TIME WARNER CABLE INC.
Form 10-K
February 22, 2008

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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, 2007

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.)*

One Time Warner Center
North Tower
New York, New York 10019
(Address of principal executive offices) (Zip Code)

(212) 364-8200
(Registrant s telephone number, including area code)

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 o No þ

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. o

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 o	Accelerated filer o
Non-accelerated filer þ (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 15, 2008, there were 901,937,844 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 29, 2007) was approximately $6.1 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 2008 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, 2007, TWC served approximately 14.6 million customers who subscribed to one or more of its video, high-speed data and voice services, representing approximately 32.1 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, 2007, TWC served approximately 13.3 million basic video subscribers. Of those, approximately 8.0 million (or 61%) received some portion of their video services via digital transmissions (digital video subscribers). Also, as of December 31, 2007, TWC served approximately 7.6 million residential high-speed data subscribers (or 29% of estimated high-speed data service-ready homes), approximately 2.9 million Digital Phone subscribers (or 12% of estimated voice service-ready homes), and 280,000 commercial high-speed data subscribers. TWC markets its services separately and as bundled packages of multiple services and features. As of December 31, 2007, 48% of TWC s customers subscribed to two or more of its primary services, including 16% of its customers who subscribed to all three primary services. Historically, TWC has focused primarily on residential customers, while also selling video, high-speed data and commercial networking and transport services to commercial customers. Recently, TWC has begun selling voice services to small- and medium-sized businesses as part of an increased emphasis on its commercial business. In addition to its video, high-speed data and voice services, TWC sells advertising time to a variety of national, regional and local businesses.

On July 31, 2006, Time Warner NY Cable LLC (TW NY), a subsidiary of TWC, and Comcast Corporation (together with its subsidiaries, Comcast) completed their respective acquisitions of assets comprising in the aggregate substantially all of the cable assets of Adelphia Communications Corporation (Adelphia) (the Adelphia Acquisition). Immediately prior to the Adelphia Acquisition, TWC and Time Warner Entertainment Company, L.P. (TWE), a subsidiary of TWC, redeemed Comcast s interests in TWC and TWE, respectively (the TWC Redemption and the TWE Redemption, respectively, and collectively, the Redemptions). In addition, immediately after the Adelphia Acquisition, TW NY exchanged certain cable systems with Comcast (the Exchange and collectively with the Adelphia Acquisition and the Redemptions, the Transactions). On February 13, 2007, Adelphia s Chapter 11 reorganization plan became effective and, 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 Exchange Act). Under the terms of the reorganization plan, during 2007, 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 acquired from Adelphia were distributed to Adelphia s creditors. On March 1, 2007, TWC s Class A common stock began trading on the New York Stock Exchange under the symbol TWC. For additional information about these transactions, see The 2006 Transactions with Adelphia and Comcast. Time Warner Inc. (Time Warner) currently owns approximately 84.0% of the common stock of TWC (representing a 90.6% voting interest) and consolidates the financial results of TWC s operations. Time Warner also owns 12.43% of the non-voting common stock of a subsidiary of TWC.

For periods presented prior to January 1, 2007, the subscriber data contained in Part I of this Report include subscribers in certain managed, but unconsolidated, cable systems located in Kansas City, south and west Texas and

New Mexico (the Kansas City Pool), which were distributed to TWC by Texas and Kansas City Cable Partners, L.P. (TKCCP) effective January 1, 2007. The results of the Kansas City Pool were consolidated by TWC on January 1, 2007. For additional information with respect to the distribution of the assets of TKCCP to its partners on January 1, 2007, see Management s Discussion and Analysis of Results of Operations and Financial Condition Overview Recent Developments TKCCP Joint Venture.

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Recent Developments

On February 6, 2008, Time Warner announced that it has commenced a review of its ownership interest in TWC. Time Warner has initiated discussions with TWC regarding a possible change in such ownership.

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 and/or regulatory factors and other factors affecting the operation of TWC s business. 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 30 years in various legal forms, Time Warner Cable Inc. was incorporated as a Delaware corporation on March 21, 2003. TWC s annual reports 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.

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Corporate Structure

The following chart illustrates TWC s corporate structure as of December 31, 2007. The subscriber and RGU numbers, long-term debt and preferred equity balances presented below are approximate as of December 31, 2007. Certain intermediate entities and certain preferred interests held by TWC or subsidiaries of TWC are not reflected. The subscriber and RGU counts within each entity indicate the 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, Digital Phone and circuit-switched telephone service customers.

(1) The principal amount of TWE s debt securities excludes an unamortized fair value adjustment of $126 million.

(2) TWC is also the obligor under an intercompany loan from TWE with an aggregate principal amount of $3.4 billion.

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

(4) 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 supervision. 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 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 (CPST) and Digital Basic Service Tier (DBT). BST generally includes broadcast television signals, satellite-delivered broadcast networks and superstations, local origination channels, and public access, educational and government channels. CPST enables BST subscribers to add national, regional and local cable news, entertainment and other specialty networks, such as CNN, A&E, ESPN, CNBC and MTV. 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 offers subscribers up to 50 additional cable networks, including spin-off and successor networks to national cable services, news networks and niche programming services, such as Discovery Home and MTV2. 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, for an additional fee.

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 and certain video equipment, including set-top boxes, are subject to regulation under federal law. See Regulatory Matters below.

Transmission technology. TWC s customers may receive video service through analog transmissions, a combination of digital and analog transmissions or, in systems where TWC has fully deployed digital simulcast, digital transmissions only. Customers who receive any level of video service via digital transmissions are referred to as digital video subscribers. As of December 31, 2007, approximately 61% 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.

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

	December 31, 2007	December 31, 2006	December 31, 2005
	(in thousands, except percentages)		
Homes passed[1]	26,526	26,062	16,338
Basic video subscribers[2]	13,251	13,402	9,384
Basic video penetration[3]	50.0%	51.4%	57.4%
Digital video subscribers[4]	8,022	7,270	4,595
Digital video penetration[5]	60.5%	54.2%	49.0%

(1) 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.

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

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

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

(5) 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. 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 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, TWC has launched Start Overtm, 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. TWC received an Emmytm award in 2007 for its Start Over service. Start Over was available to over one million digital video subscribers as of December 31, 2007, and TWC expects to continue to roll out Start Over in 2008. TWC has begun rolling out other Enhanced TV features such as Look Backtm, which utilizes the Start Over technology to allow viewing of previously aired programs, and Quick Clipstm, 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.

DVRs. Set-top boxes equipped with digital video recorders (DVRs), among other things, enable customers to pause and/or rewind live television programs and record programs on the hard drive built into the set-top box. Subscribers pay an additional monthly fee for TWC s DVR service. As of December 31, 2007, 42%, or approximately 3.4 million, of TWC s digital video subscribers also subscribed to its DVR service.

HD television. In its more advanced divisions, TWC offers between 30 and 40 channels of high-definition (HD) television, or HDTV, and expects to add additional HD programming during 2008. 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.

High-speed Data Services

TWC offers residential high-speed data services to nearly all of its homes passed as of December 31, 2007. 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. 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,		
	2007	2006	2005
	(in thousands, except percentages)		
Homes passed(1)	26,248	25,691	16,227
Residential high-speed data subscribers(2)	7,620	6,644	4,141
Residential high-speed data penetration(3)	29.0%	25.9%	25.5%

(1) 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.

(2) Residential high-speed data subscriber numbers reflect billable subscribers who receive TWC s Road Runnertm high-speed data service or any other residential high-speed data service offered by TWC.

(3) 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 high-speed data service in virtually all of its systems: Turbo^{tm}, Standard, Basic and Lite. The tiers offer different speeds at different monthly fees. Turbo offers subscribers speeds of up to 15 mbps downstream.

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 games, news, sports, autos, kids, music, movie listings and shopping sites.

High-speed data services are delivered through TWC s hybrid fiber coax (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 circuits based on the amount of capacity available to TWC and pays for Internet connectivity based on the amount of data traffic received from and sent over the provider s backbone 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.

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 has offered its Digital Phone service broadly since 2004. Under TWC s primary calling plan, its 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 calling options that are designed to meet customers particular usage patterns, 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 Digital Phone subscribers:

	December 31,		
	2007	**2006**	**2005**
	(in thousands, except percentages)		
Homes passed[1]	24,611	16,623	14,308
Digital Phone subscribers[2]	2,895	1,860	998
Digital Phone penetration[3]	11.8%	11.2%	7.0%

(1) 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.
(2) Digital Phone subscriber numbers reflect billable subscribers who receive an internet protocol (IP)-based telephony service.
(3) Digital Phone penetration represents Digital Phone subscribers as a percentage of Digital Phone service-ready homes passed.

As of December 31, 2007, TWC had 2.9 million Digital Phone customers, and penetration of voice services to serviceable homes was approximately 12%. Since no comparable IP-based telephony service was available in the systems acquired in and retained after the Transactions (the Acquired Systems) at the time of acquisition, the continued introduction of Digital Phone in the Acquired Systems, separately and as part of a bundle, was a high priority during 2007. The Company started selling Digital Phone in the Acquired Systems during 2007 and, as of December 31, 2007, the launch of Digital Phone to residential customers in the Acquired Systems was substantially complete.

TWC delivers Digital Phone service over the same system facilities that it uses to provide video and high-speed data services. Under a multi-year agreement between TWC and Sprint Nextel 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. Unlike Internet phone providers, such as Vonage Holdings Corp. (Vonage), TWC does not utilize the public Internet to transport telephone calls. See Risk Factors Risks Related to Dependence on Third Parties TWC may not be able to obtain necessary hardware, software and operational support.

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. Increasingly, TWC s customers subscribe to two or three of its 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 developing 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. The table below sets forth the number of TWC s double play and triple play subscribers as of the dates indicated.

	December 31, 2007	2006	2005
		(in thousands)	
Double play[1]	4,703	4,647	3,099
Triple play[2]	2,363	1,523	760

(1) TWC customers who subscribe to two of TWC s primary services (video, high-speed data and voice).
(2) TWC customers who subscribe to all three of TWC s primary services (video, high-speed data and voice).

Cross-platform Features

In support of its bundled services strategy, TWC is developing features that operate across two or more of its services. For example, TWC has begun to provide digital video subscribers who both use a TWC-provided set-top box and subscribe to Digital Phone, at no extra charge, a Caller ID on TV feature that displays incoming call information on the customer s television set. TWC has introduced a feature called PhotoShowTV in two of its divisions that gives digital video subscribers who both use 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. TWC expects to expand the roll out of this service in 2008. TWC is also developing other cross-platform features, such as remote DVR management, which would allow customers who subscribe to TWC s DVR service to use the Internet to program their DVRs, and a residential phone web portal, which would allow Digital Phone subscribers to use the Internet to modify Digital Phone features, make payments and listen to voicemail, which it expects to launch during 2008.

Commercial Services

TWC has provided video and high-speed data services to businesses for over a decade and, in 2007, it introduced in the majority of its systems a commercial Digital Phone service, Business Class Phone, geared to small- and medium-sized businesses. 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.

Video Services

TWC offers business 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 or stay abreast of news, weather and financial information.

High-speed Data Services

TWC offers business 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 Time Warner Cable Business Class brand. Business 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, 2007, TWC had 280,000 commercial high-speed data subscribers.

In addition, TWC provides its high-speed data services to other cable operators for a fee, including Advance/Newhouse Communications, who in turn provide high-speed data services to their customers.

Voice Services

In addition to TWC s existing commercial video and high-speed data businesses, TWC recently introduced Business Class Phone, a business-grade phone service geared to small- and medium-sized businesses. TWC launched Business Class Phone in the majority of its systems during 2007 and expects to complete the roll-out of Business Class Phone in the remainder of its systems during 2008.

Commercial Networking and Transport Services

TWC provides dedicated transmission capacity on its network to customers that desire high-bandwidth connections between locations. TWC also offers point-to-point circuits to wireless telephone providers and to other

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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 high-speed access to the Internet, and provide secure access 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 between customers local area networks, or LANs, within and between metropolitan areas.

Advertising

TWC sells advertising time to a variety of national, regional and local businesses. 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 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, contiguous cable system operators have formed advertising interconnects to deliver locally inserted commercials across wider geographic areas, replicating the reach of the local broadcast stations as much as possible. TWC s local cable news channels and VOD offerings also provide it with opportunities to generate advertising revenue.

Advanced Advertising

TWC is exploring various means by which it could utilize its advanced services to deliver the same kind of targeting and interactivity to television advertisers that currently is 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 is working with other cable operators to develop a consistent platform for the delivery of advanced advertising.

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. As of December 31, 2007, TWC offered over a third of its customers a price lock guarantee, which allows customers to enter into a longer-term contract with TWC at a set rate, and TWC is continuing to roll out this offer.

TWC utilizes its brand and the brand statement, *The Power of You*™, 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 supported across broadcast, TWC s own 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. Creative promotional offers 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 superior customer care can help increase customer satisfaction, promote customer loyalty and lasting customer relationships and increase the penetration of its services. TWC s customer care strategy is focused on three key components, including:

Ease of Access seeking to minimize telephone wait times for TWC customers;
Quality Infrastructure maintaining tools to measure and manage TWC s network infrastructure and customer premise equipment to resolve customer issues on the first visit to customers homes and businesses; and
Training developing front-line employees able to handle both service and sales.

In order to improve the measurement and management of TWC s network infrastructure and customer premise equipment, TWC expects to roll out in 2008 engineering tools that will give installation technicians and customer care representatives access to real-time information about the operating conditions of the equipment in its customers homes.

Technology

Cable Systems

TWC s cable systems employ a flexible and extensible 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, 2007, according to TWC s estimates, approximately 98% of all homes passed by TWC s cable systems were served by plant that had been upgraded to provide at least 750MHz of capacity. Carriage of programming through analog transmissions (approximately 70 channels per system) uses about two-thirds of a typical system s capacity, leaving the remaining capacity for digital video, high-speed data and voice services. Digital signals, including video, high-speed data and voice signals, can be carried more efficiently than analog signals. Generally 10 to 12 digital channels or their equivalent can be carried using the same amount of capacity required to carry just one analog channel.

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 more efficiently the bandwidth available to its systems over the next few years. TWC believes that this can be achieved largely without costly upgrades. For example, to accommodate increasing numbers of HDTV channels and other demands for greater capacity in its network, TWC is deploying a technology known as switched digital video (SDV). This expansion of network capacity relies on switching equipment in TWC s headends and hubs and, as necessary, segmenting its plant to ensure that switches and lasers are shared among fewer households. By using SDV, only those channels that are being watched within a given grouping of households are transmitted to those households. Since it is generally the case that not all channels are being watched at all times by a given group of households, this frees up capacity that can then be made available for other uses. As a result of this process, capacity is made available for new services, including HDTV channels. As of December 31, 2007, over 1.4 million (or 18%) of digital video subscribers received some portion of their video service via SDV technology. TWC expects to continue to deploy SDV technology during 2008.

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

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from a 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. 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 (formerly known as OpenCable), which represent an effort to create a common platform for set-top box applications regardless of the box s operating system. If widely adopted, tru2way could spur innovation in applications for set-top boxes and cable-ready consumer electronics devices. TWC began deployment of tru2way in 2007 and expects to continue to deploy it during 2008.

TWC s digital video subscribers must have either a digital set-top box or a digital cable-ready television or similar device equipped with a CableCARD™. However, a digital cable-ready television or similar device equipped with a CableCARD cannot receive certain digital signals and signals for premium programming that are necessary to receive TWC s two-way video services, such as VOD 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.

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. For more information, see Regulatory Matters below. Cable networks, including premium services, are carried pursuant to written affiliation agreements, usually with a term of between three and seven years. TWC generally pays a fixed monthly per subscriber fee for such services. 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 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 and leases these devices to subscribers at monthly rates. See Technology Set-top Boxes above and Regulatory Matters below. TWC purchases routers, switches and other network equipment from a variety of providers. TWC s most significant supplier of these items is Cisco Systems Inc., a manufacturer of routers and other network equipment and the owner of Scientific Atlanta, Inc. (Scientific Atlanta), the supplier of a significant portion of TWC s set-top boxes. See Risk Factors Risks Related to Dependence on Third Parties TWC may not be able to obtain necessary hardware, software and operational support. TWC has developed and, in a number of its divisions, uses its Open Cable Digital Navigator (ODN) and Mystro Digital Navigator (MDN) program guides. It also purchases program guides from Scientific Atlanta and Aptiv Digital, Inc., which is owned by Gemstar-TV Guide International, Inc.

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 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 backbone network.

Digital Phone. Under a multi-year agreement between TWC and 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.

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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 through increasingly varied technologies 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 has intensified competition. In addition, technological advances will likely 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 Sunday Ticket, which is available only to DirecTV) and video services that are comparable in many respects to TWC s analog and digital video services, including TWC s DVR service and some of its interactive programming features. These providers are also working to increase the number of HDTV channels they offer in order to differentiate their service from the services offered by cable operators.

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. For example, AT&T Inc. (AT&T) is offering a service in some areas that utilizes DBS video but in an integrated package with AT&T s DSL product, which enables an Internet-based return path that allows the customer to order a video-on-demand-like product and other services that TWC provides using its two-way network.

Local telephone companies. TWC s high-speed data and Digital Phone services face competition from the DSL, wireless broadband and traditional and wireless phone offerings of incumbent local telephone companies, especially AT&T and Verizon Communications Inc. (Verizon), and also smaller local telephone companies, such as Cincinnati Bell, Inc. and Citizens Communications Company. AT&T and Verizon have undertaken fiber-optic upgrades of their networks, and the technologies they are using, such as fiber-to-the-node (FTTN) and fiber-to-the-home (FTTH), are capable of carrying two-way video, high-speed data with substantial bandwidth and IP-based telephony services, each of which is similar to the corresponding services TWC offers. In addition, these telephone companies can market and sell service bundles of video, high-speed data and voice services plus wireless services provided by the telephone companies owned or affiliated companies.

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/or offer video, data and voice services in competition with TWC.

Satellite Master Antenna Television (SMATV). Additional competition comes from private cable television systems servicing condominiums, apartment complexes and certain other multiple dwelling units with local broadcast signals and many of the same satellite-delivered program services offered by franchised cable systems. Some SMATV operators now offer voice and high-speed data services as well.

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, cable overbuilders and SMATVs, each of TWC s services also faces competition from other companies that provide services on a stand-alone basis.

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Video competition. TWC s video services face competition on a stand-alone basis from a number of different sources, including:

local television broadcast stations that provide free over-the-air programming which can be received using an antenna and a television set;

local television broadcasters, which in selected markets sell digital subscription services; and

video programming delivered over broadband Internet connections.

TWC s VOD services compete with online movie and other services, which are delivered over broadband Internet connections, online order services with mail delivery, and with video stores and home video services.

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 developing technologies, such as Internet service via power lines, satellite and various wireless services (e.g., Wi-Fi), including those of local municipalities.

Digital Phone competition. TWC s Digital Phone service also competes with wireless phone providers and national providers of IP-based telephony products such as Vonage. 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 products and 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., Time Warner Telecom Inc. and XO Communications, LLC, 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 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 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 proposed at the state and federal level and enacted in a number of states to allow these companies to enter the video distribution business without obtaining local franchise approval and often on substantially more favorable terms than those afforded TWC and other existing cable operators. Legislation of this kind has been enacted in California, New Jersey, North Carolina, South Carolina and Texas. See Regulatory Matters State and Local Regulation and Risk Factors Risks Related to Government Regulation.

Employees

As of December 31, 2007, TWC had approximately 45,600 employees, including approximately 1,600 part-time employees. Approximately 5.0% of TWC s employees are represented by labor unions. TWC considers its relations with its employees to be good.

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Regulatory Matters

TWC s business is subject, in part, to regulation by the 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 (the Adelphia/Comcast Transactions Order). Various legislative and regulatory proposals under consideration from time to time by Congress and various federal agencies have in the past materially affected TWC and may do so in the future.

The following is a summary of current significant federal, state and local laws and regulations affecting the growth and operation of TWC s businesses 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.

Communications Act and FCC Regulation

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 stations, 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.

Net neutrality legislative and regulatory proposals. In the 2005-2006 Congressional term, several net neutrality -type provisions were introduced as part of broader Communications Act reform legislation. These provisions would have limited to a greater or lesser extent the ability of broadband providers to adopt pricing models and network management policies that would differentiate based on different uses of the Internet. None of these provisions were adopted. Similar legislation has been introduced in the 2007-2008 Congressional term.

In September 2005, the FCC issued a non-binding policy statement regarding net neutrality (the Net Neutrality Policy Statement). The FCC indicated that the Net Neutrality Policy Statement was intended to offer guidance and insight into its approach to the Internet and broadband related issues. The principles contained in the Net Neutrality Policy Statement set forth the FCC s view that consumers are entitled to access and use the lawful Internet content and applications of their choice, to connect lawful devices of their choosing that do not harm the broadband provider s network and to competition among network, application, service and content providers. In the Net Neutrality Policy Statement, the FCC also noted that these principles are subject to reasonable network management. Subsequently, the FCC has made these principles binding as to certain telecommunications companies in orders adopted in connection with mergers undertaken by those companies. To date, the FCC has declined to adopt any such regulations that would be applicable to TWC.

Several parties are seeking to persuade the FCC to adopt net neutrality-type regulations in a number of proceedings that are currently pending before the agency. These include pending FCC rulemakings regarding IP-enabled services and broadband Internet access services, as well as a petition for declaratory ruling and a petition for rulemaking, both of which ask the FCC to define reasonable network management practice. In addition, in March 2007, the FCC opened a Notice of Inquiry regarding the implementation of net neutrality regulations and, in January 2008, the FCC released Public Notices seeking comment by February 13, 2008, on the petitions.

TWC is unable to predict the likelihood that legislative or additional regulatory proposals regarding net neutrality will be adopted. For a 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, to manage its broadband facilities efficiently and to make upgrades to those facilities sufficient to respond to growing bandwidth usage by TWC s high-speed data customers.

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 is no 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, which generally includes local broadcast channels and public access or educational and government channels required by the franchise. This kind of 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 this 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, or to negotiate with cable systems the terms by which the cable systems may carry their stations, commonly called retransmission consent. The most recent election by broadcasters became effective on January 1, 2006.

Apart from those local commercial broadcast stations that elect retransmission consent, 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 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.

FCC regulations require TWC to carry the signals of both commercial and non-commercial local digital-only broadcast stations and the digital signals of local broadcast stations that return their analog spectrum to the government and convert to a digital broadcast format. The FCC s rules give digital-only broadcast stations discretion to elect whether the operator will carry the station s primary signal in a digital or converted analog format, and the rules also permit broadcasters with both analog and digital signals to tie the carriage of their digital signals to the carriage of their analog signals as a retransmission consent condition.

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 an order that requires cable operators that offer at least some analog service (i.e., that are not operating all-digital systems) to provide to subscribers both analog and digital feeds of must-carry broadcast stations beginning February 18, 2009, regardless of whether both feeds are provided to the cable operator. Currently, this obligation is scheduled to terminate in February 2012, subject to FCC review. As of February 2008, certain technical specifics of how post-transition carriage will be accomplished, such as signal format and resolution, remain unresolved by the FCC. The Company is unable to predict what requirements, if any, the FCC might adopt or the timing of such action.

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. In November 2007, the FCC adopted an order revising its leased access rules by lowering the permitted rate charged to most leased access programmers, as well as adopting new procedural and complaint provisions. The FCC is seeking further comment on whether to extend the new rate methodology to program-length commercial and sales programming. In addition, the FCC has also launched a 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.

