, political and social conditions, consumer response to new and existing products and services, technological developments and, particularly in view of new technologies, its continued ability to protect and secure any necessary intellectual property rights. TWC's actual results could differ materially from management's expectations because of changes in such factors.

Further, lower than expected valuations associated with the Company's cash flows and revenues may result in the Company's inability to realize the value of recorded intangibles and goodwill. Additionally, achieving the Company's financial objectives could be adversely affected by the factors discussed in detail in Item 1A, Risk Factors, in the 2008 Form 10-K, 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;

- 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; and

- the failure to meet earnings expectations.

**TIME WARNER CABLE INC.**

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK  
AND ITEM 4. CONTROLS AND PROCEDURES**

**Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

See Market Risk Management in Management's Discussion and Analysis of Results of Operations and Financial Condition.

**Item 4. Controls and Procedures.**

**Evaluation of Disclosure Controls and Procedures**

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

**Changes in Internal Control Over Financial Reporting**

There have not been any changes in the Company's internal control over financial reporting during the quarter ended September 30, 2009 that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

**TIME WARNER CABLE INC.**  
**CONSOLIDATED BALANCE SHEET**  
(Unaudited)

|   | <b>September<br/>30,<br/>2009</b> | <b>December<br/>31,<br/>2008<br/>(recast)</b> |
|---|-----------------------------------|---|
| <b>(in millions)</b>  |                                   |   |
| <b>ASSETS</b>   |                                   |   |
| Current assets:   |                                   |   |
| Cash and equivalents  | \$ 506                            | \$ 5,449                                      |
| Receivables, less allowances of \$108 million and \$90 million as of<br>September 30, 2009 and December 31, 2008, respectively                                      | 646                               | 692   |
| Receivables from affiliated parties   |                                   | 161   |
| Deferred income tax assets  | 132                               | 156   |
| Prepaid expenses and other current assets   | 277                               | 201   |
| <br>Total current assets  | <br>1,561                         | <br>6,659                                     |
| Investments   | 901                               | 895   |
| Property, plant and equipment, net  | 13,543                            | 13,537  |
| Intangible assets subject to amortization, net  | 332                               | 493   |
| Intangible assets not subject to amortization   | 24,091                            | 24,094  |
| Goodwill  | 2,105                             | 2,101   |
| Other assets  | 153                               | 110   |
| <br>Total assets  | <br>\$ 42,686                     | <br>\$ 47,889                                 |
| <br><b>LIABILITIES AND EQUITY</b>   |                                   |   |
| Current liabilities:  |                                   |   |
| Accounts payable  | \$ 293                            | \$ 546  |
| Deferred revenue and subscriber-related liabilities   | 170                               | 156   |
| Payables to affiliated parties  | 46                                | 209   |
| Accrued programming expense   | 715                               | 530   |
| Other current liabilities   | 1,552                             | 1,432   |
| <br>Total current liabilities   | <br>2,776                         | <br>2,873                                     |
| Long-term debt  | 22,168                            | 17,727  |
| Mandatorily redeemable preferred equity membership units issued by a subsidiary   | 300                               | 300   |
| Deferred income tax liabilities, net  | 8,645                             | 8,193   |
| Other liabilities   | 578                               | 522   |
| Commitments and contingencies (Note 9)  |                                   |   |
| TWC shareholders' equity:   |                                   |   |
| Class A common stock, \$0.01 par value, 0 shares and 300.7 million shares<br>issued and outstanding as of September 30, 2009 and December 31, 2008,<br>respectively |                                   | 3   |
| Class B common stock, \$0.01 par value, 0 shares and 25.0 million shares<br>issued and outstanding as of September 30, 2009 and December 31, 2008,                  |                                   |   |

respectively

Common stock, \$0.01 par value, 352.4 million shares and 0 shares  
issued and outstanding as of September 30, 2009 and December 31, 2008,

respectively

|   |           |           |
|---|-----------|-----------|
|   | 4         |           |
| Paid-in capital                           | 9,794     | 19,514    |
| Accumulated other comprehensive loss, net | (448)     | (467)     |
| Accumulated deficit                       | (1,135)   | (1,886)   |
| <br>                                      |           |           |
| Total TWC shareholders' equity            | 8,215     | 17,164    |
| Noncontrolling interests                  | 4         | 1,110     |
| <br>                                      |           |           |
| Total equity                              | 8,219     | 18,274    |
| <br>                                      |           |           |
| Total liabilities and equity              | \$ 42,686 | \$ 47,889 |

See accompanying notes.

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

|   | <b>Three Months</b>                         |             | <b>Nine Months Ended</b> |             |
|---|---|-------------|--------------------------|-------------|
|   | <b>Ended</b>                                |             | <b>September 30,</b>     |             |
|   | <b>September 30,</b>                        | <b>2008</b> | <b>2009</b>              | <b>2008</b> |
|   | <b>(recast)</b>                             |             | <b>(recast)</b>          |             |
|   | <b>(in millions, except per share data)</b> |             |                          |             |
| Revenues:   |   |             |                          |             |
| Subscription:   |   |             |                          |             |
| Video   | \$ 2,698                                    | \$ 2,639    | \$ 8,071                 | \$ 7,878    |
| High-speed data   | 1,138                                       | 1,056       | 3,362                    | 3,082       |
| Voice   | 480   | 421         | 1,402                    | 1,184       |
| Total Subscription  | 4,316                                       | 4,116       | 12,835                   | 12,144      |
| Advertising   | 182   | 224         | 501                      | 654         |
| Total revenues  | 4,498                                       | 4,340       | 13,336                   | 12,798      |
| Costs and expenses:                                       |   |             |                          |             |
| Costs of revenues <sup>(a)</sup>                          | 2,163                                       | 2,072       | 6,423                    | 6,097       |
| Selling, general and administrative <sup>(a)</sup>        | 716   | 706         | 2,137                    | 2,161       |
| Depreciation  | 713   | 700         | 2,105                    | 2,123       |
| Amortization  | 64  | 66          | 183                      | 196         |
| Restructuring costs                                       | 14  | 8           | 64                       | 14          |
| (Gain) loss on sale of cable systems                      |   |             | (2)                      | 45          |
| Total costs and expenses                                  | 3,670                                       | 3,552       | 10,910                   | 10,636      |
| Operating Income  | 828   | 788         | 2,426                    | 2,162       |
| Interest expense, net                                     | (348)                                       | (229)       | (974)                    | (647)       |
| Other income (expense), net                               | (19)  | 2           | (83)                     | (1)         |
| Income before income taxes                                | 461   | 561         | 1,369                    | 1,514       |
| Income tax provision                                      | (193)                                       | (226)       | (600)                    | (608)       |
| Net income  | 268   | 335         | 769                      | 906         |
| Less: Net income attributable to noncontrolling interests |   | (34)        | (21)                     | (86)        |
| Net income attributable to TWC                            | \$ 268                                      | \$ 301      | \$ 748                   | \$ 820      |
| Net income attributable to TWC per common share:          |   |             |                          |             |
| Basic   | \$ 0.76                                     | \$ 0.92     | \$ 2.15                  | \$ 2.52     |
| Diluted   | \$ 0.76                                     | \$ 0.92     | \$ 2.14                  | \$ 2.52     |
| Average common shares outstanding:                        |   |             |                          |             |

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|         |       |       |       |       |
|---------|-------|-------|-------|-------|
| Basic   | 352.4 | 325.7 | 347.9 | 325.6 |
| Diluted | 354.5 | 326.1 | 348.9 | 325.9 |

|   |    |    |          |    |
|---|----|----|----------|----|
| Special cash dividend declared and paid per share of common stock | \$ | \$ | \$ 30.81 | \$ |
|---|----|----|----------|----|

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

See accompanying notes.



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

|   | <b>Nine Months Ended</b> |             |
|---|--------------------------|-------------|
|   | <b>September 30,</b>     |             |
|   | <b>2009</b>              | <b>2008</b> |
|   | <b>(recast)</b>          |             |
|   | <b>(in millions)</b>     |             |
| <b>OPERATING ACTIVITIES</b>   |                          |             |
| Net income  | \$ 769                   | \$ 906      |
| Adjustments for noncash and nonoperating items:                               |                          |             |
| Depreciation and amortization   | 2,288                    | 2,319       |
| Pretax (gain) loss on asset sales   | (2)                      | 36          |
| Loss from equity investments, net of cash distributions                       | 42                       | 4           |
| Deferred income taxes   | 458                      | 659         |
| Equity-based compensation   | 77                       | 64          |
| Changes in operating assets and liabilities, net of acquisitions:             |                          |             |
| Receivables   | 47                       | 6           |
| Accounts payable and other liabilities  | 136                      | (47)        |
| Other changes   | (10)                     | (83)        |
| Cash provided by operating activities   | 3,805                    | 3,864       |
| <b>INVESTING ACTIVITIES</b>   |                          |             |
| Investments and acquisitions, net of cash acquired and distributions received | 6                        | (525)       |
| Capital expenditures  | (2,287)                  | (2,582)     |
| Proceeds from asset sales   | 9                        | 12          |
| Cash used by investing activities   | (2,272)                  | (3,095)     |
| <b>FINANCING ACTIVITIES</b>   |                          |             |
| Borrowings (repayments), net <sup>(a)</sup>                                   | 2,215                    | (207)       |
| Borrowings <sup>(b)</sup>   | 10,071                   | 5,203       |
| Repayments <sup>(b)</sup>   | (7,877)                  | (2,817)     |
| Debt issuance costs   | (26)                     | (87)        |
| Payment of special cash dividend  | (10,856)                 |             |
| Other financing activities  | (3)                      | (3)         |
| Cash provided (used) by financing activities                                  | (6,476)                  | 2,089       |
| Increase (decrease) in cash and equivalents                                   | (4,943)                  | 2,858       |
| Cash and equivalents at beginning of period                                   | 5,449                    | 232         |
| Cash and equivalents at end of period   | \$ 506                   | \$ 3,090    |

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

(b) Amounts represent borrowings and repayments related to debt instruments with original maturities greater than three months.

See accompanying notes.

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

|   | Nine Months Ended September 30,<br>2009 |  |                 | Nine Months Ended September 30,<br>2008 |  |                  |
|---|---|--|-----------------|---|--|------------------|
|   | TWC<br>Shareholder<br>Equity            | Noncontrolling<br>Interests<br>(in millions) | Total<br>Equity | TWC<br>Shareholder<br>Equity            | Noncontrolling<br>Interests<br>(recast, in millions) | Total<br>Equity  |
| <b>BALANCE AT BEGINNING<br/>OF PERIOD</b>                           | \$ 17,164                               | \$ 1,110                                     | \$ 18,274       | \$ 24,706                               | \$ 1,724   | \$ 26,430        |
| Net income  | 748                                     | 21   | 769             | 820                                     | 86   | 906              |
| Other comprehensive income<br>(loss) <sup>(a)</sup>                 | 19                                      |  | 19              | (3)                                     |  | (3)              |
| Comprehensive income  | 767                                     | 21   | 788             | 817                                     | 86   | 903              |
| Equity-based compensation   | 75                                      | 2  | 77              | 60                                      | 4  | 64               |
| Redemption of Historic TW s<br>interest in TW NY                    | 1,128                                   | (1,128)                                      |                 |   |  |                  |
| Special cash dividend (\$30.81<br>per<br>common share)              | (10,856)                                |  | (10,856)        |   |  |                  |
| Retained distribution related to<br>unvested restricted stock units | (46)                                    |  | (46)            |   |  |                  |
| Impact of adopting new<br>accounting pronouncements <sup>(b)</sup>  |   |  |                 | (1)                                     |  | (1)              |
| Other changes   | (17)                                    | (1)  | (18)            | 7                                       | (3)  | 4                |
| <b>BALANCE AT END OF<br/>PERIOD</b>                                 | <b>\$ 8,215</b>                         | <b>\$ 4</b>                                  | <b>\$ 8,219</b> | <b>\$ 25,589</b>                        | <b>\$ 1,811</b>                                      | <b>\$ 27,400</b> |

(a) The amounts primarily relate to changes in underfunded/unfunded pension benefit obligations.

(b) The amount for the nine months ended September 30, 2008 relates to the impact of adopting authoritative guidance issued by the Financial Accounting Standards Board relating to accounting for collateral assignment split-dollar

life insurance  
arrangements.  
See accompanying notes.

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

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

**Description of Business**

Time Warner Cable Inc. (together with its subsidiaries, TWC or the Company) is the second-largest cable operator in the U.S., with technologically advanced, well-clustered systems located mainly in five geographic areas New York State (including New York City), the Carolinas, Ohio, southern California (including Los Angeles) and Texas. As of September 30, 2009, TWC served approximately 14.6 million residential and commercial customers who subscribed to one or more of its video, high-speed data and voice services, which totaled approximately 26.3 million primary service units and approximately 35.1 million revenue generating units.

