

TIME WARNER CABLE INC.
Form 10-Q
October 31, 2013
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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, 2013 or

**☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934**
For the transition period from _____ to _____

Commission File Number: 001-33335

TIME WARNER CABLE INC.

(Exact name of registrant as specified in its charter)

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

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

60 Columbus Circle

New York, New York 10023

(Address of principal executive offices) (Zip Code)

(212) 364-8200

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

Description of Class	Shares Outstanding as of October 29, 2013
Common Stock \$0.01 par value	281,889,889

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

INTRODUCTION

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

Overview. This section provides a general description of TWC's business, as well as any 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, 2013.

Financial condition and liquidity. This section provides an analysis of the Company's financial condition as of September 30, 2013 and cash flows for the nine months ended September 30, 2013.

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 subject to uncertainty and changes in circumstances. Refer to the Company's Annual Report on Form 10-K for the year ended December 31, 2012 (the 2012 Form 10-K) for a discussion of the risk factors applicable to the Company.

OVERVIEW

TWC is among the largest providers of video, high-speed data and voice services in the U.S., with technologically advanced, well-clustered cable systems located mainly in five geographic areas—New York State (including New York City), the Carolinas, the Midwest (including Ohio, Kentucky and Wisconsin), Southern California (including Los Angeles) and Texas. As of September 30, 2013, TWC served approximately 15.1 million customers (approximately 14.5 million residential services customers and 606,000 business services customers) who subscribed to one or more of its video, high-speed data and voice services.

TWC offers video, high-speed data and voice services to residential and business services customers over the Company's broadband cable systems. TWC's residential services also include security and home management services, and TWC's business services also include networking and transport services (including cell tower backhaul services) and enterprise-class, cloud-enabled hosting, managed applications and services. During the nine months ended September 30, 2013, TWC generated total revenue of approximately \$16.5 billion. Of this total, approximately \$13.8 billion and \$1.7 billion were from the provision of residential and business services, respectively. TWC also sells advertising to a variety of national, regional and local customers, which resulted in advertising revenue of \$741 million during the nine months ended September 30, 2013. Additionally, TWC generated \$284 million of revenue from other sources during the nine months ended September 30, 2013.

As of September 30, 2013, TWC had approximately 11.4 million residential video subscribers, 11.1 million residential high-speed data subscribers and 4.8 million residential voice subscribers, as well as 193,000 business video subscribers, 500,000 business high-speed data subscribers and 262,000 business voice subscribers. TWC markets its services separately and in bundled packages of multiple services and features. As of September 30, 2013, 60.3% of TWC's customers subscribed to two or more of its video, high-speed data and voice services, including 26.9% of its customers who subscribed to all three of these services.

TWC believes it will increase annual residential and business services revenue for 2013 and the foreseeable future thereafter. The increase in business services revenue is expected to be driven by growth in customers, an increasing percentage of customers purchasing more services, as well as higher-priced tiers of service, and price increases. The increase in residential services revenue is anticipated to be primarily from growth in residential high-speed data revenue, which is expected to increase due to growth in

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subscribers, an increasing percentage of subscribers purchasing higher-priced tiers of service and increases in prices and equipment rental charges. Future revenue growth rates will depend on the Company's ability to attract, retain and upsell customers and increase pricing, which can be impacted by competitive factors, the state of the economy and regulation.

TWC faces intense competition for residential services customers from a variety of alternative communications, information and entertainment delivery sources. TWC competes with incumbent local telephone companies and other overbuilders across each of its residential services. Some of these competitors offer a broad range of services with features and functions comparable to those provided by TWC and in bundles similar to those offered by TWC, sometimes including wireless service. Each of TWC's residential services also faces competition from other companies that provide services on a stand-alone basis. TWC's residential video service faces competition from direct broadcast satellite services, and increasingly from companies that deliver content to consumers over the Internet. TWC's residential high-speed data and voice services face competition from wireless Internet and voice providers. TWC's residential voice service also faces competition from over-the-top phone services and other alternatives.

TWC also competes across each of its business high-speed data, networking and voice services with local and long-distance service providers. TWC's cell tower backhaul service also faces competition from local and long-distance service providers, as well as other carriers, such as metro and regional fiber providers. TWC's business video service faces competition from direct broadcast satellite providers. TWC also competes with cloud, hosting and related service providers and application service providers.

Technological advances and product innovations have increased and will likely continue to increase the number of alternatives available to TWC's current and potential residential and business services customers, further intensifying competition.

TWC faces intense competition in its advertising business across many different platforms and from a wide range of local and national competitors. Competition has increased and will likely continue to increase as new formats for advertising seek to attract the same advertisers. TWC competes for advertising revenue against, among others, local broadcast stations, national cable and broadcast networks, radio, newspapers, magazines and outdoor advertisers, as well as online advertising companies.

For the nine months ended September 30, 2013, video programming and employee costs represented 34.2% and 34.4%, respectively, of the Company's total operating expenses. Video programming costs are expected to continue to increase, reflecting rate increases on existing programming services and the carriage of new networks, partially offset by a decline in total video subscribers. TWC expects that its video programming costs as a percentage of video revenue will continue to increase, in part due to the more competitive environment discussed above. Employee costs are also expected to continue to increase as a result of many factors, including higher compensation expenses per employee and headcount, reflecting the Company's investment in business services, regional sports networks and other areas of growth.

Recent Developments

DukeNet Acquisition

On October 4, 2013, TWC entered into a definitive agreement with Duke Energy Corporation and investment funds managed by Alinda Capital Partners to acquire DukeNet Communications, LLC (DukeNet) for \$600 million in cash, including the repayment of debt. DukeNet, a regional fiber optic network company, provides data and high-capacity bandwidth services to wireless carrier, data center, government, and enterprise customers in North Carolina and South Carolina, as well as five other states in the Southeast. The transaction, which is subject to various customary closing conditions, including receipt of regulatory approvals, is expected to close in the first quarter of 2014.

Common Stock Repurchase Program

On July 25, 2013, the Company s Board of Directors increased the remaining authorization under its existing common stock repurchase program (the Stock Repurchase Program), which was \$775 million as of July 24, 2013, to an aggregate of up to \$4.0 billion of TWC common stock effective July 25, 2013. Purchases under the Stock Repurchase Program may be

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made from time to time on the open market and in privately negotiated transactions. The size and timing of the Company's purchases under the Stock Repurchase Program are based on a number of factors, including business and market conditions, financial capacity and TWC's common stock price. From the inception of the Stock Repurchase Program in the fourth quarter of 2010 through October 29, 2013, the Company repurchased 87.0 million shares of TWC common stock for \$6.978 billion, of which \$1.968 billion was repurchased during 2013. As of October 29, 2013, the Company had \$3.489 billion remaining under the Stock Repurchase Program. Absent any significant events, the Company expects to repurchase at least \$2.5 billion of TWC common stock during 2013.

SportsNet LA

In early 2014, the Company expects American Media Productions, LLC (American Media Productions) to launch SportsNet LA, a regional sports network owned by American Media Productions that will carry the Los Angeles Dodgers' baseball games and other sports programming. In accordance with TWC's long-term affiliation agreement with American Media Productions, TWC will act as the network's exclusive advertising and affiliate sales agent and will have certain branding and programming rights with respect to the network. In addition, TWC will provide certain production and technical services to American Media Productions.

FINANCIAL STATEMENT PRESENTATION

Revenue

The Company's revenue consists of residential services, business services, advertising and other revenue.

Residential services. Residential services revenue consists of revenue from residential video, high-speed data, voice and other services, each discussed below. The Company sells residential video, high-speed data and voice services to subscribers separately and in bundled packages at rates lower than if the subscriber purchases each product on an individual basis. Revenue received from such subscribers is allocated to each product in a pro-rata manner based on the standalone selling price of each of the respective services.

Video. Video revenue includes residential subscriber fees for the Company's various tiers or packages of video programming services generally distinguished from one another by the number and type of programming networks they include. Video revenue also includes related equipment rental charges, installation charges and fees collected on behalf of local franchising authorities and the Federal Communications Commission (the FCC). Additionally, video revenue includes revenue from premium networks, transactional video-on-demand (e.g., events and movies) and digital video recorder (DVR) service.

High-speed data. High-speed data revenue primarily includes residential subscriber fees for the Company's high-speed data services and related equipment rental and installation charges. The Company offers multiple tiers of high-speed data services providing various service speeds, data usage levels and other attributes to meet the different needs of its subscribers. In addition, high-speed data revenue includes fees received from third-party Internet service

providers (e.g., Earthlink) whose online services are provided to some of TWC's customers.

Voice. Voice revenue includes residential subscriber fees for the Company's voice services, along with related installation charges, as well as fees collected on behalf of governmental authorities.

Other. Other revenue includes revenue from security and home management services and other residential subscriber-related fees.

Business services. Business services revenue consists of revenue from business video, high-speed data, voice, wholesale transport and other services, each discussed below. The Company sells business video, high-speed data and voice services to subscribers separately and in bundled packages, and the revenue is allocated to each product as described above under residential services.

Video. Video revenue includes the same fee categories received from business video subscribers as described above under residential video revenue.

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High-speed data. High-speed data revenue primarily includes business subscriber fees for the Company's high-speed data services and related installation charges. High-speed data revenue also includes amounts generated by the sale of commercial networking and point-to-point transport services, such as Metro Ethernet services.

Voice. Voice revenue includes business subscriber fees for the Company's voice services, along with related installation charges, as well as fees collected on behalf of governmental authorities.

Wholesale transport. Wholesale transport revenue primarily includes amounts generated by the sale of point-to-point transport services offered to wireless telephone providers (i.e., cell tower backhaul) and other carriers.

Other. Other revenue primarily includes revenue from enterprise-class, cloud-enabled hosting, managed applications and services and other business subscriber-related fees.