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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. Under certain circumstances, notice may have to be given in the form of bill inserts, on-screen announcements and/or newspaper advertisements. Giving notice can be expensive and, given long lead times, may limit TWC s ability to implement programming changes quickly. DBS operators and other non-cable programming distributors are not subject to analogous duties.

In November 2007, the FCC also adopted a requirement that cable operators submit to the agency information concerning the number of homes that their systems pass and information concerning their subscribers. The agency intends to use this information to determine whether the so-called 70/70 test has been met, which may give the FCC authority to promulgate certain additional regulations covering cable operators if it is shown that cable systems with 36 or more activated channels are available to 70 percent of households within the United States and that 70 percent of those households subscribe to such systems.

High-speed Internet access. From time to time, industry groups, telephone companies and Internet service providers (ISPs) have sought local, state and federal regulations that would require cable operators to sell capacity on their systems to ISPs under a common carrier regulatory scheme. Cable operators have successfully challenged regulations requiring this forced access, although courts that have considered these cases have employed varying legal rationales in rejecting these regulations.

In 2002, the FCC released an order in which it determined that cable-modem service constitutes an information service rather than a cable service or a telecommunications service, as those terms are used in the Communications Act. That determination was sustained by the U.S. Supreme Court. According to the FCC, an information service classification may permit but does not require it to impose multiple ISP requirements. In 2002, the FCC initiated a rulemaking proceeding to consider whether it may and should do so and whether local franchising authorities should be permitted to do so. As of December 31, 2007, this rulemaking proceeding was still pending. As noted above, in 2005, the FCC adopted a Net Neutrality Policy Statement intended to offer guidance on its approach to the Internet and broadband access. Among other things, the Policy Statement stated that consumers are entitled to competition among network, service and content providers, and to access the lawful content and services of their choice, subject to the needs of law enforcement. The FCC may in the future adopt specific regulations to implement the Policy Statement.

Ownership limitations. There are various rules prohibiting joint ownership of cable systems and other kinds of communications facilities. Local telephone companies generally may not acquire more than a small equity interest in an existing cable system in the telephone company s service area, and cable operators generally may not acquire more than a small equity interest in a local telephone company providing service within the cable operator s franchise area. In addition, cable operators may not have more than a small interest in multipoint microwave distribution service (MMDS) facilities or SMATV systems in their service areas. Finally, the FCC has been exploring whether it should prohibit cable operators from holding ownership interests in satellite operators.

The Communications Act also required 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 September 1993, the FCC adopted a rule that was later amended to prohibit any cable operator from serving more than 30% of all cable, satellite and other multi-channel subscribers nationwide. The Communications Act also required 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. In September 1993, the FCC imposed a limit of 40% of a cable operator s first 75 activated channels. In March 2001, a federal appeals court struck down both limits and remanded the issue to the FCC for further review. The FCC initiated a rulemaking in 2001 to consider adopting a new horizontal ownership limit and announced a follow-on proceeding to consider the issue anew. In December 2007, the FCC adopted a rule to prohibit any cable operator from serving more than 30% of all cable, satellite and other multi-channel subscribers nationwide and launched a further Notice of Proposed Rulemaking seeking comment on vertical ownership limits and cable attribution rules.

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 requires the FCC to regulate the rates, terms and conditions imposed by these utilities for cable systems use of utility pole and conduit space unless state authorities demonstrate to the FCC that they adequately regulate pole attachment rates, as is the case in some states in which TWC operates. In the absence of state regulation, the FCC administers pole attachment rates on a formula basis. The FCC s original rate formula governs the maximum rate utilities may charge for attachments to their poles and conduit by cable operators providing cable services. The FCC also adopted a second rate formula that became effective in February 2001 and governs the maximum rate investor-owned utilities may charge for attachments to their poles and conduit by companies providing telecommunications services. The U.S. Supreme Court has upheld the FCC s jurisdiction to regulate the rates, terms and conditions of cable operators pole attachments that are being used to provide both cable service and high-speed data service. The applicability of this determination to TWC s voice services is still an open issue. In November 2007, the FCC issued a Notice of Proposed Rulemaking that proposes to establish a single pole attachment rate for all companies providing broadband internet access service.

Set-top box regulation. Certain regulatory requirements are also applicable to set-top boxes. 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. 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 seeking to allow subscribers to use set-top boxes obtained from third party retailers. The most important of the FCC s implementing regulations became effective on July 1, 2007 and requires cable operators to cease placing into service new set-top boxes that have integrated security so that subscribers can purchase set-boxes or other navigational devices from other sources. Direct broadcast operators are not subject to this requirement and certain incumbent telephone operators that provide cable service have received a limited waiver from the FCC.

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. The FCC has 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.

Exclusive arrangements with Multiple Dwelling Units. 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 additional types of exclusivity arrangements between MVPDs and MDUs not addressed in the order should be prohibited. The FCC indicated it would issue an order resolving these issues within six months from release of the final order adopting the new regulation. In December 2007, the National Cable and Telecommunications Association (NCTA) filed a stay request at the FCC and an appeal in the U.S. Court of Appeals for the District of Columbia Circuit on the issue of whether the FCC has the authority to prohibit the enforcement of existing contracts between MDUs and cable operators.

Other regulatory requirements of the Communications Act and the FCC. 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.

Separately, the FCC has adopted cable inside wiring rules to provide specific procedures for the disposition of residential home wiring and internal building wiring where a subscriber terminates service or where an incumbent cable operator is forced by a building owner to terminate service in a MDU. The FCC has also adopted rules providing that, in the event that an incumbent cable operator sells the inside wiring, it must make the wiring available to the MDU owner or the alternative cable service provider during the 24-hour period prior to the actual service termination by the incumbent, in order to avoid service interruption.

Compulsory copyright licenses for carriage of broadcast stations and music performance licenses. 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, TWC secures those rights pursuant to a compulsory license provided by federal law, which requires TWC to make payments to a copyright pool. The elimination or substantial modification of the cable compulsory license could adversely affect TWC s ability to obtain suitable programming and could substantially increase the cost of programming that remains available for distribution to TWC s subscribers.

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.

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 federal and FCC 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 will allow the arbitration of a claim brought by the Mid-Atlantic Sports Network because the claim was brought prior to the suspension. Any arbitrator s award is subject to de novo review at the FCC as well as judicial review.

State and Local Regulation

Cable operators 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 December 2006, the FCC adopted new regulations 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). Among other things, the new rules: establish deadlines for franchising authorities to act on applications; prohibit franchising authorities from placing unreasonable build-out demands on applicants; specify that certain fees, costs, and other compensation to franchising authorities will count towards the statutory five-percent cap on franchising fees; prohibit franchising authorities from requiring applicants to undertake certain obligations concerning the provision of public, educational, and governmental access programming and institutional networks; and preempt local level-playing-field regulations, and similar provisions, to the extent they impose restrictions on applicants that are greater than those in the FCC s new rules. Various localities as well as the NCTA have appealed the new regulations. 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. 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.

Local telephone companies may provide service as traditional cable operators with local franchises or they may opt to provide their programming over unfranchised open video systems. Open video systems are subject to specified requirements, including, but not limited to, a requirement that they set aside a portion of their channel capacity for use by unaffiliated program distributors on a non-discriminatory basis. Certain local telephone companies take the position that they are neither traditional cable operators required to have a local franchise nor providing their programming over open video systems, which gives them a competitive advantage over cable operators.

Regulation of Telephony

Traditional providers of circuit-switched telephone services generally are subject to significant regulation. It is unclear whether and to what extent regulators will subject services like TWC s Digital Phone service (Non-traditional Voice Services) to the regulations that apply to these traditional 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, issued a series of orders resolving discrete issues on a piecemeal basis. For example, over the past several years, the FCC has required Non-traditional Voice Service providers to supply E911 capabilities as a standard feature to their subscribers, to assist law enforcement investigations with wiretaps and information, to contribute to the federal universal service fund, to pay regulatory fees, to comply with customer privacy rules, to provide access to their services to persons with disabilities, and to provide subscribers with local number portability when changing telephone providers. Certain other issues remain unclear. In particular, in November 2004, the FCC issued an order stating that certain kinds of Non-traditional Voice Services are not subject to state certification and tariffing requirements. The full extent of this preemption is not clear. One state public utility commission, for example, has determined that TWC s Digital Phone service is subject to traditional, circuit-switched telephone regulations. It is also unclear whether utility pole owners may charge cable operators offering Non-traditional Voice Services higher rates for pole rental than for traditional cable service and cable modem service.

Regulation of 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

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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.

The 2006 Transactions with Adelphia and Comcast

The following provides a more detailed description of the Transactions and contains summaries of the terms of the material agreements that were entered into in connection with the Transactions. This description does not purport to be complete and is subject to, and is qualified in its entirety by reference to, the applicable agreements.

Agreements with Adelphia

As described in more detail below, under separate agreements (as amended, the TW NY Purchase Agreement and Comcast Purchase Agreement, respectively, and, collectively, the Purchase Agreements), TW NY and Comcast purchased substantially all of the cable assets of Adelphia. The Purchase Agreements were entered into after Adelphia filed voluntary petitions for relief under Chapter 11 of Title 11 of the United States Bankruptcy Code (the Bankruptcy Code). This section provides additional details regarding the Purchase Agreements, the Adelphia Acquisition and Comcast s acquisition of certain of Adelphia s assets (the Comcast Adelphia acquisition), along with certain other agreements TWC and certain of its subsidiaries entered into with Comcast.

The TW NY Purchase Agreement. On April 20, 2005, TW NY, one of TWC s subsidiaries, entered into the TW NY Purchase Agreement with Adelphia. The TW NY Purchase Agreement provided that TW NY would purchase certain assets and assume certain liabilities from Adelphia. On June 21, 2006, Adelphia and TW NY entered into Amendment No. 2 to the TW NY Purchase Agreement (the TW NY Amendment). Under the terms of the TW NY Amendment, the assets TW NY acquired from Adelphia and the consideration to be paid to Adelphia remained unchanged. However, the TW NY Amendment provided that the Adelphia acquisition would be effected in accordance with the provisions of sections 105, 363 and 365 of the Bankruptcy Code. The Adelphia Acquisition closed on July 31, 2006 (the Adelphia Closing), immediately after the Redemptions. The Adelphia Acquisition included cable systems located in the following areas: West Palm Beach, Florida; Cleveland and Akron, Ohio; Los Angeles, California; and suburbs of the District of Columbia (some of these systems were transferred by TWC to Comcast as part of the Exchange). As consideration for the assets purchased from Adelphia, TW NY assumed certain liabilities as specified in the TW NY Purchase Agreement, paid to Adelphia approximately $8.9 billion in cash, after giving effect to certain purchase price adjustments discussed below, and delivered 149,765,147 shares of TWC Class A common stock to Adelphia. This represented approximately 17.3% of TWC Class A common stock outstanding (including shares issued into escrow), and approximately 16% of TWC s total outstanding common stock as of the closing of the Adelphia Acquisition.

Approximately 6 million shares of TWC Class A common stock and approximately $360 million in cash were deposited into escrow to secure Adelphia s obligations in respect of any post-closing adjustments to the purchase price and its indemnification obligations for, among other things, breaches of its representations, warranties and covenants contained in the TW NY Purchase Agreement. All of the shares and substantially all of the cash have been released from escrow except for an amount of cash retained to satisfy claims against the escrow asserted on or prior to July 31, 2007.

The TW NY Purchase Agreement required TWC, at the Adelphia Closing, to amend and restate its By-laws to restrict TWC and its subsidiaries from entering into transactions with or for the benefit of Time Warner and its affiliates other than TWC and its subsidiaries (the Time Warner Group), subject to specified exceptions. Additionally, prior to August 1, 2011 (five years following the Adelphia Closing), TWC s restated certificate of incorporation and By-laws do not allow for an amendment to the provisions of its By-laws restricting these transactions without the consent of a majority of the holders of TWC Class A common stock, other than any member of the Time Warner Group. Additionally, under the TW NY Purchase Agreement, TWC agreed that it will not enter into any short-form merger prior to August 1, 2008 (two years after the Adelphia Closing).

Parent Agreement. Pursuant to the Parent Agreement among Adelphia, TW NY and TWC, dated as of April 20, 2005, TWC, among other things, guaranteed the obligations of TW NY to Adelphia under the TW NY Purchase Agreement.

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The Comcast Purchase Agreement. The Comcast Purchase Agreement had similar terms to the TW NY Purchase Agreement and the transactions contemplated by the Comcast Purchase Agreement also closed on July 31, 2006. The Comcast Adelphia acquisition was effected in accordance with the provisions of sections 105, 363 and 365 of the Bankruptcy Code and a plan of reorganization for the joint ventures referred to in the following sentence. The Comcast Adelphia acquisition included cable systems and Adelphia s interest in two joint ventures in which Comcast also held interests: Century-TCI California Communications, L.P. (the Century-TCI joint venture), which owned cable systems in the Los Angeles, California area, and Parnassos Communications, L.P. (the Parnassos joint venture), which owned cable systems in Ohio and Western New York. The purchase price under the Comcast Purchase Agreement was approximately $3.6 billion in cash.

Agreements with Comcast

As described in more detail below, on the same day as the parties consummated the transactions governed by the Purchase Agreements, TWC and some of its affiliates (collectively, the TWC Group) and Comcast consummated the TWC Redemption, the TWE Redemption and the Exchange (collectively, the TWC/Comcast Transactions). Under the terms of the agreement which governed the TWC Redemption (the TWC Redemption Agreement), TWC redeemed Comcast s investment in TWC in exchange for one of TWC s subsidiaries that held both cable systems and cash. In accordance with the terms of the agreement which governed the TWE Redemption (the TWE Redemption Agreement), TWE redeemed Comcast s interest in TWE in exchange for one of TWE s subsidiaries that held both cable systems and cash. In accordance with the terms of the agreement which governed the Exchange (as amended, the Exchange Agreement), TW NY and Comcast transferred to one another subsidiaries that held certain cable systems, including cable systems acquired by each from Adelphia. The TWC Redemption Agreement, the TWE Redemption Agreement and the Exchange Agreement, are collectively referred to as the TWC/Comcast Agreements.

The TWC Redemption Agreement. Pursuant to the TWC Redemption Agreement, dated as of April 20, 2005, as amended, among TWC and certain other members of the TWC Group and Comcast, the TWC Redemption was effected and Comcast s interest in TWC was redeemed on July 31, 2006, immediately prior to the Adelphia Acquisition. The TWC Redemption Agreement required that TWC redeem all of the TWC Class A common stock held by TWE Holdings II Trust (Comcast Trust II), a trust that was established for the benefit of Comcast, in exchange for 100% of the common stock of Cable Holdco II Inc. (Cable Holdco II), then a subsidiary of TWC. At the time of the TWC Redemption, Cable Holdco II held both certain cable systems previously owned directly or indirectly by TWC (TWC Redemption Systems) serving approximately 589,000 basic subscribers and approximately $1.9 billion in cash, subject generally to the liabilities associated with the TWC Redemption Systems. Certain specified assets and liabilities of the TWC Redemption Systems were retained by TWC.

The TWC Redemption Agreement contains customary indemnification obligations on the part of the parties thereto with respect to breaches of representations, warranties and covenants and certain other matters, generally subject to a $20 million threshold and $200 million cap, with respect to certain of TWC s representations and warranties regarding the TWC Redemption Systems and related matters, and with respect to certain representations and warranties of the Comcast parties relating to litigation, financial statements, finder s fees and certain regulatory matters.

TWC/Comcast Tax Matters Agreement. In connection with the closing of the TWC Redemption, TWC, Cable Holdco II and Comcast entered into the Holdco Tax Matters Agreement (the TWC/Comcast Tax Matters Agreement). The TWC/Comcast Tax Matters Agreement allocates responsibility for income taxes of Cable Holdco II and deals with matters relating to the income tax consequences of the TWC Redemption. This agreement contains representations, warranties and covenants relevant to such income tax treatment. The TWC/Comcast Tax Matters Agreement also contains indemnification obligations relating to the foregoing.

The TWE Redemption Agreement. Pursuant to the TWE Redemption Agreement, dated as of April 20, 2005, as amended, among TWC and Comcast, Comcast s interest in TWE was redeemed on July 31, 2006, immediately prior to the Adelphia acquisition. Prior to the TWE Redemption, TWE Holdings I Trust (Comcast Trust I), a trust established for the benefit of Comcast, owned a 4.7% residual equity interest in TWE. Pursuant to the TWE Redemption Agreement, TWE redeemed all of the TWE residual equity interest held by Comcast Trust I in exchange for 100% of the limited liability company interests of Cable Holdco III LLC (Cable Holdco III), then a subsidiary of TWE. At the time of the TWE Redemption, Cable Holdco III held both certain cable systems previously owned or operated directly or indirectly by TWE (the TWE Redemption Systems) serving approximately 162,000 basic cable subscribers and approximately $147 million in cash, subject generally to the liabilities associated with the TWE Redemption Systems. Certain specified assets and liabilities of the TWE Redemption Systems were retained by TWE.

The TWE Redemption Agreement contained customary indemnification obligations on the part of the parties thereto with respect to breaches of representations and warranties and covenants and certain other matters, generally subject to a $6 million threshold and $60 million cap, with respect to certain representations and warranties of TWE regarding the TWE Redemption Systems and related matters, and with respect to certain representations and warranties of the Comcast parties relating to litigation, financial statements, finder s fees and certain regulatory matters.

The Exchange Agreement. Pursuant to the Exchange Agreement, dated as of April 20, 2005, as amended, among TWC, TW NY and Comcast, the Exchange closed on July 31, 2006, immediately after the Adelphia Acquisition. Pursuant to the Exchange Agreement, TW NY transferred all outstanding limited liability company interests of certain newly formed limited liability companies (collectively, the TW Newcos) to Comcast in exchange for all limited liability company interests of certain newly formed limited liability companies or limited partnerships, respectively, owned by Comcast (collectively, the Comcast Newcos). In addition, the Company paid Comcast approximately $67 million in cash for certain adjustments related to the Exchange. Included in the systems the Company acquired in the Exchange were cable systems (i) that were owned by the Century-TCI joint venture in the Los Angeles, California area and the Parnassos joint venture in Ohio and Western New York and (ii) then owned by Comcast located in the Dallas, Texas, Los Angeles, California, and Cleveland, Ohio areas.

The Exchange Agreement contains customary indemnification obligations on the part of the parties thereto with respect to breaches of representations, warranties, covenants and certain other matters. Each party s indemnification obligations with respect to breaches of representations and warranties (other than certain specified representations and warranties) are subject to (1) with respect to cable systems originally owned by TWC that were acquired by Comcast, a $5.7 million threshold and $19.1 million cap, (2) with respect to cable systems originally owned by Adelphia that were initially acquired by TWC pursuant to the TW NY Purchase Agreement and then transferred to Comcast pursuant to the Exchange Agreement, a $74.6 million threshold and $746 million cap, (3) with respect to cable systems originally owned by Comcast that were acquired by TWC, a $41.5 million threshold and $415 million cap, and (4) with respect to cable systems originally owned by Adelphia that were initially acquired by Comcast pursuant to the Comcast Purchase Agreement and then transferred to TWC pursuant to the Exchange Agreement, a $34.9 million threshold and $349 million cap. In addition, no party is required to indemnify the other for breaches of representations, warranties or covenants relating to assets or liabilities initially acquired from Adelphia and then transferred to the other party, unless the breach is of a representation, warranty or covenant actually made by the party under the Exchange Agreement in relation to those Adelphia assets or liabilities.

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 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 Warner Communications Inc. (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 Holding, a wholly owned subsidiary of TWC, in exchange for a 12.43% non-voting common stock economic interest in TW NY Holding and upon the closing of the TWE Redemption, 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, 2007, TWE had $3.2 billion in principal amount of outstanding debt securities with maturities ranging from 2008 to 2033 and fixed interest rates ranging from 7.25% 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 and an indirect subsidiary of TWE (such TWE subsidiary and TW NY are together, 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.

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, 2007) 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. Road Runner continues to provide high-speed data services to the A/N Subsidiary for a fee under a contract that is terminable by A/N upon six months notice.

Management and Operations of TWE-A/N. Subject to certain limited exceptions, a subsidiary of 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.

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-A/N Holdco, L.P. (TWE-A/N Holdco)) or to TWE, Time Warner or a wholly owned affiliate of TWE or Time Warner (in the case of transfers by TWC). 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-A/N Holdco is allowed to issue additional partnership interests in TWE-A/N Holdco so long as Time Warner continues to own, directly or indirectly, either 35% or 43.75% of the residual equity capital of TWE-A/N Holdco, 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.

Restructuring Rights of the Partners. TWE-A/N Holdco 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-A/N Holdco 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/N Holdco 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-A/N Holdco stating that it wishes to transfer some or all of the assets of the A/N Systems, thereby granting TWE-A/N Holdco 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-A/N Holdco 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-A/N Holdco 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.

Wireless Spectrum Joint Venture

TWC is a participant in a joint venture with several other cable companies that holds 137 advanced wireless spectrum (AWS) licenses. These licenses cover 20 MHz of AWS in about 90% of the continental United States and Hawaii. The FCC awarded these licenses to the venture on November 20, 2006. There can be no assurance that the venture will successfully develop mobile and related services. Under certain circumstances, the members of the venture have the ability to exit the venture and receive from the venture, subject to certain limitations and adjustments, AWS licenses covering the areas in which they provide cable services.

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 Stockholders. 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 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.

Board of Directors. 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). Pursuant to TWC s Certificate of Incorporation, which was adopted upon the closing of the Adelphia Acquisition, 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

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four-fifths of the 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 terms of TWC s 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.

Pursuant to a shareholder agreement between TWC and Time Warner (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 (1) 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 (2) adopting a stockholder rights plan, becoming subject to section 203 of the Delaware General Corporation Law, adopting a fair price provision in its Certificate of Incorporation or taking any similar action.

Furthermore, so long as Time Warner has the power to elect a majority of TWC s board of directors, pursuant to the Shareholder Agreement, 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.

Protections of Minority Class A Common Stockholders. 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 TWC s 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 TWC s By-laws concerning restrictions on transactions between TWC and Time Warner and its affiliates or (b) adopt any provision of TWC s Certificate of Incorporation or By-laws inconsistent with such restrictions; and

- change or adopt a provision inconsistent with the provisions of TWC s 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 TWC s By-laws; and

  - the approvals required to change TWC s Certificate of Incorporation.

Matters Affecting the Relationship between Time Warner and TWC

Indebtedness Approval Right. Under 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.

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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 (three years following the closing of the Adelphia Acquisition), 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 (10 years following the closing of the Adelphia Acquisition), 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.

Transactions between Time Warner and TWC. TWC s 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 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. TWC s 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.

Time Warner Registration Rights Agreement between TWC and Time Warner. At the closing of the TWE Restructuring, Time Warner and TWC entered into a registration rights agreement (the 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 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 Registration Rights Agreement, it will indemnify Time Warner and bear all fees, costs and expenses, except underwriting discounts and selling commissions.

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 are offering them in bundles similar to TWC s. The telephone and DBS companies aggressively market their individual products as well as their bundles or synthetic bundles (i.e., video services provided principally by the DBS operator, and DSL service, traditional phone service and, in some cases, wireless service provided by the telephone company). These competitors try to distinguish their services from TWC s by offering aggressive promotional pricing, exclusive programming, a bundle including their own or an affiliate s wireless voice service and/or assertions of superior service or offerings.