As of December 31, 2008, Time Warner Inc. (Time Warner) owned approximately 84% of the common stock of TWC (representing a 90.6% voting interest), and also owned an indirect 12.43% non-voting common stock interest in TW NY Cable Holding Inc. (TW NY), a subsidiary of TWC. Additionally, the financial results of TWC were consolidated by Time Warner. As discussed further in Note 3, on March 12, 2009, TWC completed its separation from Time Warner. As a result of the separation, Time Warner no longer has an ownership interest in TWC.

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 September 30, 2009, 56% of TWC's customers subscribed to two or more of its primary services, including 23% of its customers who subscribed to all three primary services. In addition to its residential services, TWC offers commercial customers video, high-speed data, voice and networking and transport services. In addition, TWC sells advertising to a variety of national, regional and local advertising customers.

Video is TWC's largest service in terms of revenues generated and, as of September 30, 2009, TWC had approximately 13.0 million video subscribers, of which approximately 8.8 million received video service via digital transmissions.

As of September 30, 2009, TWC had approximately 8.9 million residential high-speed data subscribers. TWC also offers commercial high-speed data services and had 293,000 commercial high-speed data subscribers as of September 30, 2009.

As of September 30, 2009, TWC had approximately 4.1 million residential Digital Phone subscribers. TWC also offers its commercial Digital Phone service, Business Class Phone, in nearly all of its operating areas and had 58,000 commercial Digital Phone subscribers as of September 30, 2009.

**Basis of Presentation**

***Changes in Basis of Presentation***

*TWC Reverse Stock Split.* As discussed more fully in Note 3, in connection with TWC's separation from Time Warner, on March 12, 2009, the Company implemented a reverse stock split of TWC common stock (the TWC reverse stock split) at a 1-for-3 ratio. The Company has recast the presentation of share and per share data in the prior year financial statements to reflect the TWC reverse stock split.

*Transactions with Affiliated Parties.* As discussed more fully in Note 3, upon completion of TWC's separation from Time Warner, Time Warner and its affiliates are no longer related parties to TWC. For the periods prior to TWC's separation from Time Warner, TWC has disclosed transactions with Time Warner and its affiliates in the financial statements as related party transactions.

*Noncontrolling Interests.* As discussed more fully in Note 2, TWC adopted authoritative guidance issued by the Financial Accounting Standards Board (FASB) that establishes accounting and reporting standards for a noncontrolling interest in a subsidiary, including the accounting treatment upon the deconsolidation of a subsidiary. As required by this guidance, the Company has recast the presentation of noncontrolling interests in the prior year financial statements so that they are comparable to those of 2009.

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

***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. The consolidated financial statements include the results of Time Warner Entertainment-Advance/Newhouse Partnership ( TWE-A/N ) only for the TWE-A/N systems that are controlled by TWC and for which TWC holds an economic interest. Prior to TWC's separation from Time Warner on March 12, 2009, the consolidated financial statements also include allocations of certain Time Warner corporate costs deemed reasonable by management to present the Company's consolidated financial position, results of operations, cash flows and changes in equity 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. Intercompany accounts and transactions between consolidated companies have been eliminated in consolidation.

***Use of Estimates***

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

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

***Reclassifications***

Certain reclassifications have been made to the prior year financial information to conform to the September 30, 2009 presentation.

***Interim Financial Statements***

The consolidated financial statements are unaudited; however, in the opinion of management, they contain all the adjustments (consisting of those of a normal recurring nature) considered necessary to present fairly the financial position, results of operations and cash flows for the periods presented in conformity with GAAP applicable to interim periods. The consolidated financial statements should be read in conjunction with the audited consolidated financial statements of TWC included in the Company's Current Report on Form 8-K dated, and filed with the Securities and Exchange Commission (the SEC ) on, June 24, 2009 (the June 2009 Form 8-K ), which recasts certain information in the Company's Annual Report on Form 10-K for the year ended December 31, 2008.

**TIME WARNER CABLE INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
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**Net Income Attributable to TWC per Common Share**

Net income attributable to TWC per basic common share is computed by dividing net income attributable to TWC by the weighted average of common shares outstanding during the period. For the nine months ended September 30, 2008, weighted-average common shares include shares of Class A common stock and Class B common stock. Net income attributable to TWC per diluted common share adjusts net income attributable to TWC per basic common share for the effects of stock options and restricted stock units only in the periods in which such effect is dilutive. Set forth below is a reconciliation of net income attributable to TWC per basic and diluted common share (in millions, except per share data):

|  | <b>Three Months Ended</b> |                      | <b>Nine Months Ended</b> |                      |
|--|---------------------------|----------------------|--------------------------|----------------------|
|  | <b>September 30,</b>      | <b>September 30,</b> | <b>September 30,</b>     | <b>September 30,</b> |
|  | <b>2009</b>               | <b>2008</b>          | <b>2009</b>              | <b>2008</b>          |
|  |                           | <b>(recast)</b>      |                          | <b>(recast)</b>      |
| Net income attributable to TWC                   | \$ 268                    | \$ 301               | \$ 748                   | \$ 820               |
| Average common shares outstanding basic          | 352.4                     | 325.7                | 347.9                    | 325.6                |
| Dilutive effect of equity awards                 | 2.1                       | 0.4                  | 1.0                      | 0.3                  |
| Average common shares outstanding diluted        | 354.5                     | 326.1                | 348.9                    | 325.9                |
| Net income attributable to TWC per common share: |                           |                      |                          |                      |
| Basic  | \$ 0.76                   | \$ 0.92              | \$ 2.15                  | \$ 2.52              |
| Diluted  | \$ 0.76                   | \$ 0.92              | \$ 2.14                  | \$ 2.52              |

**Investment in The Reserve Fund**

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 net cash proceeds of its June 2008 public 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 September 30, 2009, the Company received \$441 million from The Reserve Fund representing its pro rata share of partial distributions made by The Reserve Fund. The Company believes that it is legally entitled to a return of its entire investment in The Reserve Fund. However, during the first quarter of 2009, The Reserve Fund announced that it was establishing a \$3.5 billion special reserve for legal and other costs that would not be distributed to investors until all claims are resolved. As a result, the Company recorded a \$10 million impairment of its investment in The Reserve Fund during the first quarter of 2009, which is included in other income (expense), net, in the consolidated statement of operations. The \$39 million net receivable from The Reserve Fund as of September 30, 2009 is classified as prepaid expenses and other current assets in the consolidated balance sheet. On October 2, 2009, the Company received an additional \$10 million from The Reserve Fund reducing its remaining net receivable to \$29 million.

On April 3, 2009, the Company filed suit in the New York State Supreme Court against The Reserve Fund alleging, among other things, that The Reserve Fund has breached its contractual obligations to the Company and seeking full payment of the amount of its outstanding obligation with interest. This case has been removed to federal district court in New York. On May 5, 2009, the SEC filed an Order to Show Cause with the federal district court in New York seeking to enjoin The Reserve Fund's plan of distribution, and to compel a pro rata distribution of The Reserve Fund's assets.

***Subsequent Events***

The Company has considered subsequent events through November 5, 2009, the date of issuance, in preparing the consolidated financial statements and notes thereto.



**TIME WARNER CABLE INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
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**2. RECENT ACCOUNTING STANDARDS****Accounting Standards Adopted in 2009*****Noncontrolling Interests***

In December 2007, the FASB issued authoritative guidance that establishes accounting and reporting standards for a noncontrolling interest in a subsidiary, including the accounting treatment upon the deconsolidation of a subsidiary. This guidance became effective for TWC on January 1, 2009 and has been applied prospectively, except for the provisions related to the presentation of noncontrolling interests, which have been applied retrospectively for all periods presented. During the first quarter of 2009, noncontrolling interests of \$1.110 billion as of December 31, 2008 were reclassified to a component of total equity as reflected in the consolidated balance sheet. For the three and nine months ended September 30, 2008, minority interest expense of \$57 million and \$144 million, respectively (\$34 million and \$86 million, respectively, net of tax), is excluded from net income in the consolidated statement of operations. Net income attributable to TWC per common share for prior periods is not impacted.

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

In June 2008, the FASB issued authoritative guidance that requires share-based compensation awards that qualify as participating securities to be included in basic earnings per share using the two-class method. Under this guidance, all outstanding unvested share-based payment awards that contain rights to nonforfeitable dividends or dividend equivalents are considered participating securities. This guidance became effective for TWC on January 1, 2009 and is being applied retrospectively to all prior-period earnings per share computations. The adoption of this guidance did not impact net income attributable to TWC per common share for prior periods and is not expected to have an impact on future periods until such time as TWC declares a regular quarterly dividend.

***Business Combinations***

In December 2007, the FASB issued authoritative guidance that 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, this guidance requires that changes in the amount of acquired tax attributes be included in the Company's results of operations. This guidance became effective for TWC on January 1, 2009. This guidance will be applied to business combinations that have an acquisition date on or after January 1, 2009 and is being applied to deferred tax asset valuation allowances and liabilities for income tax uncertainties recognized in prior business combinations. The adoption of this guidance has not impacted the Company's consolidated financial statements for prior periods; however, the Company's consolidated financial statements may be impacted to the extent the Company acquires entities in a purchase business combination in the future.

***Interim Disclosures about Fair Value of Financial Instruments***

In April 2009, the FASB issued authoritative guidance that requires disclosures about fair value of financial instruments to be included in interim financial statements as well as in annual financial statements. This guidance became effective for TWC on April 1, 2009, is being applied prospectively beginning in the second quarter of 2009 and did not have a material impact on the Company's consolidated financial statements. Refer to Note 5 for further discussion.

***Subsequent Events***

In May 2009, the FASB issued authoritative guidance related to the accounting for and disclosure of events that occur after the balance sheet date but before the financial statements are issued or are available to be issued. This guidance requires the Company to disclose the date through which subsequent events have been evaluated, as well as whether that date is the date the consolidated financial statements were issued or the date the consolidated financial statements were available to be issued. This guidance became effective for TWC on April 1, 2009, is being applied prospectively beginning in the second quarter of 2009 and did not have a material impact on the Company's

consolidated financial statements.

**TIME WARNER CABLE INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
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**Accounting Standards Not Yet Adopted**

***Consolidation of Variable Interest Entities***

In June 2009, the FASB issued authoritative guidance that requires an enterprise to perform an analysis to determine whether the enterprise's variable interest or interests give it a controlling financial interest in a variable interest entity. This analysis identifies the primary beneficiary of a variable interest entity as the enterprise that has both of the following characteristics, among others: (a) the power to direct the activities of a variable interest entity that most significantly impact the entity's economic performance and (b) the obligation to absorb losses of the entity, or the right to receive benefits from the entity, that could potentially be significant to the variable interest entity. Under this guidance, ongoing reassessments of whether an enterprise is the primary beneficiary of a variable interest entity are required. This guidance will be effective for TWC on January 1, 2010 and is not expected to have a material impact on the Company's consolidated financial statements.

***Accounting for Revenue Arrangements with Multiple Deliverables***

In September 2009, the FASB issued authoritative guidance that provides for a new methodology for establishing the fair value for a deliverable in a multiple-element arrangement. When vendor specific objective or third-party evidence for deliverables in a multiple-element arrangement cannot be determined, TWC will be required to develop a best estimate of the selling price of separate deliverables and to allocate the arrangement consideration using the relative selling price method. This guidance will be effective for TWC on January 1, 2011 and is not expected to have a material impact on the Company's consolidated financial statements.

***Software Revenue Recognition***

In September 2009, the FASB issued authoritative guidance that provides for a new methodology for recognizing revenue for tangible products that are bundled with software products. Under the new guidance, tangible products that are bundled together with software components that are essential to the functionality of the tangible product will no longer be accounted for under the software revenue recognition accounting guidance. This guidance will be effective for TWC on January 1, 2011 and is not expected to have a material impact on the Company's consolidated financial statements.