Advertising. Advertising revenue is generated through the sale of video and online advertising inventory to local, regional and national advertising customers. The Company derives most of its advertising revenue from the sale of advertising inventory on cable networks owned by third parties. The rights to such advertising inventory are acquired by the Company in connection with its agreements to carry such networks or through contractual agreements to sell advertising inventory on behalf of other video distributors (including, among others, Verizon Communications Inc.'s FiOS and AT&T Inc.'s U-verse). The Company also generates advertising revenue from the sale of inventory on its own local sports, news and lifestyle channels (e.g., Time Warner Cable SportsNet and Time Warner Cable Deportes (collectively, the LA RSNs, discussed further below) and NY1 News).

Other. Other revenue primarily includes (i) fees paid to TWC by the Advance/Newhouse Partnership for (a) the ability to distribute the Company's high-speed data service and (b) TWC's management of certain functions, including, among others, the acquisition of programming rights, as well as the provision of certain functions, including engineering; (ii) beginning in the fourth quarter of 2012, fees from distributors of the LA RSNs, the Company's two Los Angeles regional sports networks launched on October 1, 2012 that carry Los Angeles Lakers basketball games and other sports programming; and (iii) home shopping network-related revenue (including commissions earned on the sale of merchandise and carriage fees).

Costs and Expenses

Cost of revenue includes the following costs directly associated with the delivery of services to subscribers or the maintenance of the Company's delivery systems: video programming costs; high-speed data connectivity costs; voice network costs; other service-related expenses, including non-administrative labor; franchise fees; and other related costs. Beginning in the fourth quarter of 2012, cost of revenue also includes direct costs associated with the LA RSNs, including content acquisition costs. Content acquisition costs for the Los Angeles Lakers basketball games are recorded as games are exhibited over the applicable season.

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, bad debt expense, billing system charges, non-plant repair and maintenance costs and other administrative overhead costs.

Cost of revenue and selling, general and administrative expenses exclude depreciation expense, which is presented separately in the accompanying consolidated statement of operations.

Use of Operating Income before Depreciation and Amortization

In discussing its performance, the Company may use certain measures that are not calculated and presented in accordance with U.S. generally accepted accounting principles (GAAP). These measures include Operating Income before Depreciation and Amortization (OIBDA), which the Company defines as Operating Income before depreciation of tangible assets and amortization of intangible assets.

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Management uses OIBDA, among other measures, in evaluating the performance of the Company's business because it eliminates the effects of (i) considerable amounts of noncash depreciation and amortization and (ii) items not within the control of the Company's operations managers (such as income tax provision, other income (expense), net, and interest expense, net). Performance measures derived from OIBDA are also used in the Company's annual incentive compensation programs. In addition, this measure is commonly used by analysts, investors and others in evaluating the Company's performance.

This measure has inherent limitations. For example, OIBDA does not reflect capital expenditures or the periodic costs of certain capitalized assets used in generating revenue. To compensate for such limitations, management evaluates performance through, among other measures, various cash flow measures, which reflect capital expenditure decisions, and net income attributable to TWC shareholders, which reflects the periodic costs of capitalized assets. OIBDA also fails to reflect the significant costs borne by the Company for income taxes and debt servicing costs, the results of the Company's equity investments and other non-operational income or expense. Management compensates for these limitations by using other analytics such as a review of net income attributable to TWC shareholders.

This non-GAAP measure should be considered in addition to, not as a substitute for, the Company's Operating Income and net income attributable to TWC shareholders, as well as other measures of financial performance reported in accordance with GAAP, and may not be comparable to similarly titled measures used by other companies.

Basis of Presentation

Reclassifications

Certain reclassifications have been made to the prior year financial information to conform to the current year presentation.

RESULTS OF OPERATIONS

Three and Nine Months Ended September 30, 2013 Compared to Three and Nine Months Ended September 30, 2012

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 2012 Form 10-K.

Revenue. Revenue by major category was as follows (in millions):

Three Months Ended

Nine Months Ended

	September 30,		%	September 30,		%
	2013	2012	Change	2013 ^(a)	2012	Change ^(a)
Residential services	\$ 4,579	\$ 4,548	0.7%	\$ 13,822	\$ 13,598	1.6%
Business services	594	493	20.5%	1,696	1,386	22.4%
Advertising	253	264	(4.2%)	741	740	0.1%
Other	92	58	58.6%	284	177	60.5%
Total	\$ 5,518	\$ 5,363	2.9%	\$ 16,543	\$ 15,901	4.0%

^(a) On February 29, 2012, the Company completed its acquisition of Insight Communications Company, Inc. (together with its subsidiaries, Insight). As a result, revenue for the nine months ended September 30, 2013 includes two additional months of Insight revenue, as follows (in millions):

Residential services	\$ 165
Business services	12
Advertising	6
Other	
Total	\$ 183

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

	September 30,		
	2013	2012	% Change
Residential services:			
Customer relationships ^(a)	14,469	14,714	(1.7%)
Video ^(b)	11,414	12,159	(6.1%)
High-speed data ^(c)	11,050	10,860	1.7%
Voice ^(d)	4,805	4,990	(3.7%)
Business services:			
Customer relationships ^(a)	606	550	10.2%
Video ^(b)	193	185	4.3%
High-speed data ^(c)	500	446	12.1%
Voice ^(d)	262	212	23.6%
Total:			
Single play ^(e)	5,978	5,936	0.7%
Double play ^(f)	5,044	5,070	(0.5%)
Triple play ^(g)	4,053	4,258	(4.8%)
Customer relationships ^(a)	15,075	15,264	(1.2%)

(a) Customer relationships represent the number of subscribers who purchase at least one of the Company's video, high-speed data and voice services. For example, a subscriber who purchases only high-speed data service and no video service will count as one customer relationship, and a subscriber who purchases both video and high-speed data services will also count as only one customer relationship.

(b) Video subscriber numbers reflect billable subscribers who purchase at least the basic service video programming tier. The determination of whether a video subscriber is categorized as residential or business is based on the type of subscriber purchasing the service.

(c) High-speed data subscriber numbers reflect billable subscribers who purchase any of the high-speed data services offered by TWC. The determination of whether a high-speed data subscriber is categorized as residential or business is generally based upon the type of service provided to that subscriber. For example, if TWC provides a business service, the subscriber is classified as business.

(d) Voice subscriber numbers reflect billable subscribers who purchase an IP-based telephony service, as well as, in 2012, a small number of subscribers acquired from Insight who received traditional, circuit-switched telephone service (which was discontinued during the third quarter of 2013). The determination of whether a voice

subscriber is categorized as residential or business is generally based upon the type of service provided to that subscriber. For example, if TWC provides a business service, the subscriber is classified as business.

- (e) Single play subscriber numbers reflect customers who subscribe to one of the Company's video, high-speed data and voice services.
- (f) Double play subscriber numbers reflect customers who subscribe to two of the Company's video, high-speed data and voice services.
- (g) Triple play subscriber numbers reflect customers who subscribe to all three of the Company's video, high-speed data and voice services.

Residential services revenue. The major components of residential services revenue were as follows (in millions):

	Three Months Ended			Nine Months Ended		
	September 30, 2013	September 30, 2012	% Change	September 30, 2013 ^(a)	September 30, 2012	% Change ^(a)
Residential services:						
Video	\$ 2,600	\$ 2,722	(4.5%)	\$ 7,945	\$ 8,230	(3.5%)
High-speed data	1,461	1,279	14.2%	4,291	3,744	14.6%
Voice	498	530	(6.0%)	1,534	1,577	(2.7%)
Other	20	17	17.6%	52	47	10.6%
Total residential services	\$ 4,579	\$ 4,548	0.7%	\$ 13,822	\$ 13,598	1.6%

- (a) Residential services revenue for the nine months ended September 30, 2013 includes two additional months of Insight revenue, as follows (in millions):

Residential services:	
Video	\$ 93
High-speed data	47
Voice	24
Other	1
Total residential services	\$ 165

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For residential services, average monthly revenue per unit was as follows:

	Three Months Ended			Nine Months Ended		
	September 30, 2013	September 30, 2012	% Change	September 30, 2013	September 30, 2012	% Change
Customer relationship ^(a)	\$ 105.06	\$ 103.07	1.9%	\$ 105.04	\$ 103.50	1.5%
Video ^(b)	74.90	74.32	0.8%	74.90	74.84	0.1%
High-speed data ^(c)	44.07	39.41	11.8%	43.15	39.17	10.2%
Voice ^(d)	34.06	35.45	(3.9%)	34.44	35.87	(4.0%)

(a) Average monthly residential revenue per residential customer relationship represents residential services revenue divided by the corresponding average residential customer relationships for the period.

(b) Average monthly residential video revenue per unit represents residential video revenue divided by the corresponding average residential video subscribers for the period.

(c) Average monthly residential high-speed data revenue per unit represents residential high-speed data revenue divided by the corresponding average residential high-speed data subscribers for the period.

(d) Average monthly residential voice revenue per unit represents residential voice revenue divided by the corresponding average residential voice subscribers for the period.

The major components of residential video revenue were as follows (in millions):

	Three Months Ended			Nine Months Ended		
	September 30, 2013	September 30, 2012	% Change	September 30, 2013 ^(a)	September 30, 2012	% Change ^(a)
Programming tiers ^(b)	\$ 1,692	\$ 1,793	(5.6%)	\$ 5,173	\$ 5,409	(4.4%)
Premium networks	183	203	(9.9%)	577	608	(5.1%)
Transactional video-on-demand	70	65	7.7%	202	225	(10.2%)
Video equipment rental and installation charges	359	366	(1.9%)	1,099	1,098	0.1%
DVR service	177	168	5.4%	527	510	3.3%
Franchise and other fees ^(c)	119	127	(6.3%)	367	380	(3.4%)
Total	\$ 2,600	\$ 2,722	(4.5%)	\$ 7,945	\$ 8,230	(3.5%)

- (a) Residential video revenue for the nine months ended September 30, 2013 includes two additional months of Insight revenue, as follows (in millions):

Programming tiers ^(b)	\$	68
Premium networks		5
Transactional video-on-demand		3
Video equipment rental and installation charges		9
DVR service		5
Franchise and other fees ^(c)		3
Total	\$	93

- (b) Programming tier revenue includes subscriber fees for the Company's various tiers or packages of video programming services generally distinguished from one another by the number and type of programming networks they include.

