TIME WARNER CABLE INC.
Form 10-Q
August 01, 2013
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended June 30, 2013 or

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

Commission File Number: 001-33335

TIME WARNER CABLE INC.

(Exact name of registrant as specified in its charter)

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

60 Columbus Circle

New York, New York 10023

(Address of principal executive offices) (Zip Code)

(212) 364-8200

(Registrant s telephone number, including area code)

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

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

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

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

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

Description of Class	Shares Outstanding as of July 30, 2013
Common Stock $0.01 par value	285,782,369

TIME WARNER CABLE INC.

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MANAGEMENT S DISCUSSION AND ANALYSIS OF RESULTS

OF OPERATIONS AND FINANCIAL CONDITION

INTRODUCTION

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

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

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

Results of operations. This section provides an analysis of the Company s results of operations for the three and six months ended June 30, 2013.

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

Caution concerning forward-looking statements. This section provides a description of the use of forward-looking information appearing in this report, including in MD&A and the consolidated financial statements. Such information is based on management s current expectations about future events, which are subject to uncertainty and changes in circumstances. Refer to the Company s Annual Report on Form 10-K for the year ended December 31, 2012 (the 2012 Form 10-K) for a discussion of the risk factors applicable to the Company.

OVERVIEW

TWC is among the largest providers of video, high-speed data and voice services in the U.S., with technologically advanced, well-clustered cable systems located mainly in five geographic areas New York State (including New York City), the Carolinas, the Midwest (including Ohio, Kentucky and Wisconsin), Southern California (including Los Angeles) and Texas. As of June 30, 2013, TWC served approximately 15.2 million customers (approximately 14.6 million residential services customers and 592,000 business services customers) who subscribed to one or more of its three primary services, totaling approximately 28.7 million primary service units.

TWC offers video, high-speed data and voice services to residential and business services customers over the Company s broadband cable systems. TWC s business services also include networking and transport services (including cell tower backhaul services) and enterprise-class, cloud-enabled hosting, managed applications and services. During the six months ended June 30, 2013, TWC generated total revenue of approximately $11.0 billion. Of this total, approximately $9.2 billion and $1.1 billion were from the provision of residential and business services, respectively. TWC also sells advertising to a variety of national, regional and local customers, which resulted in advertising revenue of $488 million during the six months ended June 30, 2013. Additionally, TWC generated $192 million of revenue from other sources during the six months ended June 30, 2013.

As of June 30, 2013, TWC had approximately 11.7 million residential video subscribers, 11.1 million residential high-speed data subscribers and 4.9 million residential voice subscribers, as well as 191,000 business video subscribers, 485,000 business high-speed data subscribers and 250,000 business voice subscribers. TWC markets its services separately and in bundled packages of multiple services and features. As of June 30, 2013, 61.0% of TWC s customers subscribed to two or more of its primary services, including 27.6% of its customers who subscribed to all three primary services.

TWC believes it will continue to increase business services revenue for the foreseeable future through growth in customers, an increasing percentage of customers purchasing more services, as well as higher-priced tiers of service, and price increases. TWC also believes it will continue to increase residential services revenue for the foreseeable future, primarily through growth in residential high-speed data revenue, which is expected to increase due to growth in subscribers, an increasing percentage of subscribers purchasing higher-priced tiers of service and increases in prices and equipment rental charges. Future revenue growth rates will depend on the Company s ability to attract, retain and upsell customers and increase pricing, which can be impacted by competitive factors, the state of the economy and regulation.

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

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

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

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

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

Recent Developments

Common Stock Repurchase Program

On July 25, 2013, the Company s Board of Directors increased the remaining authorization under its existing common stock repurchase program (the Stock Repurchase Program), which was $775 million as of July 24, 2013, to an aggregate of up to $4.0 billion of TWC common stock effective July 25, 2013. Purchases under the Stock Repurchase Program may be made from time to time on the open market and in privately negotiated transactions. The size and timing of the Company s purchases under the Stock Repurchase Program are based on a number of factors, including business and market conditions, financial capacity and TWC s common stock price. From the inception of the Stock Repurchase Program in the fourth quarter of 2010 through July 30, 2013, the Company repurchased 82.8 million shares of TWC common stock for $6.505 billion, of which $1.495 billion was repurchased during 2013. As of July 30, 2013, the Company had $3.962 billion remaining under the Stock Repurchase Program. Absent any significant events, the Company expects to repurchase at least $2.5 billion of TWC common stock during 2013.