**3. SEPARATION FROM TIME WARNER, RECAPITALIZATION AND TWC REVERSE STOCK SPLIT**

On March 12, 2009, the separation of TWC from Time Warner was completed pursuant to a Separation Agreement dated as of May 20, 2008 (the Separation Agreement) between TWC and its subsidiaries, Time Warner Entertainment Company, L.P. (TWE) and TW NY, and Time Warner and its subsidiaries, Warner Communications Inc. (WCI), Historic TW Inc. (Historic TW) and American Television and Communications Corporation (ATC). In accordance with the Separation Agreement, on February 25, 2009, Historic TW transferred its 12.43% non-voting common stock interest in TW NY to TWC in exchange for 80 million newly issued shares (approximately 27 million shares after giving effect to the 1-for-3 TWC reverse stock split discussed below) of TWC's Class A common stock (the TW NY Exchange). On March 12, 2009, TWC paid a special cash dividend of \$10.27 per share (\$30.81 per share after giving effect to the 1-for-3 TWC reverse stock split, aggregating \$10.856 billion) to holders of record on March 11, 2009 of TWC's outstanding Class A common stock and Class B common stock, which included Time Warner (the Special Dividend). Following the receipt by Time Warner of its share of the Special Dividend, TWC filed 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 the shares of Class A common stock issued in the TW NY Exchange) and TWC Class B common stock was automatically converted (the Recapitalization) into one share of common stock, par value \$0.01 per share (the TWC Common Stock). After the Recapitalization, TWC's separation from Time Warner (the Separation) was effected as a pro rata dividend of all shares of TWC Common Stock held by Time Warner to holders of record of Time Warner's common stock (the Spin-Off Dividend or the Distribution) as of 8:00 pm on March 12, 2009, the record date for the Spin-Off Dividend. On March 12, 2009, Time Warner deposited its shares of TWC Common Stock with an agent and, at the record date for the Spin-Off Dividend, was deemed to no longer beneficially own such shares. On March 27, 2009, the distribution date for the Spin-Off

Dividend, all of these shares of TWC Common Stock were

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distributed. The TW NY Exchange, the Special Dividend, the Recapitalization, the Separation and the Distribution collectively are referred to as the Separation Transactions.

To pay a portion of the Special Dividend, on March 12, 2009, TWC borrowed (i) the full committed amount of \$1.932 billion under its 364-day senior unsecured term loan facility (the 2008 Bridge Facility ) and (ii) approximately \$3.3 billion under its senior unsecured five-year revolving credit facility (the Revolving Credit Facility ). The Company funded the remainder of the Special Dividend with approximately \$5.6 billion of cash on hand.

In connection with the Separation Transactions, on March 12, 2009, the Company implemented the TWC reverse stock split at a 1-for-3 ratio, effective immediately after the Recapitalization. The shares of TWC Common Stock distributed in the Spin-Off Dividend gave effect to both the Recapitalization and the TWC reverse stock split.

**4. DEBT AND MANDATORILY REDEEMABLE PREFERRED EQUITY**

Debt and mandatorily redeemable preferred equity as of September 30, 2009 and December 31, 2008 were as follows:

|  | Interest Rate at      |           | Outstanding Balance as of |                         |
|--|-----------------------|-----------|---------------------------|-------------------------|
|  | September 30,<br>2009 | Maturity  | September<br>30,<br>2009  | December<br>31,<br>2008 |
|  |                       |           | (in millions)             |                         |
| Credit facilities and commercial paper program <sup>(a)(b)</sup> | 0.559% <sup>(c)</sup> | 2011      | \$ 3,015                  | \$ 3,045                |
| TWE notes and debentures <sup>(d)</sup>                          | 7.835% <sup>(c)</sup> | 2012-2033 | 2,705                     | 2,714                   |
| TWC notes and debentures   | 6.721% <sup>(e)</sup> | 2012-2039 | 16,436                    | 11,956                  |
| Capital leases and other <sup>(f)</sup>                          |                       |           | 12                        | 13                      |
| Total debt   |                       |           | 22,168                    | 17,728                  |
| TW NY Cable Preferred Membership Units                           | 8.210%                | 2013      | 300                       | 300                     |
| Total debt and mandatorily redeemable preferred equity           |                       |           | \$ 22,468                 | \$ 18,028               |

(a) TWC's unused committed capacity was \$4.023 billion as of September 30, 2009, reflecting \$506 million in cash and equivalents and \$3.517 billion of available borrowing capacity under the Revolving Credit Facility (which reflects a

- reduction of \$142 million for outstanding letters of credit backed by the Revolving Credit Facility).
- (b) Outstanding balance amount as of September 30, 2009 excludes an unamortized discount on commercial paper of \$1 million (none as of December 31, 2008).
  - (c) Rate represents a weighted-average effective interest rate.
  - (d) Outstanding balance amount as of September 30, 2009 and December 31, 2008 includes an unamortized fair value adjustment of \$105 million and \$114 million, respectively, which includes 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.).
  - (e) Rate represents a weighted-average effective interest rate and includes the effects of derivative financial

instruments.

- (f) Amount includes \$1 million of debt due within one year as of December 31, 2008 (none as of September 30, 2009), which primarily relates to capital lease obligations.

Refer to the June 2009 Form 8-K for further details regarding the Company's outstanding debt and mandatorily redeemable preferred equity and other financing arrangements, including certain information about maturities, covenants, rating triggers and bank credit agreement leverage ratios relating to such debt and financing arrangements.

**2009 Bond Offerings and Termination of Lending Commitments**

On March 26, 2009, TWC issued \$3.0 billion in aggregate principal amount of senior unsecured notes (the March 2009 Bond Offering ) and, on June 29, 2009, TWC issued \$1.5 billion in aggregate principal amount of senior unsecured debentures (the June 2009 Bond Offering ) and, together with the March 2009 Bond Offering, the 2009 Bond Offerings ) under a shelf registration statement on Form S-3 filed during 2008 with the SEC that allows TWC to offer and sell from time to time senior and subordinated debt securities and debt warrants. The March 2009 Bond Offering consisted of \$1.0 billion principal amount of 7.50% notes due 2014 (the 2014 Notes ) and \$2.0 billion principal amount of 8.25% notes due 2019 (the 2019 Notes ) and, together with the 2014 Notes, the March 2009 Debt Securities ). The June 2009 Bond Offering consisted of \$1.5 billion principal amount of 6.75% debentures due 2039 (the 2039 Debentures ) or the June 2009 Debt Securities ) and, together with the March 2009 Debt Securities, the 2009 Debt Securities ). The 2009 Debt Securities are guaranteed by TWE and TW NY (the Guarantors ). The Company used \$1.934 billion of the net proceeds from the March 2009 Bond Offering to repay all of the borrowings outstanding under the 2008 Bridge Facility, as well as accrued interest and commitment fees, and used the remaining net proceeds to repay a portion of the borrowings

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outstanding under the Revolving Credit Facility. The Company used the net proceeds of \$1.444 billion from the June 2009 Bond Offering to repay a portion of the outstanding indebtedness under its five-year term loan facility.

The 2009 Debt Securities were issued pursuant to an Indenture, dated as of April 9, 2007, as it may be amended from time to time (the Indenture), by and among the Company, the Guarantors and The Bank of New York Mellon, as trustee. The Indenture contains customary covenants relating to restrictions on the ability of the Company or any material subsidiary to create liens and on the ability of the Company and the Guarantors to consolidate, merge or convey or transfer substantially all of their assets. The Indenture also contains customary events of default.

The 2014 Notes mature on April 1, 2014, the 2019 Notes mature on April 1, 2019 and the 2039 Debentures mature on June 15, 2039. Interest on the 2014 Notes and the 2019 Notes is payable semi-annually in arrears on April 1 and October 1 of each year, beginning on October 1, 2009. Interest on the 2039 Debentures is payable semi-annually in arrears on June 15 and December 15 of each year, beginning on December 15, 2009. The 2009 Debt Securities are unsecured senior obligations of the Company and rank equally with its other unsecured and unsubordinated obligations. The guarantees of the 2009 Debt Securities are unsecured senior obligations of the Guarantors and rank equally in right of payment with all other unsecured and unsubordinated obligations of the Guarantors.

The 2009 Debt Securities may be redeemed in whole or in part at any time at the Company's option at a redemption price equal to the greater of (i) 100% of the principal amount of the 2009 Debt Securities being redeemed and (ii) the sum of the present values of the remaining scheduled payments on the 2009 Debt Securities discounted to the redemption date on a semi-annual basis at a government treasury rate plus 50 basis points for each of the 2014 Notes and the 2019 Notes and plus 40 basis points for the 2039 Debentures as further described in the Indenture and the 2009 Debt Securities, plus, in each case, accrued but unpaid interest to the redemption date.

**Lending Commitments**

Lehman Brothers Bank, FSB (LBB), a subsidiary of Lehman Brothers Holding Inc. (Lehman), was a lender under the Revolving Credit Facility. 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. On March 3, 2009, the Company entered into an amendment to the Revolving Credit Facility to terminate LBB's \$125 million commitment under such facility. As a result of this termination, the borrowing capacity under the Revolving Credit Facility was reduced from \$6.000 billion to \$5.875 billion.

**2008 Bridge Facility**

On March 12, 2009, TWC borrowed the full committed amount under the 2008 Bridge Facility in order to fund, in part, the Special Dividend. The Company used \$1.934 billion of the net proceeds from the March 2009 Bond Offering to repay all of the borrowings outstanding and all other amounts due under the 2008 Bridge Facility. Upon repayment of the borrowings outstanding under the 2008 Bridge Facility, such facility was terminated by the parties thereto in accordance with its terms.

**Supplemental Credit Agreement**

As a result of the March 2009 Bond Offering and the termination of the 2008 Bridge Facility, the Company terminated Time Warner's commitment (as lender) under a two-year \$1.535 billion senior unsecured supplemental term loan facility, and the credit agreement governing such facility was terminated in accordance with its terms.

**Debt Issuance Costs**

For the nine months ended September 30, 2009, the Company capitalized debt issuance costs of \$26 million in connection with the 2009 Bond Offerings. For the nine months ended September 30, 2008, the Company capitalized debt issuance costs of \$87 million in connection with the 2008 Bridge Facility and the issuance of \$5.0 billion in aggregate principal amount of senior unsecured notes and debentures on June 19, 2008 (the June 2008 Bond Offering). These capitalized costs are amortized over the terms of the related debt instruments and are included as a component of interest expense, net, in the consolidated statement of operations. For the nine months ended September 30, 2009 and 2008, the





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Company expensed Separation-related debt issuance costs of \$13 million and \$33 million, respectively, which are included as a component of interest expense, net, in the consolidated statement of operations. The Separation-related debt issuance costs expensed in 2009 primarily relate to the portion of the upfront loan fees for the 2008 Bridge Facility that was expensed due to the repayment of all borrowings outstanding under, and the resulting termination of, such facility with a portion of the net proceeds of the March 2009 Bond Offering. The Separation-related debt issuance costs expensed in 2008 primarily relate to the reduction of the commitments under the 2008 Bridge Facility as a result of the June 2008 Bond Offering.

**Fair Value of Debt**

Based on the level of interest rates prevailing at September 30, 2009 and December 31, 2008, the fair value of TWC's fixed-rate debt and the TW NY Cable Preferred Membership Units exceeded the carrying value by \$2.494 billion as of September 30, 2009 and the carrying value exceeded the fair value by \$383 million as of December 31, 2008. Unrealized gains or losses on debt do not result in the realization or expenditure of cash and are not recognized for financial reporting purposes unless the debt is retired prior to its maturity.

**Interest Rate Risk**

The Company is exposed to the market risk of adverse changes in interest rates. To manage the volatility relating to these exposures, the Company's policy is to maintain a mix of fixed-rate and variable-rate debt and to enter into various interest rate derivative transactions as described below. Using interest rate swaps, the Company agrees to exchange, at specified intervals, the difference between fixed and variable interest amounts calculated by reference to an agreed-upon notional principal amount.

The following table summarizes the terms of the Company's existing fixed to variable interest rate swaps as of September 30, 2009:

|  |           |
|--|-----------|
| Maturities   | 2012-2014 |
| Notional amount (in millions)                                    | \$ 2,200  |
| Average pay rate (variable based on LIBOR plus variable margins) | 4.00%     |
| Average receive rate (fixed)                                     | 6.36%     |
| Estimated fair value (in millions)                               | \$ 36     |

The notional amounts of interest rate instruments, as presented in the above table, are used to measure interest to be paid or received and do not represent the amount of exposure to credit loss. The estimated fair value approximates the proceeds (costs) to settle the outstanding contracts. While interest rate swaps represent an integral part of the Company's interest rate risk management program, their incremental effect on interest expense for the three and nine months ended September 30, 2009 was not significant.