In addition to these competitors, TWC faces competition on individual services from a range of competitors, including, in video, SMATV and video delivered to consumers over the Internet; in high speed data, Wi-Fi, Wi-Max and 3G wireless broadband services provided by mobile carriers such as Verizon Wireless; broadband over power line providers and municipal Wi-Fi services and in voice, cellular telephone service providers and Internet phone providers, such as Vonage, and others.

Furthermore, TWC operates its cable systems under non-exclusive franchises granted by state or local authorities. In some of TWC s operating areas, other operators have overbuilt TWC s systems and offer video, data and/or voice services in competition with TWC.

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Any inability to compete effectively or an increase in competition with respect to video, voice or high-speed data 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 or reduce TWC s ability to increase penetration rates for services. As TWC expands and introduces new and enhanced products and services, TWC may be subject to competition from other providers of those products and services, such as telecommunications providers, ISP and consumer electronics companies, among others. TWC cannot predict the extent to which this competition will affect its future financial results or return on capital expenditures.

Future advances in technology, as well as changes in the marketplace 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 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 or have sought to obtain such franchises in connection with or in preparation for offering video, high-speed data and digital 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 enable the delivery of 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 otherwise obtain additional services more 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, 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. 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.

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TWC is exploring various means by which it can offer its customers mobile services. In November 2006, a joint venture formed by TWC and several cable operators was the winning bidder of 137 licenses in the FCC Auction 66 for Advanced Wireless Spectrum. However, there can be no assurance that the venture will successfully develop mobile voice and related wireless services or otherwise benefit from the acquired spectrum. If TWC incurs significant costs in developing or marketing mobile voice and related wireless services in connection with the venture or otherwise, and the resulting products and services are not competitive with other parties products or appealing to TWC s customers, TWC s business and financial results could suffer. In addition, if TWC s competitors begin to expand their service bundles to include compelling mobile features before TWC has developed and rolled out an equivalent or more compelling offering, TWC may not be in a position to provide a competitive product offering and its business and financial results could suffer.

TWC may encounter unforeseen difficulties as it increases the scale of its video, high-speed data and voice offerings to commercial customers.

TWC has sold video and high-speed data services to businesses for some time and, in 2007, introduced an IP-based telephony service, Business Class Phone, geared to small- and medium-sized businesses. In order to provide its commercial customers with reliable services, TWC may need to increase expenditures, including spending on technology, equipment and personnel. If the services are not sufficiently reliable or TWC otherwise fails to meet commercial customers expectations, its commercial services business could be adversely affected. In addition, TWC faces competition from the existing local telephone companies as well as from a variety of other national and regional business services competitors. If TWC is unable to successfully attract and keep commercial customers, its growth, financial condition and results of operations may be adversely affected.

Additional Risks of TWC s Operations

TWC s business is characterized by rapid technological change, and if TWC does not respond appropriately to technological changes, its competitive position may be harmed.

TWC operates in a highly competitive, consumer-driven and rapidly changing environment and is, to a large extent, dependent on its ability to acquire, develop, adopt and exploit new and existing technologies to distinguish its services from those of its competitors. If TWC chooses technologies or equipment that are less effective, cost-efficient or attractive to its customers than those chosen by its competitors, or if TWC offers products or services that fail to appeal to consumers, are not available at competitive prices or that do not function as expected, TWC s competitive position could deteriorate, and TWC s business and financial results could suffer.

The ability of TWC s competitors to acquire or develop and introduce new technologies, products and services more quickly than TWC may adversely affect TWC s competitive position. Furthermore, advances in technology, decreases in the cost of existing technologies or changes in competitors product and service offerings also may require TWC in the future to make additional research and development expenditures or to offer at no additional charge or at a lower price certain products and services TWC currently offers to customers separately or at a premium. In addition, the uncertainty of the costs for obtaining intellectual property rights from third parties could impact TWC s ability to respond to technological advances in a timely manner.

TWC may continue to face challenges in its systems in Dallas, Texas and Los Angeles, California.

TWC continues to face challenges in the Dallas, Texas and Los Angeles, California systems, most of which were acquired in the Transactions. During 2007, TWC undertook a significant integration effort that included upgrading the capacity and technical performance of these systems to levels that allow the delivery of advanced services and features. However, the historical negative perception of cable service in Dallas and Los Angeles, due in part to the service provided by predecessor cable operators, could hinder efforts to attract new customers. In addition, competition in Dallas and Los Angeles from Verizon and AT&T is intense. As a result, the Dallas and Los Angeles systems could be unable to meaningfully improve their financial performance, which could adversely affect TWC s growth, financial condition and results of operations.

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Significant unanticipated increases in the use of bandwidth-intensive Internet-based services could increase TWC s costs.

The rising popularity of bandwidth-intensive Internet-based services poses special risks for TWC s high-speed data business. Examples of such services include peer-to-peer file sharing services, gaming services and the delivery of video via streaming technology and by download. If heavy usage of bandwidth-intensive services grows beyond TWC s current expectations, TWC may need to invest more capital than currently anticipated to expand the bandwidth capacity of its systems or TWC s customers may have a suboptimal experience when using TWC s high-speed data service. In addition, in order to continue to provide quality service at attractive prices, TWC needs the continued flexibility to develop and refine business models that respond to changing consumer uses and demands, to manage bandwidth usage efficiently and to make upgrades to TWC s broadband facilities. TWC s ability to do these things could be restricted by legislative efforts to impose so-called net neutrality requirements on cable operators. See Risks Related to Government Regulation TWC s business is subject to extensive governmental regulation, which could adversely affect its business.

Availability of SDV technology may not enable TWC to effectively manage its existing bandwidth.

As of December 31, 2007, TWC had deployed switched digital video, or SDV, technology to over 1.4 million digital video subscribers, and TWC intends to further deploy this technology during 2008. 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. Deploying SDV requires installation of new hardware and software at each cable system where it is employed. In addition, bandwidth savings are based on the actual viewing habits of subscribers. As a result, TWC may experience operational difficulties in deploying SDV and may not realize all of the efficiencies it anticipates from the deployment of this technology. In addition, the FCC may interpret existing regulation or introduce new regulation to restrict cable operators ability to use SDV technology. If TWC experiences operational difficulties in deploying SDV, if TWC is unable to gain anticipated additional network capacity as a result of its SDV deployment plans or if TWC is prohibited by regulation from using SDV technology, TWC may have difficulty carrying the volume of HDTV channels and other bandwidth-intensive traffic carried by competitors and may be forced to make costly upgrades to its systems in order to remain competitive.

A weakening economy, especially a continued downturn in the housing market, may negatively impact TWC s ability to attract new subscribers and generate increased subscription revenues.

Providing basic video services is an established and highly penetrated business. As a result, TWC s ability to achieve incremental growth in basic video subscribers is dependent in part on growth in new housing in TWC s service areas, which is influenced by various factors outside of TWC s control, including both national and local economic conditions. If growth in new housing continues to fall or if there are population declines in TWC s operating areas, opportunities to gain new basic subscribers will decrease. In addition, a weakening economy or recession may result in less demand for TWC s services, especially the more expensive advanced services, and may increase the number of subscribers from whom TWC is unable to collect payment for its services. A decrease in opportunities to gain new basic video subscribers or in demand for TWC s advanced services or an increase in TWC s bad debt may have an adverse effect on TWC s growth, business and financial results or financial condition.

TWC relies on network and information systems and other technology, and a disruption or failure of such networks, systems or technology as a result of computer viruses, misappropriation of data or other malfeasance, as well as outages, natural disasters, accidental releases of information or similar events, may disrupt TWC s business.

Because network and information systems and other technologies are critical to TWC s operating activities, network or information system shutdowns caused by events such as computer hacking, dissemination of computer viruses, worms and other destructive or disruptive software, denial of service attacks and other malicious activity, as well as power outages, natural disasters, terrorist attacks and similar events, pose increasing risks. Such an event could have an adverse impact on TWC and its customers, including degradation of service, service disruption, excessive call volume to call centers and damage to equipment and data. Such an event also could result in large expenditures necessary to repair or replace such networks or information systems or to protect them from similar events in the future. Significant incidents could result in a disruption of TWC s operations, customer dissatisfaction, or a loss of customers or revenues.

Furthermore, TWC s operating activities could be subject to risks caused by misappropriation, misuse, leakage, falsification and accidental release or loss of information maintained in TWC s information technology systems and networks, including customer, personnel and vendor data. TWC could be exposed to significant costs if such risks were to materialize, and such events could damage the reputation and credibility of TWC and its business and have a negative impact on its revenues. TWC also could be required to expend significant capital and other resources to remedy any such security breach. As a result of the increasing awareness concerning the importance of safeguarding personal information, the potential misuse of such information and legislation that has been adopted or is being considered regarding the protection, privacy and security of personal information, information-related risks are increasing, particularly for businesses like TWC s that handle a large amount of personal customer data.

TWC s business may be adversely affected if TWC cannot continue to license or enforce the intellectual property rights on which its business depends.

TWC relies on patent, copyright, trademark and trade secret laws and licenses and other agreements with its employees, customers, suppliers, and other parties, to establish and maintain its intellectual property rights in technology and the products and services used in TWC s operations. However, any of TWC s intellectual property rights could be challenged or invalidated, or such intellectual property rights may not be sufficient to permit TWC to take advantage of current industry trends or otherwise to provide competitive advantages, which could result in costly redesign efforts, discontinuance of certain product or service offerings or other competitive harm. Recently, the number of patent infringement claims resulting in lawsuits has increased. Claims of intellectual property infringement could require TWC to enter into royalty or licensing agreements on unfavorable terms, incur substantial monetary liability or be enjoined preliminarily or permanently from further use of the intellectual property in question, which could require TWC to change its business practices and limit its ability to compete effectively. Even if TWC believes that the claims are without merit, the claims can be time-consuming and costly to defend and divert management s attention and resources away from TWC s businesses. Also, because of the rapid pace of technological change, TWC relies on technologies developed or licensed by third parties, and TWC may not be able to obtain or continue to obtain licenses from these third parties on reasonable terms, if at all.

The accounting treatment of goodwill and other identified intangibles could result in future asset impairments, which would be recorded as operating losses.

Financial Accounting Standards Board (FASB) Statement No. 142, *Goodwill and Other Intangible Assets* (FAS 142) requires that goodwill, including the goodwill included in the carrying value of investments accounted for using the equity method of accounting, and other intangible assets deemed to have indefinite useful lives, such as franchise agreements, cease to be amortized. FAS 142 requires that goodwill and certain intangible assets be tested at least annually for impairment. If TWC finds that the carrying value of goodwill or a certain intangible asset exceeds its fair value, it will reduce the carrying value of the goodwill or intangible asset to the fair value, and TWC will recognize an impairment loss. Any such impairment losses are required to be recorded as non-cash operating losses.

TWC s 2007 annual impairment analysis, which was performed during the fourth quarter, did not result in an impairment charge. However, over the past year, the decline in TWC s stock price, as well as others in the cable industry, has resulted in a significantly lower market valuation as compared to the prior year, which in turn has resulted in a significantly lower market value of its reporting units and the value of its cable franchises. The result of the lower fair values is that the fair value of the Los Angeles reporting unit approximates its carrying value and the fair values of the cable franchises in most of the Company s regions approximate their carrying values. As a result, any additional declines in value will likely result in goodwill and cable franchise impairment charges. Other intangible assets not subject to amortization are tested for impairment annually, or more frequently if events or circumstances indicate that the asset might be impaired. See Management s Discussion and Analysis of Results of Operations and Financial Condition Critical Accounting Policies Asset Impairments Goodwill and Indefinite-lived Intangible Assets and Long-lived Assets. It is possible that such charges, if taken, could be recorded prior to the December 31, 2008 testing date (i.e., during an interim period) if the Company s stock price, its results of operations, or other factors require TWC to test for impairment.

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The impairment tests require TWC to make an estimate of the fair value of intangible assets, which is primarily determined using discounted cash flow methodologies, research analyst estimates, market comparisons and a review of recent transactions. Since a number of factors may influence determinations of fair value of intangible assets, including those set forth in this discussion of Risk Factors, TWC is unable to predict whether impairments of goodwill or other indefinite-lived intangibles will occur in the future.

The IRS and state and local tax authorities may challenge the tax characterizations of the Adelphia Acquisition, the Redemptions and the Exchange, or TWC s related valuations, and any successful challenge by the IRS or state or local tax authorities could materially adversely affect TWC s tax profile, significantly increase TWC s future cash tax payments and significantly reduce TWC s future earnings and cash flow.

The Adelphia Acquisition was designed to be a fully taxable asset sale, the TWC Redemption was designed to qualify as a tax-free split-off under section 355 of the Internal Revenue Code of 1986, as amended (the Tax Code), the TWE Redemption was designed as a redemption of Comcast s partnership interest in TWE, and the Exchange was designed as an exchange of designated cable systems. There can be no assurance, however, that the Internal Revenue Service (the IRS) or state or local tax authorities (collectively with the IRS, the Tax Authorities) will not challenge one or more of such characterizations or TWC s related valuations. Such a successful challenge by the Tax Authorities could materially adversely affect TWC s tax profile (including TWC s ability to recognize the intended tax benefits from the Transactions), significantly increase TWC s future cash tax payments and significantly reduce TWC s future earnings and cash flow. The tax consequences of the Adelphia Acquisition, the Redemptions and the Exchange are complex and, in many cases, subject to significant uncertainties, including, but not limited to, uncertainties regarding the application of federal, state and local income tax laws to various transactions and events contemplated therein and regarding matters relating to valuation.

Risks Related to Dependence on Third Parties

Increases in programming costs or the inability to obtain popular programming could adversely affect TWC s operations, business or financial results.

Video programming costs represent a major component of TWC s expenses and are expected to continue to increase, reflecting the increasing cost of obtaining desirable programming, particularly sports programming, as well as subscriber growth and the expansion of service offerings. It is expected that TWC s video service margins will decline over the next few years as programming cost increases outpace growth in video revenues. Furthermore, current and future programming providers that supply content that is desirable to TWC s subscribers may be unwilling to enter into distribution arrangements with TWC on acceptable terms. In addition, owners of non-broadcast video programming content may enter into exclusive distribution arrangements with TWC s competitors. A failure to carry programming that is attractive to TWC s subscribers could adversely impact subscription and advertising revenues.

TWC may not be able to obtain necessary hardware, software and operational support.

TWC depends on third party suppliers and licensors to supply some of the hardware, software and operational support necessary to provide some of TWC s services. Some of TWC s hardware, software and operational support vendors represent TWC s sole source of supply or have, either through contract or as a result of intellectual property rights, a position of some exclusivity. If demand exceeds these vendors capacity or if these vendors experience operating or financial difficulties, TWC s ability to provide some services might be materially adversely affected. These events could materially and adversely affect TWC s ability to retain and attract subscribers, and have a material negative impact on TWC s operations, business, financial results and financial condition.

In addition, TWC has an agreement with Sprint under which it assists TWC in providing Digital Phone service to customers 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. TWC s reliance on a single provider for these services may render TWC vulnerable to service disruptions and other operational difficulties, which could have an adverse effect on TWC s business and financial results.

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TWC may encounter substantially increased pole attachment costs.

Under federal law, TWC has the right to attach cables carrying video services to telephone and similar poles of investor-owned utilities at regulated rates. However, because these cables carry services other than video services, such as high-speed data services or new forms of voice services, some utility pole owners have sought to impose additional fees for pole attachment. The U.S. Supreme Court has rejected the efforts of some utility pole owners to make cable attachments carrying Internet traffic ineligible for regulatory protection. Pole owners have, however, made arguments in other areas of pole regulation that, if successful, could significantly increase TWC s costs and, in November 2007, the FCC issued a Notice of Proposed Rulemaking that proposes to establish a single pole attachment rate for all utility pole owners carrying broadband internet access services that would be higher than the rate charged for traditional cable and cable modem service. In addition, TWC s pole attachment rates may increase insofar as TWC s systems are providing voice services.

Some of the poles TWC uses are exempt from federal regulation because they are owned by utility cooperatives and municipal entities. These entities may not renew TWC s existing agreements when they expire, and they may require TWC to pay substantially increased fees. A number of these entities are currently seeking to impose substantial rate increases. Any inability to secure continued pole attachment agreements with these cooperatives or municipal utilities on commercially reasonable terms could cause TWC s business, financial results or financial condition to suffer.

The adoption of, or the failure to adopt, certain consumer electronics devices or computers may negatively impact TWC s offerings of new and enhanced services.

Customers using cable-ready and digital cable-ready televisions and other devices offered by consumer electronics companies or computing devices capable of tuning, storing and displaying cable video signals may use a different user interface from the one TWC provides and/or may not be able to access services requiring two-way transmission capabilities unless they also have a set-top box. These customers may have limited exposure and access to TWC s advanced video services, including TWC s interactive program guide and VOD and subscription-video-on-demand (SVOD). If such devices attain wide consumer acceptance, TWC s revenue from equipment rental and two-way transmission-based services could decrease, and there could be a negative impact on TWC s ability to sell advanced services to customers. TWC cannot predict the extent to which different interfaces will affect its future business and operations. See Business Regulatory Matters Communications Act and FCC Regulation.

Risks Related to Government Regulation

TWC s business is subject to extensive governmental regulation, which could adversely affect its business.

TWC s video and voice services are subject to extensive regulation at the federal, state, and local levels. In addition, the federal government also has been exploring possible regulation of high-speed data services. Additional regulation, including regulation relating to rates, equipment, technologies, programming, levels and types of services, taxes and other charges, could have an adverse impact on TWC s services. If the United States Congress (Congress) or regulators were to disallow the use of certain technologies TWC uses today or to mandate the implementation of other technologies, TWC s services and results of operations could suffer. TWC expects that legislative enactments, court actions, and regulatory proceedings will continue to clarify and in some cases change the rights of cable companies and other entities providing video, data and voice services under the Communications Act and other laws, possibly in ways that TWC has not foreseen. The results of these legislative, judicial, and administrative actions may materially affect TWC s business operations in areas such as:

> *Cable Franchising.* At the federal level, various provisions have been introduced in connection with broader Communications Act reform that would streamline the video franchising process to facilitate entry by new

competitors. To date, no such measures have been adopted by Congress. In December 2006, the FCC adopted new regulations intended to limit the ability of local franchising authorities to delay or refuse the grant of competitive franchises, which could facilitate entry by TWC s competitors into areas where TWC operates. At the state level, several states, including California, New Jersey, North Carolina, South Carolina and Texas, 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. To the extent federal or state laws or regulations facilitate additional competitive entry or create more favorable regulatory treatment for new entrants, TWC s operations could be materially and adversely affected. See Business Regulatory Matters State and Local Regulation.

A la carte Video Services. There has from time to time been federal legislative and regulatory interest in requiring cable operators to offer historically bundled programming services on an à la carte basis, which could alter the cost structure of TWC s services. Currently, no such legislation is pending and there are no pending proceedings related to à la carte video services at the FCC, although the FCC is examining the question of whether programming must be sold to MVPDs at the wholesale level on an unbundled basis.

Voice Communications. Traditional providers of voice services generally are subject to significant regulations. It is unclear to what extent those regulations (or other regulations) apply to providers of nontraditional voice services, including TWC s. In orders over the past several years, the FCC subjected nontraditional voice service providers to a number of obligations applicable to traditional voice service. To the extent that the FCC (or Congress) imposes additional burdens, TWC s operations could be adversely affected. See Business Regulatory Matters Regulation of Telephony.

Changes in carriage regulations could impose significant additional costs on TWC.

Although TWC would likely choose to carry the majority of primary feeds of full power stations voluntarily, so-called must carry rules require TWC to carry video programming that it might not otherwise carry, including some local broadcast television signals on some of its cable systems. If the FCC seeks to revise or expand the must carry rules, such as to require carriage of multicast streams, TWC would be forced to carry video programming that it would not otherwise carry and to drop other, more popular programming, which could make TWC less competitive. In addition, TWC is required to carry unaffiliated commercial leased access video programming and, under some of its franchises, public, educational and government access video programming. These regulations require TWC to use a substantial part of its capacity for this video programming and, for much of this programming, TWC must carry this programming with little or no payment or compensation from the programmer. In November 2007, the FCC revised its leased access rules by further lowering the permitted rates charged to most leased access programmers. As a result of the lower rates, TWC may receive additional requests to carry programming that is less attractive to its subscribers and, if this occurs, be forced to cease carrying programming that is popular with its subscribers, which could make TWC less competitive.

TWC s carriage burden might increase due to changes in regulation in connection with the transition to digital broadcasting, which is scheduled for February 17, 2009. Beginning on February 18, 2009, cable operators that offer at least some analog service (i.e., that are not operating all-digital systems) will be required to provide subscribers both analog and digital feeds of must-carry broadcast stations. Currently, this obligation is scheduled to terminate in February 2012, subject to FCC review. As of February 2008, many of the specifics of how the transition will be accomplished are still uncertain and, in order for TWC to comply with requirements in connection with the digital transition, it will need to work with broadcasters who may not be ready to meet the regulatory requirements. In addition, while cable operators are required to provide subscribers both analog and digital feeds, there is no requirement that the broadcasters provide the analog signal to the cable operator. As a result, TWC may be forced to convert digital signals to analog feeds, which may increase TWC s costs. In addition, several of TWC s smaller systems may lack capacity to carry both analog and digital feeds of must-carry broadcast stations. If TWC is unable to obtain a waiver of this requirement for these systems from the FCC, TWC may be forced to invest capital to upgrade these systems, sell them or shut them down, or be required to drop other, more popular programming, in order to carry the dual feeds.

As a general matter, if TWC s government-imposed carriage burdens become more onerous, TWC could be compelled to carry more programming over which it is not able to assert editorial control and to cease carrying programming that is popular with subscribers. Consequently, TWC s mix of programming could become less attractive to subscribers. Moreover, if the FCC adopts rules that are not competitively neutral, cable operators could be placed at a disadvantage versus other multi-channel video providers.

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Net neutrality legislation or regulation could limit TWC s ability to operate its high-speed data business profitably, to manage its broadband facilities efficiently and to make upgrades to those facilities sufficient to respond to growing bandwidth usage by TWC s high-speed data customers.

Several disparate groups have adopted the term net neutrality in connection with their efforts to persuade Congress and regulators to adopt rules that could limit the ability of broadband providers to apply differential pricing or network management policies to different uses of the Internet. Proponents of such regulation also seek to prohibit broadband providers from recovering the costs of rising bandwidth usage from any parties other than retail customers. The average bandwidth usage of TWC s high-speed data customers has been increasing significantly in recent years as the amount of high-bandwidth content and the number of applications available on the Internet continue to grow. In order to continue to provide quality service at attractive prices, TWC needs the continued flexibility to develop and refine business models that respond to changing consumer uses and demands, to manage bandwidth usage efficiently and to make upgrades to TWC s broadband facilities. As a result, depending on the form it might take, net neutrality legislation or regulation could impact TWC s ability to operate its high-speed data network profitably and to undertake the upgrades that may be needed to continue to provide high quality high-speed data services and could negatively impact its ability to compete effectively. Several petitions have been filed with the FCC asking it to adopt regulations in this area, however, TWC is unable to predict the likelihood that such regulatory proposals will be adopted. For a description of current regulatory proposals, see Business Regulatory Matters Communications Act and FCC Regulation.

Under the program carriage rules, TWC could be compelled to carry programming services that it would not otherwise carry.