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OF OPERATIONS AND FINANCIAL CONDITION (Continued)

FINANCIAL STATEMENT PRESENTATION

Revenue

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

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

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

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

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

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

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

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

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

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

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

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

Advertising. Advertising revenue is generated through the sale of video and online advertising inventory to local, regional and national advertising customers. The Company derives most of its advertising revenue from the sale of advertising inventory on cable networks owned by third parties. The rights to such advertising inventory are acquired by the

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Company in connection with its agreements to carry such networks or through contractual agreements to sell advertising inventory on behalf of other video distributors (including, among others, Verizon Communications Inc. s FiOS and AT&T Inc. s U-verse). The Company also generates advertising revenue from the sale of inventory on its own local sports, news and lifestyle channels (e.g., Time Warner Cable SportsNet and Time Warner Cable Deportes (collectively, the LA RSNs, discussed further below) and NY1 News) and related websites.

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

Costs and Expenses

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

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

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

Use of Operating Income before Depreciation and Amortization

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

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

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

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

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Basis of Presentation

Reclassifications

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

RESULTS OF OPERATIONS

Three and Six Months Ended June 30, 2013 Compared to Three and Six Months Ended June 30, 2012

The following discussion provides an analysis of the Company s results of operations and should be read in conjunction with the accompanying consolidated statement of operations, as well as the consolidated financial statements and notes thereto and MD&A included in the 2012 Form 10-K.

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

	Three Months Ended June 30,		%	Six Months Ended June 30,		%
	2013	2012	Change	2013[(a)]	2012	Change[(a)]
Residential services	$ 4,632	$ 4,617	0.3%	$ 9,243	$ 9,050	2.1%
Business services	565	464	21.8%	1,102	893	23.4%
Advertising	260	265	(1.9%)	488	476	2.5%
Other	93	58	60.3%	192	119	61.3%
Total	$ 5,550	$ 5,404	2.7%	$ 11,025	$ 10,538	4.6%

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

Residential services	$ 165
Business services	12
Advertising	6
Other	

Total	$	183

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OF OPERATIONS AND FINANCIAL CONDITION (Continued)

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

	June 30,		
	2013	**2012**	**% Change**
Residential services:			
Customer relationships[a]	14,600	14,755	(1.1%)
Video[b]	11,720	12,299	(4.7%)
High-speed data[c]	11,074	10,775	2.8%
Voice[d]	4,933	4,990	(1.1%)
Business services:			
Customer relationships[a]	592	538	10.0%
Video[b]	191	185	3.2%
High-speed data[c]	485	433	12.0%
Voice[d]	250	198	26.3%
Total:			
Single play[e]	5,927	5,950	(0.4%)
Double play[f]	5,068	5,099	(0.6%)
Triple play[g]	4,197	4,244	(1.1%)
Customer relationships[a]	15,192	15,293	(0.7%)

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

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

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

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

(e) Single play subscriber numbers reflect customers who subscribe to one of the Company s primary services.

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

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

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

	Three Months Ended June 30,		%	Six Months Ended June 30,		%
	2013	**2012**	**Change**	**2013[(a)]**	**2012**	**Change[(a)]**
Residential services:						
Video	$ 2,674	$ 2,797	(4.4%)	$ 5,345	$ 5,508	(3.0%)
High-speed data	1,424	1,266	12.5%	2,830	2,465	14.8%
Voice	517	539	(4.1%)	1,036	1,047	(1.1%)
Other	17	15	13.3%	32	30	6.7%
Total residential services	$ 4,632	$ 4,617	0.3%	$ 9,243	$ 9,050	2.1%