**5. DERIVATIVE FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENTS**

**Derivative Financial Instruments**

The Company recognizes all derivative financial instruments in the consolidated balance sheet as either assets or liabilities at fair value. Derivative financial instruments are specifically designated, if certain conditions are met, as (a) a hedge of the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment (a fair value hedge) or (b) a hedge of the exposure to variable cash flows of a forecasted transaction or a hedge of the foreign currency exposure of a forecasted transaction denominated in a foreign currency (a cash flow hedge). For a derivative financial instrument designated as a fair value hedge, the gain or loss is recognized in earnings in the period of change together with the offsetting loss or gain on the hedged item attributable to the risk being hedged. As a result, the consolidated statement of operations includes the impact of changes in the fair value of both the derivative and the hedged item, which reflects in earnings the extent to which the hedge is ineffective in achieving offsetting changes in fair value. For a derivative financial instrument designated as a cash flow hedge, the effective portion of the derivative's gain or loss is initially reported in equity as a component of accumulated other comprehensive income (loss) (accumulated OCI) and subsequently reclassified into earnings when the forecasted

transaction affects earnings. The ineffective portion of the gain

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or loss is reported in earnings immediately. For a derivative financial instrument not designated as a hedging instrument, the gain or loss is recognized in earnings in the period of change.

The Company uses derivative financial instruments primarily to manage the risks associated with fluctuations in interest rates and foreign currency exchange rates. The Company has entered into the following derivative contracts, which have been designated as either fair value hedges or cash flow hedges, in order to hedge such risks:

*Interest rate swap contracts* Interest rate swap contracts are used to change the nature of outstanding debt (i.e., convert fixed-rate debt into variable-rate debt or convert variable-rate debt into fixed-rate debt). As of September 30, 2009, the Company had outstanding interest rate swap contracts that convert \$2.2 billion of fixed-rate debt to variable-rate debt. Such contracts have been designated as fair value hedges.

*Interest rate lock contracts* Interest rate lock contracts are used to mitigate the risk to the Company from changes in interest rates during the period leading up to the issuance of fixed-rate debt. As of September 30, 2009, the Company did not have any outstanding interest rate lock contracts; however, contracts entered into previously by the Company have been designated as cash flow hedges.

*Foreign currency forward contracts* Foreign currency forward contracts are used to mitigate the risk to the Company from changes in foreign currency exchange rates. The Company currently has exposure to changes in U.S. Dollar Philippine peso exchange rates related to certain overseas call center operations. As of September 30, 2009, the Company had outstanding foreign currency forward contracts to buy Philippine pesos for \$39 million. These contracts have been designated as cash flow hedges.

In addition to the above derivative financial instruments that have been designated as either fair value hedges or cash flow hedges, the Company's equity award reimbursement liability to Time Warner is accounted for as a derivative financial instrument not designated as a hedging instrument.

The fair value and location of the assets and liabilities associated with the Company's derivative financial instruments recorded in the consolidated balance sheet as of September 30, 2009 and December 31, 2008 were as follows (in millions):

|   | Asset                     |                                       |             | Liability                 |                                       |             |
|---|---------------------------|---------------------------------------|-------------|---------------------------|---------------------------------------|-------------|
|   | Balance Sheet<br>Location | Fair Value as of<br>SeptemberDecember |             | Balance Sheet<br>Location | Fair Value as of<br>SeptemberDecember |             |
|   |                           | 30,<br>2009                           | 31,<br>2008 |                           | 30,<br>2009                           | 31,<br>2008 |
| Derivatives designated as hedging instruments:          |                           |                                       |             |                           |                                       |             |
| Interest rate swap contracts                            | Other assets              | \$ 36                                 | \$          | Long-term debt            | \$ 36                                 | \$          |
| Foreign currency forward contracts                      | Other assets              |                                       |             | Other current liabilities | 3                                     | 7           |
| Total derivatives designated as hedging instruments     |                           | 36                                    |             |                           | 39                                    | 7           |
| Derivatives not designated as hedging instruments:      |                           |                                       |             |                           |                                       |             |
| Equity award reimbursement obligation                   |                           |                                       |             | Other current liabilities | 29                                    |             |
| Total derivatives not designated as hedging instruments |                           |                                       |             |                           | 29                                    |             |

|                   |       |    |       |    |   |
|-------------------|-------|----|-------|----|---|
| Total derivatives | \$ 36 | \$ | \$ 68 | \$ | 7 |
|-------------------|-------|----|-------|----|---|

***Derivatives Designated as Fair Value Hedges******Interest Rate Swap Contracts***

During 2009, the Company entered into interest rate swap contracts to increase the Company's variable-rate debt as a percentage of total debt. Such contracts impact the Company's recognized interest expense by effectively converting the designated fixed-rate debt into variable-rate debt. Under the interest rate swap contracts, the Company is entitled to receive semi-annual fixed rates of interest ranging from 5.40% to 7.50% and is required to make semi-annual interest payments at variable rates based on one month LIBOR plus spreads ranging from 2.89% to 4.61%. These interest rate swaps are

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designated as hedges against changes in the fair value of certain identified fixed-rate debt instruments with maturities extending through 2014. The Company records the interest rate swaps at fair value in the consolidated balance sheet as assets and liabilities and adjusts the fixed-rate debt instruments for changes in fair value in an amount equal to changes in the fair value of the interest rate swap. During the three and nine months ended September 30, 2009, the Company recognized no gain or loss related to its interest rate swap contracts because the changes in the fair values of such instruments completely offset the changes in the fair values of the fixed-rate debt.

***Derivatives Designated as Cash Flow Hedges***

***Interest Rate Lock Contracts***

The Company periodically enters into interest rate lock contracts in order to hedge its forecasted issuances of fixed-rate debt. These interest rate lock agreements have generally covered short periods of time (i.e., no more than a few days) prior to the issuance of fixed rate debt. Historically, the Company's interest rate locks have been terminated upon the issuance of the forecasted debt issuances. The Company records the interest rate locks at fair value in the consolidated balance sheet as assets and liabilities and the effective portion of the gain or loss on the interest rate locks is recorded as a component of equity in accumulated OCI. Such gains or losses are reclassified out of accumulated OCI and into interest expense, net, in the consolidated statement of operations over the term of the hedged debt. The Company records the ineffective portion of the gain or loss on the interest rate locks in interest expense, net, in the consolidated statement of operations in the current reporting period.

***Foreign Currency Forward Contracts***

The Company uses foreign currency forward contracts to manage the risk associated with the volatility of future cash flows denominated in foreign currencies. These contracts, which extend through 2011, specifically relate to forecasted payments denominated in the Philippine peso made to vendors who provide Road Runner<sup>TM</sup> customer care support services. The Company records the foreign currency forward contracts at fair value in the consolidated balance sheet as assets and liabilities. The Company records the effective portion of the gain or loss on the foreign currency forward contracts as a component of equity in accumulated OCI and reclassifies such gain or loss out of accumulated OCI and into costs of revenues in the same period or periods during which the hedged transaction affects earnings. The Company records the ineffective portion of the gain or loss on the foreign currency forward contracts in other income (expense), net, in the consolidated statement of operations during the current reporting period.

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The effect of financial instruments designated as cash flow hedges on the consolidated statement of operations for the three and nine months ended September 30, 2009 and 2008 was as follows (in millions):

|                                    | Amount of Gain (Loss) Recognized in OCI (Effective Portion) |        | Location of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) | Amount of Gain (Loss) Recognized in Income (Ineffective Portion) |  |
|------------------------------------|---|--------|---|--|--|
|                                    | 2009  | 2008   |   | 2009   | 2008   |
| Three Months Ended September 30:   |   |        |   |  |  |
| Interest rate lock contracts       | \$  | \$     | Interest expense, net   |  | Interest expense, net \$                                 |
| Foreign currency forward contracts | 1   | (2)    | Costs of revenues<br>Other income (expense), net  | (1) (1)  | Costs of revenues<br>Other income (expense), net 1 1     |
| Total                              | \$ 1  | \$ (2) |   | \$ (1) \$ (1)  | \$ 1 \$ 1  |
| Nine Months Ended September 30:    |   |        |   |  |  |
| Interest rate lock contracts       | \$ (1)  | \$ (1) | Interest expense, net   |  | Interest expense, net \$                                 |
| Foreign currency forward contracts | 1   | (5)    | Costs of revenues<br>Other income (expense), net  | (3) (1)  | Costs of revenues<br>Other income (expense), net (1) (1) |
| Total                              | \$  | \$ (6) |   | \$ (3) \$ (1)  | \$ \$  |

The Company expects approximately \$1 million of net losses to be reclassified out of accumulated OCI and into earnings within the next 12 months.

***Equity Award Reimbursement Obligation***

Upon the exercise of Time Warner stock options held by TWC employees, TWC is obligated to reimburse Time Warner for the excess of the market price of Time Warner common stock on the day of exercise over the option exercise price (the intrinsic value of the award). Prior to the Separation, TWC recorded an equity award reimbursement obligation for the intrinsic value of vested and outstanding Time Warner stock options held by TWC employees. This liability was adjusted each reporting period to reflect changes in the market price of Time Warner

common stock and the number of Time Warner stock options held by TWC employees with an offsetting adjustment to TWC shareholders' equity. Beginning on March 12, 2009, the date of the Separation, TWC began accounting for the equity award reimbursement obligation as a derivative financial instrument because, as of such date, Time Warner is no longer a controlling stockholder of the Company. The Company records the equity award reimbursement obligation at fair value in the consolidated balance sheet, which is estimated using the Black-Scholes-Merton formula, and, on March 12, 2009, TWC established a liability of \$16 million for the fair value of the equity award reimbursement obligation in other liabilities with an offsetting adjustment to TWC shareholders' equity in the consolidated balance sheet. The change in the equity award reimbursement obligation fluctuates primarily with the fair value and expected volatility of Time Warner common stock and is recorded in earnings in the period of change. For the three and nine months ended September 30, 2009, TWC recognized a loss of \$5 million and \$13 million, respectively, in other income (expense), net, in the consolidated statement of operations for the change in the fair value of the equity award reimbursement obligation after the Separation.

**Fair Value Measurements**

The fair value of an asset or liability is based on the assumptions that market participants would use in pricing the asset or liability. Valuation techniques consistent with the market approach, income approach and/or cost approach are used to measure fair value. The Company follows a three-tiered fair value hierarchy when determining the inputs to valuation techniques. The fair value hierarchy prioritizes the inputs to valuation techniques into three broad levels in order to



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maximize the use of observable inputs and minimize the use of unobservable inputs. The levels of the fair value hierarchy are as follows:

Level 1: consists of financial instruments whose values are based on quoted market prices for identical financial instruments in an active market.

Level 2: consists of financial instruments whose values are determined using models or other valuation methodologies that utilize inputs that are observable either directly or indirectly, including (i) quoted prices for similar assets or liabilities in active markets, (ii) quoted prices for identical or similar assets or liabilities in markets that are not active, (iii) pricing models whose inputs are observable for substantially the full term of the financial instrument and (iv) pricing models whose inputs are derived principally from or corroborated by observable market data through correlation or other means for substantially the full term of the financial instrument.

Level 3: consists of financial instruments whose values are determined using pricing models that utilize significant inputs that are primarily unobservable, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

Assets required to be carried at fair value on a recurring basis as of September 30, 2009 included interest rate swap agreements with a fair value of \$36 million determined using Level 2 inputs. Liabilities required to be carried at fair value on a recurring basis as of September 30, 2009 included interest rate swap agreements with a fair value of \$36 million and foreign currency forward contracts with a fair value of \$3 million determined using Level 2 inputs and the equity award reimbursement obligation with a fair value of \$29 million using Level 3 inputs. Refer to Note 4 for further discussion of the fair value of debt.

Liabilities required to be carried at fair value on a recurring basis as of December 31, 2008 included foreign currency forward contracts with a fair value of \$7 million determined using Level 2 inputs. Refer to Note 4 for further discussion of the fair value of debt.

The Company primarily applies the market approach for recurring fair value measurements.

The following table reconciles the beginning and ending balances of liabilities classified as Level 3 measurements and identifies the losses the Company recognized in net income during the nine months ended September 30, 2009 (in millions):

|  |    |    |
|--|----|----|
| Balance as of January 1, 2009                        | \$ |    |
| Purchases, issuances and settlements                 |    | 16 |
| Total losses recognized in net income <sup>(a)</sup> |    | 13 |
| Transfers in and/or out of Level 3                   |    |    |
| Balance as of September 30, 2009                     | \$ | 29 |

(a) Of the \$13 million loss recognized in net income for the nine months ended September 30, 2009, \$5 million was recognized during the three

months ended  
September 30,  
2009.

## **6. EQUITY-BASED COMPENSATION**

### **TWC Equity Plan**

The Company has granted options to purchase TWC Common Stock and restricted stock units ( RSUs ) to its employees and non-employee directors under the Time Warner Cable Inc. 2006 Stock Incentive Plan (the 2006 Plan ).

