TIME WARNER CABLE INC.
Form 10-Q
April 26, 2012
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended March 31, 2012 or

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from ____________________to ____________________

Commission File Number: 001-33335

TIME WARNER CABLE INC.

(Exact name of registrant as specified in its charter)

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

60 Columbus Circle

New York, New York 10023

(Address of principal executive offices) (Zip Code)

(212) 364-8200

(Registrant s telephone number, including area code)

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

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

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

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

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

Description of Class	**Shares Outstanding as of April 24, 2012**
Common Stock $0.01 par value	312,494,366

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MANAGEMENT S DISCUSSION AND ANALYSIS OF RESULTS

OF OPERATIONS AND FINANCIAL CONDITION

INTRODUCTION

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

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

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

Results of operations. This section provides an analysis of the Company s results of operations for the three months ended March 31, 2012.

Financial condition and liquidity. This section provides an analysis of the Company s financial condition as of March 31, 2012 and cash flows for the three months ended March 31, 2012.

Caution concerning forward-looking statements. This section provides a description of the use of forward-looking information appearing in this report, including in MD&A and the consolidated financial statements. Such information is based on management s current expectations about future events, which are susceptible to uncertainty and changes in circumstances. Refer to the Company s Annual Report on Form 10-K for the year ended December 31, 2011 (the 2011 Form 10-K) for a discussion of the risk factors applicable to the Company.

OVERVIEW

TWC is among the largest providers of video, high-speed data and voice services in the U.S., with technologically advanced, well-clustered cable systems located mainly in five geographic areas New York State (including New York City), the Carolinas, Ohio and Kentucky, Southern California (including Los Angeles) and Texas. As discussed below in Recent Developments, on February 29, 2012, TWC completed its acquisition of Insight Communications Company, Inc. and its subsidiaries (Insight). As of March 31, 2012, TWC served approximately 15.4 million customers who subscribed to one or more of its three primary services, totaling approximately 28.9 million primary service units.

TWC offers its residential and business services customers video, high-speed data and voice services over its broadband cable systems. TWC s business services also include networking and transport services (including cell tower backhaul services) and, through its wholly owned subsidiary, NaviSite, Inc. (NaviSite), managed and outsourced information technology (IT) solutions and cloud services. During the three months ended March 31, 2012, TWC generated total revenues of approximately $5.1 billion. Of this total, approximately $4.4 billion and $429 million were from the provision of residential and business services, respectively. TWC also sells advertising to a variety of national, regional and local customers, which resulted in advertising revenues of $211 million during the three months ended March 31, 2012. Additionally, TWC generated $61 million of revenues from other sources during the three months ended March 31, 2012.

As of March 31, 2012, TWC had approximately 12.5 million residential video subscribers, 10.7 million residential high-speed data subscribers and 4.9 million residential voice subscribers, as well as 185,000 business video subscribers, 420,000 business high-speed data subscribers and 184,000 business voice subscribers. TWC markets its services separately and in bundled packages of multiple services and features. As of

March 31, 2012, 61.1% of TWC s customers subscribed to two or more of its primary services, including 27.3% of its customers who subscribed to all three primary services.

TWC believes it will continue to increase revenues for the foreseeable future through organic growth in business services revenues and residential services revenues (primarily residential high-speed data service revenues), as well as the impact in 2012 of recent acquisitions. Organic business services revenues are expected to increase due to growth in subscribers, an increasing percentage of subscribers purchasing higher-priced tiers of service, price increases, an increase in wholesale transport revenues and the offering of incremental services to business services customers, including the services offered by NaviSite. Organic residential high-speed data revenues are expected to increase due to growth in subscribers, an increasing

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percentage of subscribers purchasing higher-priced tiers of service and price increases. Future growth rates for revenues will depend on the Company s ability to attract and retain subscribers and increase pricing, which can be impacted by competitive factors, the state of the economy and regulation.

TWC s operations have been affected by the challenging economic environment. The Company believes that factors such as new home formation, housing vacancy rates, unemployment rates and consumer spending levels have negatively affected its residential services subscriber, revenue and profit growth.

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

TWC also competes across each of its business high-speed data, networking and voice services with incumbent local exchange carriers, or ILECs, and competitive local exchange carriers, or CLECs. TWC s cell tower backhaul service also faces competition from ILECs and CLECs, as well as other carriers, such as metro and regional fiber providers. TWC s business video service faces competition from direct broadcast satellite providers. Through its NaviSite subsidiary, TWC competes with cloud, hosting and related service providers and application-services providers. Technological advances and product innovations have increased and will likely continue to increase the number of alternatives available to TWC s current and potential residential and business services customers, further intensifying competition. The Company believes the more competitive environment has negatively affected its residential and business services subscriber, revenue and profit growth.

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

For the three months ended March 31, 2012, video programming and employee costs represented 34.7% and 34.3%, respectively, of the Company s total operating expenses. Video programming costs are expected to continue to increase, reflecting rate increases on existing programming services (particularly sports-related programming), the impact in 2012 of recent acquisitions and the expansion of service offerings (e.g., new network channels), partially offset by an organic decline in total video subscribers. TWC expects that its video programming costs as a percentage of video revenues will continue to increase. Additionally, the more competitive environment discussed above may increase TWC s cost to obtain certain video programming. Employee costs, which increased 42.7% for business services employees and 7.0% for residential and other employees during the three months ended March 31, 2012 from the prior year, are also expected to continue to increase as a result of many factors, including higher compensation expenses and headcount, reflecting the Company s investment in business services and other areas of growth, as well as the impact in 2012 of recent acquisitions.

Recent Developments

Wireless-related Agreements

On December 2, 2011, SpectrumCo, LLC (SpectrumCo), a joint venture between TWC, Comcast Corporation (Comcast) and Bright House Networks, LLC (Bright House) that holds advanced wireless spectrum (AWS) licenses that cover 20MHz over 80% of the continental U.S. and Hawaii, entered into an agreement pursuant to which SpectrumCo will sell its AWS licenses to Cellco Partnership (doing business as Verizon Wireless), a joint venture between Verizon Communications Inc. and Vodafone Group Plc, for $3.6 billion in cash. Upon closing, TWC, which owns 31.2% of SpectrumCo, will be entitled to receive approximately $1.1 billion. This transaction, which is subject to certain regulatory approvals and customary closing conditions, is expected to close during 2012. On February 9, 2012, Comcast and Verizon Wireless received a Request for Additional Information and Documentary Materials from the U.S. Department of Justice in

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connection with their required notification filed under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and, on March 8, 2012, TWC, Comcast, Bright House and Verizon Wireless received a supplemental document and information request from the Federal Communications Commission (the FCC) in connection with the FCC s review of the license transfer application.

