TIME WARNER CABLE INC.
Form 10-K
February 20, 2009

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

Form 10-K

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

For the fiscal year ended December 31, 2008

Commission file number 001-33335

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

Delaware	**84-1496755**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*

60 Columbus Circle
New York, New York 10023
(Address of principal executive offices) (Zip Code)
(212) 364-8200
(Registrant s telephone number, including area code)

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

Title of each class	**Name of each exchange on which registered**
Class A Common Stock, par value $0.01	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:
None

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

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

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

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

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

Large accelerated filer þ	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

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

DOCUMENTS INCORPORATED BY REFERENCE

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

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PART I

Item 1. *Business.*

Overview

Time Warner Cable Inc. (together with its subsidiaries, TWC or the Company) is the second-largest cable operator in the U.S., with technologically advanced, well-clustered systems located mainly in five geographic areas New York State (including New York City), the Carolinas, Ohio, southern California (including Los Angeles) and Texas. As of December 31, 2008, TWC served approximately 14.6 million customers who subscribed to one or more of its video, high-speed data and voice services, representing approximately 34.2 million revenue generating units (RGUs), which reflects the total of all TWC basic video, digital video, high-speed data and voice service subscribers.

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

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

Recent Developments

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

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

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

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

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

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

2008 Bond Offerings and Credit Facilities

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

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

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

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

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

Caution Concerning Forward-Looking Statements and Risk Factors

This Annual Report on Form 10-K includes certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are based on management s current expectations and beliefs and are inherently susceptible to uncertainty and changes in circumstances. Actual results may vary materially from the expectations contained herein due to changes in economic, business, competitive, technological, strategic and/or regulatory factors and other factors affecting the operation of TWC s business, including the Separation. For more detailed information about these factors, and risk factors with respect to the Company s operations, see Item 1A, Risk Factors, below and Caution Concerning Forward-Looking Statements in Management s Discussion and Analysis of Results of Operations and Financial Condition in the financial section of this report. TWC is under no obligation to, and expressly disclaims any obligation to, update or alter its forward-looking statements, whether as a result of such changes, new information, subsequent events or otherwise.

Available Information and Website

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

Corporate Structure

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

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Structure Chart prior to the Separation Transactions:

(1) The principal amount of TWE s debt securities excludes an unamortized fair value adjustment of $114 million.

(2) TWC is also the obligor under an intercompany loan from TWE with an aggregate principal amount of $5.2 billion.

(3) The bank facilities exclude $2.070 billion in commitments of the lenders under the 2008 Bridge Facility, $1.535 billion in commitments of Time Warner under the Supplemental Credit Agreement and the $125 million undrawn commitment of Lehman Brothers Bank, FSB (LBB) from TWC s available borrowing capacity under its $6.0 billion senior unsecured five-year revolving credit facility (the Revolving Credit Facility). For more about the Lehman Brothers Holdings Inc. bankruptcy, see Management s Discussion and Analysis of Results of Operations and Financial Condition Financial Condition and Liquidity Outstanding Debt and Mandatorily Redeemable Preferred Equity and Available Financial Capacity Lending Commitments.

(4) TW NY Cable is also the obligor under an intercompany loan from TWC with an aggregate principal amount of $8.7 billion.

(5) The subscribers, RGUs and economic ownership interests listed in the chart for Time Warner Entertainment-Advance/Newhouse Partnership (TWE-A/N) relate only to those TWE-A/N systems in which TWC has an economic interest and over which TWC exercises day-to-day management. See Operating Partnerships and Joint Ventures TWE-A/N Partnership Agreement for a more detailed description of the TWE-A/N capital structure.

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Structure Chart after the Separation Transactions:

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

Services

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

Residential Services

Video Services

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

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

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

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

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

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

Basic video penetration[c]	48.8%	50.0%	51.4%
Digital video subscribers[d]	8,627	8,022	7,270
Digital video penetration[e]	66.0%	60.5%	54.2%

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

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

(c) Basic video penetration represents basic video subscribers as a percentage of homes passed.

(d) Digital video subscriber numbers reflect billable subscribers who receive any level of video service at their dwelling or commercial establishment via digital transmissions.

(e) Digital video penetration represents digital video subscribers as a percentage of basic video subscribers.

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

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

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

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

High-speed Data Services

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

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

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

(a) Homes passed represent the estimated number of high-speed data service-ready single residence homes, apartment and condominium units and commercial establishments passed by TWC s cable systems without further extending the transmission lines.

(b) Residential high-speed data subscriber numbers reflect billable subscribers who receive TWC s Road Runner[tm] high-speed data service or any other residential high-speed data service offered by TWC.

(c) The determination of whether a high-speed data subscriber is categorized as commercial or residential is generally based upon the type of service provided to the subscriber. For example, if the Company provides a commercial service, the subscriber is classified as commercial.