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

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

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

	Three Months Ended June 30,			Six Months Ended June 30,		
	2013	2012	% Change	2013	2012	% Change
Customer relationship[(a)]	$ 105.21	$ 103.92	1.2%	$ 105.02	$ 103.72	1.3%
Video[(b)]	75.32	75.19	0.2%	74.91	75.10	(0.3%)
High-speed data[(c)]	42.78	39.12	9.4%	42.69	39.05	9.3%
Voice[(d)]	34.68	36.06	(3.8%)	34.62	36.10	(4.1%)

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

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

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

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

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

	Three Months Ended June 30,		%	Six Months Ended June 30,		%
	2013	2012	Change	2013[(a)]	2012	Change[(a)]
Programming tiers[(b)]	$ 1,741	$ 1,837	(5.2%)	$ 3,481	$ 3,616	(3.7%)
Premium networks	199	205	(2.9%)	394	405	(2.7%)
Transactional video-on-demand	66	87	(24.1%)	132	160	(17.5%)
Video equipment rental and installation charges	367	369	(0.5%)	740	732	1.1%
DVR service	178	173	2.9%	350	342	2.3%
Franchise and other fees[(c)]	123	126	(2.4%)	248	253	(2.0%)
Total	$ 2,674	$ 2,797	(4.4%)	$ 5,345	$ 5,508	(3.0%)

[a] Residential video revenue for the six months ended June 30, 2013 includes two additional months of Insight revenue, as follows (in millions):

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

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

[c] Franchise and other fees include fees collected on behalf of franchising authorities and the FCC.

The decrease in residential video revenue for the three and six months ended June 30, 2013 was primarily due to decreases in video subscribers, transactional video-on-demand revenue and, for the six months ended June 30, 2013, premium network revenue, partially offset by price increases and a greater percentage of subscribers purchasing higher-priced tiers of service. For the six months ended June 30, 2013, the decrease was also partially offset by two additional months of Insight revenue.

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

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

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

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

	Three Months Ended June 30,			Six Months Ended June 30,		
	2013	2012	% Change	2013	2012	% Change
Business services:						
Video	$ 87	$ 81	7.4%	$ 171	$ 157	8.9%
High-speed data	268	224	19.6%	524	432	21.3%
Voice	102	73	39.7%	198	136	45.6%
Wholesale transport	61	44	38.6%	116	85	36.5%
Other	47	42	11.9%	93	83	12.0%
Total business services	$ 565	$ 464	21.8%	$ 1,102	$ 893	23.4%

Business services revenue for the three and six months ended June 30, 2013 increased primarily due to growth in high-speed data and voice subscribers and an increase in cell tower backhaul revenue of $11 million and $20 million, respectively. Business services revenue for the six months ended June 30, 2013 also benefited from two additional months of Insight revenue.

Advertising revenue. Advertising revenue for the three months ended June 30, 2013 decreased primarily due to a decline in political advertising revenue, partially offset by growth in revenue from advertising inventory sold on behalf of other video distributors (ad rep agreements). Advertising revenue for the six months ended June 30, 2013 increased primarily due to growth in revenue from ad rep agreements, as well as the benefit from two additional months of Insight revenue, partially offset by a decline in political advertising revenue. The Company expects advertising revenue in the second half of 2013 to decrease compared to the second half of 2012 due to a significant decline in political advertising revenue, partially offset by growth in revenue from ad rep agreements. The margin on revenue from ad rep agreements is generally lower than the margin on revenue from political advertising and advertising sold on networks carried by TWC.

Other revenue. Other revenue for the three and six months ended June 30, 2013 increased primarily due to fees from distributors of the LA RSNs. The Company expects other revenue to increase significantly in the second half of 2013 compared to the second half of 2012 as a result of an additional three months of LA RSN distributor fees.