- (c) Franchise and other fees include fees collected on behalf of franchising authorities and the FCC.

The decrease in residential video revenue for the three and nine months ended September 30, 2013 was primarily due to decreases in video subscribers and premium network revenue (which, for the three and nine months ended September 30, 2013, was reduced by approximately \$15 million of subscriber credits issued in connection with a temporary blackout of a premium network resulting from a dispute with a programming vendor) and, for the nine months ended September 30, 2013, lower transactional video-on-demand revenue. For both periods, these decreases were partially offset by price increases and a greater percentage of subscribers purchasing higher-priced tiers of service and, for the nine months ended September 30, 2013, two additional months of Insight revenue.

Residential high-speed data revenue for the three and nine months ended September 30, 2013 increased due to growth in average revenue per subscriber and an increase in high-speed data subscribers. The increase in average revenue per subscriber was primarily due to an increase in equipment rental charges and a greater percentage of subscribers purchasing higher-priced tiers of service. Additionally, for the nine months ended September 30, 2013, residential high-speed data revenue benefited from two additional months of Insight revenue.

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The decrease in residential voice revenue for the three and nine months ended September 30, 2013 was due to a decline in average revenue per subscriber and fewer voice subscribers. For the nine months ended September 30, 2013, the decrease was partially offset by two additional months of Insight revenue.

The Company expects that residential services revenue in 2013 (which includes two additional months of Insight revenue, as discussed above) will increase compared to 2012, primarily due to growth in residential high-speed data revenue, which is expected to increase as a result of continued growth in average revenue per subscriber and the number of subscribers. The increase in residential high-speed data revenue is expected to be partially offset by a decline in residential video revenue (primarily as a result of a continued decline in residential video subscribers).

Business services revenue. The major components of business services revenue were as follows (in millions):

	Three Months Ended			Nine Months Ended		
	September 30, 2013	2012	% Change	September 30, 2013	2012	% Change
Business services:						
Video	\$ 87	\$ 83	4.8%	\$ 258	\$ 240	7.5%
High-speed data	282	235	20.0%	806	667	20.8%
Voice	110	83	32.5%	308	219	40.6%
Wholesale transport	65	47	38.3%	181	132	37.1%
Other	50	45	11.1%	143	128	11.7%
Total business services	\$ 594	\$ 493	20.5%	\$ 1,696	\$ 1,386	22.4%

Business services revenue for the three and nine months ended September 30, 2013 increased primarily due to growth in high-speed data and voice subscribers, as well as increases in cell tower backhaul revenue of \$12 million and \$32 million, respectively, and Metro Ethernet revenue of \$9 million and \$23 million, respectively. Business services revenue for the nine months ended September 30, 2013 also benefited from two additional months of Insight revenue.

Advertising revenue. Advertising revenue for the three months ended September 30, 2013 decreased primarily due to declines in political advertising revenue. For the nine months ended September 30, 2013, advertising revenue was essentially flat as the declines in political advertising revenue were offset by growth in non-political advertising revenue (primarily associated with advertising inventory sold on behalf of other video distributors) and two additional months of Insight revenue. The Company expects advertising revenue in the fourth quarter of 2013 to decrease compared to the fourth quarter of 2012 due to a significant decline in political advertising revenue.

Other revenue. Other revenue for the three and nine months ended September 30, 2013 increased primarily due to fees from distributors of the LA RSNs.

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Cost of revenue. The major components of cost of revenue were as follows (in millions, except per subscriber data):

	Three Months Ended			Nine Months Ended		
	September 30,		% Change	September 30,		% Change
	2013	2012		2013	2012	
Video programming	\$ 1,203	\$ 1,170	2.8%	\$ 3,621	\$ 3,468	4.4%
Employee ^(a)	765	725	5.5%	2,261	2,132	6.1%
High-speed data	42	46	(8.7%)	133	139	(4.3%)
Voice	136	151	(9.9%)	442	458	(3.5%)
Video franchise and other fees ^(b)	124	129	(3.9%)	380	390	(2.6%)
Other direct operating costs ^(a)	294	278	5.8%	927	790	17.3%
Total	\$ 2,564	\$ 2,499	2.6%	\$ 7,764	\$ 7,377	5.2%
Cost of revenue as a percentage of revenue	46.5%	46.6%		46.9%	46.4%	
Average monthly video programming costs per video subscriber	\$ 34.10	\$ 31.45	8.4%	\$ 33.60	\$ 31.07	8.1%
Average monthly voice costs per voice subscriber	\$ 8.83	\$ 9.69	(8.9%)	\$ 9.46	\$ 10.04	(5.8%)

^(a) Employee and other direct operating costs include costs directly associated with the delivery of the Company's video, high-speed data, voice and other services to subscribers and the maintenance of the Company's delivery systems.

^(b) Video franchise and other fees include fees collected on behalf of franchising authorities and the FCC.

Cost of revenue for the three and nine months ended September 30, 2013 increased primarily related to increases in video programming, employee and other direct operating costs, partially offset by a decline in voice costs.

The increase in video programming costs for the three and nine months ended September 30, 2013 was primarily due to contractual rate increases and carriage of new networks, partially offset by a decline in video subscribers. Video programming costs were reduced by approximately \$10 million and \$20 million for the three and nine months ended September 30, 2013, respectively, and by approximately \$5 million and \$20 million for the three and nine months

ended September 30, 2012, respectively, due to changes in cost estimates for programming services primarily resulting from contract negotiations, changes in programming audit reserves and certain contract settlements. Additionally, video programming costs for the nine months ended September 30, 2013 were impacted by two additional months of Insight costs. The Company expects the rate of growth in video programming costs per video subscriber in the fourth quarter of 2013 to increase compared to the rate of growth in the first nine months of the year.

Employee costs for the three and nine months ended September 30, 2013 increased primarily as a result of increased headcount and higher compensation costs per employee. For the three and nine months ended September 30, 2013, employee medical costs increased \$3 million and \$19 million, respectively. Additionally, employee costs for the nine months ended September 30, 2013 were impacted by two additional months of Insight costs.

Voice costs consist of the direct costs associated with the delivery of voice services, including network connectivity costs. Voice costs for the three and nine months ended September 30, 2013 decreased primarily due to a decrease in delivery costs per subscriber as a result of the ongoing replacement of Sprint Corporation (Sprint) as the provider of voice transport, switching and interconnection services, as well as a decline in voice subscribers. For the nine months ended September 30, 2013, the decrease in voice costs was partially offset by the impact of two additional months of Insight costs. As of September 30, 2013, TWC had replaced Sprint with respect to nearly 70% of TWC's voice lines, and the Company expects to complete the migration of the remaining voice lines during the fourth quarter of 2013 and the first quarter of 2014. As a result, the Company expects average voice costs per voice subscriber to continue to decrease in the fourth quarter of 2013 compared to the fourth quarter of 2012.

Other direct operating costs for the three and nine months ended September 30, 2013 increased as a result of costs associated with advertising inventory sold on behalf of other video distributors and, for the nine months ended September 30, 2013, the LA RSNs.

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OF OPERATIONS AND FINANCIAL CONDITION (Continued)

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

	Three Months Ended			Nine Months Ended		
	September 30,			September 30,		
	2013	2012	% Change	2013	2012	% Change
Employee	\$ 460	\$ 421	9.3%	\$ 1,385	\$ 1,249	10.9%
Marketing	176	165	6.7%	487	472	3.2%
Bad debt ^(a)	30	36	(16.7%)	100	104	(3.8%)
Other	283	296	(4.4%)	853	869	(1.8%)
Total	\$ 949	\$ 918	3.4%	\$ 2,825	\$ 2,694	4.9%

^(a) Bad debt expense includes amounts charged to expense associated with the Company's allowance for doubtful accounts and collection expenses, net of late fees billed to subscribers. Late fees billed to subscribers were \$48 million and \$130 million for the three and nine months ended September 30, 2013, respectively, and \$39 million and \$112 million for the three and nine months ended September 30, 2012, respectively.

Selling, general and administrative expenses for the three and nine months ended September 30, 2013 increased primarily as a result of an increase in employee costs. The growth in employee costs was primarily the result of increased headcount, higher compensation costs per employee and, for the nine months ended September 30, 2013, \$10 million of executive severance costs. For the three and nine months ended September 30, 2013, employee medical costs increased \$5 million and \$18 million, respectively. Selling, general and administrative expenses for the three months ended September 30, 2013 were also impacted by higher marketing costs (which included the impact of increased spending due to temporary blackouts resulting from programming vendor disputes) and lower other operating costs. Selling, general and administrative expenses for the nine months ended September 30, 2013 were also impacted by two additional months of Insight costs.

Merger-related and restructuring costs. In connection with the Insight acquisition, the Company incurred merger-related costs of \$2 million and \$9 million for the three and nine months ended September 30, 2013, respectively, and \$7 million and \$50 million for the three and nine months ended September 30, 2012, respectively.

The Company incurred restructuring costs of \$21 million and \$72 million for the three and nine months ended September 30, 2013, respectively, compared to \$25 million and \$48 million for the three and nine months ended September 30, 2012, respectively. These restructuring costs were primarily related to employee terminations and other exit costs. The Company expects to incur additional restructuring costs during the remainder of 2013 primarily related to employee terminations in connection with initiatives intended to improve operating efficiency.

