

TIME WARNER CABLE INC.

Form 10-Q

November 05, 2008

**Table of Contents**

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

**Form 10-Q**

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

**For the quarterly period ended September 30, 2008**

**or**

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

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission File Number: 001-33335**

**TIME WARNER CABLE INC.**

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

**Delaware**

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

**84-1496755**

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

**One Time Warner Center  
North Tower**

**New York, New York 10019**

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

**(212) 364-8200**

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

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

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

Large accelerated filer

Accelerated filer

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 as of October 31, 2008</b>
Class A Common Stock \$\$.01 par value	901,978,835
Class B Common Stock \$\$.01 par value	75,000,000



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

	<b>Page</b>
<b>PART I. FINANCIAL INFORMATION</b>	
<u>Management's Discussion and Analysis of Results of Operations and Financial Condition</u>	1
<u>Item 4. Controls and Procedures</u>	23
<u>Consolidated Balance Sheet as of September 30, 2008 and December 31, 2007</u>	24
<u>Consolidated Statement of Operations for the Three and Nine Months Ended September 30, 2008 and 2007</u>	25
<u>Consolidated Statement of Cash Flows for the Nine Months Ended September 30, 2008 and 2007</u>	26
<u>Consolidated Statement of Shareholders' Equity</u>	27
<u>Notes to Consolidated Financial Statements</u>	28
<u>Supplementary Information</u>	46
<b>PART II. OTHER INFORMATION</b>	
<u>Item 1. Legal Proceedings</u>	55
<u>Item 1A. Risk Factors</u>	55
<u>Item 5. Other Information</u>	55
<u>Item 6. Exhibits</u>	56
<u>EX-10.1 FIRST AMENDMENT TO EMPLOYMENT AGREEMENT</u>	
<u>EX-10.2 LETTER AGREEMENT</u>	
<u>EX-31.1 SECTION 302 CERTIFICATION OF THE PEO</u>	
<u>EX-31.2 SECTION 302 CERTIFICATION OF THE PFO</u>	
<u>EX-32 SECTION 906 CERTIFICATION OF THE PEO AND PFO</u>	

---

**Table of Contents**

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

**INTRODUCTION**

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

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

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

*Results of operations.* This section provides an analysis of the Company's results of operations for the three and nine months ended September 30, 2008.

*Financial condition and liquidity.* This section provides an analysis of the Company's financial condition as of September 30, 2008 and cash flows for the nine months ended September 30, 2008.

*Caution concerning forward-looking statements.* This section provides a description of the use of forward-looking information appearing in this report, including in MD&A and the consolidated financial statements. Such information is based on management's current expectations about future events, which are inherently susceptible to uncertainty and changes in circumstances. Refer to the Company's Annual Report on Form 10-K for the year ended December 31, 2007 (the 2007 Form 10-K) and the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2008 (the June 2008 Form 10-Q) 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, 2008, TWC served approximately 14.7 million customers who subscribed to one or more of its video, high-speed data and voice services, representing approximately 34.2 million revenue generating units.

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

**Table of Contents**

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

TWC principally offers three services—video, high-speed data and voice—over its broadband cable systems. TWC markets its services separately and in bundled packages of multiple services and features. As of September 30, 2008, 53% of TWC's customers subscribed to two or more of its primary services, including 20% of its customers who subscribed to all three primary services. Historically, TWC has focused primarily on residential customers, while also selling video, high-speed data and networking and transport services to commercial customers. During 2007, TWC also began selling voice services to small- and medium-sized businesses as part of an increased emphasis on its commercial business. TWC believes selling commercial services will provide additional opportunities for growth in the future. In addition, TWC earns revenues by selling advertising time to national, regional and local customers.

Video is TWC's largest service in terms of revenues generated and, as of September 30, 2008, TWC had approximately 13.3 million basic video subscribers, of which approximately 8.6 million subscribed to TWC's digital video service. Although providing video services is a competitive and highly penetrated business, TWC expects to continue to increase video revenues through the offering of advanced digital video services, as well as through price increases and digital video subscriber growth. TWC's digital video subscribers provide a broad base of potential customers for additional services. Video programming costs represent a major component of TWC's expenses and are expected to continue to increase, reflecting programming rate increases on existing services, costs associated with retransmission consent agreements, subscriber growth and the expansion of service offerings. TWC expects that its video service margins as a percentage of video revenues will continue to decline over the next few years as increases in programming costs outpace growth in video revenues.

As of September 30, 2008, TWC had approximately 8.3 million residential high-speed data subscribers. TWC expects continued growth in residential high-speed data subscribers and revenues for the foreseeable future; however, the rate of growth of both subscribers and revenues is expected to continue to slow over time as high-speed data services become increasingly penetrated. TWC also offers commercial high-speed data services and had 295,000 commercial high-speed data subscribers as of September 30, 2008.

As of September 30, 2008, TWC had approximately 3.6 million residential Digital Phone subscribers. TWC expects increases in Digital Phone subscribers and revenues for the foreseeable future; however, the rate of growth of both subscribers and revenues is expected to slow over time as Digital Phone services become increasingly penetrated. TWC rolled out Business Class Phone, a commercial Digital Phone service, to small- and medium-sized businesses during 2007 in the majority of its systems and has nearly completed the roll-out in the remainder of its systems during the first nine months of 2008. As of September 30, 2008, TWC had 23,000 commercial Digital Phone subscribers.

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

The recent events affecting the U.S. and international financial markets have had a significant and adverse impact on the broader global economies. These events have served to severely tighten the credit markets, increase equity market volatility and reduce future expectations for economic growth. Since the end of the third quarter of 2008, the Company has seen a slowdown in growth across all revenue generating unit categories as a result of the challenging economic environment. The Company believes it is premature to determine if this is a long- or short-term development and is unable to estimate the impact of a protracted economic downturn on its financial and subscriber results. In addition, the Company has continued to see a decline in its Advertising revenues from national, regional and local businesses.

**Table of Contents**

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

Despite the current economic environment, the Company believes it continues to have strong liquidity to meet its needs for the foreseeable future. As of September 30, 2008, the Company had \$12.604 billion of unused committed capacity (including cash and equivalents and credit facilities containing commitments from a geographically diverse group of major financial institutions), \$10.855 billion of which TWC expects to use to finance the Special Dividend (as defined below). Additionally, there are no significant maturities of the Company's long-term debt prior to February 2011. While the Company believes it has sufficient committed capacity and access to capital markets, any new borrowings in the near term outside of TWC's committed capacity would likely bear significantly higher interest rates than those on the Company's recent borrowings. See *Financial Condition and Liquidity* for further details regarding the Company's committed capacity.

**Recent Developments*****Separation from Time Warner***

On May 20, 2008, TWC and its subsidiaries, TWE and TW NY, entered into the Separation Agreement with Time Warner and its subsidiaries, WCI, Historic TW and ATC. TWC's separation from Time Warner will take place through a series of related transactions, the occurrence of each of which is a condition to the next. First, Time Warner will complete certain internal restructuring transactions. Next, following the satisfaction or waiver of certain conditions, including those described below, Historic TW will transfer its 12.43% non-voting common stock interest in TW NY to TWC in exchange for 80 million newly issued shares of TWC's Class A common stock (the *TW NY Exchange*). Following the *TW NY Exchange*, Time Warner will complete certain additional restructuring steps that will make Time Warner the direct owner of all shares of TWC's Class A common stock and Class B common stock previously held by its subsidiaries (all of Time Warner's restructuring transaction steps being referred to collectively as the *TW Internal Restructuring*). Upon completion of the *TW Internal Restructuring*, TWC's board of directors or a committee thereof will declare a special cash dividend to holders of TWC's outstanding Class A common stock and Class B common stock, including Time Warner, in an amount equal to \$10.27 per share (aggregating \$10.855 billion) (the *Special Dividend*). The *Special Dividend* will be paid prior to the completion of TWC's separation from Time Warner. Following the receipt by Time Warner of the *Special Dividend*, TWC will file with the Secretary of State of the State of Delaware an amended and restated certificate of incorporation, pursuant to which, among other things, each outstanding share of TWC Class A common stock (including any shares of Class A common stock issued in the *TW NY Exchange*) and TWC Class B common stock will automatically be converted into one share of common stock, par value \$.01 per share (the *TWC Common Stock*) (the *Recapitalization*). Once the *TW NY Exchange*, the *TW Internal Restructuring*, the payment of the *Special Dividend* and the *Recapitalization* have been completed, TWC's separation from Time Warner (the *Separation*) will proceed in the form of either a pro rata dividend of all shares of TWC Common Stock held by Time Warner to holders of Time Warner's common stock or through the consummation by Time Warner of an exchange offer of shares of TWC Common Stock for shares of Time Warner's common stock. If the *Separation* is effected as an exchange offer, after consummation of the exchange offer, Time Warner will distribute to its stockholders, as a pro rata dividend, any TWC Common Stock that it continues to hold. The distribution by Time Warner of all shares of TWC Common Stock held by Time Warner to its stockholders as (a) a pro rata dividend, (b) an exchange offer or (c) a combination thereof is referred to as the *Distribution*. The *Separation*, the *TW NY Exchange*, the *TW Internal Restructuring*, the *Special Dividend*, the *Recapitalization* and the *Distribution* collectively are referred to as the *Separation Transactions*.

Time Warner has the sole discretion, after consultation with TWC, to determine whether the *Separation* will be effected as a pro rata dividend or through an exchange offer with its stockholders, which decision has not yet been made.

**Table of Contents**

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

The Separation Agreement contains customary covenants, and consummation of the Separation Transactions is subject to customary closing conditions, including customary regulatory reviews and local franchise approvals, the receipt by Time Warner of a private letter ruling from the Internal Revenue Service indicating that the Separation Transactions will generally qualify as tax-free for Time Warner and Time Warner's stockholders, the receipt of certain tax opinions and the entry into the 2008 Bridge Facility and the Supplemental Facility (each as defined below under 2008 Bond Offering and Additional Financing Commitments). Time Warner and TWC expect the Separation Transactions to be consummated by early 2009. See Item 1A, Risk Factors, in Part II of the June 2008 Form 10-Q for a discussion of risk factors relating to the Separation.

During the three and nine months ended September 30, 2008, the Company incurred pretax costs related to the Separation of \$53 million and \$102 million, respectively, which have been reflected in the Company's consolidated statement of operations as follows (in millions):

	<b>Three Months Ended September 30, 2008</b>	<b>Nine Months Ended September 30, 2008</b>
Other expense, net	\$ 3	\$ 15
Interest expense, net	50	87
Pretax costs related to the Separation	\$ 53	\$ 102

In the table above, other expense, net, consists of direct transaction costs (e.g., legal and professional fees). Interest expense, net, includes net interest expense on the \$5.0 billion principal amount of debt securities issued in the 2008 Bond Offering (as defined below) after considering the impact of the net proceeds of such offering, a portion of which was used to repay variable-rate debt with lower interest rates and the remainder of which was invested in accordance with the Company's investment policy (\$48 million and \$54 million for the three and nine months ended September 30, 2008, respectively). Debt issuance costs of \$2 million and \$33 million for the three and nine months ended September 30, 2008, respectively, are also included in interest expense, net, primarily related to the portion of the upfront loan fees for the 2008 Bridge Facility that was expensed due to the reduction of commitments under such facility as a result of the 2008 Bond Offering. The Company expects to incur additional direct transaction costs and financing costs related to the Separation.

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

Under the terms of Time Warner's equity plans and related award agreements, as a result of the Separation, TWC employees who hold Time Warner equity awards will be treated as if their employment with Time Warner had been terminated without cause at the time of the Separation. This treatment will result in the forfeiture of unvested stock options and shortened exercise periods for vested stock options and pro rata vesting of the next installment of (and forfeiture of the remainder of) the RSU awards for those TWC employees who do not satisfy retirement-treatment eligibility provisions in the Time Warner equity plans and related award agreements. TWC plans to grant make-up TWC equity awards or make cash payments to TWC employees that are generally intended to offset any loss of economic value in Time Warner equity awards as a result of the Separation.





**Table of Contents**

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

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

***Interim Impairment Testing of Goodwill and Indefinite-lived Intangible Assets***

As discussed in more detail in the 2007 Form 10-K, goodwill and indefinite-lived intangible assets, primarily the Company's cable franchise rights, are tested annually for impairment during the fourth quarter, or earlier upon the occurrence of certain events or substantive changes in circumstances. As a result of entering into the Separation Agreement, the Company was required under Financial Accounting Standards Board (FASB) Statement No. 142, *Goodwill and Other Intangible Assets* (FAS 142) to test goodwill and cable franchise rights as of May 20, 2008 (the interim testing date).

The impairment test was performed on a basis consistent with the analysis performed as of December 31, 2007. In performing goodwill impairment testing, the Company determines the fair value of each reporting unit by using two valuation techniques: a discounted cash flow (DCF) analysis and a market-based approach. The Company determines the fair value of the cable franchise rights of a reporting unit using a DCF valuation analysis. A DCF valuation requires the exercise of significant judgments, including judgments about appropriate discount rates based on the assessment of risks inherent in the projected future cash flows and the amount and timing of expected future cash flows, including expected cash flows beyond the Company's current long-term business planning period. In assessing the reasonableness of its determined fair values, the Company evaluates its results against other value indicators such as comparable company public trading values, research analyst estimates and values observed in private market transactions.

The Company's interim impairment analysis did not result in any impairment charges during the second quarter of 2008. However, the fair values of the cable franchise rights in certain of the Company's reporting units, particularly the Texas reporting unit, were at or only modestly in excess of their carrying values. Accordingly, any future declines in the estimated fair values of the cable franchise rights in one or more of such reporting units would likely result in noncash cable franchise rights impairment charges.

To illustrate the magnitude of a potential impairment charge related to changes in estimated fair value, had the fair values of each of the reporting units and their respective cable franchise rights been lower by 10% as of the interim testing date, the Company would have recorded cable franchise rights impairment charges of approximately \$750 million, and had each of the fair values been lower by 20%, the Company would have recorded cable franchise rights impairment charges of approximately \$3.7 billion. In neither of these cases would the Company have been required to record goodwill impairment charges.

The Company has concluded that an interim impairment test is not required as of September 30, 2008. However, economic conditions currently affecting the U.S. economy and recent declines in TWC's stock price may have a negative impact on the fair values of the Company's franchise intangibles and reporting units, which may result in the Company recognizing an impairment when the Company performs its annual test during the fourth quarter of 2008.

**Table of Contents**

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

***2008 Bond Offering and Additional Financing Commitments***

On June 16, 2008, TWC filed a shelf registration statement on Form S-3 (the Shelf Registration Statement) with the Securities and Exchange Commission (the SEC) that allows TWC to offer and sell from time to time senior and subordinated debt securities and debt warrants. On June 19, 2008, TWC issued \$5.0 billion in aggregate principal amount of senior unsecured notes and debentures under the Shelf Registration Statement (the 2008 Bond Offering), consisting of \$1.5 billion principal amount of 6.20% notes due 2013, \$2.0 billion principal amount of 6.75% notes due 2018 and \$1.5 billion principal amount of 7.30% debentures due 2038. The Company expects to use the net proceeds of \$4.963 billion from this issuance to finance, in part, the Special Dividend. If the Separation is not consummated and the Special Dividend is not paid, the Company will use the net proceeds from the issuance of the debt securities for general corporate purposes, including repayment of indebtedness. Pending the payment of the Special Dividend, a portion of the net proceeds of the 2008 Bond Offering was used to repay variable-rate debt with lower interest rates and the remainder was invested in accordance with the Company's investment policy.

In addition to issuing the debt securities in the 2008 Bond Offering described above, on June 30, 2008, the Company entered into a credit agreement with certain financial institutions for a senior unsecured term loan facility in an aggregate principal amount of \$9.0 billion with an initial maturity date that is 364 days after the borrowing date (the 2008 Bridge Facility) in order to finance, in part, the Special Dividend. As a result of the 2008 Bond Offering, the amount of the commitments of the lenders under the 2008 Bridge Facility was reduced to \$4.040 billion. As discussed below in Financial Condition and Liquidity Outstanding Debt and Mandatorily Redeemable Preferred Equity and Available Financial Capacity Lending Commitments, the Company is not certain whether Lehman Brothers Commercial Bank will fund its \$269 million in commitments under the 2008 Bridge Facility, and, therefore, the Company has included only \$3.771 billion of commitments under the 2008 Bridge Facility in its unused committed capacity as of September 30, 2008. The Company may elect to extend the maturity date of the loans outstanding under the 2008 Bridge Facility for an additional year. TWC may not borrow any amounts under the 2008 Bridge Facility unless and until the Special Dividend is declared in connection with the Separation.