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

	Three Months Ended June 30,			Six Months Ended June 30,		
	2013	2012	% Change	2013	2012	% Change
Video programming	$ 1,210	$ 1,167	3.7%	$ 2,418	$ 2,298	5.2%
Employee[a]	731	704	3.8%	1,496	1,407	6.3%
High-speed data	45	47	(4.3%)	91	93	(2.2%)
Voice	150	158	(5.1%)	306	307	(0.3%)
Video franchise and other fees[b]	127	131	(3.1%)	256	261	(1.9%)
Other direct operating costs[a]	303	267	13.5%	633	512	23.6%
Total	$ 2,566	$ 2,474	3.7%	$ 5,200	$ 4,878	6.6%
Cost of revenue as a percentage of revenue	46.2%	45.8%		47.2%	46.3%	
Average monthly video programming costs per video subscriber	$ 33.54	$ 30.92	8.5%	$ 33.35	$ 30.89	8.0%
Average monthly voice costs per voice subscriber	$ 9.60	$ 10.22	(6.1%)	$ 9.76	$ 10.22	(4.5%)

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

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

Cost of revenue for the three and six months ended June 30, 2013 increased primarily related to increases in video programming, employee and other direct operating costs.

The increase in video programming costs for the three and six months ended June 30, 2013 was primarily due to contractual rate increases and carriage of new networks, partially offset by a decline in video subscribers and transactional video-on-demand. For the three and six months ended June 30, 2012, video programming costs were reduced by approximately $15 million due to changes in cost estimates for programming services carried during contract negotiations, changes in programming audit reserves and certain contract settlements. Additionally, video programming costs for the six months ended June 30, 2013 were impacted by two additional months of Insight costs. The Company expects the rate of growth in video programming costs per video subscriber in the second half of 2013 to increase compared to that in the first half of the year.

Employee costs for the three and six months ended June 30, 2013 increased primarily as a result of increased headcount and higher compensation costs per employee. For the three and six months ended June 30, 2013, employee medical costs increased $9 million and $16 million, respectively. Additionally, employee costs for the six months ended June 30, 2013 were impacted by two additional months of Insight costs.

Voice costs consist of the direct costs associated with the delivery of voice services, including network connectivity costs. Voice costs for the three and six months ended June 30, 2013 decreased primarily due to a decrease in delivery costs per subscriber as a result of the ongoing replacement of Sprint Corporation (Sprint) as the provider of voice transport, switching and interconnection services, as well as a decline in voice subscribers. For the six months ended June 30, 2013, the decrease in voice costs was partially offset by the impact of two additional months of Insight costs. As of June 30, 2013, TWC had replaced Sprint with respect to approximately half of TWC s voice lines and the Company expects to migrate the remaining voice lines during the second half of 2013 and the first quarter of 2014, when the process is expected to be completed. As a result, the Company expects average voice costs per voice subscriber to continue to decrease in the second half of 2013 compared to the second half of 2012.

Other direct operating costs increased as a result of costs associated with the LA RSNs and ad rep agreements.

TIME WARNER CABLE INC.

MANAGEMENT S DISCUSSION AND ANALYSIS OF RESULTS

OF OPERATIONS AND FINANCIAL CONDITION (Continued)

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

	Three Months Ended June 30,			Six Months Ended June 30,		
	2013	2012	% Change	2013	2012	% Change
Employee	$ 455	$ 412	10.4%	$ 925	$ 828	11.7%
Marketing	165	152	8.6%	311	307	1.3%
Bad debt[(a)]	42	49	(14.3%)	70	68	2.9%
Other	285	306	(6.9%)	570	573	(0.5%)
Total	$ 947	$ 919	3.0%	$ 1,876	$ 1,776	5.6%

(a) Bad debt expense includes amounts charged to expense associated with the Company s allowance for doubtful accounts and collection expenses, net of late fees billed to subscribers. Late fees billed to subscribers were $42 million and $82 million for the three and six months ended June 30, 2013, respectively, and $37 million and $73 million for the three and six months ended June 30, 2012, respectively.

Selling, general and administrative expenses for the three and six months ended June 30, 2013 increased primarily as a result of an increase in employee costs. The growth in employee costs was primarily the result of increased headcount, higher compensation costs per employee and $10 million of executive severance costs. For the three and six months ended June 30, 2013, employee medical costs increased $7 million and $13 million, respectively. Selling, general and administrative expenses for the three months ended June 30, 2013 were also impacted by higher marketing costs and lower other operating costs. Selling, general and administrative expenses for the six months ended June 30, 2013 were also impacted by two additional months of Insight costs.

Merger-related and restructuring costs. In connection with the Insight acquisition, the Company incurred merger-related costs of $5 million and $7 million for the three and six months ended June 30, 2013, respectively, and $8 million and $43 million for the three and six months ended June 30, 2012, respectively.