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TIME WARNER CABLE INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS

OF OPERATIONS AND FINANCIAL CONDITION (Continued)

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

	Three Months Ended			Nine Months Ended		
	September 30,			September 30,		
	2013	2012	% Change	2013	2012	% Change
OIBDA	\$ 1,982	\$ 1,914	3.6%	\$ 5,873	\$ 5,732	2.5%
Depreciation	(790)	(789)	0.1%	(2,371)	(2,377)	(0.3%)
Amortization	(32)	(31)	3.2%	(95)	(79)	20.3%
Operating Income	1,160	1,094	6.0%	3,407	3,276	4.0%
Interest expense, net	(379)	(402)	(5.7%)	(1,175)	(1,204)	(2.4%)
Other income, net		496	(100.0%)	10	493	(98.0%)
Income before income taxes	781	1,188	(34.3%)	2,242	2,565	(12.6%)
Income tax provision	(249)	(379)	(34.3%)	(828)	(920)	(10.0%)
Net income	532	809	(34.2%)	1,414	1,645	(14.0%)
Less: Net income attributable to noncontrolling interests		(1)	(100.0%)		(3)	(100.0%)
Net income attributable to TWC shareholders	\$ 532	\$ 808	(34.2%)	\$ 1,414	\$ 1,642	(13.9%)

OIBDA. OIBDA increased principally as a result of revenue growth, partially offset by higher cost of revenue and selling, general and administrative expenses.

Depreciation. Depreciation for the three and nine months ended September 30, 2013 benefited from decreases of \$27 million and \$130 million, respectively, associated with (i) certain assets acquired in the July 31, 2006 transactions with Adelphia Communications Corporation and Comcast Corporation (Comcast) that were fully depreciated as of July 31, 2012 and (ii) certain Insight assets (acquired on February 29, 2012) that were fully depreciated as of August 30, 2013. These benefits were partially offset by the impact of an increase in shorter-lived distribution system and capitalized software assets as well as, for the nine months ended September 30, 2013, the two additional months of Insight costs associated with its property, plant and equipment.

Amortization. For the nine months ended September 30, 2013, amortization increased primarily as a result of two additional months of Insight costs associated with its customer relationship intangible assets.

Operating Income. For the three and nine months ended September 30, 2013, Operating Income increased primarily due to the increase in OIBDA, which, for the nine months ended September 30, 2013, was partially offset by the increase in amortization, as discussed above.

Interest expense, net. Interest expense, net, decreased for the three and nine months ended September 30, 2013 primarily due to a decrease in the average debt outstanding during the periods as compared to 2012.

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TIME WARNER CABLE INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS

OF OPERATIONS AND FINANCIAL CONDITION (Continued)

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2013	2012	2013	2012
Income from equity-method investments, net ^(a)	\$ 2	\$ 438	\$ 16	\$ 445
Gain on sale of investment in Clearwire Corporation		64		64
Loss on equity award reimbursement obligation to Time Warner ^(b)	(3)	(7)	(8)	(5)
Other investment losses ^(c)				(12)
Other	1	1	2	1
Other income, net	\$	\$ 496	\$ 10	\$ 493

(a) Income from equity-method investments, net, for the three and nine months ended September 30, 2012 primarily consists of a pretax gain of \$430 million associated with SpectrumCo, LLC's (SpectrumCo) sale of its advanced wireless spectrum licenses to Cellco Partnership (doing business as Verizon Wireless). SpectrumCo is a joint venture between TWC, Comcast and Bright House Networks, LLC.

(b) See Note 6 to the accompanying consolidated financial statements for a discussion of the Company's accounting for its equity award reimbursement obligation to Time Warner Inc. (Time Warner).

(c) Other investment losses in 2012 represents an impairment of the Company's investment in Canoe Ventures LLC, an equity-method investee.

Income tax provision. For the three months ended September 30, 2013 and 2012, the Company recorded income tax provisions of \$249 million and \$379 million, respectively. For the nine months ended September 30, 2013 and 2012, the Company recorded income tax provisions of \$828 million and \$920 million, respectively. The decrease in the income tax provision for the three and nine months ended September 30, 2013 was primarily due to the decrease in income before income taxes, which, as discussed above, included the SpectrumCo-related gain in 2012. The effective tax rates were 31.9% for both the three months ended September 30, 2013 and 2012 and 36.9% and 35.9% for the nine months ended September 30, 2013 and 2012, respectively.

The income tax provisions and the effective tax rates for the three and nine months ended September 30, 2013 include a benefit of \$59 million related to state and local tax matters, including \$27 million resulting from income tax reform legislation enacted in North Carolina, which, along with other changes, phases in a reduction in North Carolina's corporate income tax rate over several years.

The income tax provisions and the effective tax rates for the three and nine months ended September 30, 2012 include (i) a benefit of \$63 million related to a change in the tax rate applied to calculate the Company's net deferred income

tax liability as a result of an internal reorganization effective on September 30, 2012; (ii) a benefit of \$46 million related to the reversal of a valuation allowance against a deferred income tax asset associated with the Company's investment in Clearwire Corporation (Clearwire); and (iii) a charge of \$15 million related to the recording of a deferred income tax liability associated with a partnership basis difference.

Absent the impacts of the above items, the effective tax rates would have been 39.4% and 39.8% for the three months ended September 30, 2013 and 2012, respectively, and 39.6% and 39.5% for the nine months ended September 30, 2013 and 2012, respectively.

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TIME WARNER CABLE INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS

OF OPERATIONS AND FINANCIAL CONDITION (Continued)

Net income attributable to TWC shareholders and net income per common share attributable to TWC common shareholders. Net income attributable to TWC shareholders and net income per common share attributable to TWC common shareholders were as follows (in millions, except per share data):

	Three Months Ended			Nine Months Ended		
	September 30,			September 30,		
	2013	2012	% Change	2013	2012	% Change
Net income attributable to TWC shareholders	\$ 532	\$ 808	(34.2%)	\$ 1,414	\$ 1,642	(13.9%)
Net income per common share attributable to TWC common shareholders:						
Basic	\$ 1.86	\$ 2.64	(29.5%)	\$ 4.85	\$ 5.27	(8.0%)
Diluted	\$ 1.84	\$ 2.60	(29.2%)	\$ 4.81	\$ 5.22	(7.9%)

Net income attributable to TWC shareholders for the three and nine months ended September 30, 2013 decreased primarily due to the decrease in other income, net (which, as discussed above, included SpectrumCo and Clearwire-related gains for the three and nine months ended September 30, 2012), partially offset by an increase in Operating Income and decreases in income tax provision and interest expense, net. Net income per common share attributable to TWC common shareholders for the three and nine months ended September 30, 2013 benefited from lower average common shares outstanding as a result of share repurchases under the Stock Repurchase Program.

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 next twelve months and for the foreseeable future thereafter, including the pending DukeNet acquisition, quarterly dividend payments, common stock repurchases and maturities of long-term debt. TWC's sources of cash include cash and equivalents on hand, short-term investments in U.S. Treasury securities, cash provided by operating activities and borrowing capacity under the Company's \$3.5 billion senior unsecured five-year revolving credit facility (the Revolving Credit Facility) and the Company's \$2.5 billion unsecured commercial paper program, as well as access to capital markets.

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, the Company may invest its cash and equivalents in a combination of money market and government funds and U.S. Treasury securities, as well as other similar instruments. As of September 30, 2013, the majority of the Company's cash and equivalents was invested in money market funds and income earning

bank deposits, including certificates of deposit. Additionally, as of September 30, 2013, the Company held short-term investments in U.S. Treasury securities.

TWC's unused committed financial capacity was \$4.561 billion as of September 30, 2013, reflecting \$876 million of cash and equivalents, \$250 million of short-term investments in U.S. Treasury securities and \$3.435 billion of available borrowing capacity under the Revolving Credit Facility.

Current Financial Condition

As of September 30, 2013, the Company had \$25.032 billion of debt, \$876 million of cash and equivalents, \$250 million of short-term investments in U.S. Treasury securities (net debt of \$23.906 billion, defined as total debt less cash and equivalents and short-term investments in U.S. Treasury securities) and \$6.662 billion of total TWC shareholders' equity. As of December 31, 2012, the Company had \$26.689 billion of debt, \$3.304 billion of cash and equivalents, \$150 million of short-term investments in U.S. Treasury securities (net debt of \$23.235 billion), \$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 \$7.279 billion of total TWC shareholders' equity.

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

The following table shows the significant items contributing to the change in net debt from December 31, 2012 to September 30, 2013 (in millions):

Balance as of December 31, 2012	\$	23,235
Cash provided by operating activities		(4,154)
Capital expenditures		2,371
Repurchases of common stock		1,856
Dividends paid		573
Redemption of mandatorily redeemable preferred equity		300
Decrease in the fair value of debt subject to interest rate swaps ^(a)		(159)
Proceeds from exercise of stock options		(124)
All other, net		8
Balance as of September 30, 2013	\$	23,906

^(a) The decrease in the fair value of debt subject to interest rate swaps is equal to the net decrease in the fair value of the underlying swaps, which are separately recorded on a gross basis as assets and liabilities in the accompanying consolidated balance sheet. See Note 6 to the accompanying consolidated financial statements for a discussion of the Company's accounting for its interest rate swaps.

On April 28, 2011, TWC filed a shelf registration statement on Form S-3 with the Securities and Exchange Commission (the "SEC") that allows TWC to offer and sell from time to time a variety of securities.

As previously discussed, on October 4, 2013, TWC entered into a definitive agreement to acquire DukeNet for \$600 million in cash, including the repayment of debt. The transaction, which is subject to various customary closing conditions, including receipt of regulatory approvals, is expected to close in the first quarter of 2014.

On October 24, 2013, the Company's Board of Directors declared a quarterly cash dividend of \$0.65 per share of TWC common stock, payable in cash on December 16, 2013 to stockholders of record at the close of business on November 29, 2013.

From the inception of the Stock Repurchase Program in the fourth quarter of 2010 through October 29, 2013, the Company repurchased 87.0 million shares of TWC common stock for \$6.978 billion and, as of October 29, 2013, the Company had \$3.489 billion remaining under the Stock Repurchase Program.

Cash Flows

Cash and equivalents decreased \$2.428 billion and \$1.324 billion for the nine months ended September 30, 2013 and 2012, respectively. Components of these changes are discussed below in more detail.