In May 2008, Time Warner (as lender) committed to lend TWC (as borrower) up to an aggregate principal amount of \$3.5 billion under a two-year senior unsecured supplemental term loan facility (the Supplemental Facility). TWC may borrow under the Supplemental Facility at the final maturity of the 2008 Bridge Facility to repay amounts then outstanding under the 2008 Bridge Facility, if any. As a result of the 2008 Bond Offering, Time Warner's original commitment was reduced by \$980 million to \$2.520 billion.

TWC's obligations under the debt securities issued in the 2008 Bond Offering and the 2008 Bridge Facility are, and under the Supplemental Facility will be, guaranteed by TWE and TW NY.

See Note 4 to the accompanying consolidated financial statements for further details regarding the 2008 Bond Offering, the 2008 Bridge Facility and the Supplemental Facility.

**Table of Contents**

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

***Sprint/Clearwire Joint Venture***

In May 2008, TWC, Intel Corporation, Google Inc., Comcast Corporation (together with its subsidiaries, Comcast) and Bright House Networks, LLC entered into agreements to collectively invest \$3.2 billion in a wireless communications joint venture (the Sprint/Clearwire Joint Venture), which is expected to be formed by Sprint Nextel Corporation (Sprint) and Clearwire Corporation (Clearwire). TWC's share of such investment is expected to be approximately \$550 million, which it expects to fund with cash on hand, borrowings under the Cable Revolving Facility (as defined below), its commercial paper program or a combination thereof. Once formed, the Sprint/Clearwire Joint Venture will be focused on deploying the first nationwide fourth-generation wireless network to provide mobile broadband services to wholesale and retail customers. In connection with its anticipated investment in the Sprint/Clearwire Joint Venture, TWC has entered into a wholesale agreement with Sprint that allows TWC to offer wireless services utilizing Sprint's 2G/3G network. Upon closing, TWC also expects to enter into a wholesale agreement with the Sprint/Clearwire Joint Venture that would allow TWC to offer wireless services utilizing the Sprint/Clearwire Joint Venture's broadband wireless network. The closing of these transactions, which is expected to occur by the end of 2008, is subject to certain closing conditions. There can be no assurance that the formation of the Sprint/Clearwire Joint Venture will be completed, or, if completed, that the Sprint/Clearwire Joint Venture would successfully finance and deploy a nationwide mobile broadband network. If completed, the Company's investment in the Sprint/Clearwire Joint Venture would be accounted for under the equity method of accounting. The Company expects that the Sprint/Clearwire Joint Venture would incur losses in its early periods of operation.

***Sale of Certain Cable Systems***

In June 2008, the Company entered into an agreement to sell a group of small cable systems, serving approximately 80,000 basic video subscribers and approximately 125,000 revenue generating units as of September 30, 2008, located in areas outside of the Company's core geographic clusters. The sale price is approximately \$53 million, subject to certain adjustments. The Company expects the sale of these cable systems will close during the fourth quarter of 2008, subject to obtaining customary regulatory approvals. The Company does not expect that the sale of these systems will have a material impact on the Company's future financial results; however, as a result of a probable loss on the sale of these systems, the Company recorded a pretax impairment loss of \$45 million during the second quarter of 2008.

***Hurricane Ike***

During the third quarter of 2008, Hurricane Ike caused significant damage to a portion of TWC's operations in Texas, particularly in the Port Arthur, Beaumont, Orange and Bridge City areas, which served approximately 88,000 basic video subscribers and 165,000 revenue generating units prior to the storm. TWC's cable systems in these areas experienced significant damage, business interruption and an indeterminate loss of customer relationships. The long-term effect of Hurricane Ike on the population of southeast Texas, and, therefore, on TWC's cable systems in this area, remains uncertain and as a result, any potential population losses have not been reflected in the Company's subscriber results as of September 30, 2008. During the fourth quarter of 2008, the Company will continue to evaluate the impact of Hurricane Ike, which could result in a negative impact to TWC's subscriber metrics. In addition to Texas, Hurricane Ike also caused physical damage and service outages in parts of Ohio.

For the third quarter of 2008, the Company estimates that OIBDA (as defined below) and Operating Income were negatively impacted by approximately \$10 million as a result of service outages and damage to the plant infrastructure caused by the storm. The Company anticipates an additional negative impact to OIBDA and Operating Income of approximately \$5 million in the fourth quarter of 2008, primarily due to additional customer credits for service outages and expenses associated with plant repairs and maintenance. Additionally, the Company estimates that it will incur approximately \$10 million of capital expenditures during the fourth quarter of 2008 to replace property, plant and equipment damaged by Hurricane Ike.

**Table of Contents**

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

***Wireless Joint Venture***

TWC is a participant in a wireless spectrum joint venture with several other cable companies (the Wireless Joint Venture) that holds 137 advanced wireless spectrum (AWS) licenses. These licenses cover 20 MHz of AWS in about 90% of the continental United States and Hawaii. The Federal Communications Commission awarded these licenses to the Wireless Joint Venture on November 20, 2006. Under certain circumstances, the members of the Wireless Joint Venture have the ability to exit the venture and receive from the venture, subject to certain limitations and adjustments, AWS licenses covering the areas in which they provide cable services. On October 24, 2008, the Wireless Joint Venture agreed to redeem the 10.9% interest held by an affiliate of Cox Communications, Inc. (Cox). Under the agreement, the closing of which is subject to receipt of customary regulatory approvals, Cox will exit the Wireless Joint Venture and receive AWS licenses, principally covering areas in which Cox provides cable services, and a cash payment of \$70 million. Following the closing of the Cox transaction, the Wireless Joint Venture's AWS licenses would cover over 80% of the continental United States and Hawaii. TWC expects to contribute approximately \$22 million to the Wireless Joint Venture during the fourth quarter of 2008 or early 2009 to fund its share of the payment to Cox.

**FINANCIAL STATEMENT PRESENTATION**

***Revenues***

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

Video revenues include subscriber fees for basic, expanded basic and digital services from both residential and commercial subscribers. Video revenues from digital services, or digital video revenues, include revenues from digital tiers, digital pay channels, pay-per-view, video-on-demand, subscription-video-on-demand and digital video recorder services. Video revenues also include related equipment rental charges, installation charges and franchise fees collected on behalf of local franchising authorities. Several ancillary items are also included within video revenues, such as commissions earned on the sale of merchandise by home shopping services and rental income earned on the leasing of antenna attachments on transmission towers owned by the Company. In each period presented, these ancillary items constitute less than 2% of video revenues.

High-speed data revenues include subscriber fees from both residential and commercial subscribers, along with related equipment rental charges, home networking fees and installation charges. High-speed data revenues also include fees received from certain distributors of TWC's Road Runner™ high-speed data service (including cable systems managed by the Advance/Newhouse Partnership) and fees received from third-party internet service providers whose on-line services are provided to some of TWC's customers.

Voice revenues include subscriber fees from residential and commercial Digital Phone subscribers, along with related installation charges. For the three and nine months ended September 30, 2007, voice revenues also included subscriber fees from circuit-switched telephone subscribers (43,000 subscribers as of September 30, 2007). During the first half of 2008, TWC completed the process of discontinuing the provision of circuit-switched telephone service in accordance with regulatory requirements. As a result, during 2008, Digital Phone has been the only voice service offered by TWC.

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

**Table of Contents**

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

***Costs and Expenses***

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

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

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

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

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

**Table of Contents**

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

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

**RESULTS OF OPERATIONS****Recent Accounting Standards**

See Note 2 to the accompanying consolidated financial statements for a discussion of the accounting standards adopted during the nine months ended September 30, 2008 and recent accounting standards not yet adopted.

**Three and Nine Months Ended September 30, 2008 Compared to Three and Nine Months Ended September 30, 2007**

The following discussion provides an analysis of the Company's results of operations and should be read in conjunction with the accompanying consolidated statement of operations, as well as the consolidated financial statements and notes thereto and MD&A included in the 2007 Form 10-K.

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

	<b>Three Months Ended</b>			<b>Nine Months Ended</b>		
	<b>September 30,</b>		<b>% Change</b>	<b>September 30,</b>		<b>% Change</b>
	<b>2008</b>	<b>2007</b>		<b>2008</b>	<b>2007</b>	
Subscription:						
Video	\$ 2,639	\$ 2,530	4%	\$ 7,878	\$ 7,613	3%
High-speed data	1,056	942	12%	3,082	2,760	12%
Voice	421	308	37%	1,184	857	38%
Total Subscription	4,116	3,780	9%	12,144	11,230	8%
Advertising	224	221	1%	654	636	3%
Total	\$ 4,340	\$ 4,001	8%	\$ 12,798	\$ 11,866	8%

**Table of Contents**

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

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

	September 30,		% Change
	2008	2007	
Basic video <sup>(a)</sup>	13,266	13,308	
Digital video <sup>(b)</sup>	8,607	7,860	10%
Residential high-speed data <sup>(c)</sup>	8,339	7,412	13%
Commercial high-speed data <sup>(c)</sup>	295	272	8%
Residential Digital Phone <sup>(d)</sup>	3,621	2,608	39%
Commercial Digital Phone <sup>(d)</sup>	23	2	NM
Revenue generating units <sup>(e)</sup>	34,151	31,505	8%
Customer relationships <sup>(f)</sup>	14,750	14,637	1%

NM Not meaningful.

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

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

(c) High-speed data subscriber numbers reflect billable subscribers who receive TWC's Road Runner high-speed data service or any of the other high-speed data services offered by TWC.

(d) Digital Phone subscriber



numbers reflect billable subscribers who receive an IP-based telephony service. Residential Digital Phone subscriber numbers as of September 30, 2007 exclude 43,000 subscribers who received traditional, circuit-switched telephone service.

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

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

example, a subscriber who purchases only high-speed data service and no video service will count as one customer relationship, and a subscriber who purchases both video and high-speed data services will also count as only one customer relationship.

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

	Three Months Ended			Nine Months Ended		
	September 30,			September 30,		
	2008	2007	% Change	2008	2007	% Change
Basic video services	\$ 1,569	\$ 1,537	2%	\$ 4,697	\$ 4,652	1%
Digital video services	638	587	9%	1,907	1,759	8%
Equipment rental and installation charges	283	261	8%	827	760	9%
Franchise fees	116	108	7%	344	328	5%
Other	33	37	(11%)	103	114	(10%)
Total	\$ 2,639	\$ 2,530	4%	\$ 7,878	\$ 7,613	3%

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

The increase in voice revenues was due to growth in Digital Phone subscribers. Voice revenues for the three and nine months ended September 30, 2007 also included \$8 million and \$33 million, respectively, of revenues associated with subscribers who received traditional, circuit-switched telephone service.

Average monthly subscription revenue (which includes video, high-speed data and voice revenues) per basic video subscriber ( subscription ARPU ) increased 9% to \$103.38 for the three months ended September 30, 2008 from \$94.50 for the three months ended September 30, 2007, and increased 9% to \$101.63 for the nine months ended September 30, 2008 from \$93.22 for the nine months ended September 30, 2007. These increases were primarily a result of the increased penetration of digital video, high-speed data and Digital Phone and higher video prices, as discussed above.

Advertising revenues increased slightly for the three and nine months ended September 30, 2008 primarily due to an increase in political advertising revenues, partially offset by a decline in Advertising revenues from national, regional and local businesses.

**Table of Contents**

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

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

	<b>Three Months Ended</b>			<b>Nine Months Ended</b>		
	<b>September 30,</b>			<b>September 30,</b>		
	<b>2008</b>	<b>2007</b>	<b>% Change</b>	<b>2008</b>	<b>2007</b>	<b>% Change</b>
Video programming	\$ 949	\$ 881	8%	\$ 2,817	\$ 2,643	7%
Employee	597	546	9%	1,752	1,624	8%
High-speed data	35	42	(17%)	112	125	(10%)
Voice	144	115	25%	406	338	20%
Franchise fees	116	108	7%	344	328	5%
Other direct operating costs	231	198	17%	666	587	13%
<b>Total</b>	<b>\$ 2,072</b>	<b>\$ 1,890</b>	<b>10%</b>	<b>\$ 6,097</b>	<b>\$ 5,645</b>	<b>8%</b>

For the three and nine months ended September 30, 2008, costs of revenues increased 10% and 8%, respectively, primarily related to increases in video programming, employee, voice and other direct operating costs. As a percentage of revenues, costs of revenues were 48% for both the three and nine months ended September 30, 2008, compared to 47% and 48% for the three and nine months ended September 30, 2007, respectively.

The increase in video programming costs was primarily due to contractual rate increases and an increase in the percentage of basic video subscribers who also subscribe to expanded tiers of video services. Average programming costs per basic video subscriber increased 8% to \$23.85 per month for the three months ended September 30, 2008 from \$22.03 per month for the three months ended September 30, 2007. Average programming costs per basic video subscriber increased 7% to \$23.58 per month for the nine months ended September 30, 2008 from \$21.94 per month for the nine months ended September 30, 2007.

Employee costs for the three and nine months ended September 30, 2008 increased primarily due to higher headcount resulting from the continued growth of digital video, high-speed data and Digital Phone services, as well as salary increases.

High-speed data costs consist of the direct costs associated with the delivery of high-speed data services, including network connectivity costs. High-speed data costs decreased for the three and nine months ended September 30, 2008 primarily due to a decrease in per-subscriber connectivity costs, partially offset by subscriber growth.

Voice costs consist of the direct costs associated with the delivery of voice services, including network connectivity costs. Voice costs increased for the three and nine months ended September 30, 2008 primarily due to growth in Digital Phone subscribers, partially offset by a decline in per-subscriber connectivity costs.

Other direct operating costs increased for the three and nine months ended September 30, 2008 primarily due to increases in certain other costs associated with the continued growth of digital video, high-speed data and Digital Phone services.

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

	<b>Three Months Ended</b>			<b>Nine Months Ended</b>		
	<b>September 30,</b>			<b>September 30,</b>		
	<b>2008</b>	<b>2007</b>	<b>% Change</b>	<b>2008</b>	<b>2007</b>	<b>% Change</b>
Employee	\$ 278	\$ 257	8%	\$ 865	\$ 803	8%
Marketing	138	126	10%	447	381	17%
Other	290	296	(2%)	849	838	1%

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

Total	\$	706	\$	679	4%	\$	2,161	\$	2,022	7%
12										

---

**Table of Contents**

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

For the three and nine months ended September 30, 2008, selling, general and administrative expenses increased primarily due to higher employee and marketing costs. Employee costs increased primarily due to headcount and salary increases and marketing costs increased primarily due to intensified marketing efforts. Other costs for the three and nine months ended September 30, 2008 included a benefit of approximately \$13 million due to changes in estimates of previously established casualty insurance accruals. Excluding this benefit, other costs increased primarily due to higher miscellaneous administrative costs.

*Merger-related and restructuring costs.* For the three and nine months ended September 30, 2007, the Company expensed non-capitalizable merger-related costs associated with the 2006 transactions with Adelphia Communications Corporation and Comcast of \$3 million and \$10 million, respectively. In addition, the results included restructuring costs of \$8 million and \$14 million for the three and nine months ended September 30, 2008, respectively, and \$1 million and \$10 million for the three and nine months ended September 30, 2007, respectively.

*Loss on cable systems held for sale.* During the nine months ended September 30, 2008, the Company recorded a pretax impairment loss of \$45 million as a result of the anticipated sale of certain non-core cable systems, which is expected to close during the fourth quarter of 2008. See Overview Recent Developments Sale of Certain Cable Systems for further details.

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

	Three Months Ended			Nine Months Ended		
	September 30,		% Change	September 30,		% Change
	2008	2007		2008	2007	
Net income	\$ 301	\$ 248	21%	\$ 820	\$ 796	3%
Income tax provision	203	166	22%	550	525	5%
Income before income taxes	504	414	22%	1,370	1,321	4%
Interest expense, net	229	227	1%	647	681	(5%)
(Income) loss from equity investments, net	(2)	3	(167%)	(12)	(4)	200%
Minority interest expense, net	57	38	50%	144	117	23%
Other expense (income), net		(1)	(100%)	13	(144)	(109%)
Operating Income	788	681	16%	2,162	1,971	10%
Depreciation	700	683	2%	2,123	2,001	6%
Amortization	66	64	3%	196	207	(5%)
OIBDA	\$ 1,554	\$ 1,428	9%	\$ 4,481	\$ 4,179	7%

*OIBDA.* OIBDA increased for the three and nine months ended September 30, 2008 principally as a result of revenue growth (particularly in high margin high-speed data revenues), partially offset by higher costs of revenues and selling, general and administrative expenses. Additionally, as discussed above, OIBDA 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 the cable systems in southeast Texas and Ohio, and OIBDA for the nine months ended September 30, 2008 was also impacted by the loss of \$45 million on cable systems held for sale.