The Communications Act and the FCC s program access rules generally prevent vendors of satellite-delivered video programming that are affiliated with cable operators from favoring cable operators over competing MVPDs, such as DBS, in the terms and conditions of carriage, and limit the ability of such programming vendors to offer exclusive programming arrangements to cable operators. In addition, the Communications Act and the FCC s program carriage rules generally prohibit any video programming vendor from being required to give up a financial interest to a cable operator or other MVPD or from being coerced into agreeing to an exclusive carriage agreement as a condition of carriage, and restrict cable operators and MVPDs from unreasonably restraining the ability of an unaffiliated programming vendor to compete fairly by discriminating against the programming vendor on the basis of its non-affiliation in the selection, terms or conditions for carriage. The FCC s Adelphia/Comcast Transactions Order imposes certain additional obligations related to these rules. See Regulatory Matters Adelphia/Comcast Transactions Order.

Under a successful FCC program access complaint, TWC, its affiliates and other vertically-integrated programmers may have to make programming available to MVPDs that compete with TWC that such programmers might otherwise choose not to sell to or to do so on terms which they would not otherwise voluntarily accept. Under a successful program carriage complaint, TWC might be compelled to carry programming services it would not otherwise carry and/or to do so on economic and other terms that it would not accept absent such compulsion. Such compelled government carriage could reduce TWC s ability to carry other, more desirable programming and non-video services, decrease its ability to manage its bandwidth efficiently and increase TWC s costs, adversely affecting TWC s competitive position.

Rate regulation could materially adversely impact TWC s operations, business, financial results or financial condition.

Under current FCC regulations, rates for BST video service and associated equipment are permitted to be regulated. In many localities, TWC is not subject to BST video rate regulation, either because the local franchising authority has not asked the FCC for permission to regulate rates or because the FCC has found that there is effective competition. Also, there is currently no rate regulation for TWC s other services, including high-speed data and voice services. It is possible, however, that the FCC or Congress will adopt more extensive rate regulation for TWC s video services or regulate other services, such as high-speed data and voice services, which could impede TWC s ability to raise rates, or require rate reductions, and therefore could cause TWC s business, financial results or financial condition to suffer.

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TWC may have to pay fees in connection with its cable modem service.

Local franchising authorities generally require cable operators to pay a franchise fee of five percent of revenue, which cable operators collect in turn from their subscribers. TWC has taken the position that under the Communications Act, local franchising authorities are allowed to impose a franchise fee only on revenue from cable services. Following the FCC s March 2002 determination that cable modem service does not constitute a cable service, TWC and most other multiple system operators stopped collecting and paying franchise fees on cable modem revenue.

The FCC has initiated a rulemaking proceeding to explore the consequences of its March 2002 order. If either the FCC or a court were to determine that, despite the March 2002 order, TWC is required to pay franchise fees on cable modem revenue, TWC s franchise fee burden could increase going forward. TWC would be permitted to collect those increased fees from its subscribers, but doing so could impair its competitive position as compared to high-speed data service providers who are not required to collect and pay franchise fees. TWC could also become liable for franchise fees back to the time TWC stopped paying them. TWC may not be able to recover those fees from subscribers. Most courts interpreting the rules, including several instances involving TWC, have determined that cable operators are not required to pay these fees on cable modem service. In 2007, an intermediate state appellate court decided, in a case not involving TWC, that cable operators can be required to pay franchise fees on cable modem service. This decision may encourage other franchise authorities to seek such fees.

Applicable law is subject to change.

The exact requirements of applicable law are not always clear, and the rules affecting TWC s businesses are always subject to change. For example, the FCC may interpret its rules and regulations in enforcement proceedings in a manner that is inconsistent with the judgments TWC has made. Likewise, regulators and legislators at all levels of government may sometimes change existing rules or establish new rules. Congress, for example, considers new legislative requirements for cable operators virtually every year, and there is always a risk that such proposals will ultimately be enacted. See Business Regulatory Matters.

Risks Related to TWC s Relationship with Time Warner

Time Warner controls approximately 90.6% of the voting power of TWC s outstanding common stock and has the ability to elect a majority of TWC s directors, and its interest may conflict with the interests of TWC s other stockholders.

Time Warner indirectly holds all of TWC s outstanding Class B common stock and approximately 82.7% of TWC s outstanding Class A common stock. The common stock held by Time Warner represents approximately 90.6% of TWC s combined voting power and 84.0% of the total number of shares of capital stock outstanding of all classes of TWC s voting stock. Accordingly, Time Warner can control the outcome of most matters submitted to a vote of TWC s stockholders. In addition, Time Warner, because it is the indirect holder of all of TWC s outstanding Class B common stock, and because it also indirectly holds a majority of TWC s outstanding Class A common stock, is able to elect all of TWC s directors and will continue to be able to do so as long as it owns a majority of TWC s Class A common stock and Class B common stock. As a result of Time Warner s share ownership and representation on TWC s board of directors, Time Warner is able to influence all of TWC s affairs and actions, including matters requiring stockholder approval such as the election of directors and approval of significant corporate transactions. The interests of Time Warner may differ from the interests of TWC s other stockholders. TWC s Certificate of Incorporation requires that TWC s board of directors include independent members, subject to certain limitations, and TWC s By-laws require that certain related party transactions be approved by a majority of these independent directors.

Some of TWC s officers and directors may have interests that diverge from TWC in favor of Time Warner because of past and ongoing relationships with Time Warner and its affiliates.

Some of TWC s officers and directors may experience conflicts of interest with respect to decisions involving business opportunities and similar matters that may arise in the ordinary course of TWC s business or the business of Time Warner and its affiliates. One of TWC s directors is an executive officer of a subsidiary of Time Warner that is a sister company of TWC and five of TWC s directors (including Glenn A. Britt, TWC s President and Chief Executive Officer) served as executive officers of Time Warner or its predecessors in the past. A number of TWC directors and executive officers also have restricted shares, restricted stock units and/or options to purchase shares of Time Warner common stock. These past and ongoing relationships with Time Warner and any significant financial interest in Time Warner by these persons may present conflicts of interest that could materially adversely affect TWC s business, financial results or financial condition. For example, these decisions could be materially related to:

- the nature, quality and cost of services rendered to TWC by Time Warner;
- the desirability of corporate opportunities, such as the entry into new businesses or pursuit of potential acquisitions, particularly those that might allow TWC to compete with Time Warner; and
- employee retention or recruiting.

Time Warner and its affiliates may compete with TWC in one or more lines of business and may provide some services under the Time Warner brand or similar brand names.

Time Warner and its affiliates are engaged in a diverse range of entertainment and media-related businesses, including filmed entertainment, home video and Internet-related businesses, and these businesses may have interests that conflict with or compete in some manner with TWC s business. Time Warner and its affiliates are generally under no obligation to share any future business opportunities available to it with TWC and TWC s Certificate of Incorporation contains provisions that release Time Warner and its affiliates, including TWC s directors who are also Time Warner s employees or executive officers, from this obligation and any liability that would result from breach of this obligation. Time Warner may deliver video, high-speed data, voice and wireless services over DSL, satellite or other means using the Time Warner brand name or similar brand names, potentially causing confusion among customers and complicating TWC s marketing efforts. For instance, Time Warner has licensed the use of Time Warner Telecom, until July 2008, and TW Telecom and TWTC to Time Warner Telecom Inc., a former affiliate of Time Warner and a provider of managed voice and data networking solutions to enterprise organizations, which may compete with TWC s commercial offerings. Any competition directly with Time Warner or its affiliates could materially adversely impact TWC s business, financial results or financial condition.

TWC is party to agreements with Time Warner governing the use of TWC s brand names, including the Time Warner Cable brand name that may be terminated by Time Warner if TWC fails to perform its obligations under those agreements or if TWC undergoes a change of control.

Some of the agreements governing the use of TWC s brand names may be terminated by Time Warner if TWC:

- commits a significant breach of its obligations under such agreements;
- undergoes a change of control, even if Time Warner causes that change of control by selling some or all of its interest in TWC; or
- materially fail to maintain the quality standards established for the use of these brand names and the products and services related to these brand names.

TWC licenses its brand name, Time Warner Cable, and the trademark Road Runner from affiliates of Time Warner. If Time Warner terminates these brand name license agreements, TWC would lose the goodwill associated with its brand names and be forced to develop new brand names, which would likely require substantial expenditures, and TWC s business, financial results or financial condition would likely be materially adversely affected.

A change in Time Warner s controlling interest in TWC may cause short-term volatility in trading volume and market price of TWC s common stock.

Time Warner currently owns approximately 84.0% of TWC s common stock, which represents a 90.6% voting interest. Time Warner may, in the future, decide to spin-off or otherwise divest its controlling interest in TWC. If Time Warner were to spin-off or divest its interest, the profile of TWC s stockholders would change significantly. If

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such a transaction were to occur and a number of TWC s resulting new stockholders chose to sell their shares, or if there is a perception that such sales might occur, it may cause short-term volatility in the trading volume and market price of TWC s common stock.

Time Warner s approval right over TWC s ability to incur indebtedness may harm TWC s liquidity and operations and restrict TWC s growth.

Under a shareholder agreement entered into between TWC and Time Warner on April 20, 2005 (the Shareholder Agreement), which became effective in July 2006, until Time Warner no longer considers TWC to have an impact on its credit profile, TWC must obtain the approval of Time Warner prior to incurring additional debt or rental expense (other than with respect to certain approved leases) or issuing preferred equity, if TWC s consolidated ratio of debt, including preferred equity, plus six times TWC s annual rental expense to consolidated earnings before interest, taxes, depreciation and amortization (each as defined in the Shareholder Agreement) (EBITDA) plus rental expense, or EBITDAR, then exceeds, or would as a result of that incurrence exceed, 3:1, calculated without including any of TWC s indebtedness or preferred equity held by Time Warner and its wholly owned subsidiaries. As of December 31, 2007, this ratio did not exceed 3:1. Although Time Warner has consented to ordinary course issuances of commercial paper or borrowings under TWC s current revolving credit facility up to the limit of that credit facility, if the ratio were exceeded, any other incurrence of debt or rental expense (other than with respect to certain approved leases) or the issuance of preferred stock would require Time Warner s approval. As a result, TWC may in the future have a limited ability to incur future debt and rental expense (other than with respect to certain approved leases) and issue preferred equity without the consent of Time Warner, which if needed to raise additional capital, could limit TWC s flexibility in exploring and pursuing financing alternatives and could have a material adverse effect on TWC s liquidity and operations and restrict TWC s growth.

Time Warner s capital markets and debt activity could adversely affect capital resources available to TWC.

TWC s ability to obtain financing in the capital markets and from other private sources may be adversely affected by future capital markets activity undertaken by Time Warner and its other subsidiaries. Capital raised by or committed to Time Warner for matters unrelated to TWC may reduce the supply of capital available for TWC as a result of increased leverage of Time Warner on a consolidated basis or reluctance in the market to incur additional credit exposure to Time Warner on a consolidated basis. In addition, TWC s ability to undertake significant capital raising activities may be constrained by competing capital needs of other Time Warner businesses unrelated to TWC. As of December 31, 2007, Time Warner had unused committed capacity of $1.0 billion under its $7.0 billion committed credit facility, and approximately $1.3 billion of cash and equivalents, and TWC had approximately $3.6 billion of available borrowing capacity under its $6.0 billion committed credit facility, and approximately $232 million of cash and cash equivalents. In addition, in December 2007, Time Warner obtained commitments for a $2.0 billion three-year unsecured term loan, which closed on January 8, 2008.

TWC is exempt from certain corporate governance requirements since TWC is a controlled company within the meaning of the NYSE rules and, as a result, its stockholders do not have the protections afforded by these corporate governance requirements.

Time Warner controls more than 50% of the voting power of TWC s outstanding common stock. As a result, TWC is considered to be a controlled company for the purposes of the NYSE listing requirements and therefore is permitted to, and has, opted out of the NYSE listing requirements that would otherwise require TWC s board of directors to have a majority of independent directors and TWC s compensation and nominating and governance committees to be comprised entirely of independent directors. Accordingly, TWC s stockholders do not have the same protections afforded to stockholders of companies that are subject to all of the NYSE corporate governance requirements. However, TWC s Certificate of Incorporation contains provisions requiring that independent directors constitute at least 50% of TWC s board of directors and TWC s By-laws require that certain related party transactions be approved by a majority of these independent directors.

As a condition to the consummation of the Adelphia Acquisition, TWC s Certificate of Incorporation provides that this provision may not be amended, altered or repealed, and no provision inconsistent with this requirement may be adopted, until August 1, 2009 (three years following the closing of the Adelphia Acquisition) without,

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among other things, the consent of a majority of the holders of the Class A common stock other than Time Warner and its affiliates.

Item 2. ***Properties.***

TWC s principal physical assets consist of operating plant and equipment, including signal receiving, encoding and decoding devices, headends and distribution systems and equipment at or near subscribers homes for each of TWC s cable systems. The signal receiving apparatus typically includes a tower, antenna, ancillary electronic equipment and earth stations for reception of satellite signals. Headends, consisting of electronic equipment necessary for the reception, amplification and modulation of signals, are located near the receiving devices. TWC s distribution system consists primarily of coaxial and fiber optic cables, lasers, routers, switches and related electronic equipment. TWC s cable plant and related equipment generally are attached to utility poles under pole rental agreements with local public utilities, although in some areas the distribution cable is buried in underground ducts or trenches. Customer premise equipment consists principally of set-top boxes and cable modems. The physical components of cable systems require periodic maintenance.

TWC s high-speed data backbone consists of fiber owned by TWC or circuits leased from third-party vendors, and related equipment. TWC also operates regional and national data centers with equipment that is used to provide services, such as e-mail, news and web services to TWC s high-speed data subscribers and to provide services to TWC s Digital Phone customers. In addition, TWC maintains a network operations center with equipment necessary to monitor and manage the status of TWC s high-speed data network.

As of December 31, 2007, the largest property TWC owned was an approximately 318,500 square foot building housing one of TWC s divisional headquarters, a call center and a warehouse in Columbia, SC, of which approximately 25% is leased to a third-party tenant, and TWC leased and owned other real property housing national operations centers and regional data centers used in its high-speed data services business in Herndon, VA; Raleigh, NC; Tampa, FL; Syracuse, NY; Austin, TX; Kansas City, MO; Orange County, CA; New York, NY; Coudersport, PA; and Columbus, OH. As of December 31, 2007, TWC also leased and owned locations for its corporate offices in New York, NY, Stamford, CT and Charlotte, NC as well as numerous business offices, warehouses and properties housing divisional operations throughout the country. TWC s signal reception sites, primarily antenna towers and headends, and microwave facilities are located on owned and leased parcels of land, and TWC owns or leases space on the towers on which certain of its equipment is located. TWC owns most of its service vehicles.

TWC believes that its properties, both owned and leased, taken as a whole, are in good operating condition and are suitable and adequate for its business operations.

Item 3. ***Legal Proceedings.***

On September 20, 2007, *Brantley, et al. v. NBC Universal, Inc., et al.* was filed in the U.S. District Court for the Central District of California against the Company and Time Warner. The complaint, which also names as defendants several other programming content providers (collectively, the programmer defendants) as well as other cable and satellite providers (collectively, the distributor defendants), alleges violations of Sections 1 and 2 of the Sherman Antitrust Act. Among other things, the complaint alleges coordination between and among the programmer defendants to sell and/or license programming on a bundled basis to the distributor defendants, who in turn purportedly offer that programming to subscribers in packaged tier, rather than on a per channel (or à la carte) basis. Plaintiffs, who seek to represent a purported nationwide class of cable and satellite subscribers, demand, among other things, unspecified treble monetary damages and an injunction to compel the offering of channels to subscribes on an à la carte basis. On December 21, 2007, the programmer defendants, including Time Warner, and the distributor defendants, including TWC, filed motions to dismiss the amended complaint. The Company intends to defend against this lawsuit vigorously.

On June 22, 2005, Mecklenburg County filed suit against TWE-A/N in the General Court of Justice District Court Division, Mecklenburg County, North Carolina. Mecklenburg County, the franchisor in TWE-A/N s Mecklenburg County cable system, alleges that TWE-A/N s predecessor failed to construct an institutional network in 1981 and that TWE-A/N assumed that obligation upon the transfer of the franchise in 1995. Mecklenburg County is seeking compensatory damages and TWE-A/N s release of certain video channels it is

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currently using on the cable system. On April 14, 2006, TWE-A/N filed a motion for summary judgment, which is pending. TWE-A/N intends to defend against this lawsuit vigorously.

On June 16, 1998, plaintiffs in *Andrew Parker and Eric DeBrauwere, et al.* v. *Time Warner Entertainment Company, L.P. and Time Warner Cable* filed a purported nationwide class action in U.S. District Court for the Eastern District of New York claiming that TWE sold its subscribers personally identifiable information and failed to inform subscribers of their privacy rights in violation of the Cable Communications Policy Act of 1984 and common law. The plaintiffs seek damages and declaratory and injunctive relief. On August 6, 1998, TWE filed a motion to dismiss, which was denied on September 7, 1999. On December 8, 1999, TWE filed a motion to deny class certification, which was granted on January 9, 2001 with respect to monetary damages, but denied with respect to injunctive relief. On June 2, 2003, the U.S. Court of Appeals for the Second Circuit vacated the District Court s decision denying class certification as a matter of law and remanded the case for further proceedings on class certification and other matters. On May 4, 2004, plaintiffs filed a motion for class certification, which the Company opposed. On October 25, 2005, the court granted preliminary approval of a class settlement arrangement on terms that were not material to the Company. A final settlement approval hearing was held on May 19, 2006. On January 26, 2007, the court denied approval of the settlement, and so the matter remains pending. The Company intends to defend against this lawsuit vigorously.

Certain Patent Litigation

On September 1, 2006, Ronald A. Katz Technology Licensing, L.P. (Katz) filed a complaint in the U.S. District Court for the District of Delaware alleging that TWC and several other cable operators, among other defendants, infringe a number of patents purportedly relating to the Company s customer call center operations, voicemail and/or VOD services. The plaintiff is seeking unspecified monetary damages as well as injunctive relief. On March 20, 2007, this case, together with other lawsuits filed by Katz, was made subject to a Multidistrict Litigation (MDL) Order transferring the case for pretrial proceedings to the U.S. District Court for the Central District of California. The Company intends to defend against this lawsuit vigorously.

On July 14, 2006, Hybrid Patents Inc. filed a complaint in the U.S. District Court for the Eastern District of Texas alleging that the Company and a number of other cable operators infringed a patent purportedly relating to high-speed data and IP-based telephony services. The plaintiff is seeking unspecified monetary damages as well as injunctive relief. The Company intends to defend against the claim vigorously.

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

On April 26, 2005, Acacia Media Technologies (AMT) filed suit against TWC in the U.S. District Court for the Southern District of New York alleging that TWC infringes several patents held by AMT. AMT has publicly taken the position that delivery of broadcast video (except live programming such as sporting events), pay-per-view, VOD and ad insertion services over cable systems infringe its patents. AMT has brought similar actions regarding the same patents against numerous other entities, and all of the previously pending litigations have been made the subject of an MDL Order consolidating the actions for pretrial activity in the U.S. District Court for the Northern District of California. On October 25, 2005, the TWC action was consolidated into the MDL proceedings. The plaintiff is seeking unspecified monetary damages as well as injunctive relief. The Company intends to defend against this lawsuit vigorously.

From time to time, the Company receives notices from third parties claiming that it infringes their intellectual property rights. Claims of intellectual property infringement could require TWC to enter into royalty or licensing agreements on unfavorable terms, incur substantial monetary liability or be enjoined preliminarily or permanently from further use of the intellectual property in question. In addition, certain agreements entered into may require the Company to indemnify the other party for certain third-party intellectual property infringement claims, which could increase the Company s damages and its costs of defending against such claims. Even if the claims are without merit, defending against the claims can be time consuming and costly.

As part of the TWE Restructuring, Time Warner agreed to indemnify the cable businesses of TWE from and against any and all liabilities relating to, arising out of or resulting from specified litigation matters brought against the TWE non-cable businesses. Although Time Warner has agreed to indemnify the cable businesses of TWE against such liabilities, TWE remains a named party in certain litigation matters.

The costs and other effects of pending or future litigation, governmental investigations, legal and administrative cases and proceedings (whether civil or criminal), settlements, judgments and investigations, claims and changes in those matters (including those matters described above), and developments or assertions by or against the Company relating to intellectual property rights and intellectual property licenses, could have a material adverse effect on the Company s business, financial condition and operating results.

Item 4. *Submission of Matters to a Vote of Security Holders.*

Not applicable.

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EXECUTIVE OFFICERS OF THE COMPANY

Pursuant to General Instruction G(3) to Form 10-K, the information regarding the Company s executive officers required by Item 401(b) of Regulation S-K is hereby included in Part I of this report.

The following table sets forth the name of each executive officer of the Company, the office held by such officer and the age of such officer as of February 22, 2008.

Name	Age	Office
Glenn A. Britt	58	President and Chief Executive Officer
Ellen East	46	Executive Vice President, Chief Communications Officer
Landel C. Hobbs	45	Chief Operating Officer
Michael LaJoie	53	Executive Vice President and Chief Technology Officer
Marc Lawrence-Apfelbaum	52	Executive Vice President, General Counsel and Secretary
Robert D. Marcus	42	Senior Executive Vice President and Chief Financial Officer
Carl U.J. Rossetti	59	Executive Vice President, Corporate Development

Set forth below are the principal positions held during at least the last five years by each of the executive officers named above:

Mr. Britt	Glenn A. Britt has served as TWC s President and Chief Executive Officer since February 15, 2006. Prior to that, he had served as TWC s Chairman and Chief Executive Officer since the TWE Restructuring in March 2003. Prior to the TWE Restructuring, Mr. Britt was the Chairman and Chief Executive Officer of the Time Warner Cable division of TWE from August 2001 and its President from January 1999 to August 2001. Prior to assuming that position, he held various senior positions with Time Warner Cable Ventures, a unit of TWE, certain of TWC s predecessor entities, and Time Warner and its predecessor Time Inc.
Ms. East	Ellen East has served as TWC s Executive Vice President, Chief Communications Officer since October 2007. Prior to that, she served as Vice President of Communications and Public Affairs at Cox Communications Inc., a provider of video, internet and telephone services, from January 2000 having served in various other positions there from 1993. In that capacity, she oversaw internal, external and shareholder communications and community relations and provided strategic advice on public and media relations, industry affairs and regulatory issues.
Mr. Hobbs	Landel C. Hobbs has served as TWC s Chief Operating Officer since August 2005. Prior to that, he served as TWC s Executive Vice President and Chief Financial Officer from March 2003 and in the same capacity for the Time Warner Cable division of TWE from October 2001. Prior to that, he was Vice President, Financial Analysis

and Operations Support for Time Warner from September 2000 to October 2001. Prior to that, beginning in 1993, Mr. Hobbs was employed by Turner Broadcasting System, Inc. (a subsidiary of Time Warner since 1996), including as Senior Vice President and Chief Accounting Officer from 1996 until September 2000.