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TIME WARNER CABLE INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS

OF OPERATIONS AND FINANCIAL CONDITION (Continued)

Operating Activities

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

	Nine Months Ended	
	September 30,	
	2013	2012
OIBDA	\$ 5,873	\$ 5,732
Noncash equity-based compensation	100	104
Net interest payments ^(a)	(1,304)	(1,302)
Net income tax payments ^(b)	(471)	(291)
Pension plan contributions	(5)	(152)
All other, net, including working capital changes	(39)	24
Cash provided by operating activities	\$ 4,154	\$ 4,115

^(a) Amounts include interest income received (including amounts received under interest rate swap contracts) of \$121 million and \$131 million for the nine months ended September 30, 2013 and 2012, respectively.

^(b) Amounts include income tax refunds received of \$1 million and \$9 million for the nine months ended September 30, 2013 and 2012, respectively.

Cash provided by operating activities increased from \$4.115 billion for the nine months ended September 30, 2012 to \$4.154 billion for the nine months ended September 30, 2013. This increase was primarily related to an increase in OIBDA and a decrease in pension plan contributions, partially offset by an increase in net income tax payments and a change in working capital requirements.

On January 2, 2013, the American Taxpayer Relief Act of 2012 was enacted, which provides for the extension of 2012 bonus depreciation deductions of 50% of the cost of the Company's qualified capital expenditures for 2013. This extension largely offsets the Company's increase in net income tax payments in 2013 from the reversal of bonus depreciation benefits recorded in prior years. As discussed in the 2012 Form 10-K, net income tax payments in 2012 benefited from a number of deductions that will not recur in 2013 (including, for the nine months ended September 30, 2012, certain Insight-related items) and, as a result, the Company expects that net income tax payments in 2013 will increase compared to 2012.

Net interest payments for the nine months ended September 30, 2013 were essentially flat primarily as a result of the maturities of TWC's 5.400% senior notes due July 2012 (\$1.5 billion in aggregate principal amount), Time Warner Cable Enterprises LLC's (TWCE) 8.875% senior notes due October 2012 (\$350 million in aggregate principal amount)

and Time Warner Entertainment Company, L.P. s (TWE), a subsidiary of the Company at the maturity date, 10.150% senior notes due May 2012 (\$250 million in aggregate principal amount), partially offset by interest payments related to TWC s 4.500% senior unsecured debentures due 2042 (\$1.25 billion in aggregate principal amount) issued in August 2012 and 5.250% senior unsecured notes due 2042 (£650 million in aggregate principal amount) issued in June 2012.

The Company has not made any cash contributions to its qualified defined benefit pension plans (the qualified pension plans) during the nine months ended September 30, 2013. As of September 30, 2013, the qualified pension plans were estimated to be overfunded by \$441 million, and the Company does not expect to make any discretionary cash contributions to the qualified pension plans during the remainder of 2013.

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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):

	Nine Months Ended	
	September 30,	
	2013	2012
Capital expenditures	\$ (2,371)	\$ (2,191)
Business acquisitions, net of cash acquired:		
Insight		(1,339)
All other		(1)
Purchases of investments:		
Short-term investments in U.S. Treasury securities	(575)	
Loan to Sterling Entertainment Enterprises, LLC ^(a)		(40)
All other	(11)	(17)
Return of capital from investees ^(b)	7	1,112
Proceeds from sale, maturity and collection of investments	476	
Acquisition of intangible assets	(30)	(27)
Other investing activities	19	21
Cash used by investing activities	\$ (2,485)	\$ (2,482)

^(a) Amount represents a loan made to Sterling Entertainment Enterprises, LLC (doing business as SportsNet New York), an equity-method investee, in the first quarter of 2012 that was repaid during the fourth quarter of 2012.

^(b) Amount for 2012 represents the proceeds from SpectrumCo's sale of its advanced wireless spectrum licenses. Cash used by investing activities was \$2.485 billion for the nine months ended September 30, 2013 compared to \$2.482 billion for the nine months ended September 30, 2012. Cash used by investing activities for the nine months ended September 30, 2013 primarily consisted of capital expenditures and short-term investments in U.S. Treasury securities (net of maturities). Cash used by investing activities for the nine months ended September 30, 2012 primarily consisted of capital expenditures and the acquisition of Insight, partially offset by the proceeds from the sale of SpectrumCo licenses.

TWC's capital expenditures by major category were as follows (in millions):

	Nine Months Ended September 30,	
	2013	2012
Customer premise equipment ^(a)	\$ 829	\$ 832
Scalable infrastructure ^(b)	592	537
Line extensions ^(c)	421	280
Upgrades/rebuilds ^(d)	85	69
Support capital ^(e)	444	473
 Total capital expenditures	 \$ 2,371	 \$ 2,191

- (a) Amounts represent costs incurred in the purchase and installation of equipment that resides at a customer's home or business for the purpose of receiving/sending video, high-speed data and/or voice signals. Such equipment includes set-top boxes, remote controls, high-speed data modems (including wireless), telephone modems and the costs of installing such new equipment. Customer premise equipment also includes materials and labor costs 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 voice service features (voicemail, email, 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 \$235 million and \$205 million for the nine months ended September 30, 2013 and 2012, respectively.

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TIME WARNER CABLE INC.
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OF OPERATIONS AND FINANCIAL CONDITION (Continued)

The Company expects capital expenditures to be approximately \$3.2 billion in 2013.

Financing Activities

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

	Nine Months Ended September 30,	
	2013	2012
Proceeds from issuance of long-term debt	\$	\$ 2,258
Repayments of long-term debt	(1,500)	(1,750)
Repayments of long-term debt assumed in acquisitions		(1,730)
Debt issuance costs		(25)
Redemption of mandatorily redeemable preferred equity	(300)	
Repurchases of common stock	(1,856)	(1,287)
Dividends paid	(573)	(529)
Proceeds from exercise of stock options	124	124
Excess tax benefit from equity-based compensation	81	73
Taxes paid in cash in lieu of shares issued for equity-based compensation	(64)	(43)
Other financing activities	(9)	(48)
Cash used by financing activities	\$ (4,097)	\$ (2,957)

Cash used by financing activities was \$4.097 billion for the nine months ended September 30, 2013 compared to \$2.957 billion for the nine months ended September 30, 2012. Cash used by financing activities for the nine months ended September 30, 2013 primarily consisted of repurchases of TWC common stock, the repayment of TWC's 6.200% senior notes due July 2013, the payment of quarterly cash dividends and the redemption of the TW NY Cable Preferred Membership Units. Cash used by financing activities for the nine months ended September 30, 2012 primarily consisted of the repayments of TWE's 10.150% senior notes due May 2012 and TWC's 5.400% senior notes due July 2012, the repayment of Insight's senior credit facility and senior notes, repurchases of TWC common stock and the payment of quarterly cash dividends, partially offset by the net proceeds of the public debt issuances in June and August 2012.

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

Outstanding Debt and Mandatorily Redeemable Preferred Equity and Available Financial Capacity

Debt and mandatorily redeemable preferred equity as of September 30, 2013 and December 31, 2012 were as follows:

	Maturity	Interest Rate	Outstanding Balance as of	
			September 30, 2013	December 31, 2012
(in millions)				
TWC notes and debentures ^(a)	2014-2042	5.735% ^(b)	\$ 22,937	\$ 24,594
TWCE debentures ^(c)	2023-2033	7.878% ^(b)	2,066	2,070
Revolving credit facility ^(d)	2017			
Commercial paper program	2017			
Capital leases	2016-2032		29	25
Total debt ^(e)			25,032	26,689
Mandatorily redeemable preferred equity ^(e)		8.210%		300
Total debt and mandatorily redeemable preferred equity			\$ 25,032	\$ 26,989

^(a) Outstanding balance amounts of the TWC notes and debentures as of September 30, 2013 and December 31, 2012 include £1.267 billion and £1.266 billion, respectively, of senior unsecured notes valued at \$2.050 billion and \$2.058 billion, respectively, using the exchange rates at each date.

^(b) Rate represents a weighted-average effective interest rate as of September 30, 2013 and, for the TWC notes and debentures, includes the effects of interest rate swaps and cross-currency swaps.

^(c) Outstanding balance amounts of the TWCE debentures as of September 30, 2013 and December 31, 2012 include an unamortized fair value adjustment of \$66 million and \$70 million, respectively, primarily consisting of the fair value adjustment recognized as a result of the 2001 merger of America Online, Inc. (now known as AOL Inc.) and Time Warner Inc. (now known as Historic TW Inc.).

^(d) As of September 30, 2013, the Company had \$3.435 billion of available borrowing capacity under the Revolving Credit Facility (which reflects a reduction of \$65 million for outstanding letters of credit backed by the Revolving Credit Facility).

^(e) Outstanding balance amounts of total debt as of September 30, 2013 and December 31, 2012 include current maturities of long-term debt of \$1.771 billion and \$1.518 billion, respectively. Additionally, as of December 31, 2012, the TW NY Cable Preferred Membership Units, which matured and were redeemed on August 1, 2013, were classified as a current liability in the accompanying consolidated balance sheet.

See the 2012 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 and rating triggers related to such debt and financing arrangements. As of September 30, 2013, TWC was in compliance with the leverage ratio covenant of the Revolving Credit Facility, with a ratio of consolidated total debt as of September 30, 2013 to consolidated EBITDA for the twelve months ended September 30, 2013 of approximately 3.0 times. In accordance with the Revolving Credit Facility agreement, consolidated total debt as of September 30, 2013 was calculated as (a) total debt per the accompanying consolidated balance sheet less the TWCE unamortized fair value adjustment (discussed above) and the fair value of debt subject to interest rate swaps, less (b) total cash and short-term investments in U.S. Treasury securities per the accompanying consolidated balance sheet in excess of \$25 million. In accordance with the Revolving Credit Facility agreement, consolidated EBITDA for the twelve months ended September 30, 2013 was calculated as OIBDA plus equity-based compensation expense.