In connection with the Separation, the 2006 Plan was amended, among other things, to increase the number of shares of TWC Common Stock authorized for issuance thereunder by 18.0 million shares. As a result, the Company was authorized to issue up to 51.3 million shares of TWC Common Stock under the 2006 Plan (which also reflects certain Separation-related adjustments effected pursuant to the 2006 Plan and the 1-for-3 TWC reverse stock split).

Stock options granted under the 2006 Plan have exercise prices equal to the fair market value of TWC Common Stock at the date of grant. Generally, the stock options vest ratably over a four-year vesting period and expire ten years from the

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date of grant. Certain stock option awards provide for accelerated vesting upon the grantee's election to retire pursuant to TWC's defined benefit pension plans or a voluntary termination of employment after reaching a specified age and years of service. In connection with the payment of the Special Dividend and the TWC reverse stock split, adjustments were made to the number of shares and exercise prices of outstanding TWC stock options to maintain the fair value of those awards. These adjustments were made pursuant to existing antidilution provisions in the 2006 Plan and related award agreements and therefore, did not result in the recognition of incremental compensation expense.

For the nine months ended September 30, 2009, TWC granted approximately 5.1 million stock options at a weighted-average grant date fair value of \$9.45 (\$5.67, net of tax) per option and approximately 1.2 million stock options as Separation-related make-up equity awards (as discussed below) at a weighted-average grant date fair value of \$10.64 (\$6.38, net of tax) per option. For the nine months ended September 30, 2008, TWC granted approximately 3.7 million stock options at a weighted-average grant date fair value of \$13.27 (\$7.96, net of tax) per option. The table below presents the weighted-average values of the assumptions used to value TWC stock options at their grant date for the nine months ended September 30, 2009 and 2008.

|   | <b>Nine Months Ended</b> |             |
|---|--------------------------|-------------|
|   | <b>September 30,</b>     |             |
|   | <b>2009</b>              | <b>2008</b> |
| Expected volatility                       | 34.3%                    | 30.0%       |
| Expected term to exercise from grant date | 6.04 years               | 6.51 years  |
| Risk-free rate                            | 2.6%                     | 3.2%        |
| Expected dividend yield                   | 0.0%                     | 0.0%        |

The following table summarizes information about TWC stock options that were outstanding as of September 30, 2009:

|                                      | <b>Number<br/>of Options<sup>(a)</sup><br/>(in<br/>thousands)</b> | <b>Weighted-<br/>Average<br/>Exercise<br/>Price<sup>(a)</sup></b> | <b>Weighted-<br/>Average<br/>Remaining<br/>Contractual<br/>Life<br/>(in years)</b> | <b>Aggregate<br/>Intrinsic<br/>Value<br/>(in<br/>millions)</b> |
|--------------------------------------|---|---|--|--|
| Outstanding as of December 31, 2008  | 5,702   | \$ 39.88  |  |  |
| Granted                              | 6,332   | 25.90   |  |  |
| Exercised                            | (64)  | 35.48   |  |  |
| Forfeited or expired                 | (344)   | 34.16   |  |  |
| Outstanding as of September 30, 2009 | 11,626  | 32.47   | 8.31   | \$ 133   |
| Exercisable as of September 30, 2009 | 1,884   | 42.09   | 7.58   | 7  |

(a) Amounts recast to reflect adjustments related to the Special

Dividend and  
the 1-for-3  
TWC reverse  
stock split.

Pursuant to the 2006 Plan, the Company also granted RSU awards, which generally vest 50% on the third anniversary of the grant date and 50% on the fourth anniversary. RSU awards provide for accelerated vesting upon a termination of employment after reaching a specified age and years of service. Shares of TWC Common Stock will generally be issued at the end of the vesting period of an RSU. RSUs awarded to non-employee directors are not subject to vesting or forfeiture restrictions and the shares underlying the RSUs will be issued in connection with a director's termination of service as a director. Holders of RSUs are generally entitled to receive dividend equivalents or retained distributions related to regular dividends or distributions, respectively, paid by TWC.

In connection with the Special Dividend, holders of TWC RSUs could elect to receive the retained distribution on their TWC RSUs related to the Special Dividend (the Special Dividend retained distribution) in the form of cash (payable upon vesting of the underlying RSUs) or in the form of additional RSUs (with the same vesting dates as the underlying RSUs). In connection with these elections, the Company (a) granted 1.3 million RSUs and (b) established a liability of \$46 million in other liabilities and TWC shareholders' equity in the consolidated balance sheet for the estimated Special Dividend retained distribution to be paid in cash, taking into account estimated forfeitures. In addition, in connection with the 1-for-3 TWC reverse stock split, and pursuant to the 2006 Plan and related award agreements, adjustments were made to reduce the number of outstanding RSUs. Neither the payment of the Special Dividend retained distribution (in cash or

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additional RSUs) or the adjustment to reflect the 1-for-3 TWC reverse stock split results in the recognition of incremental compensation expense.

For the nine months ended September 30, 2009, TWC granted 1,277,000 RSUs at a weighted-average grant date fair value of \$53.10 per RSU, 1,305,000 RSUs as Special Dividend retained distributions at a weighted-average grant date fair value of \$24.99 per RSU and 55,000 RSUs as Separation-related make-up equity awards (as discussed below) at a weighted-average grant date fair value of \$33.80 per RSU. For the nine months ended September 30, 2008, TWC granted 973,000 RSUs at a weighted-average grant date fair value of \$82.71 per RSU.

The following table summarizes information about unvested TWC RSU awards as of September 30, 2009:

|                                   | <b>Number of<br/>Units<sup>(a)</sup><br/>(in<br/>thousands)</b> | <b>Weighted-<br/>Average<br/>Grant Date<br/>Fair<br/>Value<sup>(a)</sup></b> |
|-----------------------------------|---|--|
| Unvested as of December 31, 2008  | 1,564   | \$ 93.75   |
| Granted <sup>(b)</sup>            | 2,637   | 38.80  |
| Vested                            | (48)  | 80.43  |
| Forfeited                         | (106)   | 72.90  |
| Unvested as of September 30, 2009 | 4,047   | 58.59  |

(a) Amounts recast to reflect the 1-for-3 TWC reverse stock split.

(b) Amounts include the grant of approximately 1.3 million RSUs at a weighted-average grant date fair value of \$24.99 per RSU as Special Dividend retained distributions for which no compensation expense will be recognized.

**Time Warner Equity Plans**

Prior to 2007, Time Warner granted options to purchase Time Warner common stock and shares of Time Warner common stock ( restricted stock ) or RSUs under its equity plans (collectively, the Time Warner Equity Awards ) to employees of TWC. Time Warner has not granted Time Warner Equity Awards to employees of TWC since TWC common stock began to trade publicly in March 2007. In addition, employees of Time Warner who became employed by TWC prior to the Separation retained their Time Warner Equity Awards pursuant to their terms and TWC recorded equity-based compensation expense from the date of transfer through the end of the applicable vesting period. The stock options granted by Time Warner to employees of TWC were granted with exercise prices equal to, or in excess of, the fair market value of a share of Time Warner common stock at the date of grant. Generally, the stock options vested ratably over a four-year vesting period and expired ten years from the date of grant. The awards of restricted stock or RSUs generally vested between three to five years from the date of grant. Holders of Time Warner restricted stock and RSU awards were generally entitled to receive cash dividends or dividend equivalents, respectively, paid by Time Warner during the period of time that the restricted stock or RSU awards were unvested. Certain Time Warner stock options and RSU awards provided for accelerated vesting upon an election to retire pursuant to TWC s defined benefit pension plans or a voluntary termination of employment after reaching a specified age and years of service.

In connection with the Spin-Off Dividend and the 1-for-3 reverse stock split implemented by Time Warner on March 27, 2009, and as provided for in Time Warner s equity plans, the number of outstanding Time Warner stock options and RSUs and the exercise prices of such stock options were adjusted to maintain the fair value of those awards. These adjustments were made pursuant to existing antidilution provisions in Time Warner s equity plans and therefore, did not result in the recognition of incremental compensation expense for the Company.

Under the terms of Time Warner s equity plans and related award agreements, as a result of the Separation, TWC employees who held Time Warner equity awards were treated as if their employment with Time Warner had been terminated without cause at the time of the Separation. This treatment resulted 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 RSU awards for those TWC employees who did not satisfy retirement-treatment eligibility provisions in the Time Warner equity plans and related award agreements. During the second quarter of 2009, TWC granted make-up TWC equity or cash payment awards to TWC employees to offset the forfeiture and reduction in value of Time Warner equity awards held by TWC employees as a result of the Separation. The vesting and expiration dates of such awards were based on the terms of the related Time Warner award. Such awards, with an aggregate fair value of \$15 million, will

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primarily be expensed over a period of approximately one year beginning in the second quarter of 2009. During the three and nine months ended September 30, 2009, TWC recognized compensation expense for Separation-related make-up equity awards of \$4 million and \$6 million, respectively.

**Equity-based Compensation Expense**

Compensation expense and the related tax benefit recognized for TWC and Time Warner equity-based compensation plans for the three and nine months ended September 30, 2009 and 2008 is as follows (in millions):

|   | <b>Three Months Ended</b> |             | <b>Nine Months Ended</b> |             |
|---|---------------------------|-------------|--------------------------|-------------|
|   | <b>September 30,</b>      |             | <b>September 30,</b>     |             |
|   | <b>2009</b>               | <b>2008</b> | <b>2009</b>              | <b>2008</b> |
| TWC Equity Plan:                            |                           |             |                          |             |
| Compensation expense recognized:            |                           |             |                          |             |
| Stock options                               | \$ 13                     | \$ 6        | \$ 36                    | \$ 23       |
| Restricted stock units                      | 12                        | 8           | 41                       | 33          |
| Total impact on Operating Income            | \$ 25                     | \$ 14       | \$ 77                    | \$ 56       |
| Tax benefit recognized                      | \$ 10                     | \$ 5        | \$ 31                    | \$ 22       |
| Time Warner Equity Plans:                   |                           |             |                          |             |
| Compensation expense recognized:            |                           |             |                          |             |
| Stock options <sup>(a)</sup>                | \$ (2)                    | \$ 2        | \$                       | 7           |
| Restricted stock and restricted stock units |                           |             |                          | 1           |
| Total impact on Operating Income            | \$ (2)                    | \$ 2        | \$                       | 8           |
| Tax benefit recognized                      | \$ (1)                    | \$ 1        | \$                       | 3           |

(a) The amount for the three months ended September 30, 2009 relates to a true-up of compensation expense recognized under Time Warner equity plans through the date of the Separation. No additional compensation

expense will be recognized under Time Warner equity plans after March 12, 2009, the date of TWC's separation from Time Warner.

## 7. PENSION COSTS

The Company participates in various funded and unfunded noncontributory defined benefit pension plans administered by Time Warner through October 31, 2008 and by the Company thereafter. Pension benefits are based on formulas that reflect the employees' years of service and compensation during their employment period. TWC uses a December 31 measurement date for its plans. A summary of the components of net periodic benefit costs and contributions for the three and nine months ended September 30, 2009 and 2008 is as follows (in millions):

|                                | Three Months Ended<br>September 30, |       | Nine Months Ended<br>September 30, |        |
|--------------------------------|-------------------------------------|-------|------------------------------------|--------|
|                                | 2009                                | 2008  | 2009                               | 2008   |
| Service cost                   | \$ 25                               | \$ 24 | \$ 75                              | \$ 72  |
| Interest cost                  | 22                                  | 20    | 66                                 | 60     |
| Expected return on plan assets | (23)                                | (26)  | (70)                               | (77)   |
| Amounts amortized              | 17                                  | 4     | 50                                 | 13     |
| Net periodic benefit costs     | \$ 41                               | \$ 22 | \$ 121                             | \$ 68  |
| Contributions                  | \$ 48                               | \$ 76 | \$ 129                             | \$ 176 |

After considering the funded status of the Company's defined benefit pension plans, movements in the discount rate, investment performance and related tax consequences, the Company may choose to make contributions to its pension plans in any given year. As of September 30, 2009, there were no minimum required contributions for TWC's funded plans. However, the Company contributed \$120 million to its funded defined benefit pension plans during the nine months ended September 30, 2009 and anticipates making additional discretionary contributions of at least \$30 million during the fourth quarter. The Company may make greater contributions to its defined benefit pension plans during the fourth quarter depending on the funded status of the plans and liquidity considerations. For the Company's unfunded plan, contributions will continue to be made to the extent benefits are paid. Benefit payments for the unfunded plan are expected to be \$11 million in 2009, \$9 million of which has been paid as of September 30, 2009.