On December 2, 2011, TWC, Comcast, Bright House and Verizon Wireless also entered into agency agreements that allow the cable companies to sell Verizon Wireless-branded wireless service, and Verizon Wireless to sell each cable company s services. During the second quarter of 2012, the Company and Verizon Wireless began selling each other s products and services under the agency agreements in several cities. After a four-year period, subject to certain conditions, the cable companies will have the option to offer wireless service under their own brands utilizing Verizon Wireless network. In addition, the parties entered into an agreement that provides for the creation of an innovation technology joint venture to better integrate wireless and cable services. On January 13, 2012, TWC received a civil investigative demand from the U.S. Department of Justice requesting additional information about these agreements and, on March 8, 2012, the FCC initiated an inquiry about the agency agreements.

Upon the closing of the SpectrumCo transaction, the Company expects to record a pretax gain of approximately $430 million (approximately $260 million on an after-tax basis), which will be included in other income (expense), net, in the Company s consolidated statement of operations. Additionally, in the quarter in which the SpectrumCo transaction closes, the Company expects to record a noncash income tax benefit of approximately $45 million related to an adjustment to the Company s valuation allowance for deferred income tax assets associated with its investment in Clearwire Communications LLC (Clearwire Communications).

Insight Acquisition

On February 29, 2012, TWC completed its acquisition of Insight for $1.335 billion in cash, net of cash acquired, and repaid $1.164 billion outstanding under Insight s senior secured credit facility (including accrued interest), and terminated the facility. As a result, Insight is a direct wholly owned subsidiary of TWC that operates cable systems in Kentucky, Indiana and Ohio. Additionally, on March 30, 2012, a portion of Insight s $495 million in aggregate principal amount of 9.375% senior notes due 2018 were redeemed for $193 million in cash (including premiums and accrued interest) and, on April 2, 2012, the remainder of the outstanding notes were redeemed for $386 million in cash (including premiums and accrued interest). The financial results for Insight, which served subscribers representing approximately 1.6 million primary service units as of the acquisition date, have been included in the Company s consolidated financial statements from the acquisition date. See Note 4 to the accompanying consolidated financial statements for additional information on the Insight acquisition.

Common Stock Repurchase Program

On January 25, 2012, the Company s Board of Directors increased the remaining authorization ($758 million as of January 25, 2012) under its existing $4.0 billion common stock repurchase program (the Stock Repurchase Program) to an aggregate of up to $4.0 billion of TWC common stock effective January 26, 2012. Purchases under the Stock Repurchase Program may be made from time to time on the open market and in privately negotiated transactions. The size and timing of the Company s purchases under the Stock Repurchase Program are based on a number of factors, including TWC s common stock price, as well as business and market conditions. From the inception of the Stock Repurchase Program in the fourth quarter of 2010 through April 24, 2012, the Company repurchased 51.1 million shares of TWC common stock for $3.582 billion and, as of April 24, 2012, the Company had $3.660 billion remaining under the Stock Repurchase Program.

FINANCIAL STATEMENT PRESENTATION

Revenues

The Company s revenues consist of residential services, business services, advertising and other revenues.

Residential services. Residential services revenues consist of revenues from the following residential services:

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

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High-speed data. High-speed data revenues primarily include residential subscriber fees for the Company s high-speed data services and installation charges. The Company offers multiple tiers of high-speed data services providing various service speeds and other attributes to meet the different needs of its subscribers. In addition, high-speed data revenues include fees received from third-party Internet service providers (e.g., Earthlink) whose on-line services are provided to some of TWC s customers.

Voice. Voice revenues include subscriber fees from residential voice subscribers, along with related installation charges, as well as fees collected on behalf of governmental authorities.

Other. Other revenues include revenues from home monitoring and security services and other residential subscriber-related fees.

Business services. Business services revenues consist of revenues from the following business services:

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

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

Voice. Voice revenues include subscriber fees from business voice subscribers, along with related installation charges, as well as fees collected on behalf of governmental authorities.

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

Other. Other revenues primarily include revenues from managed and outsourced IT solutions and cloud services provided by NaviSite, revenues from business monitoring and security services and other business subscriber-related fees.

Advertising. Advertising revenues include the fees charged to local, regional and national customers for advertising placed on the Company s video and high-speed data services, as well as revenues from advertising inventory sold on behalf of other video distributors. Currently, most advertising revenues are derived from advertising placed on video services.

Other. Other revenues primarily include (a) fees paid to TWC by the Advance/Newhouse Partnership for (i) the ability to distribute TWC s Road Runner high-speed data service and (ii) TWC s management of certain functions, including, among others, programming and engineering and (b) commissions earned on the sale of merchandise by home shopping networks.

Costs and Expenses

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

Selling, general and administrative expenses include amounts not directly associated with the delivery of services to subscribers or the maintenance of the Company s delivery systems, such as administrative labor costs, marketing expenses, bad debt expense, billing system charges, non-plant repair and maintenance costs and other administrative overhead costs.

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

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Use of Operating Income before Depreciation and Amortization

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

Management uses OIBDA, among other measures, in evaluating the performance of the Company s business because it eliminates the effects of (1) considerable amounts of noncash depreciation and amortization and (2) items not within the control of the Company s operations managers (such as net income attributable to noncontrolling interests, income tax provision, other income (expense), net, and interest expense, net). Performance measures derived from OIBDA are also used in the Company s annual incentive compensation programs. In addition, this measure is commonly used by analysts, investors and others in evaluating the Company s performance.