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Mr. LaJoie	Michael L. LaJoie has served as TWC s Executive Vice President and Chief Technology Officer since January 2004. Prior to that, he served as Executive Vice President of Advanced Technology from March 2003 and in the same capacity for the Time Warner Cable division of TWE from August 2002 until the TWE Restructuring in March 2003. Mr. LaJoie served as Vice President of Corporate Development of the Time Warner Cable division of TWE from 1998.
Mr. Lawrence-Apfelbaum	Marc Lawrence-Apfelbaum has served as TWC s Executive Vice President, General Counsel and Secretary since January 2003. Prior to that, he served as Senior Vice President, General Counsel and Secretary of the Time Warner Cable division of TWE from 1996 and other positions in the law department prior to that.
Mr. Marcus	Robert D. Marcus has served as TWC s Senior Executive Vice President and Chief Financial Officer since January 1, 2008. Prior to that, he served as TWC s Senior Executive Vice President from August 2005, joining TWC from Time Warner where he had served as Senior Vice President, Mergers and Acquisitions from 2002. Mr. Marcus joined Time Warner in 1998 as Vice President of Mergers and Acquisitions.
Mr. Rossetti	Carl U.J. Rossetti has served as TWC s Executive Vice President, Corporate Development since August 2002. Previously, Mr. Rossetti served as an Executive Vice President of the Time Warner Cable division of TWE from 1998 and in various other positions since 1976.

PART II

Item 5. *Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.*

The principal market for TWC Class A common stock is the NYSE. The TWC Class A common stock began trading on the NYSE on March 1, 2007. For quarterly price information with respect to the TWC Class A common stock since that date, see Quarterly Financial Information at page 125 herein, which information is incorporated herein by reference. There were approximately 5,800 holders of record of TWC Class A common stock as of January 31, 2008. There is no established public trading market for the Company s Class B common stock, which was held of record by one holder as of February 22, 2008.

TWC has not paid any cash dividends on its common stock over the last two years. TWC s board of directors will determine whether to pay dividends in the future based on conditions then existing, including TWC s earnings, financial condition and capital requirements, as well as economic and other conditions TWC s board may deem relevant. In addition, TWC s ability to declare and pay dividends on its common stock is subject to requirements under Delaware law and covenants in TWC s senior unsecured revolving credit facility.

On July 31, 2006, immediately after the consummation of the Redemptions but prior to the consummation of the Adelphia Acquisition, TWC paid a stock dividend to WCI, a wholly owned subsidiary of Time Warner and the only holder of record of TWC s outstanding Class A and Class B common stock at that time, of 999,999 shares of Class A or Class B common stock, as applicable, per share of Class A or Class B common stock. An aggregate of 745,999,254 shares of Class A common stock and 74,999,925 shares of Class B common stock were issued to WCI in connection with the stock dividend. The stock dividend was declared and paid in anticipation of TWC becoming a public company.

Item 6. *Selected Financial Data.*

The selected financial information of TWC for the five years ended December 31, 2007 is set forth at page 124 herein and is incorporated herein by reference.

Item 7. *Management s Discussion and Analysis of Financial Condition and Results of Operations.*

The information set forth under the caption Management s Discussion and Analysis at pages 47 through 78 herein is incorporated herein by reference.

Item 7A. *Quantitative and Qualitative Disclosures About Market Risk.*

The information set forth under the caption Market Risk Management at pages 72 through 73 herein is incorporated herein by reference.

Item 8. *Financial Statements and Supplementary Data.*

The consolidated financial statements of TWC and the report of independent auditors thereon set forth at pages 79 through 120 and 122 herein are incorporated herein by reference.

Quarterly Financial Information set forth at page 125 herein is incorporated herein by reference.

Item 9. ***Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.***

Not Applicable.

Item 9A. ***Controls and Procedures.***

Evaluation of Disclosure Controls and Procedures

TWC, 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 TWC s disclosure controls and procedures (as such term is defined in Rule 13a-15(e) under the Exchange Act) as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that TWC s disclosure controls and procedures are effective to ensure that information required to be disclosed in reports filed or submitted by TWC 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 TWC is accumulated and communicated to TWC s management to allow timely decisions regarding the required disclosure.

Management s Report on Internal Control Over Financial Reporting

Management s report on internal control over financial reporting and the report of the independent registered public accounting firm thereon set forth at pages 121 and 123 is incorporated herein by reference.

Changes in Internal Control Over Financial Reporting

There have not been any changes in TWC s internal control over financial reporting during the quarter ended December 31, 2007 that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

Item 9B. ***Other Information.***

Not applicable.

PART III

Items 10, 11, 12, 13 and 14. ***Directors, Executive Officers and Corporate Governance; Executive Compensation; Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters; Certain Relationships and Related Transactions and Director Independence; Principal Accountant Fees and Services.***

Information called for by Items 10, 11, 12, 13 and 14 of Part III is incorporated by reference from the Company s definitive Proxy Statement to be filed in connection with its 2008 Annual Meeting of Stockholders pursuant to Regulation 14A, except that (i) the information regarding the Company s executive officers called for by Item 401(b) of Regulation S-K has been included in Part I of this Annual Report and (ii) the information regarding certain Company equity compensation plans called for by Item 201(d) of Regulation S-K is set forth below.

The Company has adopted a Code of Ethics for its Senior Executive and Senior Financial Officers. A copy of the Code is publicly available on the Company s website at *www.timewarnercable.com/investors*. Amendments to the Code or any grant of a waiver from a provision of the Code requiring disclosure under applicable SEC rules will also be disclosed on the Company s website.

Equity Compensation Plan Information

The following table summarizes information as of December 31, 2007, about the Company s outstanding equity compensation awards and shares of Class A common stock reserved for future issuance under the Company s equity compensation plans.

	Number of securities to be issued upon exercise of outstanding options, warrants and rights[2] (a)	Weighted-average exercise price of outstanding options, warrants and rights[2] (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))[3] (c)
Equity compensation plans approved by security holders[1]	4,913,336	$ 36.98	91,324,820
Equity compensation plans not approved by security holders			
Total	4,913,336	$ 36.98	91,324,820

(1) Equity compensation plans approved by security holders covers the Time Warner Cable Inc. 2006 Stock Incentive Plan (the 2006 Stock Plan), which was approved by the Company s stockholders in May 2007 and is currently the Company s only compensation plan pursuant to which the Company s equity is awarded.

(2) Column (a) includes 2,103,489 shares of Class A common stock underlying outstanding restricted stock units. Because there is no exercise price associated with restricted stock units, such equity awards are not included in the weighted-average exercise price calculation in column (b).

(3) A total of 100,000,000 shares of Class A common stock have been authorized for issuance pursuant to the terms of the 2006 Stock Plan. Any shares of Class A common stock issued in connection with awards other than stock options or stock appreciation rights (a Non-option Award) are counted against the shares remaining available under the 2006 Stock Plan as the number of shares equal to a ratio (the Ratio) for every share issued in connection with a Non-option Award and any shares issued in connection with stock options or stock appreciation rights are counted against the limit as one share for every share issued. The Ratio is the quotient resulting from dividing (a) the grant date fair value of such Non-option Award, as determined for financial reporting purposes, by (b) the grant date fair value of a stock option granted under the 2006 Stock Plan. As a result, based on the Ratio determined on December 31, 2007, of the shares of Class A common stock available for future issuance under the 2006 Stock Plan listed in column (c), as of December 31, 2007, a maximum of 33,575,301 shares may be issued in connection with awards of restricted stock or restricted stock units.

PART IV

Item 15. ***Exhibits and Financial Statements Schedules.***

(a)(1)-(2) *Financial Statements and Schedules:*

(i) The list of consolidated financial statements and schedules set forth in the accompanying Index to Consolidated Financial Statements and Other Financial Information at page 46 herein is incorporated herein by reference. Such consolidated financial statements and schedules are filed as part of this Annual Report.

(ii) All other financial statement schedules are omitted because the required information is not applicable, or because the information required is included in the consolidated financial statements and notes thereto.

(3) *Exhibits:*

The exhibits listed on the accompanying Exhibit Index are filed or incorporated by reference as part of this Annual Report and such Exhibit Index is incorporated herein by reference. Exhibits 10.26 through 10.34 and 10.37 through 10.42 listed on the accompanying Exhibit Index identify management contracts or compensatory plans or arrangements required to be filed as exhibits to this Annual Report, and such listing is incorporated herein by reference.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

TIME WARNER CABLE INC.

By: /s/ Glenn A. Britt

Name: Glenn A. Britt
Title: President and Chief Executive Officer

Dated: February 22, 2008

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Glenn A. Britt Glenn A. Britt	Director, President and Chief Executive Officer (principal executive officer)	February 22, 2008
/s/ Robert D. Marcus Robert D. Marcus	Senior Executive Vice President and Chief Financial Officer (principal financial officer)	February 22, 2008
/s/ William F. Osbourn, Jr. William F. Osbourn, Jr.	Senior Vice President and Controller (principal accounting officer)	February 22, 2008
/s/ Carole Black Carole Black	Director	February 22, 2008
/s/ Thomas H. Castro Thomas H. Castro	Director	February 22, 2008
/s/ David C. Chang	Director	February 22, 2008

David C. Chang		
/s/ James E. Copeland, Jr.	Director	February 22, 2008
James E. Copeland, Jr.		
/s/ Peter R. Haje	Director	February 22, 2008
Peter R. Haje		
/s/ Don Logan	Director	February 22, 2008
Don Logan		
/s/ Michael Lynne	Director	February 22, 2008
Michael Lynne		
/s/ N.J. Nicholas, Jr.	Director	February 22, 2008
N.J. Nicholas, Jr.		
/s/ Wayne H. Pace	Director	February 22, 2008
Wayne H. Pace		

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

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

INTRODUCTION

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

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

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

Results of operations. This section provides an analysis of the Company s results of operations for the three years ended December 31, 2007.

Financial condition and liquidity. This section provides an analysis of the Company s cash flows for the three years ended December 31, 2007, as well as a discussion of the Company s outstanding debt and commitments that existed as of December 31, 2007. Included in the analysis of outstanding debt is a discussion of the amount of financial capacity available to fund the Company s future commitments, as well as a discussion of other financing arrangements.

Market risk management. This section discusses how the Company manages exposure to potential gains and losses arising from changes in market rates and prices, such as interest rates.

Critical accounting policies. This section discusses accounting policies that are considered important to the Company s results of operations and financial condition, require significant judgment and require estimates on the part of management in application. The Company s significant accounting policies, including those considered to be critical accounting policies, are summarized in Note 3 to the accompanying consolidated financial statements.

Caution concerning forward-looking statements. This section provides a description of the use of forward-looking information appearing in this report, including in MD&A and the consolidated financial statements. Such information is based on management s current expectations about future events, which are inherently susceptible to uncertainty and changes in circumstances. Refer to Item 1A, Risk Factors in Part I of this report, for a discussion of the risk factors applicable to the Company.

OVERVIEW

TWC is the second-largest cable operator in the U.S., with technologically advanced, well-clustered systems located mainly in five geographic areas New York state (including New York City), the Carolinas, Ohio, southern California (including Los Angeles) and Texas. As of December 31, 2007, TWC served approximately 14.6 million customers who subscribed to one or more of its video, high-speed data and voice services, representing approximately 32.1 million revenue generating units.

On July 31, 2006, a subsidiary of TWC, Time Warner NY Cable LLC (TW NY), and Comcast Corporation (together with its subsidiaries, Comcast) completed the acquisition of substantially all of the cable assets of Adelphia Communications Corporation (Adelphia) and related transactions. In addition, effective January 1, 2007, TWC began consolidating the results of certain cable systems located in Kansas City, south and west Texas and New Mexico (the Kansas City Pool) upon the distribution of the assets of Texas and Kansas City Cable Partners, L.P. (TKCCP) to TWC and Comcast. Prior to January 1, 2007, TWC s interest in TKCCP was reported as an equity-method investment. Refer to Recent Developments for further details.

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

Time Warner Inc. (Time Warner) currently owns approximately 84.0% of the common stock of TWC (representing a 90.6% voting interest). The financial results of TWC s operations are consolidated by Time Warner. Time Warner also owns a 12.43% non-voting common stock interest in a subsidiary of TWC. On February 6, 2008, Time Warner announced that it has commenced a review of its ownership interest in the Company. Time Warner has initiated discussions with the Company regarding a possible change in such ownership.

TWC principally offers three services video, high-speed data and voice over its broadband cable systems. TWC markets its services separately and as bundled packages of multiple services and features. As of December 31, 2007, 48% of TWC s customers subscribed to two or more of its primary services, including 16% of its customers who subscribed to all three primary services. Historically, TWC has focused primarily on residential customers, and in 2007, it began expanding its service offerings to small- and medium-sized businesses. In addition, TWC earns revenues by selling advertising time to national, regional and local businesses.

Video is TWC s largest service in terms of revenues generated and, as of December 31, 2007, TWC had approximately 13.3 million basic video subscribers. Although providing video services is a competitive and highly penetrated business, TWC expects to continue to increase video revenues through the offering of advanced digital video services, as well as through price increases and digital video subscriber growth. As of December 31, 2007, TWC had approximately 8.0 million digital video subscribers, which represented approximately 61% of its basic video subscribers. TWC s digital video subscribers provide a broad base of potential customers for additional advanced services. Video programming costs represent a major component of TWC s expenses and are expected to continue to increase, reflecting contractual rate increases, subscriber growth and the expansion of service offerings. TWC expects that its video service margins will continue to decline over the next few years as increases in programming costs outpace growth in video revenues.

As of December 31, 2007, TWC had approximately 7.6 million residential high-speed data subscribers. TWC expects continued strong growth in residential high-speed data subscribers and revenues during 2008; however, the rate of growth of both subscribers and revenues is expected to continue to slow over time as high-speed data services become increasingly well-penetrated. TWC also offers commercial high-speed data services and had 280,000 commercial high-speed data subscribers as of December 31, 2007.

Approximately 2.9 million subscribers received Digital Phone service, TWC s voice service, as of December 31, 2007. TWC expects strong increases in Digital Phone subscribers and revenues for the foreseeable future. TWC also rolled out Business Class Phone, a commercial Digital Phone service, to small- and medium-sized businesses during 2007 in the majority of its systems and expects to complete the roll-out in the remainder of its systems during 2008.

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

As of July 31, 2006, the date the transactions with Adelphia and Comcast closed, the penetration rates for basic video, digital video and high-speed data services were generally lower in the systems acquired in and retained after the transactions with Adelphia and Comcast (the Acquired Systems) than in the systems TWC owned before and retained after the transactions with Adelphia and Comcast (the Legacy Systems). Furthermore, certain advanced services were not available in some of the Acquired Systems, and an Internet protocol (IP)-based telephony service was not available in any of the Acquired Systems. To increase the penetration of these services in the Acquired Systems, TWC undertook a significant integration effort that included upgrading the capacity and

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technical performance of these systems to levels that allow the delivery of these advanced services and features. TWC substantially completed these integration-related efforts, as well as the launch of Digital Phone service to residential customers in the Acquired Systems, by the end of 2007. As of December 31, 2007, penetration rates for TWC s services continued to be lower in the Acquired Systems than in the Legacy Systems; however, penetration rates for advanced services improved in the Acquired Systems during 2007 and TWC believes there is opportunity over time to further increase service penetration rates and improve Subscription revenues and Operating Income before Depreciation and Amortization in the Acquired Systems, including the acquired systems in Dallas, TX and Los Angeles, CA. See Item 1A, Risk Factors Additional Risks of TWC s Operations TWC may continue to face challenges in its systems in Dallas, Texas and Los Angeles, California in Part I of this report for additional information.

Recent Developments

Sale of Certain North Carolina Cable Systems

The closing of the transactions with Adelphia (discussed below), which included the Company s acquisition from Adelphia of certain cable systems in Mooresville, Cornelius, Davidson and unincorporated Mecklenburg County, North Carolina, triggered a right of first refusal under the franchise agreements covering these systems. These municipalities (the Consortium) exercised their right to acquire these systems. As a result, on December 19, 2007, these cable systems, serving approximately 14,000 basic video subscribers and approximately 30,000 revenue generating units as of the closing date, were sold for $52 million. The sale of these systems did not have a material impact on the Company s results of operations or cash flows.

2007 Bond Offering

On April 9, 2007, TWC issued $5.0 billion in aggregate principal amount of senior unsecured notes and debentures (the 2007 Bond Offering) consisting of $1.5 billion principal amount of 5.40% Notes due 2012, $2.0 billion principal amount of 5.85% Notes due 2017 and $1.5 billion principal amount of 6.55% Debentures due 2037 pursuant to Rule 144A and Regulation S under the Securities Act of 1933, as amended (the Securities Act). The Company used the net proceeds from this issuance to repay all of the outstanding indebtedness under its $4.0 billion three-year term loan facility and a portion of the outstanding indebtedness under its $4.0 billion five-year term loan facility. On November 5, 2007, the Company and the two subsidiaries of the Company that guarantee the Company s obligations under the securities exchanged substantially all of the securities issued in the 2007 Bond Offering for a like aggregate principal amount of registered securities with the same terms pursuant to a registered exchange offer. See Note 8 to the accompanying consolidated financial statements for further details.

TKCCP Joint Venture

As discussed further in Note 4 to the accompanying consolidated financial statements, TKCCP was a 50-50 joint venture between a consolidated subsidiary of TWC (Time Warner Entertainment-Advance/Newhouse Partnership (TWE-A/N)) and Comcast. On January 1, 2007, TKCCP distributed its assets to TWC and Comcast. TWC received the Kansas City Pool, which served 788,000 basic video subscribers as of December 31, 2006, and Comcast received the pool of assets consisting of the Houston cable systems (the Houston Pool), which served 795,000 basic video subscribers as of December 31, 2006. TWC began consolidating the results of the Kansas City Pool on January 1, 2007. TKCCP was formally dissolved on May 15, 2007. For accounting purposes, the Company has treated the distribution of TKCCP s assets as a sale of the Company s 50% equity interest in the Houston Pool and as an acquisition of Comcast s 50% equity interest in the Kansas City Pool. As a result of the sale of the Company s 50% equity interest in the Houston Pool, the Company recorded a pretax gain of $146 million in the first quarter of 2007, which is included as a component of other income, net, in the accompanying consolidated statement of operations for the year ended December 31, 2007.

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Adelphia Acquisition and Related Transactions

As discussed further in Note 4 to the accompanying consolidated financial statements, on July 31, 2006, TW NY and Comcast completed their respective acquisitions of assets comprising in the aggregate substantially all of the cable assets of Adelphia (the Adelphia Acquisition). Additionally, on July 31, 2006, immediately before the closing of the Adelphia Acquisition, Comcast s interests in TWC and Time Warner Entertainment Company, L.P. (TWE), a subsidiary of TWC, were redeemed (the TWC Redemption and the TWE Redemption, respectively, and, collectively, the Redemptions). Following the Redemptions and the Adelphia Acquisition, on July 31, 2006, TW NY and Comcast swapped certain cable systems, most of which were acquired from Adelphia, in order to enhance TWC s and Comcast s respective geographic clusters of subscribers (the Exchange and, together with the Adelphia Acquisition and the Redemptions, the Transactions). As a result of the closing of the Transactions, on July 31, 2006, TWC acquired systems with approximately 4.0 million basic video subscribers and disposed of the Transferred Systems (as defined below), with approximately 0.8 million basic video subscribers, for a net gain of approximately 3.2 million basic video subscribers. In addition, on July 28, 2006, American Television and Communications Corporation (ATC), a subsidiary of Time Warner, contributed its 1% common equity interest and $2.4 billion preferred equity interest in TWE to TW NY Cable Holding Inc. (TW NY Holding), a subsidiary of TWC and the parent of TW NY, in exchange for a 12.43% non-voting common stock interest in TW NY Holding (the ATC Contribution).

The results of the systems acquired in connection with the Transactions have been included in the accompanying consolidated statement of operations since the closing of the Transactions. The systems previously owned by TWC that were transferred to Comcast in connection with the Redemptions and the Exchange (the Transferred Systems) have been reflected as discontinued operations in the accompanying consolidated financial statements for all periods presented (Note 4).

On February 13, 2007, Adelphia s Chapter 11 reorganization plan became effective and, 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 Exchange Act). Under the terms of the reorganization plan, during 2007, substantially all of the 155,913,430 shares of TWC s Class A common stock that Adelphia received in the Adelphia Acquisition (representing approximately 16% of TWC s outstanding common stock) were distributed to Adelphia s creditors. The remaining shares are expected to be distributed as the remaining disputes are resolved by the bankruptcy court. As of December 31, 2007, Time Warner owned approximately 84.0% of TWC s outstanding common stock (including 82.7% of the outstanding shares of TWC s Class A common stock and all outstanding shares of TWC s Class B common stock, representing a 90.6% voting interest), as well as a 12.43% non-voting common stock interest in TW NY Holding. On March 1, 2007, TWC s Class A common stock began trading on the New York Stock Exchange under the symbol TWC (Note 4).

FINANCIAL STATEMENT PRESENTATION

Revenues

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

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

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High-speed data revenues include monthly subscriber fees from both residential and commercial subscribers, along with related equipment rental charges, home networking fees and installation charges. High-speed data revenues also included fees received from certain distributors of TWC s Road Runner[tm] high-speed data service (including a subsidiary of TWE-A/N managed by the Advance/Newhouse Partnership), which in the aggregate totaled $132 million, $112 million and $92 million in 2007, 2006 and 2005, respectively, and fees received from third-party internet service providers. Additionally, in 2006 and 2005, high-speed data revenues included fees received from TKCCP.

Voice revenues include monthly subscriber fees from residential and commercial voice subscribers, including Digital Phone subscribers and circuit-switched subscribers acquired from Comcast in the Exchange (9,000 and 106,000 subscribers as of December 31, 2007 and December 31, 2006, respectively), along with related installation charges. TWC is in the process of discontinuing the circuit-switched offering in accordance with regulatory requirements. In those areas where the circuit-switched offering is discontinued, Digital Phone is the only voice service TWC provides.

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

Costs and Expenses

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

Selling, general and administrative expenses include amounts not directly associated with the delivery of services to subscribers or the maintenance of the Company s delivery systems, such as administrative labor costs, marketing expenses, billing charges, non-plant repair and maintenance costs, fees paid to Time Warner for reimbursement of certain administrative support functions and other administrative overhead costs. Additionally, management fees received from TKCCP prior to August 1, 2006 were recorded as a reduction of selling, general and administrative expenses.

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

Operating Income before Depreciation and Amortization (OIBDA) is a financial measure not calculated and presented in accordance with U.S. generally accepted accounting principles (GAAP). The Company defines OIBDA as Operating Income before depreciation of tangible assets and amortization of intangible assets. Management utilizes OIBDA, among other measures, in evaluating the performance of the Company s business because OIBDA eliminates the uneven effect across its business of considerable amounts of depreciation of tangible assets and amortization of intangible assets recognized in business combinations. Additionally, management utilizes OIBDA because it believes this measure provides valuable insight into the underlying performance of the Company s individual cable systems by removing the effects of items that are not within the control of local personnel charged with managing these systems such as income tax provision, other income (expense), net, minority interest expense, net, income from equity investments, net, and interest expense, net. In this regard, OIBDA is a significant measure used in the Company s annual incentive compensation programs. OIBDA also is a metric used by the Company s parent, Time Warner, to evaluate the Company s performance and is an important measure in the Time Warner reportable segment disclosures. A limitation of this measure, however, is that it does not reflect the periodic costs of certain capitalized tangible and intangible assets used in generating

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revenues in the Company s business. To compensate for this limitation, management evaluates the investments in such tangible and intangible assets through other financial measures, such as capital expenditure budget variances, investment spending levels and return on capital analyses. Another limitation of this measure is that it does not reflect the significant costs borne by the Company for income taxes, debt servicing costs, the share of OIBDA related to the minority ownership, the results of the Company s equity investments or other non-operational income or expense. Management compensates for this limitation through other financial measures such as a review of net income and earnings per share.