*Depreciation expense.* The increase in depreciation expense for the three and nine months ended September 30, 2008 was primarily associated with purchases of customer premise equipment, scalable infrastructure and line extensions (each of which is primarily driven by customer demand) occurring during or subsequent to the comparable period in 2007.

*Amortization expense.* Amortization expense for the nine months ended September 30, 2008 decreased primarily due to the absence of amortization expense associated with customer relationships recorded in connection with the 2003 restructuring of TWE, which were fully amortized as of the end of the first quarter of 2007.

**Table of Contents**

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

*Operating Income.* Operating Income increased for the three and nine months ended September 30, 2008 primarily due to the increase in OIBDA (which, for the nine months ended September 30, 2008, included the loss on cable systems held for sale), partially offset by the increase in depreciation expense, as discussed above.

*Interest expense, net.* As discussed in Overview Recent Developments Separation from Time Warner, interest expense, net, for the three and nine months ended September 30, 2008 included financing costs of \$50 million and \$87 million, respectively, related to the 2008 Bond Offering and the 2008 Bridge Facility. Excluding the financing costs related to the Separation Transactions, interest expense, net, for the three and nine months ended September 30, 2008 decreased due to lower net debt (as defined below) and lower average interest rates on the Company's variable-rate borrowings. Additionally, interest expense, net, for the nine months ended September 30, 2008 was impacted by the April 2007 issuance of fixed rate debt securities, the net proceeds of which were used in part to repay variable-rate debt with lower interest rates.

*Minority interest expense, net.* Minority interest expense, net, for the three and nine months ended September 30, 2008 increased primarily due to larger profits recorded by TW NY during 2008.

*Other expense (income), net.* Other expense, net, for the nine months ended September 30, 2008 included \$15 million of direct transaction costs (e.g., legal and professional fees) related to the Separation Transactions, of which \$3 million was incurred in the third quarter of 2008. Additionally, other expense, net for the nine months ended September 30, 2008 included an \$8 million impairment charge on an equity-method investment and a pretax gain of \$9 million recorded on the sale of a cost-method investment. During the nine months ended September 30, 2007, the Company recorded a pretax gain of \$146 million as a result of the distribution of the assets of Texas and Kansas City Cable Partners, L.P. to TWC and Comcast on January 1, 2007, which was treated as a sale of the Company's 50% equity interest in the pool of assets consisting of the Houston cable systems (the TKCCP Gain).

*Income before income taxes.* Income before income taxes for the three months ended September 30, 2008 increased primarily due to an increase in Operating Income, partially offset by an increase in minority interest expense, net. Income before income taxes for the nine months ended September 30, 2008 increased primarily due to an increase in Operating Income (which included the loss on cable systems held for sale) and a decrease in interest expense, net, partially offset by the TKCCP Gain recorded in other income, net in the first quarter of 2007, as discussed above and an increase in minority interest expense, net.

*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, 2008 and 2007, the Company recorded income tax provisions of \$203 million and \$166 million, respectively. For the nine months ended September 30, 2008 and 2007, the Company recorded income tax provisions of \$550 million and \$525 million, respectively. The effective tax rate was 40% for both the three and nine months ended September 30, 2008 and 2007.

*Net income and net income per common share.* Net income was \$301 million for the three months ended September 30, 2008 compared to \$248 million for the three months ended September 30, 2007. Basic and diluted net income per common share were \$0.31 for the three months ended September 30, 2008 compared to \$0.25 for the three months ended September 30, 2007. Net income was \$820 million for the nine months ended September 30, 2008 compared to \$796 million for the nine months ended September 30, 2007. Basic and diluted net income per common share were \$0.84 for the nine months ended September 30, 2008 compared to \$0.81 for the nine months ended September 30, 2007.

**Table of Contents**

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

**FINANCIAL CONDITION AND LIQUIDITY**

Management believes that cash generated by or available to TWC should be sufficient to fund its capital and liquidity needs for the foreseeable future, including the expected payment of \$10.855 billion for the Special Dividend and the Company's expected investment in the Sprint/Clearwire Joint Venture. TWC's sources of cash include cash provided by operating activities, cash and equivalents on hand, borrowing capacity under its committed credit facilities (including the 2008 Bridge Facility, under which TWC may not borrow any amounts unless and until the Special Dividend is declared in connection with the Separation) and commercial paper program, as well as access to capital markets.

TWC's unused committed capacity was \$12.604 billion as of September 30, 2008, reflecting \$3.090 billion of cash and equivalents, \$5.743 billion of available borrowing capacity under the Company's \$6.0 billion senior unsecured five-year revolving credit facility (the Cable Revolving Facility) and \$3.771 billion of borrowing capacity under the 2008 Bridge Facility. TWC may not borrow any amounts under the 2008 Bridge Facility unless and until the Special Dividend is declared in connection with the Separation. Borrowings under the Supplemental Facility are only available to the Company at the final maturity of the 2008 Bridge Facility to repay amounts then outstanding under the 2008 Bridge Facility, if any, and are not included in TWC's unused committed capacity. See Outstanding Debt and Mandatorily Redeemable Preferred Equity and Available Financial Capacity Lending Commitments below for a discussion regarding the Company's decision to exclude funding commitments from subsidiaries of Lehman Brothers Holdings Inc. in determining the amount of its unused committed capacity.

**Current Financial Condition**

As of September 30, 2008, the Company had \$15.748 billion of debt, \$3.090 billion of cash and equivalents (net debt of \$12.658 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 \$25.589 billion of shareholders' equity. As of December 31, 2007, the Company had \$13.577 billion of debt, \$232 million of cash and equivalents (net debt of \$13.345 billion), \$300 million of TW NY Cable Preferred Membership Units and \$24.706 billion of shareholders' equity.

The following table shows the significant items contributing to the decrease in net debt from December 31, 2007 to September 30, 2008 (in millions):

Balance as of December 31, 2007 <sup>(a)</sup>	\$ 13,345
Cash provided by operating activities	(3,864)
Capital expenditures	2,582
Debt issuance costs	87
Investments and acquisitions, net of cash acquired and distributions received <sup>(b)</sup>	525
All other, net	(17)
Balance as of September 30, 2008 <sup>(a)</sup>	\$ 12,658

<sup>(a)</sup> Amounts include unamortized fair value adjustments of \$117 million and



\$126 million as of September 30, 2008 and December 31, 2007, respectively, which include the fair value adjustment recognized as a result of the merger of America Online, Inc. (now known as AOL LLC) and Time Warner Inc. (now known as Historic TW Inc.).

- (b) Amount includes the Company's \$490 million investment in The Reserve Fund. See below for further discussion.

As discussed in Overview Recent Developments 2008 Bond Offering and Additional Financing 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.

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

**Table of Contents**

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

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

The Company invests its cash and equivalents in a combination of money market, government and treasury funds, as well as bank certificates of deposit, in accordance with the Company's investment policy of diversifying its investments and limiting the amount of its investments in a single entity or fund. Consistent with the foregoing, the Company invested a portion of the cash proceeds of the 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. On October 31, 2008, the Company received \$249 million from The Reserve Fund representing its pro rata share of a partial distribution. The Company has not been informed as to when the remaining amount will be returned. However, the Company believes its remaining receivable is recoverable and will be distributed in the next twelve months as The Reserve Fund's investments mature. As a result of the status of The Reserve Fund, the Company has classified the \$490 million receivable from The Reserve Fund as of September 30, 2008 as prepaid expenses and other current assets on the Company's consolidated balance sheet and within investments and acquisitions, net of cash acquired and distributions received, on the Company's consolidated statement of cash flows.

In addition, as discussed in Overview Recent Developments Sprint/Clearwire Joint Venture, TWC is a participant in the Sprint/Clearwire Joint Venture, which is expected to close by the end of 2008. TWC's share of such investment is expected to be approximately \$550 million, which it expects to fund with cash on hand, borrowings under the Cable Revolving Facility, its commercial paper program or a combination thereof.

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

**Table of Contents**

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

**Cash Flows**

Cash and equivalents increased by \$2.858 billion and \$460 million for the nine months ended September 30, 2008 and 2007, 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 September 30,</b>	
	<b>2008</b>	<b>2007</b>
OIBDA	\$ 4,481	\$ 4,179
Noncash loss on cable systems held for sale	45	
Net interest payments <sup>(a)</sup>	(544)	(610)
Pension plan contributions	(176)	
Noncash equity-based compensation	64	49
Net income taxes paid <sup>(b)</sup>	(30)	(199)
Merger-related and restructuring payments, net of accruals <sup>(c)</sup>	(3)	(10)
Net cash flows from discontinued operations <sup>(d)</sup>		43
All other, net, including working capital changes	27	(199)
Cash provided by operating activities	\$ 3,864	\$ 3,253

(a) Amounts include interest income received of \$31 million and \$7 million for the nine months ended September 30, 2008 and 2007, respectively.

(b) Amounts include income tax refunds received of \$3 million and \$6 million for the nine months ended September 30, 2008 and 2007, respectively.

(c) Amounts include payments for

merger-related  
a n d  
restructuring  
c o s t s a n d  
payments for  
certain other  
merger-related  
liabilities, net of  
accruals.

(d) Amounts reflect  
w o r k i n g  
capital-related  
adjustments.

Cash provided by operating activities increased from \$3.253 billion for the nine months ended September 30, 2007 to \$3.864 billion for the nine months ended September 30, 2008. This increase was primarily related to an increase in OIBDA (primarily due to revenue growth, partially offset by increases in costs of revenues and selling, general and administrative expenses, as previously discussed), a change in working capital requirements, a decrease in net income tax payments and a decrease in net interest payments, partially offset by 2008 pension plan contributions and the absence in 2008 of cash flows from discontinued operations. The change in working capital requirements was primarily due to the timing of payments and collections of accounts receivable. The decrease in net income tax payments is primarily due to the impact of the Economic Stimulus Act of 2008, which was enacted in the first quarter of 2008 and provides for a bonus first year depreciation deduction of 50% of qualified property. The benefits of this legislation are applicable to certain of the Company's capital expenditures and are expected to continue to reduce the Company's net income tax payments during the fourth quarter of 2008.

As of December 31, 2007, the Company's funded defined benefit pension plans were fully funded. Between January 1, 2008 and October 31, 2008, the Company's plan assets have experienced estimated market losses of approximately \$400 million. The Company expects that the impact to the funded status of the defined benefit pension plans from these 2008 market losses will be at least partially offset by contributions made during the year and an expected increase in discount rates that will reduce the projected benefit obligation. The Company has made \$175 million of discretionary cash contributions to its funded defined benefit pension plans during the nine months ended September 30, 2008 (\$200 million through October 31, 2008) and, subject to market conditions and other considerations, the Company expects to make additional discretionary cash contributions totaling at least \$50 million during November and December. Discount rates for purposes of calculating TWC's projected benefit obligation are determined based on a hypothetical portfolio of high-quality bonds. In accordance with the accounting standards relating to pension accounting, the Company measures its projected benefit obligation annually, which is performed at the end of December. Each fifty basis point increase in the discount rate of 6.00% that was used to measure the projected benefit obligation as of December 31, 2007 would have resulted in an approximate \$100 million reduction in the projected benefit obligation.

**Table of Contents**

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

**Investing Activities**

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

	<b>Nine Months Ended September 30,</b>	
	<b>2008</b>	<b>2007</b>
Investments and acquisitions, net of cash acquired and distributions received:		
The Reserve Fund	\$ (490)	\$
Distributions received from an investee <sup>(a)</sup>		47
Wireless Joint Venture <sup>(b)</sup>	(3)	(30)
All other	(32)	(57)
Capital expenditures	(2,582)	(2,415)
Other investing activities	12	7
Cash used by investing activities	\$ (3,095)	\$ (2,448)

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

(b) Included in cash used for the Wireless Joint Venture in 2007 is a contribution of \$28 million to the Wireless Joint Venture to fund the Company's share of a payment to Sprint to purchase Sprint's interest in the Wireless Joint

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

Cash used by investing activities increased from \$2.448 billion for the nine months ended September 30, 2007 to \$3.095 billion for the nine months ended September 30, 2008. This increase was principally due to the classification of the Company's investment in The Reserve Fund as prepaid expenses and other current assets on the Company's consolidated balance sheet as a result of the status of the investment (as discussed above), as well as an increase in capital expenditures, driven by greater penetration of digital video, high-speed data and Digital Phone services, and the absence in 2008 of distributions received from an investee. This increase was partially offset by decreased investment spending relating to the Company's investment in the Wireless Joint Venture and other investments and acquisitions.

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

	<b>Nine Months Ended September 30,</b>	
	<b>2008</b>	<b>2007</b>
Customer premise equipment <sup>(a)</sup>	\$ 1,257	\$ 1,126
Scalable infrastructure <sup>(b)</sup>	415	378
Line extensions <sup>(c)</sup>	253	261
Upgrades/rebuilds <sup>(d)</sup>	233	213
Support capital <sup>(e)</sup>	424	437
<b>Total</b>	<b>\$ 2,582</b>	<b>\$ 2,415</b>

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

Customer premise equipment also includes materials and labor incurred to install the drop cable that connects a customer's dwelling or business to the closest point of the main distribution network.

- (b) Amounts represent costs incurred in the purchase and installation of equipment that controls signal reception, processing and transmission throughout TWC's distribution network, as well as controls and communicates with the equipment residing at a customer's home or business. Also included in scalable infrastructure is certain equipment necessary for content aggregation and distribution (video-on-demand equipment) and equipment necessary to provide certain video, high-speed data and Digital Phone service features (voicemail, e-mail, etc.).
- (c) Amounts represent costs incurred to extend TWC's distribution network into a

geographic area previously not served. These costs typically include network design, the purchase and installation of fiber optic and coaxial cable and certain electronic equipment.

- (d) Amounts primarily represent costs incurred to upgrade or replace certain existing components or an entire geographic area of TWC's distribution network. These costs typically include network design, the purchase and installation of fiber optic and coaxial cable and certain electronic equipment.
- (e) Amounts represent all other capital purchases required to run day-to-day operations. These costs typically include vehicles, land and buildings, computer hardware/software, office equipment, furniture and fixtures, tools and test equipment. Amounts include capitalized software costs of \$137 million and \$125 million for the nine months ended September 30, 2008



a n d 2 0 0 7 ,  
respectively.

**Table of Contents**

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

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>2008</b>	<b>2007</b>
Borrowings (repayments), net <sup>(a)</sup>	\$ (207)	\$ (1,001)
Borrowings	5,203	7,683
Repayments	(2,817)	(6,921)
Debt issuance costs	(87)	(28)
Other financing activities	(3)	(78)
Cash provided (used) by financing activities	\$ 2,089	\$ (345)

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

Cash used by financing activities was \$345 million for the nine months ended September 30, 2007 compared to cash provided by financing activities of \$2.089 billion for the nine months ended September 30, 2008. Cash provided by financing activities for the nine months ended September 30, 2008 primarily included borrowings from the 2008 Bond Offering, partially offset by repayments under the Cable Revolving Facility and commercial paper program, repayment of matured long-term debt as previously discussed, and debt issuance costs relating to the 2008 Bond Offering and the 2008 Bridge Facility. Cash used by financing activities for the nine months ended September 30,

2007 included net repayments under the Company's debt obligations and payments for other financing activities.

**Free Cash Flow**

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

	<b>Nine Months Ended September 30,</b>	
	<b>2008</b>	<b>2007</b>
Cash provided by operating activities	\$ 3,864	\$ 3,253
Reconciling item:		
Adjustments relating to the operating cash flow of discontinued operations		(43)
Cash provided by continuing operating activities	3,864	3,210
Add: Excess tax benefit from exercise of stock options		6
Less:		
Capital expenditures	(2,582)	(2,415)
Partnership tax distributions, stock option distributions and principal payments on capital leases	(3)	(23)
Free Cash Flow	\$ 1,279	\$ 778

Table of Contents

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

Free Cash Flow increased from \$778 million for the nine months ended September 30, 2007 to \$1.279 billion for the nine months ended September 30, 2008 primarily as a result of an increase in cash provided by continuing operating activities, partially offset by an increase in capital expenditures, as discussed above.