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

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

Basis of Presentation

Reclassifications

Certain reclassifications have been made to the prior year financial information to conform to the current year presentation, the most significant of which was the revised presentation of the Company s revenues during the second quarter of 2011 to provide additional detail about the Company s sources of revenues. This reclassification had no impact on the Company s total revenues for the three months ended March 31, 2011.

Recent Accounting Standards

See Note 2 to the accompanying consolidated financial statements for accounting standards adopted in 2012.

RESULTS OF OPERATIONS

Three Months Ended March 31, 2012 Compared to Three Months Ended March 31, 2011

The following discussion provides an analysis of the Company s results of operations and should be read in conjunction with the accompanying consolidated statement of operations, as well as the consolidated financial statements and notes thereto and MD&A included in the 2011 Form 10-K.

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OF OPERATIONS AND FINANCIAL CONDITION (Continued)

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

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011	% Change
Residential services	$ 4,433	$ 4,259	4.1%
Business services	429	312	37.5%
Advertising	211	197	7.1%
Other	61	59	3.4%
Total	$ 5,134	$ 4,827	6.4%

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

	March 31, 2012[a]	March 31, 2011	% Change[a]
Residential services:			
Video[b]	12,468	12,191	2.3%
High-speed data[c]	10,716	9,646	11.1%
Voice[d]	4,945	4,457	10.9%
Primary service units[e]	28,129	26,294	7.0%
Business services:			
Video[b]	185	166	11.4%
High-speed data[c]	420	346	21.4%
Voice[d]	184	123	49.6%
Primary service units[e]	789	635	24.3%
Total primary service units[e]	28,918	26,929	7.4%
Customer relationships[f]	15,354	14,522	5.7%
Double play[g]	5,184	4,883	6.2%
Triple play[h]	4,190	3,763	11.3%

(a) The Company s subscriber numbers as of March 31, 2012 reflect certain acquired subscribers and adjustments, as follows:

(i) On February 29, 2012, the Company acquired Insight, resulting in an increase of 673,000 residential video subscribers, 548,000 residential high-speed data subscribers, 289,000 residential voice subscribers, 1,510,000 residential primary service units, 10,000 business video subscribers, 20,000 business high-speed data subscribers, 10,000 business voice subscribers, 40,000 business primary service units, 1,550,000 total primary service units, 777,000 customer relationships, 319,000 double play subscribers and 227,000 triple play subscribers. TWC uses a methodology for counting certain subscribers that differs from the methodology used by Insight. TWC has estimated the Insight subscribers under TWC counting methodologies; however, these estimates are subject to adjustments as TWC completes its integration of

Insight.

(ii) During the first quarter of 2012, the Company recorded adjustments that reduced business video subscribers by 1,000, business high-speed data subscribers by 3,000, business voice subscribers by 1,000, business primary service units by 5,000, total primary service units by 5,000, customer relationships by 4,000 and double play subscribers by 1,000.

(iii) During the second and fourth quarters of 2011, the Company acquired cable systems from NewWave Communications (NewWave), as well as two other small cable systems, resulting, in total, in an increase of 85,000 residential video subscribers, 48,000 residential high-speed data subscribers, 26,000 residential voice subscribers, 159,000 residential primary service units, 2,000 business video subscribers, 2,000 business high-speed data subscribers, 1,000 business voice subscribers, 5,000 business primary service units, 164,000 total primary service units, 97,000 customer relationships, 25,000 double play subscribers and 21,000 triple play subscribers.

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

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

(d) Voice subscriber numbers reflect billable subscribers who purchase an IP-based telephony service, as well as a small number of subscribers acquired from Insight who receive traditional, circuit-switched telephone service. The determination of whether a voice subscriber is categorized as residential or business is generally based upon the type of service provided to that subscriber. For example, if TWC provides a business service, the subscriber is classified as business.

(e) Primary service unit numbers represent the sum of video, high-speed data and voice subscribers.

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

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

(h) Triple play subscriber numbers reflect customers who subscribe to all three of the Company s primary services.

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Residential services revenues. Residential services revenues for the three months ended March 31, 2012 include revenues from Insight since its acquisition on February 29, 2012 and the cable systems acquired from NewWave in the fourth quarter of 2011 of $84 million and $18 million, respectively. The major components of residential services revenues were as follows (in millions):

	Three Months Ended March 31, 2012	2011	% Change
Residential services:			
Video	$ 2,711	$ 2,661	1.9%
High-speed data	1,199	1,094	9.6%
Voice	508	493	3.0%
Other	15	11	36.4%
Total residential services	$ 4,433	$ 4,259	4.1%

For residential services, average monthly revenues per unit were as follows:

	Three Months Ended March 31, 2012	2011	% Change
Video[(a)]	$ 75.01	$ 72.68	3.2%
High-speed data[(b)]	38.96	38.10	2.3%
Voice[(c)]	36.13	37.21	(2.9%)
Primary service units[(d)]	54.80	54.25	1.0%

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

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

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

(d) Average monthly residential revenues per residential primary service unit represents residential services revenues divided by the corresponding average residential primary service units for the period.

The increase in residential video revenues was primarily due to the acquisitions of Insight and the NewWave cable systems, which contributed revenues of $49 million and $11 million, respectively, and an increase in average revenues per subscriber, partially offset by an organic decrease in video subscribers. The increase in average revenues per subscriber was primarily due to price increases, a greater percentage of subscribers purchasing higher-priced tiers of service and increased revenues from equipment rentals and DVR service, partially offset by decreases in transactional video-on-demand and premium channel revenues. The major components of residential video revenues were as follows (in millions):

	Three Months Ended March 31, 2012	2011	% Change

Programming tiers[a]	$	1,779	$	1,753	1.5%
Premium channels		200		205	(2.4%)
Transactional video-on-demand		73		86	(15.1%)
Video equipment rental and installation charges		363		341	6.5%
DVR service		169		154	9.7%
Franchise and other fees[b]		127		122	4.1%
Total	$	2,711	$	2,661	1.9%

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

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

Residential high-speed data revenues increased due to organic growth in high-speed data subscribers and an increase in average revenues per subscriber (due to both price increases and a greater percentage of subscribers purchasing higher-priced tiers of service), as well as the acquisitions of Insight and the NewWave cable systems, which contributed revenues of $22 million and $4 million, respectively.