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**8. RESTRUCTURING COSTS****2009 Restructuring Activity**

During the first quarter of 2009, the Company began a significant restructuring, primarily consisting of headcount reductions, to improve operating efficiency, and through September 30, 2009, the Company incurred restructuring costs of \$64 million related to this restructuring and made payments of \$45 million against this accrual. Of the remaining \$19 million liability, \$15 million is classified as a current liability, with the remaining \$4 million classified as a noncurrent liability in the consolidated balance sheet as of September 30, 2009. Amounts are expected to be paid through 2012. The Company expects to eliminate approximately 1,400 positions, of which approximately 1,100 positions were eliminated during the nine months ended September 30, 2009. The remainder are expected to be eliminated in the fourth quarter of 2009 or early 2010. Information relating to this restructuring plan is as follows (in millions):

|  | <b>Employee<br/>Terminations</b> | <b>Other<br/>Exit Costs</b> | <b>Total</b> |
|--|----------------------------------|-----------------------------|--------------|
| Accruals <sup>(a)</sup>                      | \$ 56                            | \$ 8                        | \$ 64        |
| Cash paid <sup>(b)</sup>                     | (39)                             | (6)                         | (45)         |
| Remaining liability as of September 30, 2009 | \$ 17                            | \$ 2                        | \$ 19        |

(a) Of the \$64 million incurred, \$14 million was incurred during the three months ended September 30, 2009.

(b) Of the \$45 million paid, \$15 million was paid during the three months ended September 30, 2009.

**2008 and Prior Restructuring Activity**

Between January 1, 2005 and December 31, 2008, the Company underwent a restructuring plan to simplify its organizational structure and enhance its customer focus, and incurred restructuring costs of \$80 million related to this plan. Through September 30, 2009, payments of \$77 million have been made against this accrual. Of the remaining \$3 million liability, \$2 million is classified as a current liability, with the remaining \$1 million classified as a noncurrent liability in the consolidated balance sheet as of September 30, 2009. Amounts are expected to be paid through 2011. Information relating to this restructuring plan is as follows (in millions):

|  | <b>Employee<br/>Terminations</b> | <b>Other<br/>Exit Costs</b> | <b>Total</b> |
|--|----------------------------------|-----------------------------|--------------|
| Remaining liability as of December 31, 2007  | \$ 13                            | \$ 3                        | \$ 16        |
| Accruals <sup>(a)</sup>                      | 14                               | 1                           | 15           |
| Cash paid <sup>(b)</sup>                     | (20)                             | (2)                         | (22)         |
| Remaining liability as of December 31, 2008  | 7                                | 2                           | 9            |
| Cash paid <sup>(c)</sup>                     | (5)                              | (1)                         | (6)          |
| Remaining liability as of September 30, 2009 | \$ 2                             | \$ 1                        | \$ 3         |

(a) Of the \$15 million incurred in 2008, \$8 million and \$14 million was incurred during the three and nine months ended September 30, 2008, respectively.

(b) Of the \$22 million paid in 2008, \$5 million and \$17 million was paid during the three and nine months ended September 30, 2008, respectively.

(c) Of the \$6 million paid in 2009, \$1 million was paid during the three months ended September 30, 2009.

## 9. COMMITMENTS AND CONTINGENCIES

### Legal Proceedings

On September 20, 2007, *Brantley, et al. v. NBC Universal, Inc., et al.* was filed in the U.S. District Court for the Central District of California against the Company. The complaint, which also named as defendants several other cable and satellite providers (collectively, the distributor defendants) as well as programming content providers (collectively, the programmer 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

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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 distributor defendants, including TWC, and the programmer defendants 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 distributor defendants, including the Company, and the programmer defendants filed motions to dismiss the Second Amended Complaint, which motions were denied by the court on June 25, 2008. On July 14, 2008, the distributor defendants and the programmer 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 May 4, 2009, by stipulation of the parties, plaintiffs filed a third amended complaint (the Third Amended Complaint) and on June 12, 2009, the distributor defendants and the programmer defendants filed a motion to dismiss the Third Amended Complaint, which the district court granted with prejudice on October 15, 2009, terminating the action. Plaintiffs have filed a notice of appeal to the U.S. Court of Appeals for the Ninth Circuit. 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 district 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 July 6, 2009, the district court granted approval of the settlement, which plaintiffs have appealed with respect to attorneys fees. The Company intends to defend against this lawsuit vigorously.

***Certain Patent Litigation***

On September 1, 2006, Ronald A. Katz Technology Licensing, L.P. (Katz) filed a complaint in the U.S. District Court for the District of Delaware alleging that TWC and several other cable operators, among other defendants, infringe a number of patents purportedly relating to the Company's customer call center operations and/or voicemail services. The plaintiff is seeking unspecified monetary damages as well as injunctive relief. On March 20, 2007, this case, together with other lawsuits filed by Katz, was made subject to a Multidistrict Litigation (MDL) Order transferring the case for pretrial proceedings to the U.S. District Court for the Central District of California. 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. On August 13, 2009, the district court found one additional patent invalid, but denied defendants' motions for summary judgment on three remaining patents, and on October 27, 2009, the district court

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

denied the defendants' requests for reconsideration of the decision. 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. 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. In November 2008, the district court issued its claims construction orders. In response to these orders, the plaintiff has indicated it will dismiss its claims relating to the alleged infringement of eight patents purportedly relating to high-speed data and IP-based telephony services. The plaintiff has not indicated that it will dismiss its claim relating to one remaining patent alleged to relate to digital video decoder technology and summary judgment motions are pending relating to the remaining claim. The Company intends to defend against the remaining claim 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. On September 25, 2009, the district court ruled on the Company's summary judgment motions finding all AMT patents invalid. The time to appeal this decision has not yet expired. If the decision is appealed, the Company will 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 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 2003 restructuring of TWE, 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.

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

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

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

|                                 | <b>Nine Months Ended<br/>September 30,</b> |             |
|---------------------------------|--|-------------|
|                                 | <b>2009</b>                                | <b>2008</b> |
| Cash paid for interest          | \$ (916)                                   | \$ (575)    |
| Interest income received        | 7  | 31          |
| Cash paid for interest, net     | \$ (909)                                   | \$ (544)    |
| Cash paid for income taxes      | \$ (79)                                    | \$ (33)     |
| Cash refunds of income taxes    | 52   | 3           |
| Cash paid for income taxes, net | \$ (27)                                    | \$ (30)     |

**Related Party Transactions**

Income (expense) resulting from transactions with related parties consists of (in millions):

|                                     | <b>Three Months Ended<br/>September 30,</b> |             | <b>Nine Months Ended<br/>September 30,</b> |             |
|-------------------------------------|---|-------------|--|-------------|
|                                     | <b>2009</b>                                 | <b>2008</b> | <b>2009</b>                                | <b>2008</b> |
| Revenues                            | \$ 4  | \$ 11       | \$ 13                                      | \$ 18       |
| Costs of revenues                   | (57)  | (268)       | (356)                                      | (807)       |
| Selling, general and administrative |   | (4)         | (3)  | (11)        |
| <b>Interest Expense, Net</b>        |   |             |  |             |

Interest expense, net consists of (in millions):

|                       | <b>Three Months Ended<br/>September 30,</b> |             | <b>Nine Months Ended<br/>September 30,</b> |             |
|-----------------------|---|-------------|--|-------------|
|                       | <b>2009</b>                                 | <b>2008</b> | <b>2009</b>                                | <b>2008</b> |
| Interest income       | \$ 1  | \$ 26       | \$ 5                                       | \$ 34       |
| Interest expense      | (349)                                       | (255)       | (979)                                      | (681)       |
| Interest expense, net | \$ (348)                                    | \$ (229)    | \$ (974)                                   | \$ (647)    |

**Prepaid Expenses and Other Current Assets**

Prepaid expenses and other current assets consist of (in millions):

|                                | <b>September<br/>30,<br/>2009</b> | <b>December<br/>31,<br/>2008</b> |
|--------------------------------|-----------------------------------|----------------------------------|
| Prepaid income taxes           | \$ 89                             | \$                               |
| Investment in The Reserve Fund | 39                                | 103                              |

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|   |  |     |     |    |     |
|---|--|-----|-----|----|-----|
| Other prepaid expenses and other current assets |  | 149 |     | 98 |     |
| Total prepaid expenses and other current assets |  | \$  | 277 | \$ | 201 |



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

**Other Current Liabilities**

Other current liabilities consist of (in millions):

|   | <b>September<br/>30,<br/>2009</b> | <b>December<br/>31,<br/>2008</b> |
|---|-----------------------------------|----------------------------------|
| Accrued interest                          | \$ 428                            | \$ 368                           |
| Accrued compensation and benefits         | 319                               | 297                              |
| Accrued franchise fees                    | 150                               | 171                              |
| Accrued insurance                         | 152                               | 139                              |
| Accrued sales and other taxes             | 114                               | 128                              |
| Accrued advertising and marketing support | 94                                | 88                               |
| Other accrued expenses                    | 295                               | 241                              |
| <b>Total other current liabilities</b>    | <b>\$ 1,552</b>                   | <b>\$ 1,432</b>                  |

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

Time Warner Entertainment Company, L.P. ( TWE ) and TW NY Cable Holding Inc. ( TW NY ) and, together with TWE, the Guarantor Subsidiaries ) are subsidiaries of Time Warner Cable Inc. (the Parent Company ). The Guarantor Subsidiaries have fully and unconditionally, jointly and severally, directly or indirectly, guaranteed the debt issued by the Parent Company in its 2007 registered exchange offer and its 2008 and 2009 public offerings. The Parent Company owns 100% of the voting interests, directly or indirectly, of both TWE and TW NY.

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

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

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

**Basis of Presentation**

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

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

Prior to March 12, 2009, Time Warner Cable Inc. was not a separate taxable entity for U.S. federal and various state income tax purposes and its results were included in the consolidated U.S. federal and certain state income tax returns of Time Warner Inc. In the condensed consolidating financial statements, tax expense has been presented based on each subsidiary's legal entity basis. Deferred taxes of the Parent Company, the Guarantor Subsidiaries and the Non-Guarantor Subsidiaries have been presented based upon the temporary differences between the carrying amounts of the respective assets and liabilities of the applicable entities.

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

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

**Consolidating Balance Sheet**  
**September 30, 2009**  
(Unaudited)

|  | <b>Parent<br/>Company</b> | <b>Guarantor<br/>Subsidiaries</b> | <b>Non-<br/>Guarantor<br/>Subsidiaries<br/>(in millions)</b> | <b>Eliminations</b> | <b>TWC<br/>Consolidated</b> |
|--|---------------------------|-----------------------------------|--|---------------------|-----------------------------|
| <b>ASSETS</b>  |                           |                                   |  |                     |                             |
| Current assets:  |                           |                                   |  |                     |                             |
| Cash and equivalents   | \$ 506                    | \$                                | \$   | \$                  | \$ 506                      |
| Receivables, net   | 14                        | 197                               | 435  |                     | 646                         |
| Receivables from affiliated parties                                  | 21                        | 7                                 | 213  | (241)               |                             |
| Deferred income tax assets   | 132                       | 103                               | 85   | (188)               | 132                         |
| Prepaid expenses and other current assets                            | 140                       | 61                                | 76   |                     | 277                         |
| Total current assets   | 813                       | 368                               | 809  | (429)               | 1,561                       |
| Investments in and amounts due from consolidated subsidiaries        | 40,631                    | 20,879                            | 9,938  | (71,448)            |                             |
| Investments  | 21                        | 8                                 | 872  |                     | 901                         |
| Property, plant and equipment, net                                   | 18                        | 3,615                             | 9,910  |                     | 13,543                      |
| Intangible assets subject to amortization, net                       |                           | 5                                 | 327  |                     | 332                         |
| Intangible assets not subject to amortization                        |                           | 5,852                             | 18,239   |                     | 24,091                      |
| Goodwill   | 4                         | 3                                 | 2,098  |                     | 2,105                       |
| Other assets   | 110                       | 9                                 | 34   |                     | 153                         |
| Total assets   | \$ 41,597                 | \$ 30,739                         | \$ 42,227  | \$ (71,877)         | \$ 42,686                   |
| <b>LIABILITIES AND EQUITY</b>  |                           |                                   |  |                     |                             |
| Current liabilities:   |                           |                                   |  |                     |                             |
| Accounts payable   | \$                        | \$ 99                             | \$ 194   | \$                  | \$ 293                      |
| Deferred revenue and subscriber-related liabilities                  |                           | 42                                | 128  |                     | 170                         |
| Payables to affiliated parties                                       | 7                         | 231                               | 49   | (241)               | 46                          |
| Accrued programming expense  |                           | 697                               | 18   |                     | 715                         |
| Other current liabilities  | 426                       | 528                               | 598  |                     | 1,552                       |
| Total current liabilities  | 433                       | 1,597                             | 987  | (241)               | 2,776                       |
| Long-term debt   | 19,451                    | 2,717                             |  |                     | 22,168                      |
| Mandatorily redeemable preferred equity membership units issued by a |                           |                                   | 300  |                     | 300                         |

|  |           |           |           |             |           |
|--|-----------|-----------|-----------|-------------|-----------|
| subsidiary   |           |           |           |             |           |
| Mandatorily redeemable preferred equity issued by a subsidiary |           | 2,400     |           | (2,400)     |           |
| Deferred income tax liabilities, net                           | 8,608     | 4,199     | 4,172     | (8,334)     | 8,645     |
| Long-term payables to affiliated parties                       | 4,608     | 445       | 8,702     | (13,755)    |           |
| Other liabilities  | 282       | 116       | 180       |             | 578       |
| TWC shareholders' equity:                                      |           |           |           |             |           |
| Due to TWC and subsidiaries                                    |           | 7         | 1,056     | (1,063)     |           |
| Other TWC shareholders' equity                                 | 8,215     | 16,087    | 26,830    | (42,917)    | 8,215     |
| Total TWC shareholders' equity                                 | 8,215     | 16,094    | 27,886    | (43,980)    | 8,215     |
| Noncontrolling interests                                       |           | 3,171     |           | (3,167)     | 4         |
| Total equity   | 8,215     | 19,265    | 27,886    | (47,147)    | 8,219     |
| Total liabilities and equity                                   | \$ 41,597 | \$ 30,739 | \$ 42,227 | \$ (71,877) | \$ 42,686 |