(d) Residential high-speed data penetration represents residential high-speed data subscribers as a percentage of homes passed.

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

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

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

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

Voice Services

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

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

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

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

(b) Residential Digital Phone subscriber numbers reflect billable subscribers who receive a residential internet protocol (IP)-based telephony service. Residential Digital Phone subscriber numbers as of December 31, 2007 and 2006 exclude 9,000 and 106,000 subscribers, respectively, who received traditional, circuit-switched telephone service.

(c) The determination of whether a Digital Phone subscriber is categorized as commercial or residential is generally based upon the type of service provided to the subscriber. For example, if the Company provides a commercial service, the subscriber is classified as commercial.

(d) Residential Digital Phone penetration represents residential Digital Phone subscribers as a percentage of Digital Phone service-ready homes passed.

Commercial Services

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

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Video Services

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

High-speed Data Services

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

Voice Services

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

Commercial Networking and Transport Services

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

Service Bundles

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

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

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

(a) Customer relationships represent the number of subscribers who receive at least one level of service, encompassing video, high-speed data and voice services, without regard to the number of services purchased. For example, a subscriber who purchases only high-speed data service and no video service will count as one customer relationship, and a subscriber who purchases both video and high-speed data services will also count as only one customer relationship.
(b) Double play subscriber numbers reflect TWC customers who subscribe to two of TWC s primary services (video, high-speed data and voice).
(c) Double play penetration represents double play subscribers as a percentage of customer relationships.
(d) Triple play subscriber numbers reflect TWC customers who subscribe to all three of TWC s primary services (video, high-speed data and voice).
(e) Triple play penetration represents triple play subscribers as a percentage of customer relationships.

Cross-platform Features

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

Advertising

TWC earns revenues by selling advertising to national, regional and local customers. As part of the agreements under which it acquires video programming, TWC typically receives an allocation of scheduled advertising time in such programming, generally two or three minutes per hour, into which its systems can insert commercials, subject, in some instances, to certain subject matter limitations. The clustering of TWC s systems expands the share of viewers that TWC reaches within a local designated market area, which helps its local advertising sales business to compete more effectively with broadcast and other media. In addition, TWC has a strong presence in the country s two largest advertising market areas, New York, NY, and Los Angeles, CA.

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

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Advanced Advertising

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

Wireless Ventures

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

Marketing and Sales

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

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

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

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Customer Care

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

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

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

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

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

Technology

Cable Systems

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

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

Set-top Boxes

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

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

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

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

Suppliers

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

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

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

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

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

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

Competition

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

Principal Competitors

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

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

Local telephone companies. TWC s video, high-speed data and Digital Phone services face competition from the video, DSL, wireless broadband and traditional and wireless phone offerings of AT&T Inc. (AT&T) and Verizon Communications Inc. (Verizon). In a number of TWC s operating areas, AT&T and Verizon have upgraded portions of their networks to carry two-way video, high-speed data and IP-based telephony services, each of which is similar to the corresponding service offered by TWC. Moreover, AT&T and Verizon market and sell service bundles of video, high-speed data and voice services plus wireless services, and they market cross-platform features with their wireless services, such as remote DVR control from a wireless handset. TWC also faces competition from the DSL, wireless broadband and phone offerings of smaller incumbent local telephone companies, such as Frontier Communications Corporation and Cincinnati Bell, Inc.

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

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Other Competition and Competitive Factors

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

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

Online competition. TWC s high-speed data services face or may face competition from a variety of companies that offer other forms of online services, including low cost dial-up services over ordinary telephone lines and third-generation wireless broadband services, such as those offered by Verizon, AT&T, Sprint and T-Mobile USA, Inc. (T-Mobile), and developing technologies, such as fourth-generation wireless services, Internet service via power lines, satellite and various other wireless services (e.g., Wi-Fi).

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

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

Commercial competition. TWC s commercial video, high-speed data, voice and networking and transport services face competition from local incumbent telephone companies, especially AT&T and Verizon, as well as from a variety of other national and regional business services competitors. These companies include facilities-based business service providers, such as Level 3 Communications, Inc. and tw telecom inc., which provide fiber optic services to enterprise and small- to medium-sized business customers, smaller regional competitive local exchange carriers (CLECs) that offer voice and high-speed data services using local access lines leased from local incumbent telephone operators, and national providers of IP-telephony products such as Vonage, which provide voice and/or high-speed data services on a residential broadband connection.