Contractual and Other Obligations

Contractual Obligations

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

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

The following table summarizes the Company's aggregate contractual obligations outstanding as of September 30, 2013, and the estimated timing and effect that such obligations are expected to have on the Company's liquidity and cash flows in future periods (in millions):

	2013 ^(a)	2014-2015	2016-2017	Thereafter	Total
Programming and content purchases ^(b)	\$ 1,256	\$ 8,512	\$ 6,449	\$ 14,436	\$ 30,653
Outstanding debt obligations ^(c)		2,255	2,006	20,706	24,967
Interest and dividends ^(d)	315	3,012	2,858	16,057	22,242
Operating leases ^(e)	38	281	223	352	894
Voice connectivity ^(f)	25	2			27
Data processing services	17	132	91		240
High-speed data connectivity ^(g)	16	54	11	58	139
Other ^(h)	137	184	49	60	430
Total	\$ 1,804	\$ 14,432	\$ 11,687	\$ 51,669	\$ 79,592

(a) 2013 amounts represent the Company's contractual obligations for the three months ended December 31, 2013.

(b) Programming and content purchases represent contracts that the Company has with cable television networks and broadcast stations to provide programming services to its subscribers. The amounts included above represent estimates of the future programming costs for these contract requirements and commitments based on subscriber numbers and tier placement as of September 30, 2013 applied to the per-subscriber rates contained in these contracts. Actual amounts due under such contracts may differ from the amounts above based on the actual subscriber numbers and tier placements. These amounts also include programming rights negotiated directly with content owners for distribution on TWC-owned or managed channels or networks.

(c) Outstanding debt obligations represent principal amounts due on outstanding debt obligations as of September 30, 2013. Amounts do not include any fair value adjustments, bond premiums, discounts, interest rate derivatives, interest payments or dividends.

(d) Amounts are based on the outstanding debt balances, respective interest or dividend rates and maturity schedule of the respective instruments as of September 30, 2013. Interest ultimately paid on these obligations may differ based on any potential future refinancings entered into by the Company.

(e) The Company has lease obligations under various operating leases including minimum lease obligations for real estate and operating equipment.

(f) Voice connectivity obligations relate to transport, switching and interconnection services, primarily provided by Sprint, that allow for the origination and termination of local and long-distance telephony traffic. These expenses

also include related technical support services. As discussed in Results of Operations Three and Nine Months Ended September 30, 2013 Compared to Three and Nine Months Ended September 30, 2012 Cost of Revenue, the Company is in an ongoing process of replacing Sprint as the provider of transport, switching and interconnection services. There is generally no obligation to purchase these services if the Company is not providing voice service. The amounts included above are estimated based on the number of voice subscribers as of September 30, 2013 and the per-subscriber contractual rates contained in the contracts that were in effect as of September 30, 2013 and also reflect the replacement of Sprint, which is expected to be completed in the first quarter of 2014.

- (g) High-speed data connectivity obligations are based on the contractual terms for bandwidth circuits that were in use as of September 30, 2013.
- (h) Other contractual obligations does not include the Company's reserve for uncertain tax positions and related accrued interest and penalties, which as of September 30, 2013 totaled \$94 million, as the specific timing of any cash payments relating to this obligation cannot be projected with reasonable certainty.

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 revenue, 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 included throughout this report and are based on management's current expectations and beliefs about future events. As with any projection or forecast, they are subject to uncertainty and changes in circumstances.

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

The Company operates in a highly competitive, consumer and technology driven and rapidly changing business that is affected by government regulation and economic, strategic, political and social conditions. 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 2012 Form 10-K, and in TWC's other filings made from time to time with the SEC after the date of this report. In addition, important factors that could cause the Company's actual results to differ materially from those in its forward-looking statements include:

increased competition from video, high-speed data, networking and voice providers, particularly direct broadcast satellite operators, local and long-distance service providers, companies that deliver programming over broadband Internet connections, and wireless broadband and phone providers;

the Company's ability to deal effectively with the current challenging economic environment or further deterioration in the economy, which may negatively impact customers' demand for the Company's services and also result in a reduction in the Company's advertising revenue;

the Company's continued ability to exploit new and existing technologies that appeal to residential and business services customers and advertisers;

changes in the regulatory and tax environments in which the Company operates, including, among others, regulation of broadband Internet services, net neutrality legislation or regulation and federal, state and local taxation;

increased difficulty negotiating programming and retransmission agreements on favorable terms, resulting in increased costs to the Company and/or the loss of popular programming; and

changes in the Company's plans, initiatives and strategies.

Any forward-looking statements made by the Company in this document speak only as of the date on which they are made. 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 changes in circumstances, new information, subsequent events or otherwise.

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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 Securities Exchange Act of 1934, as amended (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, 2013 that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

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TIME WARNER CABLE INC.
CONSOLIDATED BALANCE SHEET

(Unaudited)

	September 30, December 31,	
	2013	2012
	(in millions)	
ASSETS		
Current assets:		
Cash and equivalents	\$ 876	\$ 3,304
Short-term investments in U.S. Treasury securities	250	150
Receivables, less allowances of \$91 million and \$65 million as of September 30, 2013 and December 31, 2012, respectively	892	883
Deferred income tax assets	309	317
Other current assets	329	223
Total current assets	2,656	4,877
Investments	83	87
Property, plant and equipment, net	14,627	14,742
Intangible assets subject to amortization, net	573	641
Intangible assets not subject to amortization	26,012	26,011
Goodwill	2,886	2,889
Other assets	594	562
Total assets	\$ 47,431	\$ 49,809
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	\$ 468	\$ 647
Deferred revenue and subscriber-related liabilities	192	183
Accrued programming expense	897	872
Current maturities of long-term debt	1,771	1,518
Mandatorily redeemable preferred equity issued by a subsidiary		300
Other current liabilities	1,636	1,805
Total current liabilities	4,964	5,325
Long-term debt	23,261	25,171
Deferred income tax liabilities, net	11,714	11,280
Other liabilities	826	750
Commitments and contingencies (Note 13)		
TWC shareholders' equity:		
Common stock, \$0.01 par value, 282.9 million and 297.7 million shares issued and outstanding as of September 30, 2013 and December 31, 2012, respectively	3	3

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Additional paid-in capital	7,056	7,576
Retained earnings	119	363
Accumulated other comprehensive loss, net	(516)	(663)
Total TWC shareholders equity	6,662	7,279
Noncontrolling interests	4	4
Total equity	6,666	7,283
Total liabilities and equity	\$ 47,431	\$ 49,809

See accompanying notes.

Table of Contents**TIME WARNER CABLE INC.****CONSOLIDATED STATEMENT OF OPERATIONS**

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(in millions, except per share data)			
Revenue	\$ 5,518	\$ 5,363	\$ 16,543	\$ 15,901
Costs and expenses:				
Cost of revenue ^(a)	2,564	2,499	7,764	7,377
Selling, general and administrative ^(a)	949	918	2,825	2,694
Depreciation	790	789	2,371	2,377
Amortization	32	31	95	79
Merger-related and restructuring costs	23	32	81	98
Total costs and expenses	4,358	4,269	13,136	12,625
Operating Income	1,160	1,094	3,407	3,276
Interest expense, net	(379)	(402)	(1,175)	(1,204)
Other income, net		496	10	493
Income before income taxes	781	1,188	2,242	2,565
Income tax provision	(249)	(379)	(828)	(920)
Net income	532	809	1,414	1,645
Less: Net income attributable to noncontrolling interests		(1)		(3)
Net income attributable to TWC shareholders	\$ 532	\$ 808	\$ 1,414	\$ 1,642
Net income per common share attributable to TWC common shareholders:				
Basic	\$ 1.86	\$ 2.64	\$ 4.85	\$ 5.27
Diluted	\$ 1.84	\$ 2.60	\$ 4.81	\$ 5.22
Average common shares outstanding:				
Basic	285.0	305.7	289.9	310.2
Diluted	289.0	310.2	293.8	314.8

Cash dividends declared per share of common stock	\$	0.65	\$	0.56	\$	1.95	\$	1.68
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(a) Cost of revenue and selling, general and administrative expenses exclude depreciation. See accompanying notes.

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TIME WARNER CABLE INC.
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2013	2012	2013	2012
	(in millions)			
Net income	\$ 532	\$ 809	\$ 1,414	\$ 1,645
Change in accumulated unrealized losses on pension benefit obligation, net of tax	10	7	56	9
Change in accumulated deferred gains (losses) on cash flow hedges, net of tax	77	46	91	9
Other comprehensive income	87	53	147	18
Comprehensive income	619	862	1,561	1,663
Less: Comprehensive income attributable to noncontrolling interests		(1)		(3)
Comprehensive income attributable to TWC shareholders	\$ 619	\$ 861	\$ 1,561	\$ 1,660

See accompanying notes.

Table of Contents**TIME WARNER CABLE INC.****CONSOLIDATED STATEMENT OF CASH FLOWS**

(Unaudited)

	Nine Months Ended September 30, 2013 2012 (in millions)	
OPERATING ACTIVITIES		
Net income	\$ 1,414	\$ 1,645
Adjustments for noncash and nonoperating items:		
Depreciation	2,371	2,377
Amortization	95	79
Pretax gain on sale of investment in Clearwire Corporation		(64)
Income from equity-method investments, net of cash distributions	(9)	(433)
Deferred income taxes	353	409
Equity-based compensation expense	100	104
Excess tax benefit from equity-based compensation	(81)	(73)
Changes in operating assets and liabilities, net of acquisitions and dispositions:		
Receivables	17	(31)
Accounts payable and other liabilities	(137)	105
Other changes	31	(3)
Cash provided by operating activities	4,154	4,115
INVESTING ACTIVITIES		
Capital expenditures	(2,371)	(2,191)
Business acquisitions, net of cash acquired		(1,340)
Purchases of investments	(586)	(57)
Return of capital from investees	7	1,112
Proceeds from sale, maturity and collection of investments	476	
Acquisition of intangible assets	(30)	(27)
Other investing activities	19	21
Cash used by investing activities	(2,485)	(2,482)
FINANCING ACTIVITIES		
Proceeds from issuance of long-term debt		2,258
Repayments of long-term debt	(1,500)	(1,750)
Repayments of long-term debt assumed in acquisitions		(1,730)
Debt issuance costs		(25)
Redemption of mandatorily redeemable preferred equity	(300)	
Repurchases of common stock	(1,856)	(1,287)

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Dividends paid	(573)	(529)
Proceeds from exercise of stock options	124	124
Excess tax benefit from equity-based compensation	81	73
Taxes paid in cash in lieu of shares issued for equity-based compensation	(64)	(43)
Other financing activities	(9)	(48)
Cash used by financing activities	(4,097)	(2,957)
Decrease in cash and equivalents	(2,428)	(1,324)
Cash and equivalents at beginning of period	3,304	5,177
Cash and equivalents at end of period	\$ 876	\$ 3,853

See accompanying notes.