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The increase in residential voice revenues was due to the acquisitions of Insight and the NewWave cable systems, which contributed revenues of $13 million and $3 million, respectively, and organic growth in voice subscribers, partially offset by a decrease in average revenues per subscriber.

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

	Three Months Ended March 31,		
	2012	2011	% Change
Business services:			
Video	$ 76	$ 69	10.1%
High-speed data	208	167	24.6%
Voice	63	42	50.0%
Wholesale transport	41	32	28.1%
Other[(a)]	41	2	NM
Total business services	$ 429	$ 312	37.5%

NM Not meaningful.

(a) 2012 amounts primarily consist of revenues from NaviSite.

Business services revenues increased primarily due to growth in high-speed data and voice subscribers, the acquisition of NaviSite in the second quarter of 2011, an $8 million increase in cell tower backhaul revenues and a $6 million increase in Metro Ethernet revenues. NaviSite s revenues for the three months ended March 31, 2012 were $36 million.

Advertising revenues. Advertising revenues increased primarily due to growth in lower margin revenues from advertising inventory sold on behalf of other video distributors (advertising rep agreements) and as a result of the Insight acquisition. The Company expects advertising revenues in 2012 to benefit from growth in political advertising revenues (primarily in the second half of 2012), as well as growth in revenues from advertising rep agreements and the impact of the Insight acquisition.

Costs of revenues. The major components of costs of revenues were as follows (in millions, except per subscriber data):

	Three Months Ended March 31,		
	2012	2011	% Change
Video programming	$ 1,131	$ 1,081	4.6%
Employee[(a)]	703	645	9.0%
High-speed data	46	42	9.5%
Voice	149	167	(10.8%)
Video franchise and other fees[(b)]	130	125	4.0%
Other direct operating costs[(a)]	245	212	15.6%

Total	$	2,404	$	2,272	5.8%
Costs of revenues as a percentage of revenues		46.8%		47.1%	
Average monthly video programming costs per video subscriber	$	30.85	$	29.14	5.9%
Average monthly voice costs per voice subscriber	$	10.21	$	12.25	(16.7%)

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

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

Costs of revenues increased 5.8% primarily related to increases in video programming, employee and other direct operating costs, partially offset by a decrease in voice costs.

The increase in video programming costs was primarily due to contractual rate increases and the acquisition of Insight, partially offset by an organic decline in video subscribers. For the three months ended March 31, 2011, video programming costs were reduced by approximately $18 million due to changes in cost estimates for programming services carried without a contract. The Company expects the rate of growth in video programming costs per video subscriber in 2012 to increase compared to that in 2011.

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OF OPERATIONS AND FINANCIAL CONDITION (Continued)

Employee costs increased primarily as a result of higher headcount (which increased by approximately 2,000 employees, including Insight, NaviSite and NewWave employees) and higher compensation costs per employee. Pension costs increased $10 million.

Voice costs consist of the direct costs associated with the delivery of voice services, including network connectivity costs. Voice costs declined primarily due to a decrease in delivery costs per subscriber as a result of the ongoing replacement of Sprint Nextel Corporation (Sprint) as the provider of voice transport, switching and interconnection services, partially offset by organic growth in voice subscribers. This replacement process began in the fourth quarter of 2010 and, as of March 31, 2012, TWC had replaced Sprint with respect to nearly half of TWC s voice lines. The Company expects to replace the majority of the remaining voice lines in 2013, with the process completed during the first quarter of 2014. The Company expects average voice costs per voice subscriber to decrease in 2012 compared to 2011.

Other direct operating costs increased as a result of Insight- and NaviSite-related costs, as well as increases in a number of categories, including data processing and repairs and maintenance costs.

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

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011	% Change
Employee	$ 416	$ 371	12.1%
Marketing	155	159	(2.5%)
Bad debt[(a)]	19	23	(17.4%)
Other	267	271	(1.5%)
Total	$ 857	$ 824	4.0%

(a) Bad debt expense includes amounts charged to expense associated with the Company s allowance for doubtful accounts and collection expenses, net of late fees billed to subscribers. Late fees billed to subscribers were $36 million and $35 million for the three months ended March 31, 2012 and 2011, respectively.

Selling, general and administrative expenses increased primarily as a result of an increase in employee costs, which was primarily due to higher headcount (which increased by approximately 1,500 employees, including Insight, NaviSite and NewWave employees) and higher compensation costs per employee. Equity-based compensation and pension costs increased $11 million and $5 million, respectively.

Merger-related and restructuring costs. For the three months ended March 31, 2012, the Company incurred merger-related costs of $35 million primarily due to severance costs and legal and professional fees in connection with the Insight acquisition. No such costs were incurred for the three months ended March 31, 2011. The Company expects to incur additional merger-related costs of approximately $35 million during 2012 related to the Insight acquisition.

The Company incurred restructuring costs of $10 million and $6 million for the three months ended March 31, 2012 and 2011, respectively. These restructuring costs were primarily related to approximately 330 and 135 employee terminations for the three months ended March 31, 2012 and 2011, respectively, and other exit costs. The Company expects to incur additional restructuring costs during 2012 in connection with various initiatives intended to improve operating efficiency, primarily related to employee terminations.

TIME WARNER CABLE INC.

MANAGEMENT S DISCUSSION AND ANALYSIS OF RESULTS

OF OPERATIONS AND FINANCIAL CONDITION (Continued)

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

	Three Months Ended March 31,		
	2012	2011	% Change
OIBDA	$ 1,828	$ 1,725	6.0%
Depreciation	(771)	(744)	3.6%
Amortization	(15)	(6)	150.0%
Operating Income	1,042	975	6.9%
Interest expense, net	(405)	(363)	11.6%
Other expense, net	(3)	(30)	(90.0%)
Income before income taxes	634	582	8.9%
Income tax provision	(251)	(256)	(2.0%)
Net income	383	326	17.5%
Less: Net income attributable to noncontrolling interests	(1)	(1)	
Net income attributable to TWC shareholders	$ 382	$ 325	17.5%

OIBDA. OIBDA increased principally as a result of revenue growth, partially offset by higher costs of revenues, selling, general and administrative expenses and merger-related and restructuring costs. Included within OIBDA for the three months ended March 31, 2012 are Insight, NaviSite and NewWave cable system revenues of $93 million, $36 million and $20 million, respectively, and operating expenses of $60 million, $32 million and $14 million, respectively.