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

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

Employees

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

Regulatory Matters

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

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

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

Video Services

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

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

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

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

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

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

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

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

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

Pole attachment regulation. The Communications Act requires that utilities provide cable systems and telecommunications carriers with non-discriminatory access to any pole, conduit or right-of-way controlled by investor-owned utilities. The Communications Act also permits the FCC to regulate the rates, terms and conditions imposed by these utilities for cable systems use of utility poles and conduit space. States are permitted to preempt FCC jurisdiction over pole attachments through certifying that they regulate the terms of attachments themselves. Many states in which TWC operates have done so. Most of these certifying states have generally followed the FCC s pole attachment rate standards and guidelines. The FCC or a certifying state could increase pole attachment rates paid by cable operators. In addition, the FCC has adopted a higher pole attachment rate applicable to pole attachments made by companies providing telecommunications services. The applicability of and method for calculating pole attachment rates for cable operators that provide digital voice services remains unclear. In November 2007, the FCC issued a Notice of Proposed Rulemaking that proposes to establish a new unified pole attachment rate that would apply to attachments made by a cable operator that are used to provide high-speed Internet services and, potentially, digital voice services as well. The proposed rate would be higher than the current rate paid by cable service providers. If adopted, this proposal could materially increase TWC s current payments for pole attachments.

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

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

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

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

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

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

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

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

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

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

Program access and Adelphia/Comcast Transactions Order. In the Adelphia/Comcast Transactions Order, the FCC imposed conditions on TWC, which will expire in July 2012, related to regional sports networks (RSNs), as defined in the Adelphia/Comcast Transactions Order, and the resolution of disputes pursuant to the FCC s leased access regulations. In particular, the Adelphia/Comcast Transactions Order provides that (i) neither TWC nor its affiliates may offer an affiliated RSN on an exclusive basis to any MVPD; (ii) TWC may not unduly or improperly influence the decision of any affiliated RSN to sell programming to an unaffiliated MVPD or the prices, terms and conditions of sale of programming by an affiliated RSN to an unaffiliated MVPD; (iii) if an MVPD and an affiliated RSN cannot reach an agreement on the terms and conditions of carriage, the MVPD may elect commercial arbitration to resolve the dispute; (iv) if an unaffiliated RSN is denied carriage by TWC, it may elect commercial arbitration to resolve the dispute in accordance with the FCC s program carriage rules; and (v) with respect to leased access, if an unaffiliated programmer is unable to reach an agreement with TWC, that programmer may elect commercial arbitration to resolve the dispute, with the arbitrator being required to resolve the dispute using the FCC s existing rate formula relating to pricing terms. The FCC has suspended this baseball style arbitration procedure as it relates to TWC s carriage of unaffiliated RSNs, although it allowed the arbitration of a claim brought by the Mid-Atlantic Sports Network because the claim was brought prior to the suspension. In that case, in October 2008, the FCC s Media Bureau upheld the arbitrator s ruling in favor of the Mid-Atlantic Sports Network, and TWC has petitioned for review by the full FCC. In addition, Herring Broadcasting, Inc., which does business as WealthTV, filed a program carriage complaint against TWC and other cable operators alleging discrimination against WealthTV s programming in favor of a similarly situated video programming vendors in violation of the FCC s rules. These proceedings remain pending.

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

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

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

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

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

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

Competition and Competitive Factors Franchise process.

High-Speed Data Internet Access Services

TWC provides high-speed data services over its existing cable facilities. In 2002, the FCC released an order in which it determined that cable-provided high-speed Internet access service is an interstate information service rather than a cable service or a telecommunications service, as those terms are defined in the Communications Act. That determination was sustained by the U.S. Supreme Court. The information service classification means that the service is not subject to regulation as a cable service or as a telecommunications service under federal, state, or local law. Nonetheless, TWC s high-speed data access service is subject to a number of regulatory requirements, including compliance with the Communications Assistance for Law Enforcement Act (CALEA) requirement that high-speed data service providers implement certain network capabilities to assist law enforcement agencies in conducting surveillance of criminal suspects. In addition, the American Recovery and Reinvestment Act of 2009, enacted on February 17, 2009, provides approximately $7 billion to stimulate investment in broadband. The eligibility and use of these funds has not yet been determined. TWC could be placed at a disadvantage if these funds are not made available in a competitively neutral way.

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

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

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

Voice Services

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

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

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

Commercial Networking and Transport Services

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

Operating Partnerships and Joint Ventures

Time Warner Entertainment Company, L.P.

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

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

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

On July 28, 2006, the partnership interests and preferred equity originally held by ATC, were contributed to TW NY Cable, a wholly owned subsidiary of TWC, in exchange for a 12.43% non-voting common stock economic interest in TW NY, and Comcast Trust I s ownership interest in TWE was redeemed. As a result, Time Warner has no direct interest in TWE and Comcast no longer has any interest in TWE. As of December 31, 2008, TWE had $2.6 billion in principal amount of outstanding debt securities with maturities ranging from 2012 to 2033 and fixed interest rates ranging from 8.375% to 10.15%. See Management s Discussion and Analysis of Results of Operations and Financial Condition Financial Condition and Liquidity Outstanding Debt and Mandatorily Redeemable Preferred Equity and Available Financial Capacity.