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

Debt and mandatorily redeemable preferred equity as of September 30, 2008 and December 31, 2007 were as follows:

	Interest Rate at		Outstanding Balance as of	
	September 30, 2008	Maturity	September 30, 2008	December 31, 2007
			(in millions)	
Bank credit agreements and commercial paper program <sup>(a)(b)</sup>	3.309% <sup>(c)</sup>	2011	\$ 3,045	\$ 5,256
TWE notes and debentures <sup>(d)(e)</sup>	7.250% <sup>(f)</sup>	2008		601
	10.150% <sup>(f)</sup>	2012	264	267
	8.875% <sup>(f)</sup>	2012	363	365
	8.375% <sup>(f)</sup>	2023	1,039	1,040
	8.375% <sup>(f)</sup>	2033	1,051	1,053
TWC notes and debentures	5.400% <sup>(g)</sup>	2012	1,498	1,498
	6.200% <sup>(g)</sup>	2013	1,497	
	5.850% <sup>(g)</sup>	2017	1,996	1,996
	6.750% <sup>(g)</sup>	2018	1,998	
	6.550% <sup>(g)</sup>	2037	1,491	1,491
	7.300% <sup>(g)</sup>	2038	1,496	
TW NY Cable Preferred Membership Units	8.210%	2013	300	300
Capital leases and other			10	10
Total			\$ 16,048	\$ 13,877

(a) TWC's unused committed capacity was \$12.604 billion as of September 30, 2008, reflecting \$3.090 billion in cash and equivalents, \$5.743 billion of available borrowing capacity under the Cable Revolving

Facility and \$3.771 billion of borrowing capacity under the 2008 Bridge Facility. TWC may not borrow any amounts under the 2008 Bridge Facility unless and until the Special Dividend is declared in connection with the Separation. TWC's unused committed capacity was \$3.881 billion as of December 31, 2007, reflecting \$232 million in cash and equivalents and \$3.649 billion of available borrowing capacity under the Cable Revolving Facility. TWC's available borrowing capacity as of September 30, 2008 and December 31, 2007 reflect a reduction of \$132 million and \$135 million, respectively, for outstanding letters of credit backed by the Cable Revolving Facility.

- (b) Outstanding balance amount as of December 31, 2007 excludes an

unamortized discount on commercial paper of \$5 million (none as of September 30, 2008).

- (c) Rate represents a weighted-average interest rate.
- (d) Amounts include an unamortized fair value adjustment of \$117 million and \$126 million as of September 30, 2008 and December 31, 2007, respectively.
- (e) As of December 31, 2007, the Company classified \$601 million of TWE 7.25% debentures due September 1, 2008 as long-term in the consolidated balance sheet to reflect management's intent and ability to refinance the obligation on a long-term basis through the utilization of the Company's unused committed capacity.
- (f) Rate represents the stated rate at original issuance. The effective weighted-average interest rate for

the TWE notes and debentures in the aggregate is 7.80% at September 30, 2008.

- (g) Rate represents the stated rate at original issuance. The effective weighted-average interest rate for the TWC notes and debentures in the aggregate is 6.38% at September 30, 2008.

See Overview Recent Developments 2008 Bond Offering and Additional Financing Commitments, Note 4 to the accompanying consolidated financial statements and the 2007 Form 10-K for further details regarding the Company's outstanding debt and mandatorily redeemable preferred equity and other financing arrangements, including certain information about maturities, covenants, rating triggers and bank credit agreement leverage ratios relating to such debt and financing arrangements.

**Table of Contents**

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

***Lending Commitments***

As noted above, as of September 30, 2008, TWC had \$5.743 billion of available borrowing capacity under the Cable Revolving Facility and \$3.771 billion of borrowing capacity under the 2008 Bridge Facility. TWC may not borrow any amounts under the 2008 Bridge Facility unless and until the Special Dividend is declared in connection with the Separation. The 2008 Bridge Facility consists of commitments of approximately \$269 million from each of 14 institutions, consisting of affiliates of Bank of America, N.A., The Bank of Tokyo-Mitsubishi UFJ, LTD., Barclays Bank Plc, BNP Paribas Securities Corp., Citibank, N.A., Deutsche Bank AG, Fortis Bank SA/NV, Goldman Sachs Bank USA, Mizuho Corporate Bank, LTD., Morgan Stanley Bank, The Royal Bank of Scotland PLC, Sumitomo Mitsui Banking Corporation, UBS Loan Finance LLC and Wachovia Bank, National Association. These same financial institutions also comprise approximately 70% of the commitments under the Cable Revolving Facility. Recently, a number of these lenders have entered into agreements to acquire or to be acquired by other financial institutions. TWC believes that these transactions will not adversely affect the commitments under the 2008 Bridge Facility and the Cable Revolving Facility. The Company's bank credit agreements do not contain borrowing restrictions due to material adverse changes in the Company's business or market disruption. For a discussion of the terms of the Company's bank credit agreements, see Note 8 to the Company's consolidated financial statements included in the 2007 Form 10-K.

In addition, Lehman Brothers Commercial Bank (LBCB) and Lehman Brothers Bank, FSB (LBB), subsidiaries of Lehman, are lenders under the 2008 Bridge Facility and the Cable Revolving Facility, respectively, with undrawn commitments of \$269 million and \$125 million, respectively. On September 15, 2008, Lehman Brothers Holdings Inc. (Lehman) filed a petition under Chapter 11 of the U.S. Bankruptcy Code with the U.S. Bankruptcy Court for the Southern District of New York (the Lehman Bankruptcy). TWC has not requested to borrow under either the 2008 Bridge Facility or the Cable Revolving Facility since the Lehman Bankruptcy, and neither LBCB nor LBB has been placed in receivership or a similar proceeding as of November 4, 2008. While the Company believes that LBCB and LBB are contractually obligated under the 2008 Bridge Facility and the Cable Revolving Facility, respectively, it is uncertain whether LBCB or LBB would fund its respective portion of any future borrowing requests or whether another lender might assume such commitments. Accordingly, the Company's unused committed capacity as of September 30, 2008 excludes the undrawn commitments of LBCB and LBB. The Company believes that it continues to have sufficient liquidity to meet its needs for the foreseeable future, including payment of the Special Dividend, even if LBCB and/or LBB fails to fund its portion of any future borrowing requests.

**Time Warner Approval Rights**

Under a shareholder agreement entered into between TWC and Time Warner on April 20, 2005 (the Shareholder Agreement), TWC is required to obtain Time Warner's approval prior to incurring additional debt (except for ordinary course issuances of commercial paper or borrowings under the Cable Revolving Facility up to the limit of that credit facility, to which Time Warner has consented) or rental expenses (other than with respect to certain approved leases) or issuing preferred equity, if its consolidated ratio of debt, including preferred equity, plus six times its annual rental expense to EBITDAR (the TW Leverage Ratio) then exceeds, or would as a result of the incurrence or issuance exceed, 3:1. Under certain circumstances, TWC is required to include the indebtedness, annual rental expense obligations and EBITDAR of certain unconsolidated entities that it manages and/or in which it owns an equity interest, in the calculation of the TW Leverage Ratio. The Shareholder Agreement defines EBITDAR, at any time of measurement, as operating income plus depreciation, amortization and rental expense (for any lease that is not accounted for as a capital lease) for the twelve months ending on the last day of TWC's most recent fiscal quarter, including certain adjustments to reflect the impact of significant transactions as if they had occurred at the beginning of the period. In the Separation Agreement, Time Warner agreed that the calculation of indebtedness under the Shareholder Agreement would exclude any indebtedness incurred pursuant to the 2008 Bridge Facility and any indebtedness that reduces, on a dollar-for-dollar basis, the commitments of the lenders under the 2008 Bridge Facility.





**Table of Contents**

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

The following table sets forth the calculation of the TW Leverage Ratio, as amended by the Separation Agreement, for the twelve months ended September 30, 2008 (in millions, except ratio):

Total debt as defined by the Shareholder Agreement, as amended	\$ 10,788
TW NY Cable Preferred Membership Units	300
Six times annual rental expense	1,116
 Total	 \$ 12,204
 EBITDAR	 \$ 6,275
 TW Leverage Ratio	 1.94x

**CAUTION CONCERNING FORWARD-LOOKING STATEMENTS**

This document contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, particularly statements anticipating future growth in revenues, OIBDA, cash provided by operating activities and other financial measures. Words such as anticipates, estimates, expects, projects, intends, plans, and words and terms of similar substance used in connection with any discussion of future operating or financial performance identify forward-looking statements. These forward-looking statements are based on management's current expectations and beliefs about future events. As with any projection or forecast, they are inherently susceptible to uncertainty and changes in circumstances, and the Company is under no obligation to, and expressly disclaims any obligation to, update or alter its forward-looking statements whether as a result of such changes, new information, subsequent events or otherwise.

Various factors could adversely affect the operations, business or financial results of TWC in the future and cause TWC's actual results to differ materially from those contained in the forward-looking statements, including those factors discussed in detail in Item 1A, Risk Factors, in the 2007 Form 10-K and the June 2008 Form 10-Q, which should be read in conjunction with this report, and in TWC's other filings made from time to time with the SEC after the date of this report. In addition, the Company operates in a highly competitive, consumer and technology-driven and rapidly changing business. The Company's business is affected by government regulation, economic, strategic, political and social conditions, consumer response to new and existing products and services, technological developments and, particularly in view of new technologies, its continued ability to protect and secure any necessary intellectual property rights. TWC's actual results could differ materially from management's expectations because of changes in such factors.

Further, lower than expected valuations associated with the Company's cash flows and revenues may result in the Company's inability to realize the value of recorded intangibles and goodwill. Additionally, achieving the Company's financial objectives could be adversely affected by the factors discussed in detail in Item 1A, Risk Factors, in the 2007 Form 10-K and the June 2008 Form 10-Q, as well as:

a continuation of the current economic slowdown or further deterioration in the economy;

the impact of terrorist acts and hostilities;

changes in the Company's plans, strategies and intentions;

the impacts of significant acquisitions, dispositions and other similar transactions, including the Company's planned separation from Time Warner;

the failure to meet earnings expectations; and

any reduction in the Company's ability to access the capital markets for debt securities or bank financings, including as a result of current liquidity issues affecting the capital markets.

**Table of Contents**

**TIME WARNER CABLE INC.**

**Item 4. CONTROLS AND PROCEDURES**

**Item 4. Controls and Procedures.**

**Evaluation of Disclosure Controls and Procedures**

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

**Changes in Internal Control Over Financial Reporting**

There have not been any changes in the Company's internal control over financial reporting during the quarter ended September 30, 2008 that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

**Table of Contents**

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

	<b>September 30, 2008</b>	<b>December 31, 2007</b>
	(in millions)	
<b>ASSETS</b>		
Current assets:		
Cash and equivalents	\$ 3,090	\$ 232
Receivables, less allowances of \$92 million and \$87 million as of September 30, 2008 and December 31, 2007, respectively	727	743
Receivables from affiliated parties	81	2
Deferred income tax assets	93	91
Prepaid expenses and other current assets	620	95
<b>Total current assets</b>	<b>4,611</b>	<b>1,163</b>
Investments	730	735
Property, plant and equipment, net	13,304	12,873
Intangible assets subject to amortization, net	549	719
Intangible assets not subject to amortization	38,906	38,925
Goodwill	2,101	2,117
Other assets	213	68
<b>Total assets</b>	<b>\$ 60,414</b>	<b>\$ 56,600</b>
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 403	\$ 417
Deferred revenue and subscriber-related liabilities	157	164
Payables to affiliated parties	196	204
Accrued programming expense	524	509
Other current liabilities	1,323	1,237
Current liabilities of discontinued operations		5
<b>Total current liabilities</b>	<b>2,603</b>	<b>2,536</b>
Long-term debt	15,748	13,577
Mandatorily redeemable preferred equity membership units issued by a subsidiary	300	300
Deferred income tax liabilities, net	13,959	13,291
Long-term payables to affiliated parties	19	36
Other liabilities	385	430
Minority interests	1,811	1,724
Commitments and contingencies (Note 11)		
Shareholders' equity:		
Class A common stock, \$0.01 par value, 902 million shares issued and outstanding as of September 30, 2008 and December 31, 2007	9	9

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

Class B common stock, \$0.01 par value, 75 million shares issued and outstanding as of September 30, 2008 and December 31, 2007	1	1
Paid-in-capital	19,478	19,411
Accumulated other comprehensive loss, net	(177)	(174)
Retained earnings	6,278	5,459
Total shareholders' equity	25,589	24,706
Total liabilities and shareholders' equity	\$ 60,414	\$ 56,600

See accompanying notes.

**Table of Contents**

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

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
	<b>(in millions, except per share data)</b>		<b>(in millions, except per share data)</b>	
Revenues:				
Subscription:				
Video	\$ 2,639	\$ 2,530	\$ 7,878	\$ 7,613
High-speed data	1,056	942	3,082	2,760
Voice	421	308	1,184	857
<b>Total Subscription</b>	<b>4,116</b>	<b>3,780</b>	<b>12,144</b>	<b>11,230</b>
Advertising	224	221	654	636
<b>Total revenues<sup>(a)</sup></b>	<b>4,340</b>	<b>4,001</b>	<b>12,798</b>	<b>11,866</b>
Costs and expenses:				
Costs of revenues <sup>(a)(b)</sup>	2,072	1,890	6,097	5,645
Selling, general and administrative <sup>(a)(b)</sup>	706	679	2,161	2,022
Depreciation	700	683	2,123	2,001
Amortization	66	64	196	207
Loss on cable systems held for sale			45	
Merger-related and restructuring costs	8	4	14	20
<b>Total costs and expenses</b>	<b>3,552</b>	<b>3,320</b>	<b>10,636</b>	<b>9,895</b>
<b>Operating Income</b>	<b>788</b>	<b>681</b>	<b>2,162</b>	<b>1,971</b>
Interest expense, net	(229)	(227)	(647)	(681)
Income (loss) from equity investments, net	2	(3)	12	4
Minority interest expense, net	(57)	(38)	(144)	(117)
Other income (expense), net		1	(13)	144
<b>Income before income taxes</b>	<b>504</b>	<b>414</b>	<b>1,370</b>	<b>1,321</b>
Income tax provision	(203)	(166)	(550)	(525)
<b>Net income</b>	<b>\$ 301</b>	<b>\$ 248</b>	<b>\$ 820</b>	<b>\$ 796</b>
Basic net income per common share	\$ 0.31	\$ 0.25	\$ 0.84	\$ 0.81
Average basic common shares outstanding	977.0	976.9	976.9	976.9
Diluted net income per common share	\$ 0.31	\$ 0.25	\$ 0.84	\$ 0.81
Average diluted common shares outstanding	978.2	977.5	977.7	977.2

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

	<b>Three Months Ended September 30, 2008</b>		<b>Nine Months Ended September 30, 2008</b>	
	<b>2007</b>	<b>2007</b>	<b>2007</b>	<b>2007</b>
	<b>(in millions)</b>		<b>(in millions)</b>	
Revenues	\$ 11	\$ 6	\$ 18	\$ 15
Costs of revenues	(268)	(249)	(807)	(776)
Selling, general and administrative	(4)	(4)	(11)	(12)

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

See accompanying notes.



**Table of Contents**

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

	<b>Nine Months Ended September 30,</b>	
	<b>2008</b>	<b>2007</b>
	<b>(in millions)</b>	
<b>OPERATING ACTIVITIES</b>		
Net income	\$ 820	\$ 796
Adjustments for noncash and nonoperating items:		
Depreciation and amortization	2,319	2,208
Pretax gain on sale of 50% equity interest in the Houston Pool of TKCCP		(146)
Pretax gain on sale of cost-method investment	(9)	
Pretax loss on cable systems held for sale	45	
(Income) loss from equity investments, net of cash distributions	(4)	13
Pretax impairment loss on equity-method investment	8	
Minority interest expense, net	144	117
Deferred income taxes	601	225
Equity-based compensation	64	49
Changes in operating assets and liabilities, net of acquisitions:		
Receivables	6	5
Accounts payable and other liabilities	(47)	(65)
Other changes	(83)	8
Adjustments relating to discontinued operations		43
Cash provided by operating activities	3,864	3,253
<b>INVESTING ACTIVITIES</b>		
Investments and acquisitions, net of cash acquired and distributions received	(525)	(40)
Capital expenditures	(2,582)	(2,415)
Proceeds from sale of cost-method investment	9	
Proceeds from disposal of property, plant and equipment	3	7
Cash used by investing activities	(3,095)	(2,448)
<b>FINANCING ACTIVITIES</b>		
Borrowings (repayments), net <sup>(a)</sup>	(207)	(1,001)
Borrowings <sup>(b)</sup>	5,203	7,683
Repayments <sup>(b)</sup>	(2,817)	(6,921)
Debt issuance costs	(87)	(28)
Excess tax benefit from exercise of stock options		6
Principal payments on capital leases		(3)
Distributions to owners, net	(3)	(20)
Other		(61)
Cash provided (used) by financing activities	2,089	(345)
<b>INCREASE IN CASH AND EQUIVALENTS</b>	<b>2,858</b>	<b>460</b>

<b>CASH AND EQUIVALENTS AT BEGINNING OF PERIOD</b>	232	51
<b>CASH AND EQUIVALENTS AT END OF PERIOD</b>	\$ 3,090	\$ 511

(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.