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

**Consolidating Balance Sheet**  
**December 31, 2008**

|   | <b>Parent<br/>Company</b>    | <b>Guarantor<br/>Subsidiaries</b> | <b>Non-<br/>Guarantor<br/>Subsidiaries</b> | <b>Eliminations</b> | <b>TWC<br/>Consolidated</b> |
|---|------------------------------|-----------------------------------|--|---------------------|-----------------------------|
|   | <b>(recast, in millions)</b> |                                   |  |                     |                             |
| <b>ASSETS</b>   |                              |                                   |  |                     |                             |
| Current assets:   |                              |                                   |  |                     |                             |
| Cash and equivalents <sup>(a)</sup>   | \$ 5,395                     | \$ 5,204                          | \$   | \$ (5,150)          | \$ 5,449                    |
| Receivables, net  | 6                            | 183                               | 503  |                     | 692                         |
| Receivables from affiliated parties   | 1,161                        | 3                                 | 569  | (1,572)             | 161                         |
| Deferred income tax assets  | 156                          | 108                               | 108  | (216)               | 156                         |
| Prepaid expenses and other current assets                                       | 113                          | 44                                | 44   |                     | 201                         |
| Total current assets  | 6,831                        | 5,542                             | 1,224                                      | (6,938)             | 6,659                       |
| Investments in and amounts due from consolidated subsidiaries                   | 39,117                       | 16,023                            | 8,147                                      | (63,287)            |                             |
| Investments   | 20                           | 12                                | 863  |                     | 895                         |
| Property, plant and equipment, net  |                              | 3,468                             | 10,069                                     |                     | 13,537                      |
| Intangible assets subject to amortization, net                                  |                              | 6                                 | 487  |                     | 493                         |
| Intangible assets not subject to amortization                                   |                              | 5,417                             | 18,677                                     |                     | 24,094                      |
| Goodwill  | 4                            | 3                                 | 2,094                                      |                     | 2,101                       |
| Other assets  | 72                           | 4                                 | 34   |                     | 110                         |
| Total assets  | \$ 46,044                    | \$ 30,475                         | \$ 41,595                                  | \$ (70,225)         | \$ 47,889                   |
| <b>LIABILITIES AND EQUITY</b>   |                              |                                   |  |                     |                             |
| Current liabilities:  |                              |                                   |  |                     |                             |
| Accounts payable  | \$ 2                         | \$ 110                            | \$ 434                                     | \$                  | \$ 546                      |
| Deferred revenue and subscriber-related liabilities                             |                              | 40                                | 116  |                     | 156                         |
| Payables to affiliated parties  |                              | 634                               | 1,147                                      | (1,572)             | 209                         |
| Accrued programming expense   |                              | 324                               | 206  |                     | 530                         |
| Other current liabilities   | 352                          | 520                               | 560  |                     | 1,432                       |
| Total current liabilities   | 354                          | 1,628                             | 2,463                                      | (1,572)             | 2,873                       |
| Long-term debt  | 15,001                       | 2,726                             |  |                     | 17,727                      |
| Mandatorily redeemable preferred equity membership units issued by a subsidiary |                              |                                   | 300  |                     | 300                         |

|  |           |           |           |             |           |
|--|-----------|-----------|-----------|-------------|-----------|
| Mandatorily redeemable preferred equity issued by a subsidiary |           | 2,400     |           | (2,400)     |           |
| Deferred income tax liabilities, net                           | 8,149     | 3,799     | 3,780     | (7,535)     | 8,193     |
| Long-term payables to affiliated parties                       | 5,150     | 576       | 8,702     | (14,428)    |           |
| Other liabilities  | 226       | 115       | 181       |             | 522       |
| TWC shareholders' equity:                                      |           |           |           |             |           |
| Due to (from) TWC and subsidiaries                             |           | 1,733     | (209)     | (1,524)     |           |
| Other TWC shareholders' equity                                 | 17,164    | 15,187    | 26,378    | (41,565)    | 17,164    |
| Total TWC shareholders' equity                                 | 17,164    | 16,920    | 26,169    | (43,089)    | 17,164    |
| Noncontrolling interests                                       |           | 2,311     |           | (1,201)     | 1,110     |
| Total equity   | 17,164    | 19,231    | 26,169    | (44,290)    | 18,274    |
| Total liabilities and equity                                   | \$ 46,044 | \$ 30,475 | \$ 41,595 | \$ (70,225) | \$ 47,889 |

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

**TIME WARNER CABLE INC.**  
**SUPPLEMENTARY INFORMATION**  
**CONDENSED CONSOLIDATING FINANCIAL STATEMENTS (Continued)**  
**Consolidating Statement of Operations**  
**Three Months Ended September 30, 2009**  
(Unaudited)

|   | <b>Parent<br/>Company</b> | <b>Guarantor<br/>Subsidiaries</b> | <b>Non-<br/>Guarantor<br/>Subsidiaries<br/>(in<br/>millions)</b> | <b>Eliminations</b> | <b>TWC<br/>Consolidated</b> |
|---|---------------------------|-----------------------------------|--|---------------------|-----------------------------|
| Revenues  | \$                        | \$ 929                            | \$ 3,617   | \$ (48)             | \$ 4,498                    |
| Costs of revenues   |                           | 490                               | 1,721  | (48)                | 2,163                       |
| Selling, general and administrative                       |                           | 91                                | 625  |                     | 716                         |
| Depreciation  | 1                         | 182                               | 530  |                     | 713                         |
| Amortization  |                           | 1                                 | 63   |                     | 64                          |
| Restructuring costs                                       |                           | 4                                 | 10   |                     | 14                          |
| Total costs and expenses                                  | 1                         | 768                               | 2,949  | (48)                | 3,670                       |
| Operating Income (Loss)                                   | (1)                       | 161                               | 668  |                     | 828                         |
| Equity in pretax income of consolidated subsidiaries      | 735                       | 489                               | 47   | (1,271)             |                             |
| Interest income (expense), net                            | (273)                     | (110)                             | 35   |                     | (348)                       |
| Other expense, net  |                           | (4)                               | (15)   |                     | (19)                        |
| Income before income taxes                                | 461                       | 536                               | 735  | (1,271)             | 461                         |
| Income tax provision                                      | (193)                     | (216)                             | (213)  | 429                 | (193)                       |
| Net income  | 268                       | 320                               | 522  | (842)               | 268                         |
| Less: Net income attributable to noncontrolling interests |                           | (21)                              |  | 21                  |                             |
| Net income attributable to TWC                            | \$ 268                    | \$ 299                            | \$ 522   | \$ (821)            | \$ 268                      |

**TIME WARNER CABLE INC.**  
**SUPPLEMENTARY INFORMATION**  
**CONDENSED CONSOLIDATING FINANCIAL STATEMENTS (Continued)**  
**Consolidating Statement of Operations**  
**Three Months Ended September 30, 2008**  
(Unaudited)

|   | <b>Parent<br/>Company</b>    | <b>Guarantor<br/>Subsidiaries</b> | <b>Non-<br/>Guarantor<br/>Subsidiaries</b> | <b>Eliminations</b> | <b>TWC<br/>Consolidated</b> |
|---|------------------------------|-----------------------------------|--|---------------------|-----------------------------|
|   | <b>(recast, in millions)</b> |                                   |  |                     |                             |
| Revenues  | \$                           | \$ 829                            | \$ 3,555                                   | \$ (44)             | \$ 4,340                    |
| Costs of revenues   |                              | 455                               | 1,661                                      | (44)                | 2,072                       |
| Selling, general and administrative                         |                              | 96                                | 610  |                     | 706                         |
| Depreciation  |                              | 164                               | 536  |                     | 700                         |
| Amortization  |                              |                                   | 66   |                     | 66                          |
| Restructuring costs   |                              | 3                                 | 5  |                     | 8                           |
| Total costs and expenses                                    |                              | 718                               | 2,878                                      | (44)                | 3,552                       |
| Operating Income  |                              | 111                               | 677  |                     | 788                         |
| Equity in pretax income (loss) of consolidated subsidiaries | 637                          | 451                               | (57)                                       | (1,031)             |                             |
| Interest income (expense), net                              | (131)                        | (112)                             | 14   |                     | (229)                       |
| Other income (expense), net                                 | (2)                          | 1                                 | 3  |                     | 2                           |
| Income before income taxes                                  | 504                          | 451                               | 637  | (1,031)             | 561                         |
| Income tax provision  | (203)                        | (180)                             | (182)                                      | 339                 | (226)                       |
| Net income  | 301                          | 271                               | 455  | (692)               | 335                         |
| Less: Net income attributable to noncontrolling interests   |                              | (1)                               |  | (33)                | (34)                        |
| Net income attributable to TWC                              | \$ 301                       | \$ 270                            | \$ 455                                     | \$ (725)            | \$ 301                      |



**TIME WARNER CABLE INC.**  
**SUPPLEMENTARY INFORMATION**  
**CONDENSED CONSOLIDATING FINANCIAL STATEMENTS (Continued)**  
**Consolidating Statement of Operations**  
**Nine Months Ended September 30, 2009**  
(Unaudited)

|   | <b>Parent<br/>Company</b> | <b>Guarantor<br/>Subsidiaries</b> | <b>Non-<br/>Guarantor<br/>Subsidiaries<br/>(in<br/>millions)</b> | <b>Eliminations</b> | <b>TWC<br/>Consolidated</b> |
|---|---------------------------|-----------------------------------|--|---------------------|-----------------------------|
| Revenues  | \$                        | \$ 2,751                          | \$ 10,729  | \$ (144)            | \$ 13,336                   |
| Costs of revenues   |                           | 1,505                             | 5,062  | (144)               | 6,423                       |
| Selling, general and administrative                       |                           | 276                               | 1,861  |                     | 2,137                       |
| Depreciation  | 1                         | 538                               | 1,566  |                     | 2,105                       |
| Amortization  |                           | 1                                 | 182  |                     | 183                         |
| Restructuring costs                                       |                           | 27                                | 37   |                     | 64                          |
| Gain on sale of cable systems                             |                           |                                   | (2)  |                     | (2)                         |
| Total costs and expenses                                  | 1                         | 2,347                             | 8,706  | (144)               | 10,910                      |
| Operating Income (Loss)                                   | (1)                       | 404                               | 2,023  |                     | 2,426                       |
| Equity in pretax income of consolidated subsidiaries      | 2,127                     | 1,454                             | 26   | (3,607)             |                             |
| Interest income (expense), net                            | (757)                     | (328)                             | 111  |                     | (974)                       |
| Other expense, net  | (35)                      | (15)                              | (33)   |                     | (83)                        |
| Income before income taxes                                | 1,334                     | 1,515                             | 2,127  | (3,607)             | 1,369                       |
| Income tax provision                                      | (586)                     | (618)                             | (609)  | 1,213               | (600)                       |
| Net income  | 748                       | 897                               | 1,518  | (2,394)             | 769                         |
| Less: Net income attributable to noncontrolling interests |                           | (29)                              |  | 8                   | (21)                        |
| Net income attributable to TWC                            | \$ 748                    | \$ 868                            | \$ 1,518   | \$ (2,386)          | \$ 748                      |