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

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

RESULTS OF OPERATIONS

Changes in Basis of Presentation

Consolidation of Kansas City Pool

On January 1, 2007, the Company began consolidating the results of the Kansas City Pool it received upon the distribution of the assets of TKCCP to TWC and Comcast. Prior to January 1, 2007, the Company accounted for TKCCP as an equity-method investment. The results of operations for the Kansas City Pool have been presented below separately from the results of the Legacy Systems.

Discontinued Operations

The Company has reflected the results of operations and financial condition of the Transferred Systems as discontinued operations for all periods presented. See Note 4 to the accompanying consolidated financial statements for additional information regarding the discontinued operations.

Reclassifications

Certain reclassifications have been made to the prior years financial information to conform to the December 31, 2007 presentation.

Recent Accounting Standards

See Note 2 to the accompanying consolidated financial statements for a discussion of the accounting standards adopted in 2007 and recent accounting standards not yet adopted.

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2007 vs. 2006

As previously noted under Recent Developments, on July 31, 2006, the Company completed the Transactions and began consolidating the results of the Acquired Systems. Additionally, on January 1, 2007, the Company began consolidating the results of the Kansas City Pool. Accordingly, the operating results for 2007 include the results for the Legacy Systems, the Acquired Systems and the Kansas City Pool for the full twelve-month period, and the operating results for 2006 include the results of the Legacy Systems for the full twelve-month period and the Acquired Systems for only the five months following the closing of the Transactions and do not include the consolidation of the results of the Kansas City Pool. The impact of the incremental seven months of revenues and expenses of the Acquired Systems on the results for 2007 is referred to as the impact of the Acquired Systems in this report.

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

	Years Ended December 31,		
	2007	2006	% Change
Subscription:			
Video	$ 10,165	$ 7,632	33%
High-speed data	3,730	2,756	35%
Voice	1,193	715	67%
Total Subscription	15,088	11,103	36%
Advertising	867	664	31%
Total	$ 15,955	$ 11,767	36%

Revenues by major category for the Legacy Systems, the Acquired Systems, the Kansas City Pool and the total systems were as follows (in millions):

	Year Ended December 31, 2007				Year Ended December 31, 2006		
	Legacy Systems	Acquired Systems	Kansas City Pool	Total Systems	Legacy Systems	Acquired Systems[(a)]	Total Systems
Subscription:							
Video	$ 6,830	$ 2,788	$ 547	$ 10,165	$ 6,467	$ 1,165	$ 7,632
High-speed data	2,692	835	203	3,730	2,435	321	2,756
Voice	1,011	97	85	1,193	687	28	715
Total Subscription	10,533	3,720	835	15,088	9,589	1,514	11,103

Advertising	539	286	42	867	527	137	664
Total	$ 11,072	$ 4,006	$ 877	$ 15,955	$ 10,116	$ 1,651	$ 11,767

(a) Amounts reflect revenues for the Acquired Systems for the five months following the closing of the Transactions.

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

	Consolidated Subscribers as of December 31,			Managed Subscribers[a] as of December 31,		
	2007	2006	% Change	2007	2006	% Change
Basic video[b]	13,251	12,614	5%	13,251	13,402	(1%)
Digital video[c]	8,022	6,938	16%	8,022	7,270	10%
Residential high-speed data[d]	7,620	6,270	22%	7,620	6,644	15%
Commercial high-speed data[d]	280	230	22%	280	245	14%
Digital Phone[e]	2,895	1,719	68%	2,895	1,860	56%
Revenue generating units[f]	32,077	27,877	15%	32,077	29,527	9%
Customer relationships[g]	14,626	13,710	7%	14,626	14,565	

(a) For 2006, managed subscribers included TWC s consolidated subscribers and subscribers in the Kansas City Pool of TKCCP, which TWC received on January 1, 2007 in the TKCCP asset distribution. Beginning January 1, 2007, subscribers in the Kansas City Pool are included in both managed and consolidated subscriber results as a result of the consolidation of the Kansas City Pool.

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

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

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

(e) Digital Phone subscriber numbers reflect billable subscribers who receive an IP-based telephony service. Digital Phone subscribers exclude subscribers acquired from Comcast in the Exchange who receive traditional, circuit-switched telephone service (which totaled 9,000 and 106,000 subscribers as of December 31, 2007 and 2006, respectively).

(f) Revenue generating units represent the total of all basic video, digital video, high-speed data, Digital Phone and circuit-switched telephone service subscribers.

(g) Customer relationships represent the number of subscribers that receive at least one level of service, encompassing video, high-speed data and voice (including circuit-switched telephone) services, without regard to the number of services purchased. For example, a subscriber who purchases only high-speed data service and no video service will count as one customer relationship, and a subscriber who purchases both video and high-speed data services will also count as only one customer relationship.

Subscription revenues increased in 2007 as a result of increases in video, high-speed data and voice revenues. The increase in video revenues was primarily due to the impact of the Acquired Systems, the consolidation of the Kansas City Pool, the continued penetration of digital video services and video price increases. Digital video revenues represented 23% and 22% of video revenues in 2007 and 2006, respectively.

High-speed data revenues in 2007 increased primarily due to the impact of the Acquired Systems, the consolidation of the Kansas City Pool and growth in high-speed data subscribers. Commercial high-speed data revenues increased to $435 million in 2007 from $318 million in 2006. Strong growth rates for high-speed data service revenues are expected to continue during 2008.

The increase in voice revenues in 2007 was primarily due to growth in Digital Phone subscribers and the consolidation of the Kansas City Pool. Voice revenues for the Acquired Systems also included revenues associated with subscribers acquired from Comcast who received traditional, circuit-switched telephone service of $34 million and $27 million in 2007 and 2006, respectively. Strong growth rates for Digital Phone revenues are expected to continue during 2008.

Average monthly subscription revenue (which includes video, high-speed data and voice revenues) per basic video subscriber (subscription ARPU) increased 4% to approximately $94 in 2007 from approximately $90 in 2006. This increase was primarily a result of the increased penetration of advanced services (including digital video, high-speed data and Digital Phone) in the Legacy Systems and higher video prices, as discussed above, partially offset by lower penetration of advanced services in both the Acquired Systems and the Kansas City Pool as compared to the Legacy Systems.

Advertising revenues increased due to a $176 million increase in local advertising and a $27 million increase in national advertising. These increases were primarily due to the impact of the Acquired Systems and, to a lesser extent, the consolidation of the Kansas City Pool.

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

	Years Ended December 31,		
	2007	2006	% Change
Video programming	$ 3,534	$ 2,523	40%
Employee	2,164	1,505	44%
High-speed data	164	156	5%
Voice	455	309	47%
Other direct operating costs	1,225	863	42%
Total	$ 7,542	$ 5,356	41%

Costs of revenues increased 41%, and, as a percentage of revenues, were 47% in 2007 compared to 46% in 2006. The increase in costs of revenues was primarily related to the impact of the Acquired Systems and the consolidation of the Kansas City Pool, as well as increases in video programming, employee, voice and other direct operating costs. The increase in costs of revenues as a percentage of revenues in 2007 reflected lower margins in the Acquired Systems.

Video programming costs for the Legacy Systems, the Acquired Systems, the Kansas City Pool and the total systems were as follows (in millions):

	Years Ended December 31,	
	2007	2006
Video programming costs:		
Legacy Systems	$ 2,305	$ 2,114
Acquired Systems[(a)]	1,027	409
Kansas City Pool	202	
Total systems	$ 3,534	$ 2,523

(a) 2006 amounts reflect video programming costs for the Acquired Systems for the five months following the closing of the Transactions.

The increase in video programming costs was primarily due to the impact of the Acquired Systems and the consolidation of the Kansas City Pool, as well as contractual rate increases and the expansion of service offerings. Average per-subscriber programming costs increased 8% to $22.04 per month in 2007 from $20.33 per month in 2006.

Employee costs increased primarily due to the impact of the Acquired Systems, the consolidation of the Kansas City Pool, higher headcount resulting from the continued roll-out of advanced services and salary increases. Additionally, employee costs in 2006 included a benefit of $32 million (with an additional benefit of $8 million included in selling, general and administrative expenses) related to both changes in estimates and a correction of prior period medical benefit accruals.

High-speed data service costs consist of the direct costs associated with the delivery of high-speed data services, including network connectivity costs, and certain other costs. High-speed data service costs increased due to the impact of the Acquired Systems, the consolidation of the Kansas City Pool and subscriber growth, offset by a decrease in per-subscriber connectivity costs.

Voice costs consist of the direct costs associated with the delivery of voice services, including network connectivity costs. Voice costs increased primarily due to growth in Digital Phone subscribers and the consolidation of the Kansas City Pool, offset partially by a decline in per-subscriber connectivity costs.

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Other direct operating costs increased primarily due to the impact of the Acquired Systems and the consolidation of the Kansas City Pool, as well as certain other increases in costs associated with the continued roll-out of advanced services.

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

	Years Ended December 31,		
	2007	2006	% Change
Employee	$ 1,059	$ 872	21%
Marketing	499	414	21%
Other	1,090	840	30%
Total	$ 2,648	$ 2,126	25%

Selling, general and administrative expenses increased as a result of higher employee, marketing and other costs. Employee costs increased primarily due to the impact of the Acquired Systems, the consolidation of the Kansas City Pool, increased headcount resulting from the continued roll-out of advanced services and salary increases. Marketing costs increased as a result of the impact of the Acquired Systems and higher marketing costs associated with the continued roll-out of advanced services. Other costs increased primarily due to the impact of the Acquired Systems, the consolidation of the Kansas City Pool and increases in administrative costs associated with the increase in headcount discussed above.

Merger-related and restructuring costs. In 2007 and 2006, the Company expensed non-capitalizable merger-related costs associated with the Transactions of $10 million and $38 million, respectively. In addition, the results for 2007 and 2006 included restructuring costs of $13 million and $18 million, respectively.

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

	Years Ended December 31,		
	2007	2006	% Change
Net income	$ 1,123	$ 1,976	(43%)
Discontinued operations, net of tax		(1,038)	(100%)
Cumulative effect of accounting change, net of tax		(2)	(100%)

Income from continuing operations	1,123	936	20%
Income tax provision	740	620	19%
Income from continuing operations before income taxes	1,863	1,556	20%
Interest expense, net	894	646	38%
Income from equity investments, net	(11)	(129)	(91%)
Minority interest expense, net	165	108	53%
Other income, net	(145)	(2)	NM
Operating Income	2,766	2,179	27%
Depreciation	2,704	1,883	44%
Amortization	272	167	63%
OIBDA	$ 5,742	$ 4,229	36%

NM Not meaningful.

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OIBDA. OIBDA increased principally due to revenue growth (particularly growth in high margin high-speed data revenues), partially offset by higher costs of revenues and selling, general and administrative expenses, as discussed above.

Depreciation expense. Depreciation expense increased primarily due to the impact of the Acquired Systems, the consolidation of the Kansas City Pool and demand-driven increases in recent years of purchases of customer premise equipment, which generally has a shorter useful life compared to the mix of assets previously purchased.

Amortization expense. Amortization expense increased primarily as a result of the amortization of intangible assets related to customer relationships associated with the Acquired Systems. This was partially offset by the absence after the first quarter of 2007 of amortization expense associated with customer relationships recorded in connection with the restructuring of TWE in 2003, which were fully amortized at the end of the first quarter of 2007.

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

The Company anticipates that OIBDA and Operating Income will increase during 2008 as compared to 2007, although the rate of growth is expected to be lower than that experienced in 2007 as each year will include the results of the Acquired Systems and the Kansas City Pool for the full twelve-month period.

Interest expense, net. Interest expense, net, increased primarily due to an increase in long-term debt and mandatorily redeemable preferred membership units issued by a subsidiary in connection with the Transactions, partially offset by a decrease in mandatorily redeemable preferred equity issued by a subsidiary as a result of the ATC Contribution.

Income from equity investments, net. Income from equity investments, net, decreased primarily due to the Company no longer treating TKCCP as an equity-method investment. Refer to Overview Recent Developments TKCCP Joint Venture for additional information.

Minority interest expense, net. Minority interest expense, net, increased primarily reflecting the change in the ownership structure of the Company and TWE as a result of the ATC Contribution and the Redemptions.

Other income, net. During 2007, the Company recorded a pretax gain of $146 million as a result of the distribution of TKCCP s assets, which was treated as a sale of the Company s 50% equity interest in the Houston Pool. Refer to Overview Recent Developments TKCCP Joint Venture for additional information.

Income tax provision. TWC s income tax provision has been prepared as if the Company operated as a stand-alone taxpayer for all periods presented. In 2007 and 2006, the Company recorded income tax provisions of $740 million and $620 million, respectively. The effective tax rate was approximately 40% in both 2007 and 2006.

Income from continuing operations. Income from continuing operations was $1.123 billion in 2007 compared to $936 million in 2006. Basic and diluted income per common share from continuing operations were $1.15 in 2007 compared to $0.95 in 2006. These increases were due to an increase in Operating Income and other income, net, partially offset by increases in interest expense, net, income tax provision and minority interest expense, net, and a decrease in income from equity investments, net.

Discontinued operations, net of tax. Discontinued operations, net of tax, in 2006 reflected the impact of treating the Transferred Systems as discontinued operations. In 2006, the Company recognized pretax income applicable to these systems of $285 million ($1.038 billion, net of a tax benefit). Included in the 2006 results were a pretax gain of $165 million on the Transferred Systems and a net tax benefit of $800 million comprised of a tax benefit of $814 million on the Redemptions, partially offset by a provision of $14 million on the Exchange. The tax benefit of $814 million resulted primarily from the reversal of historical deferred tax liabilities that had existed on systems transferred to Comcast in the TWC Redemption. The TWC Redemption was designed to qualify as a tax-free split-off under section 355 of the Internal Revenue Code of 1986, as amended, and, as a result, such liabilities

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were no longer required. However, if the Internal Revenue Service (the IRS) were successful in challenging the tax-free characterization of the TWC Redemption, an additional cash liability on account of taxes of up to an estimated $900 million could become payable by the Company.

Cumulative effect of accounting change, net of tax. In 2006, the Company recorded a benefit of $2 million, net of tax, as the cumulative effect of a change in accounting principle upon the adoption of Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (Statement) No. 123 (revised 2004), *Share-Based Payment* (FAS 123R) to recognize the effect of estimating the number of Time Warner equity-based awards granted to TWC employees prior to January 1, 2006 that are not ultimately expected to vest.

Net income and net income per common share. Net income was $1.123 billion in 2007 compared to $1.976 billion in 2006. Basic and diluted net income per common share were $1.15 in 2007 compared to $2.00 in 2006.

2006 vs. 2005

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

	Years Ended December 31,		
	2006	2005	% Change
Subscription:			
Video	$ 7,632	$ 6,044	26%
High-speed data	2,756	1,997	38%
Voice	715	272	163%
Total Subscription	11,103	8,313	34%
Advertising	664	499	33%
Total	$ 11,767	$ 8,812	34%

Revenues by major category for the Legacy Systems, the Acquired Systems and the total systems were as follows (in millions):

	Year Ended December 31, 2006			Year Ended December 31, 2005		
	Legacy Systems	Acquired Systems[(a)]	Total Systems	Legacy Systems	Acquired Systems	Total Systems
Subscription:						
Video	$ 6,467	$ 1,165	$ 7,632	$ 6,044	$	$ 6,044

High-speed data	2,435	321	2,756	1,997		1,997
Voice	687	28	715	272		272
Total Subscription	9,589	1,514	11,103	8,313		8,313
Advertising	527	137	664	499		499
Total	$ 10,116	$ 1,651	$ 11,767	$ 8,812	$	$ 8,812

(a) Amounts reflect revenues for the Acquired Systems for the five months following the closing of the Transactions.

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

	Consolidated Subscribers as of December 31,			Managed Subscribers[a] as of December 31,		
	2006	2005	% Change	2006	2005	% Change
Basic video[b]	12,614	8,603	47%	13,402	9,384	43%
Digital video[c]	6,938	4,294	62%	7,270	4,595	58%
Residential high-speed data[d]	6,270	3,839	63%	6,644	4,141	60%
Commercial high-speed data[d]	230	169	36%	245	183	34%
Digital Phone[e]	1,719	913	88%	1,860	998	86%
Revenue generating units[f]	27,877	17,818	56%	29,527	19,301	53%
Customer relationships[g]	13,710	9,248	48%	14,565	10,088	44%

(a) Managed subscribers include TWC s consolidated subscribers and subscribers in the Kansas City Pool of TKCCP, which TWC received on January 1, 2007 in the TKCCP asset distribution.
(b) Basic video subscriber numbers reflect billable subscribers who receive at least basic video service.
(c) Digital video subscriber numbers reflect billable subscribers who receive any level of video service via digital transmissions.
(d) High-speed data subscriber numbers reflect billable subscribers who receive TWC s Road Runner high-speed data service or any of the other high-speed data services offered by TWC.
(e) Digital Phone subscriber numbers reflect billable subscribers who receive an IP-based telephony service. Digital Phone subscribers exclude subscribers acquired from Comcast in the Exchange who receive traditional, circuit-switched telephone service (which totaled 106,000 subscribers as of December 31, 2006).
(f) Revenue generating units represent the total of all basic video, digital video, high-speed data, Digital Phone and circuit-switched telephone service subscribers.
(g) Customer relationships represent the number of subscribers that receive at least one level of service, encompassing video, high-speed data and voice (including circuit-switched telephone) services, without regard to the number of services purchased. For example, a subscriber who purchases only high-speed data service and no video service will count as one customer relationship, and a subscriber who purchases both video and high-speed data services will also count as only one customer relationship.

Subscription revenues increased in 2006 as a result of increases in video, high-speed data and Digital Phone revenues. The increase in video revenues in 2006 was primarily due to the Acquired Systems, the continued penetration of digital video services and video price increases and growth in basic video subscriber levels in the Legacy Systems. Digital video revenues represented 22% and 20% of video revenues in 2006 and 2005, respectively.

High-speed data revenues in 2006 increased primarily due to the Acquired Systems and growth in high-speed data subscribers. Commercial high-speed data revenues increased to $318 million in 2006 from $241 million in 2005.

The increase in voice revenues in 2006 was primarily due to growth in Digital Phone subscribers. Voice revenues in 2006 also included $27 million of revenues associated with subscribers acquired from Comcast who received traditional, circuit-switched telephone service. As of December 31, 2006, Digital Phone service was only available in some of the Acquired Systems on a limited basis.

Subscription ARPU increased 11% to approximately $90 in 2006 from approximately $81 in 2005 as a result of the increased penetration in advanced services and higher video rates, as discussed above.

Advertising revenues increased primarily due to a $136 million increase in local advertising and a $29 million increase in national advertising in 2006, primarily attributable to the Acquired Systems. Excluding the results of the Acquired Systems, Advertising revenues increased slightly as a result of an increase in political advertising revenues in 2006.

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

	Years Ended December 31,		
	2006	2005	% Change
Video programming	$ 2,523	$ 1,889	34%
Employee	1,505	1,156	30%
High-speed data	156	102	53%
Voice	309	122	153%
Other direct operating costs	863	649	33%
Total	$ 5,356	$ 3,918	37%

Costs of revenues increased 37%, and, as a percentage of revenues, were 46% in 2006 compared to 44% in 2005. The increase in costs of revenues was primarily related to the Acquired Systems, as well as increases in video programming, employee and voice costs. The increase in costs of revenues as a percentage of revenues reflected the items noted above and lower margins for the Acquired Systems.

Video programming costs for the Legacy Systems, the Acquired Systems and the total systems were as follows (in millions):

	Years Ended December 31,	
	2006	2005
Video programming costs:		
Legacy Systems	$ 2,114	$ 1,889
Acquired Systems[a]	409	
Total systems	$ 2,523	$ 1,889

[a] 2006 amounts reflect video programming costs for the Acquired Systems for the five months following the closing of the Transactions.

The increase in video programming costs was primarily due to the Acquired Systems, higher sports network programming costs, the increase in video subscribers and non-sports-related contractual rate increases. Per-subscriber programming costs increased 11%, to $20.33 per month in 2006 from $18.35 per month in 2005. The increase in per-subscriber programming costs was primarily due to higher sports network programming costs and non-sports-related contractual rate increases.

Employee costs increased primarily due to the Acquired Systems, salary increases and higher headcount resulting from the roll-out of advanced services. These increases were partially offset by a benefit of $32 million (with an additional benefit of $8 million included in selling, general and administrative expenses) related to both changes in estimates and a correction of prior period medical benefit accruals.

High-speed data service costs increased due to the Acquired Systems, subscriber growth and an increase in per-subscriber connectivity costs.

Voice costs increased primarily due to growth in Digital Phone subscribers.

Other direct operating costs increased due to revenue-driven increases in fees paid to local franchise authorities, as well as increases in other costs associated with the continued roll-out of advanced services, including Digital Phone.

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

	Years Ended December 31,		
	2006	2005	% Change
Employee	$ 872	$ 678	29%
Marketing	414	306	35%
Other	840	545	54%
Total	$ 2,126	$ 1,529	39%

Selling, general and administrative expenses increased as a result of higher employee, marketing and other costs. Employee costs increased primarily due to the Acquired Systems, increased headcount resulting from the continued roll-out of advanced services and salary increases. Marketing costs increased as a result of the Acquired Systems and higher costs associated with the roll-out of advanced services. Other costs increased primarily due to the Acquired Systems and increases in administrative costs associated with the increase in headcount discussed above.

Merger-related and restructuring costs. In 2006 and 2005, the Company expensed $38 million and $8 million, respectively, of non-capitalizable merger-related costs associated with the Transactions. These merger-related costs were related primarily to consulting fees concerning integration planning for the Transactions and other costs incurred in connection with notifying new customers of the change in cable providers. In addition, the results for 2006 included $18 million of restructuring costs. The results for 2005 included $35 million of restructuring costs, primarily associated with the early retirement of certain senior executives and the closing of several local news channels, partially offset by a $1 million reduction in restructuring charges, reflecting changes to previously established restructuring accruals. The Company s restructuring activities were part of the Company s broader plans to simplify its organizational structure and enhance its customer focus.

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

	Years Ended December 31,		
	2006	2005	% Change
Net income	$ 1,976	$ 1,253	58%
Discontinued operations, net of tax	(1,038)	(104)	NM
Cumulative effect of accounting change, net of tax	(2)		NM

Income from continuing operations	936	1,149	(19%)
Income tax provision	620	153	305%
Income from continuing operations before income taxes	1,556	1,302	20%
Interest expense, net	646	464	39%
Income from equity investments, net	(129)	(43)	200%
Minority interest expense, net	108	64	69%
Other income, net	(2)	(1)	100%
Operating Income	2,179	1,786	22%
Depreciation	1,883	1,465	29%
Amortization	167	72	132%
OIBDA	$ 4,229	$ 3,323	27%

NM Not meaningful.

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OIBDA. OIBDA increased due to the Acquired Systems and revenue growth (particularly growth in high margin high-speed data revenues), partially offset by higher costs of revenues and selling, general and administrative expenses, as discussed above.

Depreciation expense. Depreciation expense increased primarily due to the Acquired Systems and demand-driven increases in recent years of purchases of customer premise equipment, which generally has a significantly shorter useful life compared to the mix of assets previously purchased.

Amortization expense. Amortization expense increased as a result of the amortization of intangible assets related to customer relationships associated with the Acquired Systems.

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

Interest expense, net. Interest expense, net, increased primarily due to an increase in debt levels attributable to the Transactions.