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

See accompanying notes.

**Table of Contents**

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

	<b>Nine Months Ended</b>	
	<b>September 30,</b>	
	<b>2008</b>	<b>2007</b>
	<b>(in millions)</b>	
<b>BALANCE AT BEGINNING OF PERIOD</b>	\$ 24,706	\$ 23,564
Net income	820	796
Other comprehensive income	(3)	7
Comprehensive income	817	803
Impact of adopting new accounting pronouncements <sup>(a)</sup>	(1)	(34)
Equity-based compensation	64	49
Allocations from Time Warner and other, net	3	18
<b>BALANCE AT END OF PERIOD</b>	<b>\$ 25,589</b>	<b>\$ 24,400</b>

(a) The amounts relate to the impact of adopting the provisions of Emerging Issues Task Force ( EITF ) Issue No. 06-10, *Accounting for Collateral Assignment Split-Dollar Life Insurance Arrangements*, of \$(1) million for the nine months ended September 30, 2008, and EITF Issue No. 06-2, *Accounting for Sabbatical Leave and Other Similar Benefits*, of \$(37) million, partially offset by the impact of

adopting the provisions of Financial Accounting Standards Board Interpretation No. 48, *Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109*, of \$3 million for the nine months e n d e d September 30, 2007.

See accompanying notes.

**Table of Contents**

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

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

**Description of Business**

Time Warner Cable Inc. (together with its subsidiaries, TWC or the Company) is the second-largest cable operator in the U.S., with technologically advanced, well-clustered systems located mainly in five geographic areas New York State (including New York City), the Carolinas, Ohio, southern California (including Los Angeles) and Texas. As of September 30, 2008, TWC served approximately 14.7 million customers who subscribed to one or more of its video, high-speed data and voice services, representing approximately 34.2 million revenue generating units.

Time Warner Inc. (Time Warner) owns approximately 84% of the common stock of TWC (representing a 90.6% voting interest), and also owns an indirect 12.43% non-voting common stock interest in TW NY Cable Holding Inc. (TW NY), a subsidiary of TWC. The financial results of TWC's operations are consolidated by Time Warner. On May 20, 2008, TWC and its subsidiaries, Time Warner Entertainment Company, L.P. (TWE) and TW NY, entered into a Separation Agreement (the Separation Agreement) with Time Warner and its subsidiaries, Warner Communications Inc. (WCI), Historic TW Inc. (Historic TW) and American Television and Communications Corporation (ATC), the terms of which will govern TWC's legal and structural separation from Time Warner. Refer to Note 3 for further details.

TWC principally offers three services video, high-speed data and voice over its broadband cable systems. TWC markets its services separately and in bundled packages of multiple services and features. As of September 30, 2008, 53% of TWC's customers subscribed to two or more of its primary services, including 20% of its customers who subscribed to all three primary services. Historically, TWC has focused primarily on residential customers, while also selling video, high-speed data and networking and transport services to commercial customers. During 2007, TWC also began selling voice services to small- and medium-sized businesses as part of an increased emphasis on its commercial business. In addition, TWC earns revenues by selling advertising time to national, regional and local customers.

Video is TWC's largest service in terms of revenues generated and, as of September 30, 2008, TWC had approximately 13.3 million basic video subscribers, of which approximately 8.6 million subscribed to TWC's digital video service. Although providing video services is a competitive and highly penetrated business, TWC continues to increase video revenues through the offering of advanced digital video services, as well as through price increases and digital video subscriber growth. TWC's digital video subscribers provide a broad base of potential customers for additional services.

As of September 30, 2008, TWC had approximately 8.3 million residential high-speed data subscribers. TWC also offers commercial high-speed data services and had 295,000 commercial high-speed data subscribers as of September 30, 2008.

As of September 30, 2008, TWC had approximately 3.6 million residential Digital Phone subscribers. TWC rolled out Business Class Phone, a commercial Digital Phone service, to small- and medium-sized businesses during 2007 in the majority of its systems and has nearly completed the roll-out in the remainder of its systems during the first nine months of 2008. As of September 30, 2008, TWC had 23,000 commercial Digital Phone subscribers.

**Table of Contents**

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

**Basis of Presentation*****Basis of Consolidation***

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

***Use of Estimates***

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

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

***Reclassifications***

Certain reclassifications have been made to the prior year's financial information to conform to the September 30, 2008 presentation.

***Interim Financial Statements***

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

***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 cash proceeds of the 2008 Bond Offering (as defined below) in The Reserve Fund's Primary Fund (The Reserve Fund). On the

**Table of Contents**

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

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. On October 31, 2008, the Company received \$249 million from The Reserve Fund representing its pro rata share of a partial distribution. The Company has not been informed as to when the remaining amount will be returned. However, the Company believes its remaining receivable is recoverable and will be distributed in the next twelve months as The Reserve Fund's investments mature. As a result of the status of The Reserve Fund, the Company has classified the \$490 million receivable from The Reserve Fund as of September 30, 2008 as prepaid expenses and other current assets on the Company's consolidated balance sheet and within investments and acquisitions, net of cash acquired and distributions received, on the Company's consolidated statement of cash flows.

**Net Income per Common Share**

Basic net income per common share is computed by dividing net income by the weighted average of common shares outstanding during the period. Weighted-average common shares include shares of Class A common stock and Class B common stock. Diluted net income per common share adjusts basic net income per common share for the effects of stock options and restricted stock units only in the periods in which such effect is dilutive. Set forth below is a reconciliation of basic and diluted net income per common share (in millions, except per share data):

	<b>Three Months Ended September 30, 2008</b>		<b>Nine Months Ended September 30, 2008</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
Net income	\$ 301	\$ 248	\$ 820	\$ 796
Average common shares outstanding basic	977.0	976.9	976.9	976.9
Dilutive effect of equity awards	1.2	0.6	0.8	0.3
Average common shares outstanding diluted	978.2	977.5	977.7	977.2
Net income per common share:				
Basic	\$ 0.31	\$ 0.25	\$ 0.84	\$ 0.81
Diluted	\$ 0.31	\$ 0.25	\$ 0.84	\$ 0.81

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

On January 1, 2008, the Company adopted the provisions of Emerging Issues Task Force (EITF) Issue No. 06-1, *Accounting for Consideration Given by a Service Provider to Manufacturers or Resellers of Equipment Necessary for an End-Customer to Receive Service from the Service Provider* (EITF 06-1). EITF 06-1 provides that consideration provided to the manufacturers or resellers of specialized equipment should be accounted for as a reduction of revenue if the consideration provided is in the form of cash and the service provider directs that such cash be provided directly to the customer. Otherwise, the consideration should be recorded as an expense. The adoption of the provisions of EITF 06-1 did not have a material impact on the Company's consolidated financial statements.

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

On January 1, 2008, the Company adopted the provisions of EITF Issue No. 06-10, *Accounting for Collateral Assignment Split-Dollar Life Insurance Arrangements* ( EITF 06-10 ), which requires that a company recognize a liability for the postretirement benefits associated with collateral assignment split-dollar life insurance arrangements. The provisions of EITF 06-10 are applicable in instances where the



**Table of Contents**

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

Company has contractually agreed to maintain a life insurance policy (i.e., the Company pays the premiums) for an employee in periods in which the employee is no longer providing services. The adoption of EITF 06-10 did not have a material impact on the Company's consolidated financial statements.

***Fair Value Measurements***

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

**Recent Accounting Standards Not Yet Adopted*****Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities***

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

***Business Combinations***

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

***Noncontrolling Interests***

In December 2007, the FASB issued Statement No. 160, *Noncontrolling Interests in Consolidated Financial Statements - an amendment of ARB No. 51* (FAS 160). The provisions of FAS 160 establish accounting and reporting standards for the noncontrolling interest in a subsidiary including the accounting treatment upon the deconsolidation of a subsidiary. The provisions of FAS 160 will be effective for TWC on January 1, 2009 and will be applied prospectively, except for the presentation of the noncontrolling interests, which for all prior periods will be reclassified to equity in the consolidated balance sheet and

Table of Contents

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

adjusted out of net income in the consolidated statement of operations. The Company is currently evaluating the impact the provisions of FAS 160 will have on the Company's consolidated financial statements.

**3. SEPARATION FROM TIME WARNER**

On May 20, 2008, TWC and its subsidiaries, TWE and TW NY, entered into the Separation Agreement with Time Warner and its subsidiaries, WCI, Historic TW and ATC. TWC's separation from Time Warner will take place through a series of related transactions, the occurrence of each of which is a condition to the next. First, Time Warner will complete certain internal restructuring transactions. Next, following the satisfaction or waiver of certain conditions, including those described below, Historic TW will transfer its 12.43% non-voting common stock interest in TW NY to TWC in exchange for 80 million newly issued shares of TWC's Class A common stock (the TW NY Exchange). Following the TW NY Exchange, Time Warner will complete certain additional restructuring steps that will make Time Warner the direct owner of all shares of TWC's Class A common stock and Class B common stock previously held by its subsidiaries (all of Time Warner's restructuring transaction steps being referred to collectively as the TW Internal Restructuring). Upon completion of the TW Internal Restructuring, TWC's board of directors or a committee thereof will declare a special cash dividend to holders of TWC's outstanding Class A common stock and Class B common stock, including Time Warner, in an amount equal to \$10.27 per share (aggregating \$10.855 billion) (the Special Dividend). The Special Dividend will be paid prior to the completion of TWC's separation from Time Warner. Following the receipt by Time Warner of the Special Dividend, TWC will file with the Secretary of State of the State of Delaware an amended and restated certificate of incorporation, pursuant to which, among other things, each outstanding share of TWC Class A common stock (including any shares of Class A common stock issued in the TW NY Exchange) and TWC Class B common stock will automatically be converted into one share of common stock, par value \$.01 per share (the TWC Common Stock) (the Recapitalization). Once the TW NY Exchange, the TW Internal Restructuring, the payment of the Special Dividend and the Recapitalization have been completed, TWC's separation from Time Warner (the Separation) will proceed in the form of either a pro rata dividend of all shares of TWC Common Stock held by Time Warner to holders of Time Warner's common stock or through the consummation by Time Warner of an exchange offer of shares of TWC Common Stock for shares of Time Warner's common stock. If the Separation is effected as an exchange offer, after consummation of the exchange offer, Time Warner will distribute to its stockholders, as a pro rata dividend, any TWC Common Stock that it continues to hold. The distribution by Time Warner of all shares of TWC Common Stock held by Time Warner to its stockholders as (a) a pro rata dividend, (b) an exchange offer or (c) a combination thereof is referred to as the Distribution. The Separation, the TW NY Exchange, the TW Internal Restructuring, the Special Dividend, the Recapitalization and the Distribution collectively are referred to as the Separation Transactions.

The Special Dividend generally will constitute a dividend for United States federal income tax purposes to the extent paid from TWC's current or accumulated earnings and profits (e&p), as determined under United States federal income tax principles. Distributions in excess of e&p generally will constitute a return of capital that will be applied against and reduce (but not below zero) a stockholder's adjusted tax basis in TWC Class A and Class B common stock. Any remaining excess will be treated as a gain as if realized on the sale or other disposition of the stock. The Company currently expects that between 35% and 40% of the Special Dividend paid to the public stockholders would be taxed as a dividend. The remainder of the distribution would be characterized as a return of capital (to the extent of the stockholder's adjusted tax basis) and thereafter as a gain realized on the sale or other disposition of the stock. The foregoing estimate assumes that the Special Dividend is paid on December 31, 2008 and may change depending upon a number of factors, including completion of an ongoing e&p study, actual financial/tax results and the timing of the Special Dividend. The Company can make no assurances as to the tax treatment of the Special Dividend and stockholders should consult their own tax advisors on such tax treatment.

**Table of Contents**

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

Time Warner has the sole discretion, after consultation with TWC, to determine whether the Separation will be effected as a pro rata dividend or through an exchange offer with its stockholders, which decision has not yet been made.

The Separation Agreement contains customary covenants, and consummation of the Separation Transactions is subject to customary closing conditions, including customary regulatory reviews and local franchise approvals, the receipt by Time Warner of a private letter ruling from the Internal Revenue Service indicating that the Separation Transactions will generally qualify as tax-free for Time Warner and Time Warner's stockholders, the receipt of certain tax opinions and the entry into the 2008 Bridge Facility and the Supplemental Facility (each as defined in Note 4). Time Warner and TWC expect the Separation Transactions to be consummated by early 2009.

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

Debt and mandatorily redeemable preferred equity as of September 30, 2008 and December 31, 2007 were as follows:

	Face Amount	Interest Rate at September 30, 2008	Maturity	Outstanding Balance as of	
				September 30, 2008	December 31, 2007
				(in millions)	
Bank credit agreements and commercial paper program <sup>(a)(b)</sup>		3.309% <sup>(c)</sup>	2011	\$ 3,045	\$ 5,256
TWE notes and debentures <sup>(d)(e)</sup>	\$ 600	7.250% <sup>(f)</sup>	2008		601
	250	10.150% <sup>(f)</sup>	2012	264	267
	350	8.875% <sup>(f)</sup>	2012	363	365
	1,000	8.375% <sup>(f)</sup>	2023	1,039	1,040
	1,000	8.375% <sup>(f)</sup>	2033	1,051	1,053
TWC notes and debentures	1,500	5.400% <sup>(g)</sup>	2012	1,498	1,498
	1,500	6.200% <sup>(g)</sup>	2013	1,497	
	2,000	5.850% <sup>(g)</sup>	2017	1,996	1,996
	2,000	6.750% <sup>(g)</sup>	2018	1,998	
	1,500	6.550% <sup>(g)</sup>	2037	1,491	1,491
	1,500	7.300% <sup>(g)</sup>	2038	1,496	
TW NY Cable Preferred Membership Units	300	8.210%	2013	300	300
Capital leases and other				10	10
Total				\$ 16,048	\$ 13,877

(a) TWC's unused committed capacity was \$12.604 billion as of September 30, 2008, reflecting \$3.090 billion in cash and equivalents,

\$5.743 billion of available borrowing capacity under the Cable Revolving Facility and \$3.771 billion of borrowing capacity under the 2008 Bridge Facility. TWC may not borrow any amounts under the 2008 Bridge Facility unless and until the Special Dividend is declared in connection with the Separation. TWC's unused committed capacity was \$3.881 billion as of December 31, 2007, reflecting \$232 million in cash and equivalents and \$3.649 billion of available borrowing capacity under the Cable Revolving Facility. TWC's available borrowing capacity as of September 30, 2008 and December 31, 2007 reflect a reduction of \$132 million and \$135 million, respectively, for outstanding letters of credit backed by the Cable Revolving

- Facility.
- (b) Outstanding balance amount as of December 31, 2007 excludes an unamortized discount on commercial paper of \$5 million (none as of September 30, 2008).
  - (c) Rate represents a weighted-average interest rate.
  - (d) Amounts include an unamortized fair value adjustment of \$117 million and \$126 million as of September 30, 2008 and December 31, 2007, respectively.
  - (e) As of December 31, 2007, the Company classified \$601 million of TWE 7.25% debentures due September 1, 2008 as long-term in the consolidated balance sheet to reflect management's intent and ability to refinance the obligation on a long-term basis through the utilization of the Company's unused committed capacity. TWE's 7.25% debentures

due September 1, 2008 (aggregate principal amount of \$600 million) matured and were retired.

(f) Rate represents the stated rate at original issuance. The effective weighted-average interest rate for the TWE notes and debentures in the aggregate is 7 . 8 0 % a t September 30, 2008.

(g) Rate represents the stated rate at original issuance. The effective weighted-average interest rate for the TWC notes and debentures in the aggregate is 6 . 3 8 % a t September 30, 2008.

**Table of Contents**

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

Refer to the 2007 Form 10-K for further details regarding the Company's outstanding debt and mandatorily redeemable preferred equity and other financing arrangements entered into prior to 2008, including certain information about maturities, covenants, rating triggers and bank credit agreement leverage ratios relating to such debt and financing arrangements.