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TIME WARNER CABLE INC.
CONSOLIDATED STATEMENT OF EQUITY

(Unaudited)

	TWC Shareholders Equity	Non- controlling Interests (in millions)	Total Equity
Balance as of December 31, 2011	\$ 7,530	\$ 7	\$ 7,537
Net income	1,642	3	1,645
Change in accumulated unrealized losses on pension benefit obligation, net of income tax provision of \$8 million	9		9
Change in accumulated deferred gains (losses) on cash flow hedges, net of income tax provision of \$6 million	9		9
Other comprehensive income	18		18
Comprehensive income	1,660	3	1,663
Equity-based compensation expense	104		104
Repurchase and retirement of common stock	(1,293)		(1,293)
Cash dividends declared (\$1.68 per common share)	(529)		(529)
Shares issued upon exercise of stock options	124		124
Taxes paid in lieu of shares issued for equity-based compensation	(43)		(43)
Excess tax benefit realized from equity-based compensation	55		55
Other changes	1	(2)	(1)
Balance as of September 30, 2012	\$ 7,609	\$ 8	\$ 7,617
Balance as of December 31, 2012	\$ 7,279	\$ 4	\$ 7,283
Net income	1,414		1,414
Change in accumulated unrealized losses on pension benefit obligation, net of income tax provision of \$36 million	56		56
Change in accumulated deferred gains (losses) on cash flow hedges, net of income tax provision of \$58 million	91		91
Other comprehensive income	147		147
Comprehensive income	1,561		1,561

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Equity-based compensation expense	100			100
Repurchase and retirement of common stock	(1,844)			(1,844)
Cash dividends declared (\$1.95 per common share)	(573)			(573)
Shares issued upon exercise of stock options	124			124
Taxes paid in lieu of shares issued for equity-based compensation	(64)			(64)
Excess tax benefit realized from equity-based compensation	81			81
Other changes	(2)			(2)
Balance as of September 30, 2013	\$ 6,662	\$ 4	\$	6,666

See accompanying notes.

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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 among the largest providers of video, high-speed data and voice services in the U.S., with technologically advanced, well-clustered cable systems located mainly in five geographic areas: New York State (including New York City), the Carolinas, the Midwest (including Ohio, Kentucky and Wisconsin), Southern California (including Los Angeles) and Texas. TWC offers video, high-speed data and voice services to residential and business services customers over the Company's broadband cable systems. TWC's residential services also include security and home management services, and TWC's business services also include networking and transport services (including cell tower backhaul services) and enterprise-class, cloud-enabled hosting, managed applications and services. TWC also sells advertising to a variety of national, regional and local customers.

Basis of Presentation

Basis of Consolidation

The consolidated financial statements include all of the assets, liabilities, revenue, expenses and cash flows of TWC and all entities in which TWC has a controlling voting interest. The consolidated financial statements include the results of the Time Warner Entertainment-Advance/Newhouse Partnership (TWE-A/N) only for the TWE-A/N cable 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 allowances for doubtful accounts, depreciation and amortization, business combinations, derivative financial instruments, pension benefits, equity-based compensation, income taxes, loss contingencies, certain programming arrangements and asset impairments. Allocation methodologies used to prepare the consolidated financial statements are based on estimates and have been described in the notes, where appropriate.

Reclassifications

Certain reclassifications have been made to the prior year financial information to conform to the current year presentation.

Interim Financial Statements

The consolidated financial statements are unaudited; however, in the opinion of management, they contain all the adjustments (consisting of those of a normal recurring nature) considered necessary to present fairly the financial position, results of operations and cash flows for the periods presented in conformity with GAAP applicable to interim periods. The consolidated financial statements should be read in conjunction with the audited consolidated financial statements of TWC included in the Company's Annual Report on Form 10-K for the year ended December 31, 2012.

2. EARNINGS PER SHARE

Basic net income per common share attributable to TWC common shareholders is determined using the two-class method and is computed by dividing net income attributable to TWC common shareholders by the weighted average of common shares outstanding during the period. The two-class method is an earnings allocation formula that determines income per share for each class of common stock and participating security according to dividends declared and participation rights in undistributed earnings. Diluted net income per common share attributable to TWC common shareholders reflects the more dilutive earnings per share amount calculated using the treasury stock method or the two-class method.

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

(Unaudited)

Set forth below is a reconciliation of net income attributable to TWC common shareholders per basic and diluted common share (in millions, except per share data):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Net income attributable to TWC common shareholders	\$ 529	\$ 806	\$ 1,406	\$ 1,634
Net income allocated to participating securities ^(a)	3	2	8	8
Net income attributable to TWC shareholders	\$ 532	\$ 808	\$ 1,414	\$ 1,642
Average basic common shares outstanding	285.0	305.7	289.9	310.2
Dilutive effect of nonparticipating equity awards	1.9	2.0	1.7	2.0
Dilutive effect of participating equity awards ^(a)	2.1	2.5	2.2	2.6
Average diluted common shares outstanding	289.0	310.2	293.8	314.8
Net income per common share attributable to TWC common shareholders:				
Basic	\$ 1.86	\$ 2.64	\$ 4.85	\$ 5.27
Diluted	\$ 1.84	\$ 2.60	\$ 4.81	\$ 5.22

^(a) The Company's restricted stock units granted to employees and non-employee directors are considered participating securities with respect to regular quarterly cash dividends.

Diluted net income per common share attributable to TWC common shareholders for the nine months ended September 30, 2012 excludes 2.6 million common shares that may be issued under the Company's equity-based compensation plan because they do not have a dilutive effect. For the three months ended September 30, 2013 and 2012 and for the nine months ended September 30, 2013, antidilutive common shares related to the equity-based compensation plan were insignificant.

3. DUKENET ACQUISITION

On October 4, 2013, TWC entered into a definitive agreement with Duke Energy Corporation and investment funds managed by Alinda Capital Partners to acquire DukeNet Communications, LLC (DukeNet) for \$600 million in cash, including the repayment of debt. DukeNet, a regional fiber optic network company, provides data and high-capacity bandwidth services to wireless carrier, data center, government, and enterprise customers in North Carolina and South Carolina, as well as five other states in the Southeast. The transaction, which is subject to various customary closing conditions, including receipt of regulatory approvals, is expected to close in the first quarter of 2014.

4. ANNUAL IMPAIRMENT ANALYSIS FOR GOODWILL AND INDEFINITE-LIVED INTANGIBLE ASSETS

As of the Company's July 1, 2013 annual testing date and based on its qualitative assessment, the Company determined that it was not more likely than not that its cable franchise rights and goodwill were impaired and, therefore, the Company did not perform a quantitative assessment as part of its annual impairment testing. In making that determination, management identified and analyzed qualitative factors, including factors that would most significantly impact a discounted cash flow (DCF) valuation of the fair values of the cable franchise rights and the fair value of the Company's reporting units. This process included a review of the Company's most recent long-range projections, analysis of operating results versus the prior year, changes in market values, changes in discount rates and changes in terminal growth rate assumptions.

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

(Unaudited)

5. MANDATORILY REDEEMABLE PREFERRED EQUITY

In connection with the financing of the acquisition of substantially all of the cable assets of Adelphia Communications Corporation in 2006, Time Warner NY Cable LLC (TW NY Cable), a subsidiary of TWC, issued \$300 million of its Series A Preferred Membership Units (the TW NY Cable Preferred Membership Units) to a limited number of third parties. On August 1, 2013, all of the TW NY Cable Preferred Membership Units were redeemed by TW NY Cable as required pursuant to their terms for an aggregate redemption price of \$300 million plus accrued dividends. The TW NY Cable Preferred Membership Units paid cash dividends at an annual rate equal to 8.210% of the sum of the liquidation preference thereof on a quarterly basis.

6. DERIVATIVE FINANCIAL INSTRUMENTS

The fair values of assets and liabilities associated with the Company's derivative financial instruments recorded in the consolidated balance sheet as of September 30, 2013 and December 31, 2012 were as follows (in millions):

	Assets		Liabilities	
	September 30, 2013	December 31, 2012	September 30, 2013	December 31, 2012
Interest rate swaps ^{(a)(b)}	\$ 166	\$ 295	\$ 31	\$ 1
Cross-currency swaps ^{(a)(c)}	252	112		
Equity award reimbursement obligation ^(d)			12	19
Total	\$ 418	\$ 407	\$ 43	\$ 20

(a) The Company's interest rate swap and cross-currency swap contracts with multiple counterparties are subject to contractual terms that provide for the net settlement of all such contracts with each counterparty through a single payment in the event of default on or termination of any one contract by either party. The fair values of assets and liabilities associated with interest rate swaps and cross-currency swaps are presented on a gross basis in the consolidated balance sheet and are classified as current or noncurrent based on the maturity date of the respective contract.