The Company incurred net expenses of approximately $10 million during the three months ended March 31, 2012 related to new initiatives, including advanced home monitoring and security services, the deployment of WiFi access points and the expected fall 2012 launch of two regional sports networks (RSNs) that will carry Los Angeles Lakers basketball games and other regional sports programming. The Company expects 2012 net expenses from new initiatives to total approximately $100 million to $150 million, of which a significant portion is expected to be incurred in the fourth quarter of 2012 due to the timing of the RSN launches. The results for the three months ended March 31, 2011 included net expenses from new initiatives of approximately $15 million primarily related to the Company s mobile high-speed data service and advanced home monitoring and security services.

Depreciation. Depreciation increased primarily as a result of the property, plant and equipment acquired in connection with the Company s recent acquisitions (primarily Insight).

Amortization. Amortization increased primarily as a result of the customer relationship intangible assets acquired in connection with the Company s recent acquisitions.

Operating Income. Operating Income increased primarily due to the increase in OIBDA, partially offset by the increases in depreciation and amortization, as discussed above.

Interest expense, net. Interest expense, net, increased primarily due to higher average debt outstanding during the three months ended March 31, 2012 compared to 2011 as a result of the public debt issuances in May and September 2011 (the 2011 Bond Offerings).

TIME WARNER CABLE INC.

MANAGEMENT S DISCUSSION AND ANALYSIS OF RESULTS

OF OPERATIONS AND FINANCIAL CONDITION (Continued)

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

	Three Months Ended March 31, 2012	2011
Income (loss) from equity-method investments, net[(a)]	$ 4	$ (25)
Gain (loss) on equity award reimbursement obligation to Time Warner[(b)]	3	(5)
Other investment losses[(c)]	(10)	
Other expense, net	$ (3)	$ (30)

(a) Loss from equity investments, net, for 2011 primarily consists of losses incurred by Clearwire Communications. During the third quarter of 2011, the balance of the Company s investment in Clearwire Communications included in the accompanying consolidated balance sheet was reduced to $0.

(b) See Note 7 to the accompanying consolidated financial statements for a discussion of the Company s accounting for its equity award reimbursement obligation to Time Warner Inc. (Time Warner).

(c) Other investment losses for 2012 represents an impairment of the Company s investment in Canoe Ventures LLC (Canoe), an equity-method investee engaged in the development of advanced advertising platforms. The impairment was recognized as a result of Canoe s announcement during the first quarter of 2012 of a restructuring that will significantly curtail its operations.

Income tax provision. For the three months ended March 31, 2012 and 2011, the Company recorded income tax provisions of $251 million and $256 million, respectively. The effective tax rates were 39.6% and 44.0% for the three months ended March 31, 2012 and 2011, respectively.

The income tax provisions and the effective tax rates for the three months ended March 31, 2012 and 2011 include the impact of the reversal of deferred income tax assets associated with Time Warner stock option awards held by TWC employees, net of excess tax benefits realized upon the exercise of TWC stock options or vesting of TWC RSUs, as follows (in millions):

	Three Months Ended March 31, 2012	2011
Time Warner stock option activity	$ 14	$ 48
TWC equity award activity[(a)]	(14)	(28)
Net income tax expense	$	$ 20

(a) Amounts reflect the impact of TWC equity award activity on income tax provision. Additional TWC equity award activity in excess of Time Warner stock option award activity is recorded as additional paid-in capital on the accompanying consolidated balance sheet.

As a result of the Separation, on March 12, 2009, TWC employees who held stock option awards under Time Warner equity plans were treated as if their employment with Time Warner had been terminated without cause. In most cases, this treatment resulted in shortened exercise periods for vested awards, generally one year from the date of the Separation; however, certain awards expire over a five-year period from the date of the Separation. Deferred income tax assets were established based on the Time Warner awards fair values, and a corresponding benefit to the Company s income tax provision was recognized over the awards service periods. For unexercised awards that expired out of the money, the fair value was $0 and the Company received no tax deduction in connection with these awards. Additionally, for awards that were exercised below their estimated fair value, the Company received a tax deduction that was less than amounts originally anticipated. As a result, the previously-recognized deferred income tax assets were written off through noncash charges to income tax expense during the periods in which the awards expired. As noted above, the charges were reduced by excess tax benefits realized upon the exercise of TWC stock options or vesting of TWC RSUs in the same year in which the charge was taken.

Absent the impacts of the above items, the effective tax rates would have been 39.6% and 40.5% for the three months ended March 31, 2012 and 2011, respectively.

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TIME WARNER CABLE INC.

MANAGEMENT S DISCUSSION AND ANALYSIS OF RESULTS

OF OPERATIONS AND FINANCIAL CONDITION (Continued)

Net income attributable to TWC shareholders and net income per common share attributable to TWC common shareholders. Net income attributable to TWC shareholders and net income per common share attributable to TWC common shareholders were as follows for the three months ended March 31, 2012 and 2011 (in millions, except per share data):

	Three Months Ended March 31, 2012	2011	% Change
Net income attributable to TWC shareholders	$ 382	$ 325	17.5%
Net income per common share attributable to TWC common shareholders:			
Basic	$ 1.21	$ 0.94	28.7%
Diluted	$ 1.20	$ 0.93	29.0%

Net income attributable to TWC shareholders increased primarily due to an increase in Operating Income and a decrease in other expense, net, partially offset by an increase in interest expense, net. Net income per common share attributable to TWC common shareholders for the three months ended March 31, 2012 benefited from lower average common shares outstanding as a result of share repurchases under the Stock Repurchase Program.

FINANCIAL CONDITION AND LIQUIDITY

Management believes that cash generated by or available to TWC should be sufficient to fund its capital and liquidity needs for the next twelve months and for the foreseeable future thereafter, including quarterly dividend payments, common stock repurchases and maturities of long-term debt and the TW NY Cable Preferred Membership Units (defined below). TWC s sources of cash include cash and equivalents on hand, cash provided by operating activities, borrowing capacity under its committed credit facility and commercial paper program and, subject to closing, the expected proceeds from the anticipated sale of SpectrumCo s AWS licenses, as well as access to capital markets.