**Lending Commitments**

As noted above, as of September 30, 2008, TWC had \$5.743 billion of available borrowing capacity under the Cable Revolving Facility and \$3.771 billion of borrowing capacity under the 2008 Bridge Facility. TWC may not borrow any amounts under the 2008 Bridge Facility unless and until the Special Dividend is declared in connection with the Separation. The 2008 Bridge Facility consists of commitments of approximately \$269 million from each of 14 institutions, consisting of affiliates of Bank of America, N.A., The Bank of Tokyo-Mitsubishi UFJ, LTD., Barclays Bank Plc, BNP Paribas Securities Corp., Citibank, N.A., Deutsche Bank AG, Fortis Bank SA/NV, Goldman Sachs Bank USA, Mizuho Corporate Bank, LTD., Morgan Stanley Bank, The Royal Bank of Scotland PLC, Sumitomo Mitsui Banking Corporation, UBS Loan Finance LLC and Wachovia Bank, National Association. These same financial institutions also comprise approximately 70% of the commitments under the Cable Revolving Facility. Recently, a number of these lenders have entered into agreements to acquire or to be acquired by other financial institutions. TWC believes that these transactions will not adversely affect the commitments under the 2008 Bridge Facility and the Cable Revolving Facility. The Company's bank credit agreements do not contain borrowing restrictions due to material adverse changes in the Company's business or market disruption.

In addition, Lehman Brothers Commercial Bank (LBCB) and Lehman Brothers Bank, FSB (LBB), subsidiaries of Lehman, are lenders under the 2008 Bridge Facility and the Company's \$6.0 billion senior unsecured five-year revolving credit facility (the Cable Revolving Facility), respectively, with undrawn commitments of \$269 million and \$125 million, respectively. On September 15, 2008, Lehman Brothers Holdings Inc. (Lehman) filed a petition under Chapter 11 of the U.S. Bankruptcy Code with the U.S. Bankruptcy Court for the Southern District of New York (the Lehman Bankruptcy). TWC has not requested to borrow under either the 2008 Bridge Facility or the Cable Revolving Facility since the Lehman Bankruptcy, and neither LBCB nor LBB has been placed in receivership or a similar proceeding as of November 4, 2008. While the Company believes that LBCB and LBB are contractually obligated under the 2008 Bridge Facility and the Cable Revolving Facility, respectively, it is uncertain whether LBCB or LBB would fund its respective portion of any future borrowing requests or whether another lender might assume such commitments. Accordingly, the Company's unused committed capacity as of September 30, 2008 excludes the undrawn commitments of LBCB and LBB. The Company believes that it continues to have sufficient liquidity to meet its needs for the foreseeable future, including payment of the Special Dividend, even if LBCB and/or LBB fails to fund its portion of any future borrowing requests.

**2008 Bond Offering**

On June 16, 2008, TWC filed a shelf registration statement on Form S-3 (the Shelf Registration Statement) with the Securities and Exchange Commission that allows TWC to offer and sell from time to time senior and subordinated debt securities and debt warrants. On June 19, 2008, TWC issued \$5.0 billion in aggregate principal amount of senior unsecured notes and debentures under the Shelf Registration Statement (the 2008 Bond Offering), consisting of \$1.5 billion principal amount of 6.20% notes due 2013 (the 2013 Notes), \$2.0 billion principal amount of 6.75% notes due 2018 (the 2018 Notes) and \$1.5 billion principal amount of 7.30% debentures due 2038 (the 2038 Debentures) and, together with the 2013 Notes and the 2018 Notes, the 2008 Debt Securities). The Company expects to use the net proceeds of \$4.963 billion from this issuance to finance, in part, the Special Dividend. If the Separation is not consummated and the Special Dividend is not paid, the Company will use the net proceeds from the issuance of the 2008 Debt Securities for general corporate purposes, including repayment of indebtedness. Pending the payment of the Special Dividend, a portion of the net proceeds of the 2008 Bond Offering was

**Table of Contents**

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

used to repay variable-rate debt with lower interest rates and the remainder was invested in accordance with the Company's investment policy. The 2008 Debt Securities are guaranteed by TWE and TW NY (the Guarantors).

The 2008 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, 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 2013 Notes mature on July 1, 2013, the 2018 Notes mature on July 1, 2018 and the 2038 Debentures mature on July 1, 2038. Interest on the 2008 Debt Securities is payable semi-annually in arrears on January 1 and July 1 of each year, beginning on January 1, 2009. The 2008 Debt Securities are unsecured senior obligations of the Company and rank equally with its other unsecured and unsubordinated obligations. The guarantees of the 2008 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 2008 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 2008 Debt Securities being redeemed and (ii) the sum of the present values of the remaining scheduled payments on the 2008 Debt Securities discounted to the redemption date on a semi-annual basis at a government treasury rate plus 40 basis points for each of the 2013 Notes, 2018 Notes and the 2038 Debentures as further described in the Indenture and the 2008 Debt Securities, plus, in each case, accrued but unpaid interest to the redemption date.

**The 2008 Bridge Facility**

In addition to issuing the 2008 Debt Securities described above, on June 30, 2008, the Company entered into a credit agreement with certain financial institutions for a senior unsecured term loan facility in an aggregate principal amount of \$9.0 billion with an initial maturity date that is 364 days after the borrowing date (the 2008 Bridge Facility) in order to finance, in part, the Special Dividend. Subject to certain limited exceptions, to the extent the Company incurs debt (other than an incurrence of debt under the Cable Revolving Facility and its existing commercial paper program), issues equity securities or completes asset sales prior to drawing on the 2008 Bridge Facility, the commitments of the lenders under the 2008 Bridge Facility will be reduced by an amount equal to the net cash proceeds from any such incurrence, issuance or sale. As a result of the 2008 Bond Offering, the amount of the commitments of the lenders under the 2008 Bridge Facility was reduced to \$4.040 billion. As discussed above, the Company is not certain whether LBCB will fund its \$269 million in commitments under the 2008 Bridge Facility, and, therefore, the Company has included only \$3.771 billion of commitments under the 2008 Bridge Facility in its unused committed capacity as of September 30, 2008. The Company may elect to extend the maturity date of the loans outstanding under the 2008 Bridge Facility for an additional year. In the event the Company borrows any amounts under the 2008 Bridge Facility, subject to certain limited exceptions, the Company is required to use the net cash proceeds from any subsequent incurrence of debt (other than an incurrence of debt under the Cable Revolving Facility and its existing commercial paper program), issuance of equity securities and asset sale to prepay amounts outstanding under the 2008 Bridge Facility. The Company may prepay amounts outstanding under the 2008 Bridge Facility at any time without penalty or premium, subject to minimum amounts. TWC may not borrow any amounts under the 2008 Bridge Facility unless and until the Special Dividend is declared in connection with the Separation.

TWC's obligations under the 2008 Bridge Facility are guaranteed by TWE and TW NY. Amounts outstanding under the 2008 Bridge Facility will bear interest at a rate equal to LIBOR plus an applicable



**Table of Contents**

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

margin based on the Company's credit rating, which margin, at the time of the Separation, is expected to be 100 basis points. In addition, the per annum interest rate under the 2008 Bridge Facility will increase by 25 basis points every six months until all amounts outstanding under the 2008 Bridge Facility are repaid.

The 2008 Bridge Facility contains a maximum leverage ratio covenant of five times the consolidated EBITDA (as defined in the credit agreement) of TWC. The 2008 Bridge Facility also contains conditions, covenants, representations and warranties and events of default substantially identical to those contained in the Company's existing \$3.045 billion five-year term loan facility maturing on February 21, 2011.

The financial institutions' commitments to fund borrowings under the 2008 Bridge Facility will expire upon the earliest of (i) May 19, 2009, (ii) the date on which the Separation Agreement is terminated in accordance with its terms or (iii) the completion of the Separation.

**The Supplemental Facility**

In May 2008, Time Warner (as lender) committed to lend TWC (as borrower) up to an aggregate principal amount of \$3.5 billion under a two-year senior unsecured supplemental term loan facility (the Supplemental Facility). TWC may borrow under the Supplemental Facility at the final maturity of the 2008 Bridge Facility to repay amounts then outstanding under the 2008 Bridge Facility, if any. As a result of the 2008 Bond Offering, Time Warner's original commitment under the Supplemental Facility was reduced by \$980 million to \$2.520 billion. TWC's obligations under the Supplemental Facility will be guaranteed by TWE and TW NY.

Time Warner's commitment under the Supplemental Facility will be further reduced by (i) 50% of any additional amounts by which the commitments under the 2008 Bridge Facility are further reduced by the net cash proceeds of subsequent issuances of debt or equity or certain asset sales by the Company prior to the Company's borrowing under the 2008 Bridge Facility and (ii) the amount by which borrowing availability under the Cable Revolving Facility exceeds \$2.0 billion on the date of borrowing under the Supplemental Facility. After the date of borrowing under the Supplemental Facility, subject to certain limited exceptions, TWC is required to use the net cash proceeds from any incurrence of debt (other than an incurrence of debt under the Cable Revolving Facility and its existing commercial paper program), issuance of equity securities and asset sale to prepay amounts outstanding under the Supplemental Facility. In addition, (i) on any date on which the commitments under the Cable Revolving Facility are increased in excess of the current \$6.0 billion amount or (ii) on the last day of each fiscal quarter on which availability under the Cable Revolving Facility exceeds \$2.0 billion, TWC must use 100% of the excess amounts to prepay amounts outstanding under the Supplemental Facility. TWC may prepay amounts outstanding under the Supplemental Facility at any time without penalty or premium, subject to minimum amounts.

**Debt Issuance Costs**

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 2008 Bond Offering. For the nine months ended September 30, 2007, the Company capitalized debt issuance costs of \$28 million in connection with the \$5.0 billion in aggregate principal amount of senior unsecured notes and debentures issued on April 9, 2007. These capitalized costs are amortized over the term of the related debt instrument and are included as a component of interest expense. For the nine months ended September 30, 2008, the Company expensed \$33 million of debt issuance costs due primarily to the reduction of the commitments under the 2008 Bridge Facility as a result of the 2008 Bond Offering, which is included as a component of interest expense, net, in the consolidated statement of operations.

**Table of Contents**

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

**5. GOODWILL AND INDEFINITE-LIVED INTANGIBLE ASSETS IMPAIRMENT TESTING**

As discussed in more detail in the 2007 Form 10-K, goodwill and indefinite-lived intangible assets, primarily the Company's cable franchise rights, are tested annually for impairment during the fourth quarter, or earlier upon the occurrence of certain events or substantive changes in circumstances. As a result of entering into the Separation Agreement, the Company was required under FASB Statement No. 142, *Goodwill and Other Intangible Assets* ( FAS 142 ) to test goodwill and cable franchise rights as of May 20, 2008 (the interim testing date ).

The impairment test was performed on a basis consistent with the analysis performed as of December 31, 2007. In performing goodwill impairment testing, the Company determines the fair value of each reporting unit by using two valuation techniques: a discounted cash flow ( DCF ) analysis and a market-based approach. The Company determines the fair value of the cable franchise rights of a reporting unit using a DCF valuation analysis. A DCF valuation requires the exercise of significant judgments, including judgments about appropriate discount rates based on the assessment of risks inherent in the projected future cash flows and the amount and timing of expected future cash flows, including expected cash flows beyond the Company's current long-term business planning period. In assessing the reasonableness of its determined fair values, the Company evaluates its results against other value indicators such as comparable company public trading values, research analyst estimates and values observed in private market transactions.

The Company's interim impairment analysis did not result in any impairment charges during the second quarter of 2008. However, the fair values of the cable franchise rights in certain of the Company's reporting units, particularly the Texas reporting unit, were at or only modestly in excess of their carrying values. Accordingly, any future declines in the estimated fair values of the cable franchise rights in one or more of such reporting units would likely result in noncash cable franchise rights impairment charges.

To illustrate the magnitude of a potential impairment charge related to changes in estimated fair value, had the fair values of each of the reporting units and their respective cable franchise rights been lower by 10% as of the interim testing date, the Company would have recorded cable franchise rights impairment charges of approximately \$750 million, and had each of the fair values been lower by 20%, the Company would have recorded cable franchise rights impairment charges of approximately \$3.7 billion. In neither of these cases would the Company have been required to record goodwill impairment charges.

The Company has concluded that an interim impairment test is not required as of September 30, 2008. However, economic conditions currently affecting the U.S. economy and recent declines in TWC's stock price may have a negative impact on the fair values of the Company's franchise intangibles and reporting units, which may result in the Company recognizing an impairment when the Company performs its annual test during the fourth quarter of 2008.

**6. SALE OF CERTAIN CABLE SYSTEMS**

In June 2008, the Company entered into an agreement to sell a group of small cable systems, serving approximately 80,000 basic video subscribers and approximately 125,000 revenue generating units as of September 30, 2008, located in areas outside of the Company's core geographic clusters. The sale price is approximately \$53 million, subject to certain adjustments. The Company expects the sale of these cable systems will close during the fourth quarter of 2008, subject to obtaining customary regulatory approvals. The Company does not expect that the sale of these systems will have a material impact on the Company's future financial results; however, as a result of a probable loss on the sale of these systems, the Company recorded a pretax impairment loss of \$45 million during the second quarter of 2008.

**Table of Contents**

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

**7. JOINT VENTURES****Sprint/Clearwire Joint Venture**

In May 2008, TWC, Intel Corporation, Google Inc., Comcast Corporation (together with its subsidiaries, Comcast) and Bright House Networks, LLC entered into agreements to collectively invest \$3.2 billion in a wireless communications joint venture (the Sprint/Clearwire Joint Venture), which is expected to be formed by Sprint Nextel Corporation (Sprint) and Clearwire Corporation (Clearwire). TWC's share of such investment is expected to be approximately \$550 million, which it expects to fund with cash on hand, borrowings under the Cable Revolving Facility, its commercial paper program or a combination thereof. Once formed, the Sprint/Clearwire Joint Venture will be focused on deploying the first nationwide fourth-generation wireless network to provide mobile broadband services to wholesale and retail customers. In connection with its anticipated investment in the Sprint/Clearwire Joint Venture, TWC has entered into a wholesale agreement with Sprint that allows TWC to offer wireless services utilizing Sprint's 2G/3G network. Upon closing, TWC also expects to enter into a wholesale agreement with the Sprint/Clearwire Joint Venture that would allow TWC to offer wireless services utilizing the Sprint/Clearwire Joint Venture's broadband wireless network. The closing of these transactions, which is expected to occur by the end of 2008, is subject to certain closing conditions. There can be no assurance that the formation of the Sprint/Clearwire Joint Venture will be completed, or, if completed, that the Sprint/Clearwire Joint Venture would successfully finance and deploy a nationwide mobile broadband network. If completed, the Company's investment in the Sprint/Clearwire Joint Venture would be accounted for under the equity method of accounting. The Company expects that the Sprint/Clearwire Joint Venture would incur losses in its early periods of operation.

**Wireless Joint Venture**

TWC is a participant in a wireless spectrum joint venture with several other cable companies (the Wireless Joint Venture) that holds 137 advanced wireless spectrum (AWS) licenses. These licenses cover 20 MHz of AWS in about 90% of the continental United States and Hawaii. The Federal Communications Commission awarded these licenses to the Wireless Joint Venture on November 20, 2006. Under certain circumstances, the members of the Wireless Joint Venture have the ability to exit the venture and receive from the venture, subject to certain limitations and adjustments, AWS licenses covering the areas in which they provide cable services. On October 24, 2008, the Wireless Joint Venture agreed to redeem the 10.9% interest held by an affiliate of Cox Communications, Inc. (Cox). Under the agreement, the closing of which is subject to receipt of customary regulatory approvals, Cox will exit the Wireless Joint Venture and receive AWS licenses, principally covering areas in which Cox provides cable services, and a cash payment of \$70 million. Following the closing of the Cox transaction, the Wireless Joint Venture's AWS licenses would cover over 80% of the continental United States and Hawaii. TWC expects to contribute approximately \$22 million to the Wireless Joint Venture during the fourth quarter of 2008 or early 2009 to fund its share of the payment to Cox.

**Texas and Kansas City Cable Partners, L.P. Joint Venture**

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

**Table of Contents**

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

TWC recorded a pretax gain of \$146 million in the first quarter of 2007, which is included as a component of other income, net, in the consolidated statement of operations for the nine months ended September 30, 2007.

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

Prior to 2007, Time Warner granted options to purchase Time Warner common stock and shares of Time Warner common stock ( restricted stock ) or restricted stock units ( RSUs ) under its equity plans (collectively, the Time Warner Equity Awards ) to employees of TWC. TWC recognizes compensation expense for the fair value of such awards according to the provisions of FASB Statement No. 123 (revised 2004), *Share-Based Payment*. Time Warner has not granted Time Warner Equity Awards to employees of TWC since TWC Class A common stock began to trade publicly in March 2007. In addition, employees of Time Warner who become employed by TWC retain their Time Warner Equity Awards pursuant to their terms and TWC records equity-based compensation expense from the date of transfer through the end of the applicable vesting period. The stock options granted by Time Warner to employees of TWC were granted with exercise prices equal to, or in excess of, the fair market value of a share of Time Warner common stock at the date of grant. Generally, the stock options vest ratably over a four-year vesting period and expire ten years from the date of grant. The awards of restricted stock or RSUs generally vest between three to five years from the date of grant. Holders of Time Warner restricted stock and RSU awards are generally entitled to receive cash dividends or dividend equivalents, respectively, paid by Time Warner during the period of time that the restricted stock or RSU awards are unvested. Certain Time Warner stock options and RSU awards provide for accelerated vesting upon an election to retire pursuant to TWC's defined benefit retirement plans or after reaching a specified age and years of service.