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

TWE-A/N Partnership Agreement

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

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

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

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

Restrictions on transfer TW Partners. Each TW Partner is generally permitted to directly or indirectly dispose of its entire partnership interest at any time to a wholly owned affiliate of TWE (in the case of transfers by TWE) or to TWE, Time Warner or a wholly owned affiliate of TWE or Time Warner (in the case of transfers by TW NY Cable). In addition, the TW Partners are also permitted to transfer their partnership interests through a pledge to secure a loan, or a liquidation of TWE in which Time Warner, or its affiliates, receives a majority of the interests of TWE-A/N held by the TW Partners. TWE is allowed to issue additional partnership interests in TWE so long as Time Warner continues to own, directly or indirectly, either 35% or 43.75% of the residual equity capital of TWE, depending on when the issuance occurs.

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

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

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

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

Clearwire Investment

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

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

Wireless Spectrum Joint Venture

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

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

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TWC s Governing Documents

Management and Operations

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

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

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

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

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

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

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

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

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

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

the approvals required to change the TWC Certificate of Incorporation.

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

Matters Affecting the Relationship between Time Warner and TWC

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

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

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

Furthermore, pursuant to the Shareholder Agreement, so long as Time Warner has the power to elect a majority of TWC s board of directors, Time Warner may purchase debt securities issued by TWE only after giving notice to TWC of the approximate amount of debt securities it intends to purchase and the general time period for the purchase, which period may not be greater than 90 days, subject to TWC s right to give notice to Time Warner that it intends to purchase such amount of TWE debt securities itself.

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

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

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

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

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

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

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Item 1A. *Risk Factors.*

Risks Related to Competition

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

TWC s industry is, and will continue to be, highly competitive. Some of TWC s principal competitors, DBS operators and incumbent local telephone companies, in particular, offer services that provide features and functions comparable to the video, high-speed data and/or voice services that TWC offers, and they offer them in bundles similar to TWC s. In a number of TWC s operating areas, AT&T and Verizon have upgraded portions of their networks to carry two-way video, high-speed data with substantial bandwidth and IP-based telephony services, which they market and sell in bundles along with their wireless service. TWC s competitors try to distinguish their services from TWC s by offering aggressive promotional pricing, exclusive programming, and/or assertions of superior service or offerings.

In addition, TWC faces competition from a range of other competitors, including, increasingly, companies that deliver content to consumers over the Internet, often without charging a fee for access to the content. This trend could negatively impact customer demand for TWC s video services, especially premium and On-Demand services, and could encourage content owners to seek higher license fees from TWC in order to subsidize their free distribution of content. TWC also faces competition in high speed data from second- and third-generation wireless broadband services provided by mobile carriers such as Verizon, AT&T, Sprint and T-Mobile and broadband over power lines. Competition in voice services is increasing as more homes in the United States are replacing their traditional telephone service with wireless service.

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

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

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

TWC s cable systems are constructed and operated under non-exclusive franchises granted by state or local governmental authorities. Federal law prohibits franchising authorities from unreasonably denying requests for additional franchises. Consequently, competing operators may build systems in areas in which TWC holds franchises. The existence of more than one cable system operating in the same territory is referred to as an overbuild. In the past, competing operators most of them relatively small have obtained such franchises and offered competing services in some areas in which TWC holds franchises. More recently, incumbent local telephone companies with significant resources, particularly Verizon and AT&T, have obtained such franchises in order to offer video, high-speed data and voice services in some of TWC s service areas. See TWC faces a wide range of competition, which could negatively affect its business and financial results above. Verizon and AT&T are continuing to upgrade their networks to expand the geographic areas in which they can deliver video and high-speed data services, in addition to their existing telephone services.

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

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

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

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

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

TWC believes that broadband cable networks currently provide the most efficient means to deliver its services, but consumers are increasingly interested in accessing information, entertainment and communication services outside the home as well. TWC is exploring various means by which it can offer its customers mobile services. TWC has entered into a wholesale agreement with Sprint that allows TWC to offer wireless services utilizing Sprint s second-generation and third-generation network and a wholesale agreement with Clearwire that will allow TWC to offer wireless services utilizing Clearwire s mobile broadband wireless network, once constructed. TWC also is a participant in SpectrumCo, which holds AWS licenses covering 20 MHz over 80% of the continental United States and Hawaii. There can be no assurance that Clearwire will successfully finance, develop, construct and deploy a nationwide mobile broadband wireless network or that Clearwire, SpectrumCo or the Company will successfully develop wireless servi