(b) Of the total amount of interest rate swap assets recorded as of September 30, 2013 and December 31, 2012, \$19 million and \$16 million, respectively, is recorded in other current assets in the consolidated balance sheet. The total amount of interest rate swap liabilities recorded as of September 30, 2013 and December 31, 2012 is recorded in other liabilities in the consolidated balance sheet.

(c) The fair values of the assets and liabilities associated with cross-currency swaps are recorded in other assets and other liabilities, respectively, in the consolidated balance sheet.

- (d) The fair value of the equity award reimbursement obligation is recorded in other current liabilities in the consolidated balance sheet.

Fair Value Hedges

The Company uses interest rate swaps to manage interest rate risk by effectively converting fixed-rate debt into variable-rate debt. Under such contracts, the Company is entitled to receive semi-annual interest payments at fixed rates and is required to make semi-annual interest payments at variable rates, without exchange of the underlying principal amount. Such contracts are designated as fair value hedges. The Company recognizes no gain or loss related to its interest rate swaps because the changes in the fair values of such instruments are completely offset by the changes in the fair values of the hedged fixed-rate debt. The following table summarizes the terms of the Company's existing fixed to variable interest rate swaps as of September 30, 2013 and December 31, 2012:

	September 30, 2013	December 31, 2012
Maturities	2014-2019	2013-2018
Notional amount (in millions)	\$ 7,550	\$ 7,750
Weighted-average pay rate (variable based on LIBOR plus variable margins)	4.82%	4.35%
Weighted-average receive rate (fixed)	6.80%	6.43%

The notional amounts of interest rate instruments, as presented in the above table, are used to measure interest to be paid or received and do not represent the amount of exposure to credit loss.

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

(Unaudited)

Cash Flow Hedges

The Company uses cross-currency swaps to manage foreign exchange risk related to foreign currency denominated debt by effectively converting foreign currency denominated debt, including annual interest payments and the payment of principal at maturity, to U.S. dollar denominated debt. Such contracts are designated as cash flow hedges. The Company has entered into cross-currency swaps to effectively convert its £1.275 billion aggregate principal amount of fixed-rate British pound sterling denominated debt, including annual interest payments and the payment of principal at maturity, to fixed-rate U.S. dollar denominated debt. The cross-currency swaps have maturities of June 2031 and July 2042. The following table summarizes the deferred gain (loss) activity related to cash flow hedges recognized in accumulated other comprehensive loss, net, during the three and nine months ended September 30, 2013 and 2012 (in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Deferred gains (losses) recognized:				
Cross-currency swaps	\$ 249	\$ 140	\$ 140	\$ 80
Other cash flow hedges		(1)		(1)
Total deferred gains recognized	249	139	140	79
Deferred (gains) losses reclassified to income:				
Cross-currency swaps ^(a)	(124)	(63)	9	(64)
Total net deferred gains recognized	125	76	149	15
Income tax provision	(48)	(30)	(58)	(6)
Total net deferred gains recognized, net of tax	\$ 77	\$ 46	\$ 91	\$ 9

^(a) Deferred gains (losses) on cross-currency swaps were reclassified from accumulated other comprehensive loss, net, to other income, net, which offsets the re-measurement gains (losses) recognized in other income, net, on the British pound sterling denominated debt.

Any ineffectiveness related to the Company's cash flow hedges has been and is expected to be immaterial.

Equity Award Reimbursement Obligation

Prior to 2007, some of TWC's employees were granted options to purchase shares of Time Warner Inc. (Time Warner) common stock in connection with their past employment with subsidiaries and affiliates of Time Warner, including TWC. Upon the exercise of Time Warner stock options held by TWC employees, TWC is obligated to reimburse Time Warner for the excess of the market price of Time Warner common stock on the day of exercise over the option exercise price (the intrinsic value of the award). The Company records the equity award reimbursement obligation at fair value in other current liabilities in the consolidated balance sheet, which is estimated using the Black-Scholes model. The change in the equity award reimbursement obligation fluctuates primarily with the fair value and expected volatility of Time Warner common stock and changes in fair value are recorded in other income, net, in the period of change. As of September 30, 2013, the weighted-average remaining contractual term of outstanding Time Warner stock options held by TWC employees was 0.42 years. Changes in the fair value of the equity award reimbursement obligation are discussed in Note 7 below.

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

(Unaudited)

7. FAIR VALUE MEASUREMENTS**Assets and Liabilities Measured at Fair Value on a Recurring Basis**

The fair values of derivative financial instruments classified as assets and liabilities as of September 30, 2013 and December 31, 2012 were as follows (in millions):

	September 30, 2013			December 31, 2012		
	Fair Value	Level 2	Level 3	Fair Value	Level 2	Level 3
Assets:						
Interest rate swaps	\$ 166	\$ 166	\$	\$ 295	\$ 295	\$
Cross-currency swaps	252	252		112	112	
Total	\$ 418	\$ 418	\$	\$ 407	\$ 407	\$
Liabilities:						
Interest rate swaps	\$ 31	\$ 31	\$	\$ 1	\$ 1	\$
Equity award reimbursement obligation	12		12	19		19
Total	\$ 43	\$ 31	\$ 12	\$ 20	\$ 1	\$ 19

The fair value of interest rate swaps, classified as Level 2, utilized a DCF analysis based on the terms of the contract and expected forward interest rates, and incorporates the credit risk of the Company and each counterparty. The fair value of cross-currency swaps, classified as Level 2, utilized a DCF analysis based on expected forward interest and exchange rates, and incorporates the credit risk of the Company and each counterparty. The fair value of the equity award reimbursement obligation, classified as Level 3, utilized a Black-Scholes model to determine the estimated weighted-average fair value of Time Warner stock options outstanding, which was \$28.90 per option as of September 30, 2013. The weighted-average assumptions used in the Black-Scholes model were as follows: expected volatility of Time Warner common stock of 24.87%, expected term of 0.36 years, risk-free rate of 0.01% and expected dividend yield of 1.75%.

Changes in the fair value of the equity award reimbursement obligation, valued using significant unobservable inputs (Level 3), from January 1 through September 30 are presented below (in millions):

	2013	2012
Balance at beginning of period	\$ 19	\$ 22
Losses recognized in other income, net	8	5
Payments to Time Warner for awards exercised	(15)	(4)
Balance at end of period	\$ 12	\$ 23

Assets Measured at Fair Value on a Nonrecurring Basis

The Company's assets measured at fair value on a nonrecurring basis include equity-method investments, long-lived assets, indefinite-lived intangible assets and goodwill. The Company reviews the carrying amounts of such assets whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable or at least annually as of July 1 for indefinite-lived intangible assets and goodwill. Any resulting asset impairment would require that the asset be reduced to its fair value. Refer to Note 4 for further details regarding the results of the Company's annual impairment test.

Fair Value of Other Financial Instruments

The Company's other financial instruments not measured at fair value on a recurring basis include (a) cash and equivalents, receivables, accounts payable, accrued liabilities and, as of December 31, 2012, mandatorily redeemable

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(Unaudited)

preferred equity, which are reflected at cost in the consolidated balance sheet, and (b) short-term investments in U.S. Treasury securities and long-term debt not subject to fair value hedge accounting, which are reflected at amortized cost in the consolidated balance sheet. With the exception of long-term debt, cost and amortized cost approximates fair value for these instruments due to their short-term nature. The carrying value and related estimated fair value of the Company's long-term debt, excluding capital leases, was \$25.003 billion and \$25.044 billion, respectively, as of September 30, 2013 and \$26.664 billion and \$31.759 billion, respectively, as of December 31, 2012. Estimated fair values for long-term debt have generally been determined by reference to the market value of the instrument as quoted on a national securities exchange or in an over-the-counter market. In cases where a quoted market value is not available, fair value is based on an estimate using a DCF analysis value or other valuation techniques.

8. TWC SHAREHOLDERS' EQUITY**Changes in Common Stock**

Changes in the Company's common stock from January 1 through September 30 are presented below (in millions):

	2013	2012
Balance at beginning of period	297.7	315.0
Shares issued under equity-based compensation plan	3.8	4.4
Shares repurchased and retired	(18.6)	(16.1)
Balance at end of period	282.9	303.3

Common Stock Repurchase Program

On July 25, 2013, the Company's Board of Directors increased the remaining authorization under its existing common stock repurchase program (the "Stock Repurchase Program"), which was \$775 million as of July 24, 2013, to an aggregate of up to \$4.0 billion of TWC common stock effective July 25, 2013. As of September 30, 2013, the Company had \$3.614 billion remaining under the Stock Repurchase Program. Purchases under the Stock Repurchase Program may be made from time to time on the open market and in privately negotiated transactions. The size and timing of the Company's purchases under the Stock Repurchase Program are based on a number of factors, including business and market conditions, financial capacity and TWC's common stock price. For the nine months ended September 30, 2013, the Company repurchased 18.6 million shares of TWC common stock for \$1.844 billion, including 0.2 million shares repurchased for \$21 million that settled in October 2013.

Accumulated Other Comprehensive Loss, Net

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Changes in accumulated other comprehensive loss, net, included in TWC shareholders' equity from January 1 through September 30 are presented below (in millions):

	2013	2012
Balance at beginning of period	\$ (663)	\$ (559)
Other comprehensive income before reclassifications, net of tax	105	30
Amounts reclassified from accumulated other comprehensive loss, net of tax	42	(12)
Other comprehensive income, net of tax	147	18
Balance at end of period	\$ (516)	\$ (541)

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(Unaudited)

The following table summarizes the changes in the components of accumulated other comprehensive loss, net, (e.g., unrealized losses on pension benefit obligation and deferred gains (losses) on cash flow hedges) included in TWC shareholders' equity from January 1 through September 30 (in millions):

	2013	2012
<i>Accumulated unrealized losses on pension benefit obligation:</i>		
Balance at beginning of period	\$ (708)	\$ (541)
Other comprehensive income (loss) before reclassifications, net of tax	21	(17)
Amounts reclassified from accumulated other comprehensive loss, net of tax:		
Amortization of actuarial loss ^(a)		