Income from equity investments, net. Income from equity investments, net, increased primarily due to an increase in the profitability of TKCCP, as well as changes in the economic benefit of TWE s partnership interest in TKCCP due to the then pending dissolution of the partnership triggered by Comcast on July 3, 2006. Beginning in the third quarter of 2006, the income from TKCCP reflects 100% of the operations of the Kansas City Pool and does not reflect any of the economic benefits of the Houston Pool. In addition, income from equity investments, net reflects the benefit from the allocation of all the TKCCP debt to the Houston Pool, which reduced interest expense for the Kansas City Pool.

Minority interest expense, net. Minority interest expense, net, increased primarily reflecting the change in the ownership structure of the Company and TWE as a result of the ATC Contribution and the Redemptions.

Income tax provision. TWC s income tax provision has been prepared as if the Company operated as a stand-alone taxpayer for all periods presented. In 2006 and 2005, the Company recorded income tax provisions of $620 million and $153 million, respectively. The effective tax rate was approximately 40% in 2006 compared to approximately 12% in 2005. The increase in the effective tax rate was primarily due to the favorable impact in 2005 of state tax law changes in Ohio, an ownership restructuring in Texas and certain other methodology changes. The income tax provision for 2005, absent the noted deferred tax impacts, would have been $532 million, with a related effective tax rate of approximately 41%.

Income from continuing operations. Income from continuing operations was $936 million in 2006 compared to $1.149 billion in 2005. Basic and diluted income per common share from continuing operations were $0.95 in 2006 compared to $1.15 in 2005. These decreases were primarily due to the increase in the income tax provision, discussed above, and higher interest expense, partially offset by increased Operating Income and income from equity investments, net.

Discontinued operations, net of tax. Discontinued operations, net of tax, reflect the impact of treating the Transferred Systems as discontinued operations. In 2006 and 2005, the Company recognized pretax income applicable to these systems of $285 million and $163 million, respectively, ($1.038 billion and $104 million, respectively, net of a tax benefit). Included in the 2006 results were a pretax gain of $165 million on the Transferred Systems and a net tax benefit of $800 million comprised of a tax benefit of $814 million on the Redemptions, partially offset by a provision of $14 million on the Exchange. The tax benefit of $814 million resulted primarily from the reversal of historical deferred tax liabilities that had existed on systems transferred to Comcast in the TWC Redemption. The TWC Redemption was designed to qualify as a tax-free split-off under section 355 of the Internal Revenue Code of 1986, as amended, and as a result, such liabilities were no longer required. However, if the IRS were successful in challenging the tax-free characterization of the TWC Redemption, an additional cash liability on account of taxes of up to an estimated $900 million could become payable by the Company.

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Cumulative effect of accounting change, net of tax. In 2006, the Company recorded a benefit of $2 million, net of tax, as the cumulative effect of a change in accounting principle upon the adoption of FAS 123R, to recognize the effect of estimating the number of Time Warner equity-based awards granted to TWC employees prior to January 1, 2006 that are not ultimately expected to vest.

Net income and Net income per common share. Net income was $1.976 billion in 2006 compared to $1.253 billion in 2005. Basic and diluted net income per common share were $2.00 in 2006 compared to $1.25 in 2005.

FINANCIAL CONDITION AND LIQUIDITY

Management believes that cash generated by or available to TWC should be sufficient to fund its capital and liquidity needs for the foreseeable future. TWC s sources of cash include cash provided by operating activities, cash and equivalents on hand, available borrowing capacity under its committed credit facilities and commercial paper program and access to the capital markets. TWC s unused committed available funds were $3.881 billion as of December 31, 2007, including $232 million in cash and equivalents and $3.649 billion of available borrowing capacity under the Company s $6.0 billion senior unsecured five-year revolving credit facility.

Current Financial Condition

As of December 31, 2007, the Company had $13.577 billion of debt, $232 million of cash and equivalents (net debt of $13.345 billion, defined as total debt less cash and equivalents), $300 million of mandatorily redeemable non-voting Series A Preferred Membership Units issued by TW NY in connection with the Adelphia Acquisition (the TW NY Preferred Membership Units) and $24.706 billion of shareholders equity. As of December 31, 2006, the Company had $14.432 billion of debt, $51 million of cash and equivalents (net debt of $14.381 billion), $300 million of TW NY Preferred Membership Units and $23.564 billion of shareholders equity.

The following table shows the significant items contributing to the decrease in net debt from December 31, 2006 to December 31, 2007 (in millions):

Balance as of December 31, 2006[a]	$ 14,381
Cash provided by operating activities	(4,563)
Capital expenditures	3,433
Proceeds from the sale of certain cable systems to the Consortium	(52)
All other, net	146
Balance as of December 31, 2007[a]	$ 13,345

[a] Amounts include unamortized fair value adjustments of $126 million and $140 million as of December 31, 2007 and 2006, respectively, which were recognized as a result of the merger of America Online, Inc. (now known as AOL LLC) and Time Warner Inc. (now known as Historic TW Inc.).

Cash Flows

Cash and equivalents increased by $181 million and $39 million in 2007 and 2006, respectively, and decreased by $90 million in 2005. Components of these changes are discussed below in more detail.

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Operating Activities

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

	Years Ended December 31,		
	2007	**2006**	**2005**
OIBDA	$ 5,742	$ 4,229	$ 3,323
Net interest payments[(a)]	(845)	(662)	(507)
Net income taxes paid[(b)]	(292)	(474)	(535)
Noncash equity-based compensation	59	33	53
Net cash flows from discontinued operations[(c)]	47	112	237
Merger-related and restructuring payments, net of accruals[(d)]	(11)	(3)	30
Pension plan contributions	(1)	(101)	(91)
All other, net, including working capital changes	(136)	461	30
Cash provided by operating activities	$ 4,563	$ 3,595	$ 2,540

(a) Amounts include interest income received of $10 million and $5 million in 2007 and 2006, respectively (none in 2005).

(b) Amounts include income tax refunds received of $6 million, $4 million and $6 million in 2007, 2006 and 2005, respectively.

(c) Amounts reflect net income from discontinued operations of $1.038 billion and $104 million in 2006 and 2005, respectively (none in 2007), as well as noncash gains and expenses and working capital-related adjustments of $47 million, $(926) million and $133 million in 2007, 2006 and 2005, respectively.

(d) Amounts include payments for merger-related and restructuring costs and payments for certain other merger-related liabilities, net of accruals.

Cash provided by operating activities increased from $3.595 billion in 2006 to $4.563 billion in 2007. This increase was primarily related to an increase in OIBDA (due to revenue growth, partially offset by increases in costs of revenues and selling, general and administrative expenses, as described above) and a decrease in net income taxes paid (primarily as a result of the timing of tax-related payments to Time Warner under the Company s tax sharing arrangement, as well as tax benefits related to the Transactions) and a decrease in pension plan contributions, which were partially offset by a change in working capital requirements, an increase in net interest payments reflecting the increase in debt levels attributable to the Transactions and a decrease in cash relating to discontinued operations. The change in working capital requirements was primarily due to the timing of payments and collections of accounts receivable.

The Economic Stimulus Act of 2008, enacted in the first quarter of 2008, provides for a bonus first year depreciation deduction of 50% of qualified property. The benefits of this legislation will be applicable to certain of the Company s capital expenditures and are expected to reduce the Company s net income tax payments in 2008.

The Company expects to make discretionary cash contributions of approximately $150 million to its defined benefit pension plans during 2008, subject to market conditions and other considerations.

Cash provided by operating activities increased from $2.540 billion in 2005 to $3.595 billion in 2006. This increase was primarily related to an increase in OIBDA (due to revenue growth, partially offset by increases in costs of revenues and selling, general and administrative expenses, as described above), a decrease in working capital requirements and a decrease in net income taxes paid, partially offset by lower net cash flows from discontinued operations, an increase in net interest payments and an increase in merger-related and restructuring payments. The decrease in working capital requirements was primarily due to impact of the Transactions, as well as the timing of payments of accounts payable and accrued liabilities, partially offset by lower cash collections on receivables.

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Investing Activities

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

	Years Ended December 31, 2007	2006	2005
Investments and acquisitions, net of cash acquired and distributions received:			
Distributions received from an investee[(a)]	$ 51	$	$
Adelphia Acquisition and the Exchange[(b)]	(25)	(9,080)	
Wireless joint venture[(c)]	(33)	(633)	
Redemption of Comcast s interest in TWE		(147)	
All other	(53)	(2)	(113)
Capital expenditures from continuing operations	(3,433)	(2,718)	(1,837)
Capital expenditures from discontinued operations		(56)	(138)
Proceeds from the sale of certain cable systems to the Consortium	52		
Proceeds from the repayment by Comcast of TKCCP debt owed to TWE-A/N		631	
Proceeds from disposal of property, plant and equipment	9	6	4
Investment activities of discontinued operations			(48)
Cash used by investing activities	$ (3,432)	$ (11,999)	$ (2,132)

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

(b) Included in the cash used for the Adelphia Acquisition and the Exchange in 2006 is cash paid at closing of $8.935 billion, a contractual closing adjustment of $67 million and other transaction-related costs of $78 million. Cash used for the Adelphia Acquisition and the Exchange in 2007 primarily represents additional transaction-related costs, including working capital adjustments.

(c) Cash used for the wireless joint venture in 2006 represents the Company s initial investment in a wireless spectrum joint venture with several other cable companies (the Wireless Joint Venture). Included in cash used for the Wireless Joint Venture in 2007 is a contribution of $28 million to the Wireless Joint Venture to fund the Company s share of a payment to Sprint Nextel Corporation (Sprint) to purchase Sprint s interest in the Wireless Joint Venture for an amount equal to Sprint s capital contributions. Under certain circumstances, the remaining members have the ability to exit the Wireless Joint Venture and receive from the Wireless Joint Venture, subject to certain limitations and adjustments, advanced wireless spectrum licenses covering the areas in which they provide cable services.

Cash used by investing activities decreased from $11.999 billion in 2006 to $3.432 billion in 2007. This decrease was principally due to payments associated with the Transactions, which closed on July 31, 2006, and a decrease in investment spending related to the Company s investment in the Wireless Joint Venture. This decrease was partially offset by an increase in capital expenditures from continuing operations, driven by the Acquired Systems, as well as the continued roll-out of advanced digital services in the Legacy Systems, and the receipt of proceeds associated with the repayment by Comcast of TKCCP debt owed to TWE-A/N during 2006.

Cash used by investing activities increased from $2.132 billion in 2005 to $11.999 billion in 2006. This increase was principally due to payments associated with the Transactions, which closed on July 31, 2006, and an increase in capital expenditures from continuing operations, driven by capital expenditures associated with the integration of the Acquired Systems, the continued roll-out of advanced digital services, including Digital Phone services, and continued growth in high-speed data services. The increase also reflects the investment in the Wireless Joint Venture, partially offset by the receipt of proceeds associated with the repayment by Comcast of TKCCP debt owed to TWE-A/N during 2006 and decreases in investment spending related to the Company s equity investments and other acquisition-related expenditures and capital expenditures from discontinued operations.

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

	Years Ended December 31,		
	2007	**2006**	**2005**
Customer premise equipment[a]	$ 1,485	$ 1,125	$ 805
Scalable infrastructure[b]	604	568	325
Line extensions[c]	372	280	235
Upgrades/rebuilds[d]	315	151	113
Support capital[e]	657	594	359
Total capital expenditures	$ 3,433	$ 2,718	$ 1,837

(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 Digital Phone signals. Such equipment typically includes digital set-top boxes, remote controls, high-speed data modems, telephone modems and the costs of installing such new equipment. Customer premise equipment also includes materials and labor incurred to install the drop cable that connects a customer s dwelling or business to the closest point of the main distribution network.

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

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

(d) Amounts 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.

TWC incurs expenditures associated with the construction of its cable systems. Costs associated with the construction of the cable transmission and distribution facilities and new cable service installations are capitalized. TWC generally capitalizes expenditures for tangible fixed assets having a useful life of greater than one year. Capitalized costs include direct material, labor and overhead and interest. Sales and marketing costs, as well as the costs of repairing or maintaining existing fixed assets, are expensed as incurred. With respect to certain customer premise equipment, which includes set-top boxes and high-speed data and telephone cable modems, TWC capitalizes installation charges only upon the initial deployment of these assets. All costs incurred in subsequent disconnects and reconnects are expensed as incurred. Depreciation on these assets is provided, generally using the straight-line method, over their estimated useful lives. For set-top boxes and modems, the useful life is 3 to 5 years, and, for distribution plant, the useful life is up to 16 years.

In connection with the Transactions, TW NY acquired significant amounts of property, plant and equipment, which were recorded at their estimated fair values. The remaining useful lives assigned to such assets were generally shorter than the useful lives assigned to comparable new assets, to reflect the age, condition and intended use of the acquired property, plant and equipment.

As a result of the Transactions, the Company has made significant capital expenditures related to the continued integration of the Acquired Systems, including improvements to plant and technical performance and upgrading system capacity to allow the Company to offer its advanced services and features in the Acquired Systems. Through December 31, 2007, TWC incurred approximately $400 million of such expenditures (including approximately $200 million incurred during 2007). These upgrades were substantially completed by the end of 2007.

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Financing Activities

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

	Years Ended December 31, 2007	2006	2005
Borrowings (repayments), net[a]	$ (1,574)	$ 634	$ (422)
Borrowings[b]	8,387	10,300	
Repayments[b]	(7,679)	(975)	
Issuance of TW NY Preferred Membership Units		300	
Redemption of Comcast s interest in TWC		(1,857)	
Excess tax benefit from exercise of stock options	5	4	
Principal payments on capital leases	(4)	(3)	(1)
Distributions to owners, net[c]	(24)	(31)	(30)
Other financing activities	(61)	71	
Debt repayments of discontinued operations			(45)
Cash provided (used) by financing activities	$ (950)	$ 8,443	$ (498)

(a) Borrowings (repayments), net, reflects borrowings under the Company s commercial paper program with original maturities of three months or less, net of repayments of such borrowings. Borrowings (repayments), net, also includes $29 million and $17 million of debt issuance costs in 2007 and 2006, respectively.

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

(c) Distributions to owners, net, represents partnership tax distributions and stock option distributions.

Cash used by financing activities was $950 million in 2007 compared to cash provided by financing activities of $8.443 billion in 2006. Cash used by financing activities for 2007 included net repayments under the Company s debt obligations and payments for other financing activities, while cash provided by financing activities for 2006 included significant net borrowings primarily associated with the financing of the Transactions, the issuance of the TW NY Preferred Membership Units in connection with the Transactions and other financing activities, net of cash used in the TWC Redemption on July 31, 2006.

Cash provided by financing activities was $8.443 billion in 2006 compared to cash used by financing activities of $498 million in 2005. Cash provided by financing activities in 2006 included significant net borrowings primarily associated with the financing of the Transactions, the issuance of the TW NY Preferred Membership Units in connection with the Transactions and other financing activities, net of cash used in the TWC Redemption on July 31, 2006. Cash used by financing activities in 2005 primarily included net repayments of outstanding borrowings under the Company s commercial paper program.

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Free Cash Flow

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

	Years Ended December 31,		
	2007	**2006**	**2005**
Cash provided by operating activities	$ 4,563	$ 3,595	$ 2,540
Reconciling items:			
Discontinued operations, net of tax		(1,038)	(104)
Adjustments relating to the operating cash flow of discontinued operations	(47)	926	(133)
Cash provided by continuing operating activities	4,516	3,483	2,303
Add: Excess tax benefit from exercise of stock options	5	4	
Less:			
Capital expenditures from continuing operations	(3,433)	(2,718)	(1,837)
Partnership tax distributions, stock option distributions and principal payments on capital leases of continuing operations	(28)	(34)	(31)
Free Cash Flow	$ 1,060	$ 735	$ 435

Free Cash Flow increased from $735 million in 2006 to $1.060 billion in 2007 primarily as a result of an increase in cash provided by continuing operating activities, partially offset by an increase in capital expenditures from continuing operations, as discussed above.

Free Cash Flow increased from $435 million in 2005 to $735 million in 2006. This increase of $300 million was primarily driven by a $906 million increase in OIBDA, as previously discussed, and a decrease in working capital requirements, partially offset by an increase in capital expenditures from continuing operations.

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Outstanding Debt and Mandatorily Redeemable Preferred Equity and Available Financial Capacity

Debt and mandatorily redeemable preferred equity as of December 31, 2007 and December 31, 2006 were as follows:

	Interest Rate at December 31, 2007	Maturity	Outstanding Balance as of December 31, 2007	December 31, 2006
			(in millions)	
Bank credit agreements and commercial paper program[a][b]	5.391%[c]	2011	$ 5,256	$ 11,077
TWE notes and debentures[d][e]	7.250%[f]	2008	601	602
	10.150%[f]	2012	267	271
	8.875%[f]	2012	365	369
	8.375%[f]	2023	1,040	1,043
	8.375%[f]	2033	1,053	1,055
TWC notes and debentures	5.400%[g]	2012	1,498	
	5.850%[g]	2017	1,996	
	6.550%[g]	2037	1,491	
TW NY Preferred Membership Units	8.210%	2013	300	300
Capital leases and other			10[h]	15[h]
Total			$ 13,877	$ 14,732

(a) Unused capacity, which includes $232 million and $51 million in cash and equivalents as of December 31, 2007 and 2006, respectively, equals $3.881 billion and $2.798 billion as of December 31, 2007 and 2006, respectively. Unused capacity as of December 31, 2007 and 2006 reflects a reduction of $135 million and $159 million, respectively, for outstanding letters of credit backed by the Company s senior unsecured five-year revolving credit facility.

(b) Outstanding balance amounts exclude an unamortized discount on commercial paper of $5 million and $17 million as of December 31, 2007 and 2006, respectively.

(c) Rate represents a weighted-average interest rate.

(d) Amounts include an unamortized fair value adjustment of $126 million and $140 million as of December 31, 2007 and 2006, respectively.

(e) As of December 31, 2007, the Company has classified $601 million of TWE debentures due within the next twelve months as long-term in the accompanying consolidated balance sheet to reflect management s intent and ability to refinance the obligation on a long-term basis through the utilization of the unused committed capacity under the Company s senior unsecured five-year revolving credit facility, if necessary.

(f) Rate represents the stated rate at original issuance. The effective weighted-average interest rate for the TWE notes and debentures in the aggregate is 7.64% at December 31, 2007.

(g)

Rate represents the stated rate at original issuance. The effective weighted-average interest rate for the TWC notes and debentures in the aggregate is 5.97% at December 31, 2007.

(h) Amounts include $4 million of capital leases due within one year as of December 31, 2006 (none as of December 31, 2007).

See Note 8 to the accompanying consolidated financial statements for further details regarding the Company s outstanding debt and mandatorily redeemable preferred equity and other financing arrangements, including certain information about maturities, covenants, rating triggers and bank credit agreement leverage ratios relating to such debt and financing arrangements.

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Contractual and Other Obligations

Contractual Obligations

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

The following table summarizes the Company s aggregate contractual obligations at December 31, 2007, and the estimated timing and effect that such obligations are expected to have on the Company s liquidity and cash flows in future periods. TWC expects to fund these obligations with cash provided by operating activities generated in the ordinary course of business.

	2008	2009-2010	2011-2012	2013 and thereafter	Total
			(in millions)		
Programming purchases[a]	$ 2,955	$ 4,574	$ 2,964	$ 812	$ 11,305
Outstanding debt obligations and TW NY Preferred Membership Units[b]	600		7,370	5,801	13,771
Interest and dividends[c]	862	1,665	1,073	5,488	9,088
Facility leases[d]	101	174	143	324	742
Data processing services	47	93	83	6	229
High-speed data connectivity[e]	49	39	4	20	112
Digital Phone connectivity[f]	314	616	232		1,162
Set-top box and modem purchases	71				71
Other	74	60	4	8	146
Total	$ 5,073	$ 7,221	$ 11,873	$ 12,459	$ 36,626

(a) Programming purchases represent contracts that the Company has with cable television networks to provide programming services to its subscribers. Typically, these arrangements provide that the Company purchase cable television programming for a certain number of subscribers as long as the Company is providing cable services to such number of subscribers. There is generally no obligation to purchase these services if the Company is not providing cable services. Programming fees represent a significant portion of its costs of revenues. Future fees under such contracts are based on numerous variables, including number and type of customers. The amounts included above represent estimates of future programming costs based on subscriber numbers at December 31, 2007 applied to the per-subscriber contractual rates contained in the contracts that were in effect as of December 31, 2007, for which the Company does not have the right to cancel the contract or for contracts with a guaranteed minimum commitment.

(b) Outstanding debt obligations and TW NY Preferred Membership Units represent principal amounts due on outstanding debt obligations and the TW NY Preferred Membership Units as of December 31, 2007. Amounts do not include any fair value adjustments, bond premiums, discounts, interest payments or dividends.

(c) With the exception of commercial paper issued under the Company s commercial paper program, amounts are based on the outstanding debt or TW NY Preferred Membership Units balances, respective interest or dividend rates (interest rates on variable-rate debt were held constant through maturity at the December 31, 2007 rates) and maturity schedule of the respective instruments as of December 31, 2007. With regard to commercial paper issued under the commercial paper program, amounts assume the outstanding commercial paper and interest rates at December 31, 2007 will remain outstanding through the maturity of the respective underlying credit facility. Interest ultimately paid on these obligations may differ based on changes in interest rates for variable-rate debt, as well as any potential future refinancings entered into by the Company. See Note 8 to the accompanying consolidated financial statements for further details.

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

(e) High-speed data connectivity obligations are based on the contractual terms for bandwidth circuits that were in use at December 31, 2007.

(f) Digital Phone connectivity obligations relate to transport, switching and interconnection services that allow for the origination and termination of local and long-distance telephony traffic. These expenses also include related technical support services. There is generally no obligation to purchase these services if the Company is not providing Digital Phone service. The amounts included above are based on the number of Digital Phone subscribers at December 31, 2007 and the per-subscriber contractual rates contained in the contracts that were in effect as of December 31, 2007.

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The Company s total rent expense, which primarily includes facility rental expense and pole attachment rental fees, amounted to $182 million in 2007, $149 million in 2006 and $98 million in 2005.

Contingent Commitments

The Six Flags Guarantee

Prior to the restructuring of TWE, which was completed in March 2003 (the TWE Restructuring), TWE had various contingent commitments, including guarantees, related to TWE s non-cable businesses, including Warner Bros., Home Box Office, and TWE s interests in The WB Television Network (which has subsequently ceased operations), Comedy Central (which was subsequently sold) and the Courtroom Television Network (d/b/a truTV effective January 1, 2008) (collectively, the Non-cable Businesses). In connection with the TWE Restructuring, some of these commitments were not transferred with their applicable Non-cable Business and they remain contingent commitments of TWE. Specifically, in connection with the Non-cable Businesses former investment in the Six Flags theme parks located in Georgia and Texas (Six Flags Georgia and Six Flags Texas, respectively, and, collectively, the Parks), in 1997, Time Warner and TWE each agreed to guarantee (the Six Flags Guarantee) certain obligations of the partnerships that hold the Parks (the Partnerships) for the benefit of the limited partners in such Partnerships, including the following (the Guaranteed Obligations): (a) making a minimum annual distribution to the limited partners of the Partnerships (the minimum was approximately $58.2 million in 2007 and is subject to annual cost of living adjustments); (b) making a minimum amount of capital expenditures each year (an amount approximating 6% of the Parks annual revenues); (c) offering each year to purchase 5% of the limited partnership units of the Partnerships (plus any such units not purchased pursuant to such offer in any prior year) based on an aggregate price for all limited partnership units at the higher of (i) $250 million in the case of Six Flags Georgia and $374.8 million in the case of Six Flags Texas (the Base Valuations) and (ii) a weighted average multiple of EBITDA for the respective Park over the previous four-year period (the Cumulative LP Unit Purchase Obligation); (d) making annual ground lease payments; and (e) either (i) purchasing all of the outstanding limited partnership units through the exercise of a call option upon the earlier of the occurrence of certain specified events and the end of the term of each of the Partnerships in 2027 (Six Flags Georgia) and 2028 (Six Flags Texas) (the End of Term Purchase) or (ii) causing each of the Partnerships to have no indebtedness and to meet certain other financial tests as of the end of the term of the Partnership. The aggregate amount payable in connection with an End of Term Purchase option on either Park will be the Base Valuation applicable to such Park, adjusted for changes in the consumer price index from December 1996, in the case of Six Flags Georgia, and December 1997, in the case of Six Flags Texas, through December of the year immediately preceding the year in which the End of Term Purchase occurs, in each case, reduced ratably to reflect limited partnership units previously purchased.