**TIME WARNER CABLE INC.**  
**SUPPLEMENTARY INFORMATION**  
**CONDENSED CONSOLIDATING FINANCIAL STATEMENTS (Continued)**  
**Consolidating Statement of Operations**  
**Nine Months Ended September 30, 2008**  
(Unaudited)

|  | <b>Parent</b>                | <b>Guarantor</b>    | <b>Non-<br/>Guarantor</b> | <b>Eliminations</b> | <b>TWC<br/>Consolidated</b> |
|--|------------------------------|---------------------|---------------------------|---------------------|-----------------------------|
|  | <b>Company</b>               | <b>Subsidiaries</b> | <b>Subsidiaries</b>       | <b>Subsidiaries</b> | <b>Subsidiaries</b>         |
|  | <b>(recast, in millions)</b> |                     |                           |                     |                             |
| Revenues   | \$                           | \$ 2,474            | \$ 10,454                 | \$ (130)            | \$ 12,798                   |
| Costs of revenues  |                              | 1,341               | 4,886                     | (130)               | 6,097                       |
| Selling, general and administrative                              |                              | 315                 | 1,846                     |                     | 2,161                       |
| Depreciation   |                              | 495                 | 1,628                     |                     | 2,123                       |
| Amortization   |                              | 1                   | 195                       |                     | 196                         |
| Restructuring costs  |                              | 8                   | 6                         |                     | 14                          |
| Loss on sale of cable systems                                    |                              | 6                   | 39                        |                     | 45                          |
| Total costs and expenses   |                              | 2,166               | 8,600                     | (130)               | 10,636                      |
| Operating Income   |                              | 308                 | 1,854                     |                     | 2,162                       |
| Equity in pretax income (loss) of consolidated subsidiaries      | 1,702                        | 1,156               | (180)                     | (2,678)             |                             |
| Interest income (expense), net                                   | (319)                        | (353)               | 25                        |                     | (647)                       |
| Other income (expense), net                                      | (13)                         | 9                   | 3                         |                     | (1)                         |
| Income before income taxes                                       | 1,370                        | 1,120               | 1,702                     | (2,678)             | 1,514                       |
| Income tax provision   | (550)                        | (452)               | (461)                     | 855                 | (608)                       |
| Net income   | 820                          | 668                 | 1,241                     | (1,823)             | 906                         |
| Less: Net (income) loss attributable to noncontrolling interests |                              | 15                  |                           | (101)               | (86)                        |
| Net income attributable to TWC                                   | \$ 820                       | \$ 683              | \$ 1,241                  | \$ (1,924)          | \$ 820                      |

**TIME WARNER CABLE INC.**  
**SUPPLEMENTARY INFORMATION**  
**CONDENSED CONSOLIDATING FINANCIAL STATEMENTS (Continued)**  
**Consolidating Statement of Cash Flows**  
**Nine Months Ended September 30, 2009**  
(Unaudited)

|   | <b>Parent<br/>Company</b> | <b>Guarantor<br/>Subsidiaries</b> | <b>Non-<br/>Guarantor<br/>Subsidiaries<br/>(in<br/>millions)</b> | <b>Eliminations</b> | <b>TWC<br/>Consolidated</b> |
|---|---------------------------|-----------------------------------|--|---------------------|-----------------------------|
| <b>OPERATING ACTIVITIES</b>   |                           |                                   |  |                     |                             |
| Net income  | \$ 748                    | \$ 897                            | \$ 1,518   | \$ (2,394)          | \$ 769                      |
| Adjustments for noncash and nonoperating items:                               |                           |                                   |  |                     |                             |
| Depreciation and amortization   | 1                         | 539                               | 1,748  |                     | 2,288                       |
| Pretax gain on asset sales  |                           |                                   | (2)  |                     | (2)                         |
| Equity in pretax income of consolidated subsidiaries                          | (2,127)                   | (1,454)                           | (26)   | 3,607               |                             |
| Loss from equity investments, net of cash distributions                       |                           | 3                                 | 39   |                     | 42                          |
| Deferred income taxes   | 458                       | 397                               | 408  | (805)               | 458                         |
| Equity-based compensation   |                           | 74                                | 3  |                     | 77                          |
| Changes in operating assets and liabilities, net of acquisitions              | 1,198                     | (39)                              | (986)  |                     | 173                         |
| Cash provided by operating activities   | 278                       | 417                               | 2,702  | 408                 | 3,805                       |
| <b>INVESTING ACTIVITIES</b>   |                           |                                   |  |                     |                             |
| Investments and acquisitions, net of cash acquired and distributions received | 55                        | (4,609)                           | 83   | 4,477               | 6                           |
| Capital expenditures  | (11)                      | (644)                             | (1,632)  |                     | (2,287)                     |
| Proceeds from asset sales   |                           | 5                                 | 4  |                     | 9                           |
| Cash provided (used) by investing activities                                  | 44                        | (5,248)                           | (1,545)  | 4,477               | (2,272)                     |
| <b>FINANCING ACTIVITIES</b>   |                           |                                   |  |                     |                             |
| Borrowings (repayments), net  | 1,673                     | (131)                             |  | 673                 | 2,215                       |
| Borrowings  | 10,071                    |                                   |  |                     | 10,071                      |
| Repayments  | (7,877)                   |                                   |  |                     | (7,877)                     |
| Debt issuance costs   | (26)                      |                                   |  |                     | (26)                        |
| Net change in investments in and amounts due to and                           | 1,802                     | (238)                             | (1,157)  | (407)               |                             |

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|   |          |         |         |         |          |
|---|----------|---------|---------|---------|----------|
| from consolidated subsidiaries              |          |         |         |         |          |
| Payment of special cash dividend            | (10,856) |         |         |         | (10,856) |
| Other financing activities                  | 2        | (4)     |         | (1)     | (3)      |
| Cash used by financing activities           | (5,211)  | (373)   | (1,157) | 265     | (6,476)  |
| Decrease in cash and equivalents            | (4,889)  | (5,204) |         | 5,150   | (4,943)  |
| Cash and equivalents at beginning of period | 5,395    | 5,204   |         | (5,150) | 5,449    |
| Cash and equivalents at end of period       | \$ 506   | \$      | \$      | \$      | \$ 506   |

**TIME WARNER CABLE INC.**  
**SUPPLEMENTARY INFORMATION**  
**CONDENSED CONSOLIDATING FINANCIAL STATEMENTS (Continued)**  
**Consolidating Statement of Cash Flows**  
**Nine Months Ended September 30, 2008**  
(Unaudited)

|   | <b>Parent<br/>Company</b> | <b>Guarantor<br/>Subsidiaries</b> | <b>Non-<br/>Guarantor<br/>Subsidiaries<br/>(in<br/>millions)</b> | <b>Eliminations</b> | <b>TWC<br/>Consolidated</b> |
|---|---------------------------|-----------------------------------|--|---------------------|-----------------------------|
| <b>OPERATING ACTIVITIES</b>   |                           |                                   |  |                     |                             |
| Net income  | \$ 820                    | \$ 668                            | \$ 1,241   | \$ (1,823)          | \$ 906                      |
| Adjustments for noncash and nonoperating items:                               |                           |                                   |  |                     |                             |
| Depreciation and amortization   |                           | 496                               | 1,823  |                     | 2,319                       |
| Pretax (gain) loss on asset sales   |                           | (3)                               | 39   |                     | 36                          |
| Equity in pretax (income) loss of consolidated subsidiaries                   | (1,702)                   | (1,156)                           | 180  | 2,678               |                             |
| (Income) loss from equity investments, net of cash distributions              |                           | (1)                               | 5  |                     | 4                           |
| Deferred income taxes   | 601                       | 461                               | 461  | (864)               | 659                         |
| Equity-based compensation   |                           | 64                                |  |                     | 64                          |
| Changes in operating assets and liabilities, net of acquisitions              | (261)                     | 233                               | (96)   |                     | (124)                       |
| Cash provided (used) by operating activities                                  | (542)                     | 762                               | 3,653  | (9)                 | 3,864                       |
| <b>INVESTING ACTIVITIES</b>   |                           |                                   |  |                     |                             |
| Investments and acquisitions, net of cash acquired and distributions received | (490)                     | (2)                               | (33)   |                     | (525)                       |
| Capital expenditures  |                           | (640)                             | (1,942)  |                     | (2,582)                     |
| Proceeds from asset sales   |                           | 10                                | 2  |                     | 12                          |
| Cash used by investing activities   | (490)                     | (632)                             | (1,973)  |                     | (3,095)                     |
| <b>FINANCING ACTIVITIES</b>   |                           |                                   |  |                     |                             |
| Borrowings (repayments), net  | 684                       |                                   |  | (891)               | (207)                       |
| Borrowings  | 5,203                     |                                   |  |                     | 5,203                       |
| Repayments  | (2,217)                   | (600)                             |  |                     | (2,817)                     |
| Debt issuance costs   | (87)                      |                                   |  |                     | (87)                        |
|   | 308                       | 1,362                             | (1,679)  | 9                   |                             |

|  |          |          |         |            |          |
|--|----------|----------|---------|------------|----------|
| Net change in investments in and amounts<br>due to and<br>from consolidated subsidiaries |          |          |         |            |          |
| Other financing activities   |          | (2)      | (1)     |            | (3)      |
| Cash provided (used) by financing activities   | 3,891    | 760      | (1,680) | (882)      | 2,089    |
| Increase in cash and equivalents   | 2,859    | 890      |         | (891)      | 2,858    |
| Cash and equivalents at beginning of period  | 185      | 3,458    |         | (3,411)    | 232      |
| Cash and equivalents at end of period  | \$ 3,044 | \$ 4,348 | \$      | \$ (4,302) | \$ 3,090 |

## Part II. Other Information

### Item 1. Legal Proceedings.

Reference is made to the class action lawsuit filed by Brantley, *et al.* described on page 40 of the Company's Annual Report on Form 10-K for the year ended December 31, 2008 (the 2008 Form 10-K). On May 4, 2009, by stipulation of the parties, plaintiffs filed a third amended complaint (the Third Amended Complaint) and on June 12, 2009, the distributor defendants and the programmer defendants filed a motion to dismiss the Third Amended Complaint, which the district court granted with prejudice on October 15, 2009, terminating the action. Plaintiffs have filed a notice of appeal to the U.S. Court of Appeals for the Ninth Circuit.

Reference is made to the lawsuit filed by Andrew Parker and Eric DeBrauwere, *et al.* described on page 40 of the Company's 2008 Form 10-K and page 52 of the Company's Quarterly Report for the quarter ended June 30, 2009 (the June 2009 Form 10-Q). On July 6, 2009, the district court granted approval of the settlement, which plaintiffs have appealed with respect to attorneys' fees.

Reference is made to the lawsuit filed by Ronald A. Katz Technology Licensing, L.P. described on pages 40-41 of the 2008 Form 10-K. 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. On August 13, 2009, the district court found one additional patent invalid, but denied defendants' motions for summary judgment on three remaining patents, and on October 27, 2009, the district court denied the defendants' requests for reconsideration of the decision.

Reference is made to the lawsuit filed by Acacia Media Technologies (AMT) described on page 41 of the 2008 Form 10-K and page 52 of the June 2009 Form 10-Q. On September 25, 2009, the district court ruled on the Company's summary judgment motions finding all AMT patents invalid. The time to appeal this decision has not yet expired.

### Item 1A. Risk Factors.

There have been no material changes in the Company's risk factors from those disclosed in Part I, Item 1A of the 2008 Form 10-K.

### Item 6. Exhibits.

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

**SIGNATURES**

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

TIME WARNER CABLE INC.

By: /s/ Robert D. Marcus

Name: Robert D. Marcus

Title: Senior Executive Vice President and  
Chief Financial Officer

Date: November 5, 2009



**EXHIBIT INDEX**

Pursuant to Item 601 of Regulation S-K

| <b>Exhibit Number</b> | <b>Description</b>  |
|-----------------------|---|
| 10.1                  | Employment Agreement, effective as of August 3, 2009, between Time Warner Cable Inc. (the Company ) and Glenn A. Britt.   |
| 10.2                  | Description of Certain Director Compensation.   |
| 31.1                  | Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, with respect to the Company s Quarterly Report on Form 10-Q for the quarter ended September 30, 2009.                                 |
| 31.2                  | Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, with respect to the Company s Quarterly Report on Form 10-Q for the quarter ended September 30, 2009.                                 |
| 32                    | Certification of Principal Executive Officer and Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, with respect to the Company s Quarterly Report on Form 10-Q for the quarter ended September 30, 2009. |

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

incorporates it  
by reference.