The Company generally invests its cash and equivalents in a combination of money market, government and treasury funds, as well as other similar instruments, in accordance with the Company s investment policy of diversifying its investments and limiting the amount of its investments in a single entity or fund. As of March 31, 2012, nearly all of the Company s cash and equivalents was invested in money market funds and income earning bank deposits, including certificates of deposit.

TWC s unused committed financial capacity was $6.485 billion as of March 31, 2012, reflecting $2.629 billion of cash and equivalents and $3.856 billion of available borrowing capacity under the Company s $4.0 billion senior unsecured three-year revolving credit facility (the Revolving Credit Facility). TWC expects to enter into a new $3.5 billion senior unsecured five-year revolving credit facility during the second quarter of 2012 to replace the Revolving Credit Facility. TWC also expects to reduce its unsecured commercial paper program.

Current Financial Condition

As of March 31, 2012, the Company had $26.839 billion of debt, $2.629 billion of cash and equivalents (net debt of $24.210 billion, defined as total debt less cash and equivalents), $300 million of mandatorily redeemable non-voting Series A Preferred Equity Membership Units (the TW NY Cable Preferred Membership Units) issued by a subsidiary of TWC, Time Warner NY Cable LLC (TW NY Cable), and $7.518 billion of total TWC shareholders equity. As of December 31, 2011, the Company had $26.442 billion of debt, $5.177 billion of cash and equivalents (net debt of $21.265 billion), $300 million of TW NY Cable Preferred Membership Units and $7.530 billion of total TWC shareholders equity.

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TIME WARNER CABLE INC.

MANAGEMENT S DISCUSSION AND ANALYSIS OF RESULTS

OF OPERATIONS AND FINANCIAL CONDITION (Continued)

The following table shows the significant items contributing to the change in net debt from December 31, 2011 to March 31, 2012 (in millions):

Balance as of December 31, 2011	$ 21,265
Cash provided by operating activities	(1,383)
Capital expenditures	706
Insight acquisition[a]	3,069
Dividend paid	179
Repurchases of common stock	356
All other, net	18
Balance as of March 31, 2012	$ 24,210

(a) In addition to the Insight purchase price, amount includes the repayment of Insight s debt and debt assumed.

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

As previously discussed, TWC expects to enter into a new $3.5 billion senior unsecured five-year revolving credit facility during the second quarter of 2012 to replace the Revolving Credit Facility. TWC also expects to reduce its unsecured commercial paper program.

As previously discussed, the remaining portion of Insight s senior notes due 2018 was redeemed on April 2, 2012 for $386 million in cash (including premiums and accrued interest).

As previously discussed, on December 2, 2011, SpectrumCo entered into an agreement pursuant to which it will sell its AWS licenses to Verizon Wireless for $3.6 billion in cash. Upon closing, TWC, which owns 31.2% of SpectrumCo, will be entitled to receive approximately $1.1 billion (approximately $950 million on an after-tax basis). The transaction, which is subject to certain regulatory approvals and customary closing conditions, is expected to close during 2012.

From the inception of the Stock Repurchase Program in the fourth quarter of 2010 through April 24, 2012, the Company repurchased 51.1 million shares of TWC common stock for $3.582 billion. As of April 24, 2012, the Company had $3.660 billion remaining under the Stock Repurchase Program.

Cash Flows

Cash and equivalents decreased $2.548 billion and $14 million for the three months ended March 31, 2012 and 2011, respectively. Components of these changes are discussed below in more detail.

Operating Activities

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

	Three Months Ended March 31, 2012	2011
OIBDA	$ 1,828	$ 1,725
Noncash equity-based compensation	53	41
Net interest payments[(a)]	(465)	(399)
Net income tax refunds (payments)[(b)]	(19)	258
Net merger-related and restructuring accruals (payments)	4	(6)
All other, net, including working capital changes	(18)	(49)
Cash provided by operating activities	$ 1,383	$ 1,570

(a) Amounts include interest income received (including amounts received under interest rate swap contracts) of $43 million for each of the three months ended March 31, 2012 and 2011.

(b) Amounts include income tax refunds received of $1 million and $271 million for the three months ended March 31, 2012 and 2011, respectively.

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TIME WARNER CABLE INC.

MANAGEMENT S DISCUSSION AND ANALYSIS OF RESULTS

OF OPERATIONS AND FINANCIAL CONDITION (Continued)

Cash provided by operating activities decreased from $1.570 billion for the three months ended March 31, 2011 to $1.383 billion for the three months ended March 31, 2012. This decrease was primarily related to a decrease in income tax refunds and an increase in net interest payments (discussed below), partially offset by an increase in OIBDA.

On September 27, 2010, the Small Business Jobs Act was enacted, which provided for a bonus depreciation deduction of 50% of the cost of the Company s qualified capital expenditures retroactive to the beginning of 2010. Additionally, on December 17, 2010, the Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act of 2010 was enacted, which provided for a bonus depreciation deduction of 100% of the cost of the Company s qualified capital expenditures from September 8, 2010 through December 31, 2011, which was reduced to 50% for 2012. As a result of these Acts, the Company received an income tax refund of $270 million in the first quarter of 2011. Due to the decline in the bonus depreciation deduction and the continued reversal of bonus depreciation benefits recorded in prior years, as well as income tax payments on the anticipated SpectrumCo sale gain, the Company expects net income tax payments to increase significantly in 2012. The Company expects that this increase will be only slightly offset by the usage of Insight s net operating loss carryforwards and other Insight-related items.

Net interest payments for the three months ended March 31, 2012 increased primarily as a result of interest payments related to the public debt issued in September 2011. The Company expects that its net interest payments will increase in 2012 compared to 2011 primarily as a result of interest payments related to the 2011 Bond Offerings.

The Company may make discretionary cash contributions to its pension plans in 2012.