In connection with Time Warner s 1998 sale of Six Flags Entertainment Corporation (which held the controlling interests in the Parks) to Six Flags Inc. (formerly Premier Parks Inc.) (Six Flags), Six Flags, Historic TW Inc. (formerly known as Time Warner Inc., Historic TW) and TWE, among others, entered into a Subordinated Indemnity Agreement pursuant to which Six Flags agreed to guarantee the performance of the Guaranteed Obligations when due and to indemnify Historic TW and TWE, among others, in the event that the Guaranteed Obligations are not performed and the Six Flags Guarantee is called upon. In the event of a default of Six Flags obligations under the Subordinated Indemnity Agreement, the Subordinated Indemnity Agreement and related agreements provide, among other things, that Historic TW and TWE have the right to acquire control of the managing partner of the Parks. Six

Flags obligations to Historic TW and TWE are further secured by its interest in all limited partnership units that are held by Six Flags.

Additionally, Time Warner and Warner Communications Inc. (WCI), a subsidiary of Time Warner, have agreed, on a joint and several basis, to indemnify TWE from and against any and all of these contingent liabilities, but TWE remains a party to these commitments. In the event that TWE is required to make a payment related to any contingent liabilities of the TWE Non-cable Businesses, TWE will recognize an expense from discontinued operations and will receive a capital contribution from Time Warner and/or its subsidiary, WCI, for reimbursement

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of the incurred expenses. Additionally, costs related to any acquisition and subsequent distribution to Time Warner would also be treated as an expense of discontinued operations to be reimbursed by Time Warner.

In November 2007, Moody s Investors Service, Standard & Poor s and Fitch Ratings downgraded their credit ratings for Six Flags. To date, no payments have been made by Historic TW or TWE pursuant to the Six Flags Guarantee. In its quarterly report on Form 10-Q for the period ended September 30, 2007, Six Flags reported an estimated maximum Cumulative LP Unit Purchase Obligation for 2008 of approximately $305 million. The aggregate undiscounted estimated future cash flow requirements covered by the Six Flags Guarantee over the remaining term of the agreements are approximately $1.4 billion. Six Flags has also disclosed that it has deposited approximately $13 million in an escrow account as a source of funds in the event Historic Time Warner or TWE is required to fund any portion of the Guaranteed Obligations in the future.

Because the Six Flags Guarantee existed prior to the Company s adoption of FASB Interpretation No. 45, *Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others* (FIN 45), and no modifications to the arrangements have been made since the date the guarantee came into existence, the recognition requirements of FIN 45 are not applicable to the arrangements and the Company has continued to account for the Guaranteed Obligations in accordance with FASB Statement No. 5, *Accounting for Contingencies*. Based on its evaluation of the current facts and circumstances surrounding the Guaranteed Obligations and the Subordinated Indemnity Agreement (including the recent financial performance reported for the Parks and by Six Flags), the Company has concluded that a probable loss does not exist and consequently, no liability for the arrangements has been recognized at December 31, 2007. Because of the specific circumstances surrounding the arrangements and the fact that no active or observable market exists for this type of financial guarantee, the Company is unable to determine a current fair value for the Guaranteed Obligations and related Subordinated Indemnity Agreement.

Other Contingent Commitments

TWC has cable franchise agreements containing provisions requiring the construction of cable plant and the provision of services to customers within the franchise areas. In connection with these obligations under existing franchise agreements, TWC obtains surety bonds or letters of credit guaranteeing performance to municipalities and public utilities and payment of insurance premiums. Such surety bonds and letters of credit as of December 31, 2007 and 2006 totaled $299 million and $328 million, respectively. Payments under these arrangements are required only in the event of nonperformance. TWC does not expect that these contingent commitments will result in any amounts being paid in the foreseeable future.

TWC is required to make cash distributions to Time Warner when employees of the Company exercise previously issued Time Warner stock options. For more information, see Market Risk Management Equity Risk below.

MARKET RISK MANAGEMENT

Market risk is the potential gain/loss arising from changes in market rates and prices, such as interest rates.

Interest Rate Risk

Variable-rate Debt

As of December 31, 2007, TWC had an outstanding balance of variable-rate debt of $5.256 billion, which excludes an unamortized discount adjustment of $5 million. Based on TWC s variable-rate obligations outstanding at December 31, 2007, each 25 basis point increase or decrease in the level of interest rates would, respectively, increase or decrease TWC s annual interest expense and related cash payments by approximately $13 million. Such potential increases or decreases are based on certain simplifying assumptions, including a constant level of variable-rate debt for all maturities and an immediate, across-the-board increase or decrease in the level of interest rates with no other subsequent changes for the remainder of the period.

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Fixed-rate Debt and TW NY Preferred Membership Units

As of December 31, 2007, TWC had fixed-rate debt and TW NY Preferred Membership Units with an outstanding balance of $8.611 billion, including an unamortized fair value adjustment of $126 million, and a fair value of $9.034 billion. Based on TWC s fixed-rate debt obligations outstanding at December 31, 2007, a 25 basis point increase or decrease in the level of interest rates would, respectively, decrease or increase the fair value of the fixed-rate debt by approximately $174 million. Such potential increases or decreases are based on certain simplifying assumptions, including a constant level of fixed-rate debt and an immediate, across-the-board increase or decrease in the level of interest rates with no other subsequent changes for the remainder of the period.

Equity Risk

Some of TWC s employees have been granted options to purchase shares of Time Warner common stock in connection with their past employment with subsidiaries and affiliates of Time Warner. TWC has agreed that, upon the exercise by any of its officers or employees of any options to purchase Time Warner common stock, TWC will reimburse Time Warner in an amount equal to the excess of the closing price of a share of Time Warner common stock on the date of the exercise of the option over the aggregate exercise price paid by the exercising officer or employee for each share of Time Warner common stock. At December 31, 2007, TWC had accrued $36 million of stock option distributions payable to Time Warner. That amount, which is not payable until the underlying options are exercised and then only subject to limitations on cash distributions in accordance with the senior unsecured revolving credit facilities, will be adjusted in subsequent accounting periods based on changes in the quoted market prices for Time Warner s common stock. See Note 10 to the accompanying consolidated financial statements.

CRITICAL ACCOUNTING POLICIES

The SEC considers an accounting policy to be critical if it is important to the Company s financial condition and results of operations, and if it requires significant judgment and estimates on the part of management in its application. The development and selection of these critical accounting policies have been determined by the management of TWC and the related disclosures have been reviewed with the Audit Committee of the Board of Directors of TWC. Due to the significant judgment involved in selecting certain of the assumptions used in these areas, it is possible that different parties could choose different assumptions and reach different conclusions. For a summary of all of the Company s significant accounting policies, see Note 3 to the accompanying consolidated financial statements.

Asset Impairments

Goodwill and Indefinite-lived Intangible Assets

Goodwill impairment is determined using a two-step process. The first step of the process is to compare the fair value of a reporting unit with its carrying amount, including goodwill. In performing the first step, the Company determines the fair value of a reporting unit by using two valuation techniques: a discounted cash flow (DCF) analysis and a market-based approach. Determining fair value requires the exercise of significant judgments, including judgments about appropriate discount rates, perpetual growth rates, relevant comparable company earnings multiples and the amount and timing of expected future cash flows. The cash flows employed in the DCF analyses are based on TWC s budget and long-term business plan, and various growth rates have been assumed for years beyond the long-term business plan period. Discount rate assumptions are based on an assessment of the risk inherent in the future cash flows of the respective reporting units. In assessing the reasonableness of its determined fair values, the Company evaluates its results against other value indicators such as comparable company public trading values, research analyst estimates and values observed in private market transactions. If the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is not impaired and the second step of the impairment test is not necessary. If the carrying amount of a reporting unit exceeds its fair value, the second step of the goodwill impairment test is required to be performed to measure the amount of impairment loss, if any. The second step of the goodwill impairment test compares the implied fair value of the reporting unit s goodwill with the

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carrying amount of that goodwill. The implied fair value of goodwill is determined in the same manner as the amount of goodwill recognized in a business combination. In other words, the estimated fair value of the reporting unit is allocated to all of the assets and liabilities of that unit (including any unrecognized intangible assets) as if the reporting unit had been acquired in a business combination and the fair value of the reporting unit was the purchase price paid. If the carrying amount of the reporting unit s goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess.

The impairment test for other intangible assets not subject to amortization involves a comparison of the estimated fair value of the intangible asset with its carrying value. If the carrying value of the intangible asset exceeds its fair value, an impairment loss is recognized in an amount equal to that excess. The estimates of fair value of intangible assets not subject to amortization are determined using a DCF valuation analysis. The DCF methodology used to value cable franchises entails identifying the projected discrete cash flows related to such franchises and discounting them back to the valuation date. Significant judgments inherent in this analysis include the determination of discount rates, cash flows attributable to cable franchises and the terminal growth rates. Discount rate assumptions are based on an assessment of the risk inherent in the future cash flows generated as a result of the respective intangible assets.

Goodwill and indefinite-lived intangible assets, primarily the Company s cable franchise agreements, are tested annually for impairment during the fourth quarter or earlier upon the occurrence of certain events or substantive changes in circumstances. The Company s 2007 annual impairment analysis, which was performed during the fourth quarter, did not result in any impairment charges. However, over the past year, the decline in the Company s stock price has resulted in a lower estimated fair value for each of the Company s reporting units. Similarly, the Company has experienced declines in the values of its cable franchises. The result of this decline is that the estimated fair value of the Los Angeles reporting unit approximates its carrying value, and the fair values of the cable franchises in many of the Company s geographic regions approximate their carrying values. Accordingly, any future declines in estimated fair values will likely result in goodwill and cable franchise impairment charges. It is possible that such charges, if required, could be recorded prior to the fourth quarter of 2008 (i.e., during an interim period) if the Company s stock price, its results of operations, or other factors require such assets to be tested for impairment at an interim date.

To illustrate the magnitude of a potential impairment charge relative to future changes in estimated fair value, had the fair values of each of the reporting units and cable franchises been hypothetically lower by 10% as of December 31, 2007, the Company would have recorded goodwill and cable franchise impairment charges of approximately $1.5 billion, and had each of the values been hypothetically lower by 20%, the Company would have recorded goodwill and cable franchise impairment charges of approximately $5.0 billion.

Long-lived Assets

Long-lived assets (e.g., customer relationships and property, plant and equipment) do not require that an annual impairment test be performed; instead, long-lived assets are tested for impairment upon the occurrence of a triggering event. Triggering events include the likely (i.e., more likely than not) disposal of a portion of such assets or the occurrence of an adverse change in the market involving the business employing the related assets. Once a triggering event has occurred, the impairment test employed is based on whether the intent is to hold the asset for continued use or to hold the asset for sale. If the intent is to hold the asset for continued use, the impairment test first requires a comparison of undiscounted future cash flows against the carrying value of the asset. If the carrying value of the asset exceeds the undiscounted cash flows, the asset would be deemed to be impaired. Impairment would then be measured as the difference between the fair value of the asset and its carrying value. Fair value is generally determined by discounting the future cash flows associated with that asset. If the intent is to hold the asset for sale and certain other criteria are met (e.g., the asset can be disposed of currently, appropriate levels of authority have approved the sale, and there is an active program to locate a buyer), the impairment test involves comparing the

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asset s carrying value to its fair value. To the extent the carrying value is greater than the asset s fair value, an impairment loss is recognized for the difference.

Significant judgments in this area involve determining whether a triggering event has occurred, determining the future cash flows for the assets involved and determining the proper discount rate to be applied in determining fair value. In 2007, there were no significant long-lived asset impairments.

Multiple-element Transactions

Multiple-element transactions involve situations where judgment must be exercised in determining the fair value of the different elements in a bundled transaction. As the term is used here, multiple-element arrangements can involve:

- Contemporaneous purchases and sales (e.g., the Company sells advertising services to a customer and at the same time purchases programming services);
- Sales of multiple products and/or services (e.g., the Company sells video, high-speed data and voice services to a customer); and/or
- Purchases of multiple products and/or services, or the settlement of an outstanding item contemporaneous with the purchase of a product or service (e.g., the Company settles a dispute on an existing programming contract at the same time that it enters into a new programming contract with the same programming vendor).

Contemporaneous Purchases and Sales

In the normal course of business, TWC enters into multiple-element transactions where the Company is simultaneously both a customer and a vendor with the same counterparty. For example, when negotiating the terms of programming purchase contracts with cable networks, TWC may at the same time negotiate for the sale of advertising to the same cable network. Arrangements, although negotiated contemporaneously, may be documented in one or more contracts. In accounting for such arrangements, the Company looks to the guidance contained in the following authoritative literature:

- Accounting Principles Board Opinion No. 29, *Accounting for Nonmonetary Transactions*;
- FASB Statement No. 153, *Exchanges of Nonmonetary Assets an amendment of APB Opinion No. 29*;
- Emerging Issues Task Force (EITF) Issue No. 01-9, *Accounting for Consideration Given by a Vendor to a Customer*; and
- EITF Issue No. 02-16, *Accounting by a Customer (Including a Reseller) for Certain Consideration Received from a Vendor* (EITF 02-16).

The Company s accounting policy for each transaction negotiated contemporaneously is to record each element of the transaction based on the respective estimated fair values of the products or services purchased and the products or services sold. The judgments made in determining fair value in such transactions impact the amount of revenues, expenses and net income recognized over the respective terms of the transactions, as well as the respective periods in which they are recognized.

In determining the fair value of the respective elements, TWC refers to quoted market prices (where available), historical transactions or comparable cash transactions. The most frequent transactions of this type that the Company encounters involve funds received from its vendors, which the Company accounts for in accordance with EITF 02-16. The Company records cash consideration received from a vendor as a reduction in the price of the vendor s product unless (i) the consideration is for the reimbursement of a specific, incremental, identifiable cost incurred in which case it would record the cash consideration received as a reduction in such cost or (ii) the Company is providing an identifiable benefit in exchange for the consideration in which case it recognizes revenue for this element.

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Sales of Multiple Products or Services

The Company s policy for revenue recognition in instances where multiple deliverables are sold contemporaneously to the same counterparty is based on the guidelines of EITF Issue No. 00-21, *Revenue Arrangements with Multiple Deliverables*, and SEC Staff Accounting Bulletin No. 104, *Revenue Recognition.* Specifically, if the Company enters into sales contracts for the sale of multiple products or services, then the Company evaluates whether it has fair value evidence for each deliverable in the transaction. If the Company has fair value evidence for each deliverable of the transaction, then it accounts for each deliverable in the transaction separately, based on the relevant revenue recognition accounting policies. If the Company is unable to determine fair value for one or more undelivered elements of the transaction, the Company recognizes revenue on a straight-line basis over the term of the agreement. For example, the Company sells video, high-speed data and voice services to subscribers in a bundled package at a rate lower than if the subscriber purchases each product on an individual basis. Subscription revenues received from such subscribers are allocated to each product in a pro-rata manner based on the fair value of each of the respective services.

Purchases of Multiple Products or Services

The Company s policy for cost recognition in instances where multiple products or services are purchased contemporaneously from the same counterparty is consistent with the Company s policy for the sale of multiple deliverables to a customer. Specifically, if the Company enters into a contract for the purchase of multiple products or services, the Company evaluates whether it has fair value evidence for each product or service being purchased. If the Company has fair value evidence for each product or service being purchased, it accounts for each separately, based on the relevant cost recognition accounting policies. If the Company is unable to determine fair value for one or more of the purchased elements, the Company recognizes the cost of the transaction on a straight-line basis over the term of the agreement.

This policy also applies in instances where the Company settles a dispute at the same time the Company purchases a product or service from that same counterparty. For example, the Company may settle a dispute on an existing programming contract with a programming vendor at the same time that it enters into a new programming contract with the same programming vendor. Because the Company is negotiating both the settlement of the dispute and a new programming contract, each of the elements is evaluated to ensure it is accounted for at fair value. The amount allocated to the settlement of the dispute, if determinable and supportable, would be recognized immediately, whereas the amount allocated to the new programming contract would be accounted for prospectively, consistent with the accounting for other similar programming agreements. In the event the fair value of the two elements could not be established, the net amount paid or payable to the vendor would be recognized over the term of the new or amended programming contract.

Property, Plant and Equipment

TWC incurs expenditures associated with the construction of its cable systems. Costs associated with the construction of the cable transmission and distribution facilities and new cable service installations are capitalized. With respect to certain customer premise equipment, which includes set-top boxes and high-speed data and voice cable modems, TWC capitalizes installation charges only upon the initial deployment of these assets. All costs incurred in subsequent disconnects and reconnects are expensed as incurred. Depreciation on these assets is provided generally on a straight-line basis over their estimated useful lives.

TWC uses standard costing models to capitalize installation activities. Significant judgment is involved in the development of these costing models, including the average time required to perform an installation and the determination of the nature and amount of indirect costs to be capitalized. Additionally, the development of standard costing models for new products such as Digital Phone involve more estimates than the standard costing models for established products because the Company has less historical data related to the installation of new

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products. The standard costing models are reviewed annually and adjusted prospectively, if necessary, based on comparisons to actual costs incurred.

TWC generally capitalizes expenditures for tangible fixed assets having a useful life of greater than one year. Types of capitalized expenditures include: customer premise equipment, scalable infrastructure, line extensions, plant upgrades and rebuilds and support capital. For set-top boxes and modems, useful life is generally 3 to 5 years and for distribution plant, useful life is up to 16 years. In connection with the Transactions, TW NY acquired significant amounts of property, plant and equipment, which were recorded at their estimated fair values. The remaining useful lives assigned to such assets were generally shorter than the useful lives assigned to comparable new assets, to reflect the age, condition and intended use of the acquired property, plant and equipment.

Programming Agreements

The Company exercises significant judgment in estimating programming expense associated with certain video programming contracts. The Company s policy is to record video programming costs based on the Company s contractual agreements with its programming vendors, which are generally multi-year agreements that provide for the Company to make payments to the programming vendors at agreed upon rates, which represent fair market value, based on the number of subscribers to which the Company provides the service. If a programming contract expires prior to the parties entry into a new agreement, management estimates the programming costs during the period there is no contract in place. Management considers the previous contractual rates, inflation and the status of the negotiations in determining its estimates. When the programming contract terms are finalized, an adjustment to programming expense is recorded, if necessary, to reflect the terms of the new contract. Management also makes estimates in the recognition of programming expense related to other items, such as the accounting for free periods and service interruptions, as well as the allocation of consideration exchanged between the parties in multiple-element transactions. Additionally, judgments are also required by management when the Company purchases multiple services from the same cable programming vendor. In these scenarios, the total consideration provided to the programming vendor is required to be allocated to the various services received based upon their respective fair values. Because multiple services from the same programming vendor are often received over different contractual periods and often have different contractual rates, the allocation of consideration to the individual services will have an impact on the timing of the Company s expense recognition.

Income Taxes

From time to time, the Company engages in transactions in which the tax consequences may be subject to uncertainty. Examples of such transactions include business acquisitions and dispositions, including those designed to be tax free, issues related to consideration paid or received, and certain financing transactions. Significant judgment is required in assessing and estimating the tax consequences of these transactions. The Company prepares and files tax returns based on interpretation of tax laws and regulations. In the normal course of business, the Company s tax returns are subject to examination by various taxing authorities. Such examinations may result in future tax and interest assessments by these taxing authorities. In determining the Company s tax provision for financial reporting purposes, the Company establishes a reserve for uncertain tax positions unless such positions are determined to be more likely than not of being sustained upon examination, based on their technical merits. That is, for financial reporting purposes, the Company only recognizes tax benefits taken on the tax return that it believes are more likely than not of being sustained. There is considerable judgment involved in determining whether positions taken on the tax return are more likely than not of being sustained.

The Company adjusts its tax reserve estimates periodically because of ongoing examinations by, and settlements with, the various taxing authorities, as well as changes in tax laws, regulations and interpretations. The consolidated tax provision of any given year includes adjustments to prior year income tax accruals that are considered appropriate and any related estimated interest.

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

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

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

Further, lower than expected valuations associated with the Company s cash flows and revenues may result in the Company s inability to realize the value of recorded intangibles and goodwill. Additionally, achieving the Company s financial objectives could be adversely affected by the factors discussed in detail in Item 1A, Risk Factors, in Part I of this report, as well as:

- economic slowdowns;
- the impact of terrorist acts and hostilities;
- changes in the Company s plans, strategies and intentions;
- the impacts of significant acquisitions, dispositions and other similar transactions;
- the failure to meet earnings expectations; and
- decreased liquidity in the capital markets, including any reduction in the ability to access the capital markets for debt securities or bank financings.

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TIME WARNER CABLE INC.
CONSOLIDATED BALANCE SHEET

	December 31, 2007	December 31, 2006
	(in millions)	
ASSETS		
Current assets		
Cash and equivalents	$ 232	$ 51
Receivables, less allowances of $87 million in 2007 and $73 million in 2006	743	632
Receivables from affiliated parties	2	98
Prepaid expenses and other current assets	95	77
Deferred income tax assets	91	78
Current assets of discontinued operations		52
Total current assets	1,163	988
Investments	735	2,072
Property, plant and equipment, net	12,873	11,601
Intangible assets subject to amortization, net	719	876
Intangible assets not subject to amortization	38,925	38,051
Goodwill	2,117	2,059
Other assets	68	174
Total assets	$ 56,600	$ 55,821
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities		
Accounts payable	$ 417	$ 516
Deferred revenue and subscriber-related liabilities	164	156
Payables to affiliated parties	204	165
Accrued programming expense	509	524
Other current liabilities	1,237	1,113
Current liabilities of discontinued operations	5	16
Total current liabilities	2,536	2,490
Long-term debt	13,577	14,428
Mandatorily redeemable preferred membership units issued by a subsidiary	300	300
Deferred income tax liabilities, net	13,291	12,980
Long-term payables to affiliated parties	36	137
Other liabilities	430	296
Noncurrent liabilities of discontinued operations		2
Minority interests	1,724	1,624
Commitments and contingencies (Note 14)		
Shareholders equity		

Class A common stock, $0.01 par value, 902 million shares issued and outstanding as of December 31, 2007 and 2006, respectively	9	9
Class B common stock, $0.01 par value, 75 million shares issued and outstanding as of December 31, 2007 and 2006, respectively	1	1
Paid-in-capital	19,411	19,314
Accumulated other comprehensive loss, net	(174)	(130)
Retained earnings	5,459	4,370