In connection with the Separation Transactions, and as provided for in Time Warner's equity plans, Time Warner contemplates that the number of Time Warner stock options and RSUs outstanding at the Separation and the exercise prices of such stock options will be adjusted to maintain the fair value of those awards. The changes in the number and the exercise prices of equity awards will be determined by comparing the fair value of such awards immediately prior to the Separation Transactions to the fair value of such awards immediately after the Separation Transactions. The modifications to the outstanding equity awards will be made pursuant to existing antidilution provisions in Time Warner's equity plans.

Under the terms of Time Warner's equity plans and related award agreements, as a result of the Separation, TWC employees who hold Time Warner equity awards will be treated as if their employment with Time Warner had been terminated without cause at the time of the Separation. This treatment will result in the forfeiture of unvested stock options and shortened exercise periods for vested stock options and pro rata vesting of the next installment of (and forfeiture of the remainder of) the RSU awards for those TWC employees who do not satisfy retirement-treatment eligibility provisions in the Time Warner equity plans and related award agreements. TWC plans to grant make-up TWC equity awards or make cash payments to TWC employees that are generally intended to offset any loss of economic value in Time Warner equity awards as a result of the Separation.

**TWC Equity Plan**

The Time Warner Cable Inc. 2006 Stock Incentive Plan (the 2006 Plan ) provides for the issuance of up to 100 million shares of TWC Class A common stock to directors, employees and certain non-employee advisors of TWC. Stock options have been granted under the 2006 Plan with exercise prices equal to the fair market value of TWC Class A common stock at the date of grant. Generally, the stock options vest ratably over a four-year vesting period and expire ten years from the date of grant. Certain stock option awards provide for accelerated vesting upon an election to retire pursuant to TWC's defined benefit retirement plans or after reaching a specified age and years of service. For the nine months ended

**Table of Contents**

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

September 30, 2008, TWC granted approximately 4.8 million stock options at a weighted-average grant date fair value of \$10.26 (\$6.16, net of tax) per option. For the nine months ended September 30, 2007, TWC granted approximately 2.9 million stock options at a weighted-average grant date fair value of \$13.33 (\$8.00, 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, 2008 and 2007.

	<b>Nine Months Ended</b>	
	<b>September 30,</b>	
	<b>2008</b>	<b>2007</b>
Expected volatility	30.0%	24.1%
	6.51	
Expected term to exercise from grant date	years	6.59 years
Risk-free rate	3.2%	4.7%
Expected dividend yield	0.0%	0.0%

Pursuant to the 2006 Plan, the Company also granted RSU awards, which generally vest over a four-year period from the date of grant. Certain RSU awards provide for accelerated vesting upon an election to retire pursuant to TWC's defined benefit retirement plans or after reaching a specified age and years of service. Shares of TWC Class A common stock will generally be issued in connection with the vesting of an RSU. RSUs awarded to non-employee directors are not subject to vesting restrictions and the shares underlying the RSUs will be issued in connection with a director's termination of service as a director. For the nine months ended September 30, 2008, TWC granted approximately 2.9 million RSUs at a weighted-average grant date fair value of \$27.57 per RSU. For the nine months ended September 30, 2007, TWC granted approximately 2.1 million RSUs at a weighted-average grant date fair value of \$37.07 per RSU.

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

**Equity-based Compensation Expense**

Compensation expense and the related tax benefit recognized for Time Warner and TWC equity-based compensation plans for the three and nine months ended September 30, 2008 and 2007 is as follows (in millions):

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
<b>Time Warner Equity Plans:</b>				
Compensation cost recognized:				
Stock options	\$ 2	\$ 4	\$ 7	\$ 12
Restricted stock and restricted stock units			1	1
Total impact on Operating Income	\$ 2	\$ 4	\$ 8	\$ 13
Tax benefit recognized	\$ 1	\$ 2	\$ 3	\$ 6

**TWC Equity Plan:**

Compensation cost recognized:

Stock options	\$ 6	\$ 2	\$ 23	\$ 12
Restricted stock units	8	5	33	24
Total impact on Operating Income	\$ 14	\$ 7	\$ 56	\$ 36
Tax benefit recognized	\$ 5	\$ 2	\$ 22	\$ 14

**Table of Contents**

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

**9. PENSION COSTS**

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

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
Service cost	\$ 24	\$ 19	\$ 72	\$ 54
Interest cost	20	17	60	51
Expected return on plan assets	(26)	(21)	(77)	(67)
Amounts amortized	4	2	13	9
Net periodic benefit costs	\$ 22	\$ 17	\$ 68	\$ 47
Contributions	\$ 76	\$	\$ 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 December 31, 2007, the Company's funded defined benefit pension plans were fully funded. Between January 1, 2008 and October 31, 2008, the Company's plan assets have experienced estimated market losses of approximately \$400 million. The Company expects that the impact to the funded status of the defined benefit pension plans from these 2008 market losses will be at least partially offset by contributions made during the year and an expected increase in discount rates that will reduce the projected benefit obligation. The Company has made \$175 million of discretionary cash contributions to its funded defined benefit pension plans during the nine months ended September 30, 2008 (\$200 million through October 31, 2008) and, subject to market conditions and other considerations, the Company expects to make additional discretionary cash contributions totaling at least \$50 million during November and December. Discount rates for purposes of calculating TWC's projected benefit obligation are determined based on a hypothetical portfolio of high-quality bonds. In accordance with the accounting standards relating to pension accounting, the Company measures its projected benefit obligation annually, which is performed at the end of December. Each fifty basis point increase in the discount rate of 6.00% that was used to measure the projected benefit obligation as of December 31, 2007 would have resulted in an approximate \$100 million reduction in the projected benefit obligation. 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 approximately \$2 million in 2008, of which \$1 million has been contributed as of September 30, 2008.

**10. MERGER-RELATED AND RESTRUCTURING COSTS**

Cumulatively, through December 31, 2007, the Company expensed non-capitalizable merger-related costs of \$56 million associated with the 2006 transactions with Adelphia Communications Corporation and Comcast, which had been fully paid as of December 31, 2007. For the nine months ended September 30, 2007, the Company incurred costs of \$10 million and made payments of \$13 million associated with merger-related activities.

The Company has incurred cumulative restructuring costs of \$79 million since 2005 as part of its broader plans to simplify its organizational structure and enhance its customer focus, and payments of \$66 million have been made against this accrual as of September 30, 2008. Of the remaining \$13 million liability, \$6 million is classified as a current liability and \$7 million is classified as a noncurrent liability in the consolidated balance sheet as of

September 30, 2008. Amounts are expected to be paid through 2011.



**Table of Contents**

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

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

	<b>Employee Terminations</b>	<b>Other Exit Costs</b>	<b>Total</b>
Remaining liability as of December 31, 2006	\$ 18	\$ 5	\$ 23
Accruals <sup>(a)</sup>	7	6	13
Cash paid <sup>(b)</sup>	(12)	(8)	(20)
Remaining liability as of December 31, 2007	13	3	16
Accruals <sup>(c)</sup>	14		14
Cash paid	(16)	(1)	(17)
Remaining liability as of September 30, 2008	\$ 11	\$ 2	\$ 13

(a) Of the \$13 million incurred in 2007, \$1 million and \$10 million was incurred during the three and nine months ended September 30, 2007, respectively.

(b) Of the \$20 million paid in 2007, \$17 million was paid during the nine months ended September 30, 2007.

(c) Of the \$14 million incurred in 2008, \$8 million was incurred during the three months ended September 30, 2008.

## 11. COMMITMENTS AND CONTINGENCIES

### Legal Proceedings

On September 20, 2007, *Brantley, et al. v. NBC Universal, Inc., et al.* was filed in the U.S. District Court for the Central District of California against the Company and Time Warner. The complaint, which also named as defendants several other programming content providers (collectively, the programmer defendants ) as well as other cable and satellite providers (collectively, the distributor defendants ), alleged violations of Sections 1 and 2 of the Sherman Antitrust Act. Among other things, the complaint alleged coordination between and among the programmer defendants to sell and/or license programming on a bundled basis to the distributor defendants, who in turn purportedly offer that programming to subscribers in packaged tiers, rather than on a per channel (or à la carte ) basis. Plaintiffs, who seek to represent a purported nationwide class of cable and satellite subscribers, demand, among other things, unspecified treble monetary damages and an injunction to compel the offering of channels to subscribers on an à la carte basis. On December 3, 2007, plaintiffs filed an amended complaint in this action (the First Amended Complaint ) that, among other things, dropped the Section 2 claims and all allegations of horizontal coordination. On December 21, 2007, the programmer defendants, including Time Warner, and the distributor defendants, including TWC, filed motions to dismiss the First Amended Complaint. On March 10, 2008, the court granted these motions, dismissing the First Amended Complaint with leave to amend. On March 20, 2008, plaintiffs filed a second amended complaint (the Second Amended Complaint ) that modified certain aspects of the First Amended Complaint in an attempt to address the deficiencies noted by the court in its prior dismissal order. On April 22, 2008, the programmer defendants, including Time Warner, and the distributor defendants, including the Company, filed motions to dismiss the Second Amended Complaint, which motions were denied by the court on June 25, 2008. On July 14, 2008, the programmer defendants and the distributor defendants filed motions requesting the court to certify its June 25, 2008 order for interlocutory appeal to the U.S. Court of Appeals for the Ninth Circuit, which motions were denied by the district court on August 4, 2008. 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.

**Table of Contents**

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

On June 16, 1998, plaintiffs in *Andrew Parker and Eric DeBrauwere, et al. v. Time Warner Entertainment Company, L.P. and Time Warner Cable* filed a purported nationwide class action in U.S. District Court for the Eastern District of New York claiming that TWE sold its subscribers personally identifiable information and failed to inform subscribers of their privacy rights in violation of the Cable Communications Policy Act of 1984 and common law. The plaintiffs seek damages and declaratory and injunctive relief. On August 6, 1998, TWE filed a motion to dismiss, which was denied on September 7, 1999. On December 8, 1999, TWE filed a motion to deny class certification, which was granted on January 9, 2001 with respect to monetary damages, but denied with respect to injunctive relief. On June 2, 2003, the U.S. Court of Appeals for the Second Circuit vacated the district court's decision denying class certification as a matter of law and remanded the case for further proceedings on class certification and other matters. On May 4, 2004, plaintiffs filed a motion for class certification, which the Company opposed. On October 25, 2005, the court granted preliminary approval of a class settlement arrangement, but final approval of that settlement was denied on January 26, 2007. The parties subsequently reached a revised settlement to resolve this action on terms that are not material to the Company and submitted their agreement to the district court on April 2, 2008. On May 8, 2008, the district court granted preliminary approval of the settlement, but it is still subject to final approval by the district court, and there can be no assurance that the settlement will receive this approval. Absent the issuance of final court approval of the revised settlement, the Company intends to defend against this lawsuit vigorously.

***Certain Patent Litigation***

On September 1, 2006, Ronald A. Katz Technology Licensing, L.P. ( Katz ) filed a complaint in the U.S. District Court for the District of Delaware alleging that TWC and several other cable operators, among other defendants, infringe a number of patents purportedly relating to the Company's customer call center operations and/or voicemail services. The plaintiff is seeking unspecified monetary damages as well as injunctive relief. On March 20, 2007, this case, together with other lawsuits filed by Katz, was made subject to a Multidistrict Litigation ( MDL ) Order transferring the case for pretrial proceedings to the U.S. District Court for the Central District of California. In April 2008, TWC and other defendants filed common motions for summary judgment, which argued, among other things, that a number of claims in the patents at issue are invalid under Sections 112 and 103 of the Patent Act. On June 19 and August 4, 2008, the court issued orders granting, in part, and denying, in part, those motions. Defendants filed additional individual motions for summary judgment in August 2008, which argued, among other things, that defendants' respective products do not infringe the surviving claims in plaintiff's patents. Those motions have been fully briefed. The Company intends to defend against this lawsuit vigorously.

On July 14, 2006, Hybrid Patents Inc. filed a complaint in the U.S. District Court for the Eastern District of Texas alleging that the Company and a number of other cable operators infringed a patent purportedly relating to high-speed data and IP-based telephony services. This matter has been settled on terms that are not material to the Company.

On June 1, 2006, Rembrandt Technologies, LP ( Rembrandt ) filed a complaint in the U.S. District Court for the Eastern District of Texas alleging that the Company and a number of other cable operators infringed several patents purportedly related to a variety of technologies, including high-speed data and IP-based telephony services. In addition, on September 13, 2006, Rembrandt filed a complaint in the U.S. District Court for the Eastern District of Texas alleging that the Company infringes several patents purportedly related to high-speed cable modem internet products and services. In each of these cases, the plaintiff is seeking unspecified monetary damages as well as injunctive relief. On June 18, 2007, these cases, along with other lawsuits filed by Rembrandt, were made subject to an MDL Order transferring the case for pretrial proceedings to the U.S. District Court for the District of Delaware. The Company intends to defend against these lawsuits vigorously.

On April 26, 2005, Acacia Media Technologies ( AMT ) filed suit against TWC in the U.S. District Court for the Southern District of New York alleging that TWC infringes several patents held by AMT.

**Table of Contents**

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

AMT has publicly taken the position that delivery of broadcast video (except live programming such as sporting events), pay-per-view, VOD and ad insertion services over cable systems infringe its patents. AMT has brought similar actions regarding the same patents against numerous other entities, and all of the previously pending litigations have been made the subject of an MDL Order consolidating the actions for pretrial activity in the U.S. District Court for the Northern District of California. On October 25, 2005, the TWC action was consolidated into the MDL proceedings. The plaintiff is seeking unspecified monetary damages as well as injunctive relief. The Company intends to defend against this lawsuit vigorously.

From time to time, the Company receives notices from third parties claiming that it infringes their intellectual property rights. Claims of intellectual property infringement could require TWC to enter into royalty or licensing agreements on unfavorable terms, incur substantial monetary liability or be enjoined preliminarily or permanently from further use of the intellectual property in question. In addition, certain agreements entered 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.

**12. 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 September 30,</b>	
	<b>2008</b>	<b>2007</b>
Cash paid for interest	\$ (575)	\$ (617)
Interest income received	31	7
Cash paid for interest, net	\$ (544)	\$ (610)
Cash paid for income taxes	\$ (33)	\$ (205)
Cash refunds of income taxes	3	6
Cash paid for income taxes, net	\$ (30)	\$ (199)

Noncash financing activities for the nine months ended September 30, 2007 included TWC's 50% equity interest in the Houston Pool of TKCCP, valued at \$880 million, delivered as the purchase price for Comcast's 50% equity interest in the Kansas City Pool of TKCCP.

**Table of Contents**

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

**Interest Expense, Net**

Interest expense, net consists of (in millions):

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
Interest income	\$ 26	\$ 2	\$ 34	\$ 7
Interest expense	(255)	(229)	(681)	(688)
Total interest expense, net	\$ (229)	\$ (227)	\$ (647)	\$ (681)

**Prepaid Expenses and Other Current Assets**

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

	<b>September 30, 2008</b>	<b>December 31, 2007</b>
Investment in The Reserve Fund	\$ 490	\$
Other prepaid and current assets	130	95
Total prepaid expenses and other current assets	\$ 620	\$ 95

**Other Current Liabilities**

Other current liabilities consist of (in millions):

	<b>September 30, 2008</b>	<b>December 31, 2007</b>
Accrued compensation and benefits	\$ 307	\$ 310
Accrued sales and other taxes	142	127
Accrued interest	271	193
Accrued franchise fees	162	169
Accrued insurance	134	133
Accrued advertising and marketing support	96	71
Other accrued expenses	211	234
Total other current liabilities	\$ 1,323	\$ 1,237

**Table of Contents**

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

Time Warner Entertainment Company, L.P. ( TWE ) and TW NY Cable Holding Inc. ( TW NY ) 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 public offering. 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.