Investing Activities

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

	Three Months Ended March 31, 2012	2011
Acquisitions and investments, net of cash acquired and distributions received:		
Insight acquisition	$ (1,335)	$
Sterling Entertainment Enterprises, LLC[(a)]	(40)	1
All other	(20)	(9)
Capital expenditures	(706)	(663)
Other investing activities	8	16
Cash used by investing activities	$ (2,093)	$ (655)

(a) Amount represents a loan made to Sterling Entertainment Enterprises, LLC (doing business as SportsNet New York), an equity-method investee.

Cash used by investing activities increased from $655 million for the three months ended March 31, 2011 to $2.093 billion for the three months ended March 31, 2012, principally due to the acquisition of Insight.

TIME WARNER CABLE INC.

MANAGEMENT S DISCUSSION AND ANALYSIS OF RESULTS

OF OPERATIONS AND FINANCIAL CONDITION (Continued)

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

	Three Months Ended March 31,	
	2012	2011
Customer premise equipment[(a)]	$ 251	$ 254
Scalable infrastructure[(b)]	168	175
Line extensions[(c)]	76	66
Upgrades/rebuilds[(d)]	21	16
Support capital[(e)]	190	152
Total capital expenditures	$ 706	$ 663

(a) Amounts represent costs incurred in the purchase and installation of equipment that resides at a customer s home or business for the purpose of receiving/sending video, high-speed data and/or voice signals. Such equipment includes digital (including high-definition) set-top boxes, remote controls, high-speed data modems (including wireless), telephone modems and the costs of installing such new equipment. Customer premise equipment also includes materials and labor costs incurred to install the drop cable that connects a customer s dwelling or business to the closest point of the main distribution network.

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

(c) Amounts represent costs incurred to extend TWC s distribution network into a geographic area previously not served. These costs typically include network design, the purchase and installation of fiber optic and coaxial cable and certain electronic equipment.

(d) Amounts primarily represent costs incurred to upgrade or replace certain existing components or an entire geographic area of TWC s distribution network. These costs typically include network design, the purchase and installation of fiber optic and coaxial cable and certain electronic equipment.

(e) Amounts represent all other capital purchases required to run day-to-day operations. These costs typically include vehicles, land and buildings, computer hardware/software, office equipment, furniture and fixtures, tools and test equipment. Amounts include capitalized software costs of $84 million and $78 million for the three months ended March 31, 2012 and 2011, respectively.

Excluding Insight-related capital expenditures, which the Company expects will be approximately $150 million in 2012, the Company expects that capital expenditures in 2012 will be similar to 2011 and 2010.

Financing Activities

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

	Three Months Ended March 31,	
	2012	2011
Repayments of Insight long-term debt	$ (1,350)	$
Proceeds from exercise of stock options	79	66
Taxes paid in cash in lieu of shares issued for equity-based compensation	(39)	(17)
Excess tax benefit from equity-based compensation	52	29
Dividends paid	(179)	(167)
Repurchases of common stock	(356)	(831)

Other financing activities		(45)		(9)
Cash used by financing activities	$	(1,838)	$	(929)

Cash used by financing activities was $1.838 billion for the three months ended March 31, 2012 compared to $929 million for the three months ended March 31, 2011. Cash used by financing activities for the three months ended March 31, 2012 primarily consisted of the repayment of Insight s senior credit facility and a portion of its senior notes, repurchases of TWC common stock and the payment of a quarterly cash dividend. Cash used by financing activities for the three months ended March 31, 2011 primarily consisted of repurchases of TWC common stock and the payment of a quarterly cash dividend.

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TIME WARNER CABLE INC.

MANAGEMENT S DISCUSSION AND ANALYSIS OF RESULTS

OF OPERATIONS AND FINANCIAL CONDITION (Continued)

Outstanding Debt and Mandatorily Redeemable Preferred Equity and Available Financial Capacity

Debt and mandatorily redeemable preferred equity as of March 31, 2012 and December 31, 2011 were as follows:

	0000	0000	0000	0000
			Outstanding Balance as of	
	Maturity	**Interest Rate**	**March 31, 2012**	**December 31, 2011**
			(in millions)	
TWC notes and debentures[a]	2012-2041	5.757%[b]	$ 23,753	$ 23,744
TWE notes and debentures[c]	2012-2033	7.634%[b]	2,678	2,683
Revolving credit facility[d]	2013			
Commercial paper program	2013			
Insight notes[e]	2012		380	
Capital leases	2013-2032		28	15
Total debt[f]			26,839	26,442
TW NY Cable Preferred Membership Units	2013	8.210%	300	300
Total debt and mandatorily redeemable preferred equity			$ 27,139	$ 26,742

(a) Outstanding balance of TWC notes and debentures as of March 31, 2012 and December 31, 2011 includes £623 million of 5.75% notes due 2031 valued at $997 million and $968 million, respectively, using the exchange rates at each date.

(b) Rate represents a weighted-average effective interest rate as of March 31, 2012 and includes the effects of interest rate swaps and, for the TWC notes and debentures, cross-currency swaps.

(c) Outstanding balance of TWE notes and debentures as of March 31, 2012 and December 31, 2011 includes an unamortized fair value adjustment of $75 million and $79 million, respectively, primarily consisting of the fair value adjustment recognized as a result of the 2001 merger of America Online, Inc. (now known as AOL Inc.) and Time Warner Inc. (now known as Historic TW Inc.).

(d) TWC s unused committed financial capacity was $6.485 billion as of March 31, 2012, reflecting $2.629 billion of cash and equivalents and $3.856 billion of available borrowing capacity under the Revolving Credit Facility (which reflects a reduction of $144 million for outstanding letters of credit backed by the Revolving Credit Facility).

(e) Outstanding balance of Insight notes as of March 31, 2012 consists of Insight s 9.375% senior notes due 2018, which were fully redeemed on April 2, 2012.

(f) Outstanding balance of total debt as of March 31, 2012 and December 31, 2011 includes current maturities of long-term debt of $2.495 billion and $2.122 billion, respectively.

See the 2011 Form 10-K for further details regarding the Company s outstanding debt and mandatorily redeemable preferred equity and other financing arrangements, including certain information about maturities, covenants and rating triggers related to such debt and financing arrangements. At March 31, 2012, TWC was in compliance with the leverage ratio covenant of the Revolving Credit Facility, with a ratio of consolidated total debt as of March 31, 2012 to consolidated EBITDA for the twelve months ended March 31, 2012 of approximately 3.2 times. In accordance with the Revolving Credit Facility agreement, consolidated total debt as of March 31, 2012 was calculated as (a) total debt per the accompanying consolidated balance sheet less the TWE unamortized fair value adjustment (discussed above) and the fair value of debt subject to interest rate swaps, less (b) total cash per the accompanying consolidated balance sheet in excess of $25 million. In accordance with the Revolving Credit Facility agreement, consolidated EBITDA for the twelve months ended March 31, 2012 was calculated as OIBDA plus asset impairments and equity-based compensation expense.

CAUTION CONCERNING FORWARD-LOOKING STATEMENTS

This document contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, particularly statements anticipating future growth in revenues, OIBDA, cash provided by operating activities and other financial measures. Words such as anticipates, estimates, expects, projects, intends, plans, believes and words and terms of similar substance used in connectio discussion of future operating or financial performance identify forward-looking statements. These forward-looking statements are included throughout this report and are based on management s current expectations and beliefs about future events. As with any projection or forecast, they are susceptible to uncertainty and changes in circumstances.

The Company operates in a highly competitive, consumer and technology driven and rapidly changing business that is affected by government regulation and economic, strategic, political and social conditions. Various factors could adversely affect the operations, business or financial results of TWC in the future and cause TWC s actual results to differ materially

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TIME WARNER CABLE INC.

MANAGEMENT S DISCUSSION AND ANALYSIS OF RESULTS

OF OPERATIONS AND FINANCIAL CONDITION (Continued)

from those contained in the forward-looking statements, including those factors discussed in detail in Item 1A, Risk Factors, in the 2011 Form 10-K, and in TWC s other filings made from time to time with the SEC after the date of this report. In addition, important factors that could cause the Company s actual results to differ materially from those in its forward-looking statements include:

- increased competition from video, high-speed data, networking and voice providers, particularly direct broadcast satellite operators, local telephone companies (ILECs and CLECs), companies that deliver programming over broadband Internet connections, and wireless broadband and phone providers;

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

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

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

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

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

Any forward-looking statements made by the Company in this document speak only as of the date on which they are made. The Company is under no obligation to, and expressly disclaims any obligation to, update or alter its forward looking statements whether as a result of changes in circumstances, new information, subsequent events or otherwise.

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TIME WARNER CABLE INC.

ITEM 4. CONTROLS AND PROCEDURES

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

The Company, under the supervision and with the participation of its management, including the Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of the Company s disclosure controls and procedures (as such term is defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)) as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the Company s disclosure controls and procedures are effective to ensure that information required to be disclosed in reports filed or submitted by the Company under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms and that information required to be disclosed by the Company is accumulated and communicated to the Company s management to allow timely decisions regarding the required disclosure.

Changes in Internal Control Over Financial Reporting

Except as described below, there have not been any changes in the Company s internal control over financial reporting during the quarter ended March 31, 2012 that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting. On February 29, 2012, the Company completed its acquisition of Insight and is in the process of integrating the acquired cable systems into the Company s overall internal control over financial reporting process. See Note 4 to the accompanying consolidated financial statements for additional information on the Insight acquisition. Additionally, during the quarter ended March 31, 2012, the Company implemented a financial consolidation and reporting application, which is designed to increase efficiency of the financial reporting process and enhance the Company s systems of internal controls.

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TIME WARNER CABLE INC.

CONSOLIDATED BALANCE SHEET

(Unaudited)

	March 31, 2012	December 31, 2011
	(in millions)	
ASSETS		
Current assets:		
Cash and equivalents	$ 2,629	$ 5,177
Receivables, less allowances of $52 million and $62 million as of March 31, 2012 and December 31, 2011, respectively	647	767
Deferred income tax assets	398	267
Other current assets	214	187
Total current assets	3,888	6,398
Investments	770	774
Property, plant and equipment, net	14,542	13,905
Intangible assets subject to amortization, net	635	228
Intangible assets not subject to amortization	26,197	24,272
Goodwill	2,817	2,247
Other assets	447	452
Total assets	$ 49,296	$ 48,276
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	$ 352	$ 545
Deferred revenue and subscriber-related liabilities	202	169
Accrued programming expense	870	807
Current maturities of long-term debt	2,495	2,122
Other current liabilities	1,665	1,727
Total current liabilities	5,584	5,370
Long-term debt	24,344	24,320
Mandatorily redeemable preferred equity issued by a subsidiary	300	300
Deferred income tax liabilities, net	11,022	10,198
Other liabilities	520	551
Commitments and contingencies (Note 13)		
TWC shareholders equity:		
Common stock, $0.01 par value, 313.4 million and 315.0 million shares issued and outstanding as of March 31, 2012 and December 31, 2011, respectively	3	3
Additional paid-in capital	7,966	8,018
Retained earnings	100	68
Accumulated other comprehensive loss, net	(551)	(559)
Total TWC shareholders equity	7,518	7,530
Noncontrolling interests	8	7
Total equity	7,526	7,537

Total liabilities and equity	$ 49,296	$ 48,276

See accompanying notes.

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TIME WARNER CABLE INC.

CONSOLIDATED STATEMENT OF OPERATIONS

(Unaudited)

	000000000000	000000000000
	Three Months Ended March 31,	
	2012	**2011**
	(in millions, except per share data)	
Revenues	$ 5,134	$ 4,827
Costs and expenses:		
Costs of revenues[(a)]	2,404	2,272
Selling, general and administrative[(a)]	857	824
Depreciation	771	744
Amortization	15	6
Merger-related and restructuring costs	45	6
Total costs and expenses	4,092	3,852
Operating Income	1,042	975
Interest expense, net	(405)	(363)
Other expense, net	(3)	(30)
Income before income taxes	634	582
Income tax provision	(251)	(256)
Net income	383	326
Less: Net income attributable to noncontrolling interests	(1)	(1)
Net income attributable to TWC shareholders	$ 382	$ 325
Net income per common share attributable to TWC common shareholders:		
Basic	$ 1.21	$ 0.94
Diluted	$ 1.20	$ 0.93 &n