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

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

**Table of Contents**

**TIME WARNER CABLE INC.**  
**SUPPLEMENTARY INFORMATION**  
**CONDENSED CONSOLIDATING FINANCIAL STATEMENTS (Continued)**  
**Consolidating Balance Sheet**  
**September 30, 2008**  
(Unaudited)

	<b>Parent Company</b>	<b>Guarantor Subsidiaries</b>	<b>Non- Guarantor Subsidiaries (in millions)</b>	<b>Eliminations</b>	<b>TWC Consolidated</b>
<b>ASSETS</b>					
Current assets:					
Cash and equivalents <sup>(a)</sup>	\$ 3,044	\$ 4,348	\$	\$ (4,302)	\$ 3,090
Receivables, net	4	195	528		727
Receivables from affiliated parties	1,012	4	516	(1,451)	81
Deferred income tax assets	93	57	57	(114)	93
Prepaid expenses and other current assets	498	60	62		620
Total current assets	4,651	4,664	1,163	(5,867)	4,611
Investments in and amounts due (to) from consolidated subsidiaries	52,244	24,070	10,423	(86,737)	
Investments		34	696		730
Property, plant and equipment, net		3,369	9,935		13,304
Intangible assets subject to amortization, net		6	543		549
Intangible assets not subject to amortization		8,144	30,762		38,906
Goodwill	4	3	2,094		2,101
Other assets	193	4	16		213
Total assets	\$ 57,092	\$ 40,294	\$ 55,632	\$ (92,604)	\$ 60,414
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>					
Current liabilities:					
Accounts payable	\$ 2	\$ 67	\$ 334	\$	\$ 403
Deferred revenue and subscriber-related liabilities		40	117		157
Payables to affiliated parties		585	1,062	(1,451)	196
Accrued programming expense		321	203		524
Other current liabilities	209	521	593		1,323
Total current liabilities	211	1,534	2,309	(1,451)	2,603
Long-term debt	13,021	2,727			15,748
			300		300

Mandatorily redeemable preferred equity membership units issued by a subsidiary					
Mandatorily redeemable preferred equity issued by a subsidiary		2,400		(2,400)	
Deferred income tax liabilities, net	13,915	7,431	7,480	(14,867)	13,959
Long-term payables to affiliated parties	4,302	536	8,703	(13,522)	19
Other liabilities	54	141	190		385
Minority interests		3,355		(1,544)	1,811
Shareholders' equity:					
Due (to) from TWC and subsidiaries		1,328	(555)	(773)	
Other shareholders' equity	25,589	20,842	37,205	(58,047)	25,589
Total shareholders' equity	25,589	22,170	36,650	(58,820)	25,589
Total liabilities and shareholders' equity	\$ 57,092	\$ 40,294	\$ 55,632	\$ (92,604)	\$ 60,414

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



**Table of Contents**

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

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

Mandatorily redeemable preferred 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	13,244	7,008	7,008	(13,969)	13,291
Long-term payables to affiliated parties	3,411	416	8,704	(12,495)	36
Other liabilities	43	180	207		430
Minority interests		3,116		(1,392)	1,724
Shareholders' equity:					
Due (to) from TWC and subsidiaries		450	(350)	(100)	
Other shareholders' equity	24,706	20,120	36,718	(56,838)	24,706
Total shareholders' equity	24,706	20,570	36,368	(56,938)	24,706
Total liabilities and shareholders' equity	\$ 51,756	\$ 38,415	\$ 54,701	\$ (88,272)	\$ 56,600

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

**Table of Contents**

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

	<b>Parent Company</b>	<b>Guarantor Subsidiaries</b>	<b>Non- Guarantor Subsidiaries (in millions)</b>	<b>Eliminations</b>	<b>TWC Consolidated</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)
Income from equity investments, net		1	1		2
Minority interest expense, net		(1)		(56)	(57)
Other income (expense), net	(2)		2		
Income before income taxes	504	450	637	(1,087)	504
Income tax provision	(203)	(180)	(182)	362	(203)
Net income	\$ 301	\$ 270	\$ 455	\$ (725)	\$ 301

**Table of Contents**

**TIME WARNER CABLE INC.**  
**SUPPLEMENTARY INFORMATION**  
**CONDENSED CONSOLIDATING FINANCIAL STATEMENTS (Continued)**  
**Consolidating Statement of Operations**  
**Three Months Ended September 30, 2007**  
(Unaudited)

	<b>Parent Company</b>	<b>Guarantor Subsidiaries</b>	<b>Non- Guarantor Subsidiaries (in millions)</b>	<b>Eliminations</b>	<b>TWC Consolidated</b>
Revenues	\$	\$ 818	\$ 3,226	\$ (43)	\$ 4,001
Costs of revenues		400	1,533	(43)	1,890
Selling, general and administrative	1	150	528		679
Depreciation		156	527		683
Amortization			64		64
Merger-related and restructuring costs		1	3		4
Total costs and expenses	1	707	2,655	(43)	3,320
Operating Income (Loss)	(1)	111	571		681
Equity in pretax income (loss) of consolidated subsidiaries	487	298	(45)	(740)	
Interest expense, net	(70)	(119)	(38)		(227)
Income (loss) from equity investments, net	(3)	1	(1)		(3)
Minority interest income (expense), net		4		(42)	(38)
Other income, net	1				1
Income before income taxes	414	295	487	(782)	414
Income tax provision	(166)	(116)	(120)	236	(166)
Net income	\$ 248	\$ 179	\$ 367	\$ (546)	\$ 248

**Table of Contents**

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

	<b>Parent Company</b>	<b>Guarantor Subsidiaries</b>	<b>Non- Guarantor Subsidiaries (in millions)</b>	<b>Eliminations</b>	<b>TWC Consolidated</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
Loss on cable systems held for sale		6	39		45
Restructuring costs		8	6		14
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)
Income from equity investments, net		1	11		12
Minority interest income (expense), net		15		(159)	(144)
Other income (expense), net	(13)	8	(8)		(13)
Income before income taxes	1,370	1,135	1,702	(2,837)	1,370
Income tax provision	(550)	(452)	(461)	913	(550)
Net income	\$ 820	\$ 683	\$ 1,241	\$ (1,924)	\$ 820

**Table of Contents**

**TIME WARNER CABLE INC.**  
**SUPPLEMENTARY INFORMATION**  
**CONDENSED CONSOLIDATING FINANCIAL STATEMENTS (Continued)**  
**Consolidating Statement of Operations**  
**Nine Months Ended September 30, 2007**  
(Unaudited)

	<b>Parent Company</b>	<b>Guarantor Subsidiaries</b>	<b>Non- Guarantor Subsidiaries (in millions)</b>	<b>Eliminations</b>	<b>TWC Consolidated</b>
Revenues	\$	\$ 2,554	\$ 9,437	\$ (125)	\$ 11,866
Costs of revenues		1,246	4,524	(125)	5,645
Selling, general and administrative	1	419	1,602		2,022
Depreciation		484	1,517		2,001
Amortization		16	191		207
Merger-related and restructuring costs		9	11		20
Total costs and expenses	1	2,174	7,845	(125)	9,895
Operating Income (Loss)	(1)	380	1,592		1,971
Equity in pretax income (loss) of consolidated subsidiaries	1,533	918	(111)	(2,340)	
Interest expense, net	(202)	(375)	(104)		(681)
Income (loss) from equity investments, net	(7)	1	10		4
Minority interest expense, net		(3)		(114)	(117)
Other income (expense), net	(2)		146		144
Income before income taxes	1,321	921	1,533	(2,454)	1,321
Income tax provision	(525)	(366)	(376)	742	(525)
Net income	\$ 796	\$ 555	\$ 1,157	\$ (1,712)	\$ 796

**Table of Contents**

**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 Company</b>	<b>Guarantor Subsidiaries</b>	<b>Non- Guarantor Subsidiaries (in millions)</b>	<b>Eliminations</b>	<b>TWC Consolidated</b>
<b>OPERATING ACTIVITIES</b>					
Net income	\$ 820	\$ 683	\$ 1,241	\$ (1,924)	\$ 820
Adjustments for noncash and nonoperating items:					
Depreciation and amortization		496	1,823		2,319
Pretax gain on sale of cost-method investment		(9)			(9)
Pretax loss on cable systems held for sale		6	39		45
Excess (deficiency) of distributions over equity in pretax income of consolidated subsidiaries	(1,702)	(1,156)	180	2,678	
Income from equity investments, net of cash distributions		(1)	(3)		(4)
Pretax impairment loss on equity-method investment			8		8
Minority interest expense, net		(15)		159	144
Deferred income taxes	601	461	461	(922)	601
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 sale of cost-method investment		9			9
Proceeds from disposal of property, plant and equipment		1	2		3
Cash used by investing activities	(490)	(632)	(1,973)		(3,095)

**FINANCING ACTIVITIES**

Borrowings (repayments), net	684			(891)	(207)
Borrowings	5,203				5,203
Repayments	(2,217)	(600)			(2,817)
Debt issuance costs	(87)				(87)
Net change in investments in and amounts due to and from consolidated subsidiaries	308	1,362	(1,679)	9	
Distributions to owners, net		(2)	(1)		(3)
Cash provided (used) by financing activities	3,891	760	(1,680)	(882)	2,089
<b>INCREASE IN CASH AND EQUIVALENTS</b>	2,859	890		(891)	2,858
<b>CASH AND EQUIVALENTS AT BEGINNING OF PERIOD</b>	185	3,458		(3,411)	232
<b>CASH AND EQUIVALENTS AT END OF PERIOD</b>	\$ 3,044	\$ 4,348	\$	\$ (4,302)	\$ 3,090



**Table of Contents**

**TIME WARNER CABLE INC.**  
**SUPPLEMENTARY INFORMATION**  
**CONDENSED CONSOLIDATING FINANCIAL STATEMENTS (Continued)**  
**Consolidating Statement of Cash Flows**  
**Nine Months Ended September 30, 2007**  
(Unaudited)

	<b>Parent Company</b>	<b>Guarantor Subsidiaries</b>	<b>Non- Guarantor Subsidiaries (in millions)</b>	<b>Eliminations</b>	<b>TWC Consolidated</b>
<b>OPERATING ACTIVITIES</b>					
Net income	\$ 796	\$ 555	\$ 1,157	\$ (1,712)	\$ 796
Adjustments for noncash and nonoperating items:					
Depreciation and amortization		500	1,708		2,208
Pretax gain on sale of 50% equity interest in Houston Pool of TKCCP			(146)		(146)
Excess (deficiency) of distributions over equity in pretax income of consolidated subsidiaries	(1,533)	(918)	111	2,340	
Income from equity investments, net of cash distributions	7	14	7	(15)	13
Minority interest expense, net		3		114	117
Deferred income taxes	225	245	245	(490)	225
Equity-based compensation		49			49
Changes in operating assets and liabilities, net of acquisitions	(129)	253	(176)		(52)
Adjustments relating to discontinued operations		25	18		43
Cash provided (used) by operating activities	(634)	726	2,924	237	3,253
<b>INVESTING ACTIVITIES</b>					
Investments and acquisitions, net of cash acquired and distributions received	(21)	(4)	(15)		(40)
Capital expenditures		(596)	(1,819)		(2,415)
Proceeds from disposal of property, plant and equipment		1	6		7
Cash used by investing activities	(21)	(599)	(1,828)		(2,448)
<b>FINANCING ACTIVITIES</b>					
Borrowings (repayments), net	(394)			(607)	(1,001)
Borrowings	7,683				7,683
Repayments	(6,921)				(6,921)

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

Debt issuance costs	(28)				(28)
Net change in investments in and amounts due to and from consolidated subsidiaries	764	504	(1,031)	(237)	
Excess tax benefit from exercise of stock options	6				6
Principal payments on capital leases			(3)		(3)
Distributions to owners, net		(19)	(1)		(20)
Other			(61)		(61)
Cash provided (used) by financing activities	1,110	485	(1,096)	(844)	(345)
<b>INCREASE IN CASH AND EQUIVALENTS</b>	455	612		(607)	460
<b>CASH AND EQUIVALENTS AT BEGINNING OF PERIOD</b>	51	2,304		(2,304)	51
<b>CASH AND EQUIVALENTS AT END OF PERIOD</b>	\$ 506	\$ 2,916	\$	\$ (2,911)	\$ 511

**Table of Contents****Part II. Other Information****Item 1. Legal Proceedings.**

Reference is made to the class action lawsuit filed by Brantley, *et al.* described on page 37 of the Company's Annual Report on Form 10-K for the year ended December 31, 2007 (the 2007 Form 10-K), page 35 of the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2008 and page 49 of the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2008 (the June 2008 Form 10-Q). On August 4, 2008, the District Court denied the motions filed on July 14, 2008 by the programmer defendants and the distributor defendants requesting the court to certify for interlocutory appeal to the U.S. Court of Appeals for the Ninth Circuit its June 25, 2008 order.

Reference is made to the lawsuit filed by Ronald A. Katz Technology Licensing, L.P. described on page 38 of the 2007 Form 10-K and page 49 of the June 2008 Form 10-Q. In April 2008, TWC and other defendants filed common motions for summary judgment, which argued, among other things, that a number of claims in the patents at issue are invalid under Sections 112 and 103 of the Patent Act. On June 19 and August 4, 2008, the court issued orders granting, in part, and denying, in part, those motions. Defendants filed additional individual motions for summary judgment in August 2008, which argued, among other things, that defendants' respective products do not infringe the surviving claims in plaintiff's patents. Those motions have been fully briefed.

Reference is made to the lawsuit filed by Hybrid Patents Inc. described on page 38 of the 2007 Form 10-K. This matter has been settled on terms that are not material to the Company.

**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 2007 Form 10-K and Part II, Item 1A of the June 2008 Form 10-Q.

**Item 5. Other Information.**

TWC's business is subject to extensive governmental regulation and, as the Company disclosed in its 2007 Form 10-K, it expects that legislative enactments, court actions, and regulatory proceedings will continue to clarify and in some cases change the rights of cable companies and other entities providing video, data and voice services under the Communications Act of 1934, as amended (the Communications Act) and other laws, possibly in ways that TWC has not foreseen.

For example, on October 15, 2008, the Federal Communications Commission's (the FCC) Enforcement Bureau issued two Notices of Apparent Liability for Forfeiture and Orders (NALs) finding as a preliminary matter that the Company's use of switched digital video (SDV) technology in one of its divisions to deliver programming services that at one time had been accessible to subscribers via unidirectional products, such as televisions equipped with a CableCARD, violates FCC rules. The FCC's Enforcement Bureau proposed monetary forfeitures and directed the Company to make certain payments to subscribers with such unidirectional devices. SDV technology allows TWC to save bandwidth by transmitting particular programming services only to groups of homes or nodes where subscribers are viewing the programming at a particular time rather than broadcasting it to all subscriber homes. This switched programming is available only to subscribers using two-way tuning devices, which can receive the incoming signal and, when necessary, send a message that the subscriber has selected a switched service that is not then being watched by anyone else in the area. The NALs do not constitute final agency action on the substantive legal issues at stake. The Company believes that the NALs are contrary to the Communications Act and the FCC's rules and policies and intends to respond accordingly, if necessary by seeking further review by the full FCC and in court. If TWC is prohibited by regulation from using SDV technology, TWC may have difficulty carrying the volume of high-definition television channels and other bandwidth-intensive traffic carried by competitors and may be forced to make costly upgrades to its systems in order to remain competitive.

On May 7, 2008, the U.S. Copyright Office (the Copyright Office) published an order stating its views regarding an aspect of certain provisions of the copyright compulsory license relating to distant television stations (i.e., generally those television stations outside the area where they would be subject to mandatory carriage under current or former FCC rules). The Copyright Office determined that where cable operators carry a distant station in any portion of a cable system as defined in the Copyright Act of 1976, basic service revenues from all portions of such system where such station would be distant must be used to compute copyright compulsory license royalties, even if the station is not actually carried in such areas. Although the Company believes the Copyright Office's



**Table of Contents**

statement is erroneous as a matter of law, because the Copyright Office's reading would greatly increase copyright payments, it could significantly increase the Company's costs of carrying distant television stations.

**Item 6. Exhibits.**

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

**Table of Contents**

**SIGNATURES**

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

TIME WARNER CABLE INC.

By: /s/ Robert D. Marcus

Name: Robert D. Marcus  
Title: Senior Executive Vice President  
and  
Chief Financial Officer

Date: November 5, 2008

57

---

**Table of Contents**

**EXHIBIT INDEX**

Pursuant to Item 601 of Regulation S-K

<b>Exhibit No.</b>	<b>Description</b>
10.1	First Amendment to Employment Agreement, effective as of August 5, 2008, by and between the Company and Landel Hobbs.
10.2	Letter Agreement, effective as of August 5, 2008, by and between the Company and Robert D. Marcus.
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, 2008.
31.2	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, with respect to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2008.
32	Certification of Principal Executive Officer and Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, with respect to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2008.

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

specifically  
incorporates it  
by reference.