The Company incurred restructuring costs of $22 million and $51 million for the three and six months ended June 30, 2013, respectively, compared to $13 million and $23 million for the three and six months ended June 30, 2012, respectively. These restructuring costs were primarily related to employee terminations and other exit costs. The Company expects to incur additional restructuring costs during the remainder of 2013 primarily related to employee terminations in connection with initiatives intended to improve operating efficiency.

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

	Three Months Ended June 30,			Six Months Ended June 30,		
	2013	**2012**	**% Change**	**2013**	**2012**	**% Change**
OIBDA	$ 2,010	$ 1,990	1.0%	$ 3,891	$ 3,818	1.9%
Depreciation	(792)	(817)	(3.1%)	(1,581)	(1,588)	(0.4%)
Amortization	(31)	(33)	(6.1%)	(63)	(48)	31.3%
Operating Income	1,187	1,140	4.1%	2,247	2,182	3.0%
Interest expense, net	(398)	(397)	0.3%	(796)	(802)	(0.7%)
Other income (expense), net	11		NM	10	(3)	NM
Income before income taxes	800	743	7.7%	1,461	1,377	6.1%
Income tax provision	(319)	(290)	10.0%	(579)	(541)	7.0%
Net income	481	453	6.2%	882	836	5.5%
Less: Net income attributable to noncontrolling interests		(1)	(100.0%)		(2)	(100.0%)
Net income attributable to TWC shareholders	$ 481	$ 452	6.4%	$ 882	$ 834	5.8%

NM Not meaningful.

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TIME WARNER CABLE INC.

MANAGEMENT S DISCUSSION AND ANALYSIS OF RESULTS

OF OPERATIONS AND FINANCIAL CONDITION (Continued)

OIBDA. OIBDA increased principally as a result of revenue growth, partially offset by higher cost of revenue and selling, general and administrative expenses (which, as discussed above, included $10 million of executive severance costs for the three and six months ended June 30, 2013).

Depreciation. Depreciation for the three and six months ended June 30, 2013 benefited from decreases of $51 million and $103 million, respectively, associated with certain assets acquired in the July 31, 2006 transactions with Adelphia Communications Corporation and Comcast Corporation that were fully depreciated as of July 31, 2012. These benefits were partially offset by the impact of an increase in shorter-lived distribution system and capitalized software assets as well as, for the six months ended June 30, 2013, the two additional months of Insight costs associated with its property, plant and equipment.

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

Operating Income. For the three months ended June 30, 2013, Operating Income increased primarily due to the decrease in depreciation and increase in OIBDA, as discussed above. For the six months ended June 30, 2013, Operating Income increased primarily due to the increase in OIBDA, partially offset by the increase in amortization, as discussed above.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	**2012**	**2013**	**2012**
Income from equity-method investments, net	$ 9	$ 3	$ 14	$ 7
Gain (loss) on equity award reimbursement obligation to Time Warner[(a)]		(1)	(5)	2
Other investment losses[(b)]		(2)		(12)
Other	2		1	
Other income (expense), net	$ 11	$	$ 10	$ (3)

(a) See Note 3 to the accompanying consolidated financial statements for a discussion of the Company s accounting for its equity award reimbursement obligation to Time Warner Inc. (Time Warner).

(b)

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

Income tax provision. For the three months ended June 30, 2013 and 2012, the Company recorded income tax provisions of $319 million and $290 million, respectively. For the six months ended June 30, 2013 and 2012, the Company recorded income tax provisions of $579 million and $541 million, respectively. The effective tax rates were 39.9% and 39.0% for the three months ended June 30, 2013 and 2012, respectively, and 39.6% and 39.3% for the six months ended June 30, 2013 and 2012, respectively.

On July 23, 2013, North Carolina enacted income tax reform legislation, which, along with other changes, phases in a reduction in North Carolina s corporate income tax rate over several years. As a result of this legislation, the Company expects to record a decrease in state deferred income tax liabilities (with a corresponding noncash income tax benefit) of approximately $25 million to $35 million during the third quarter of 2013.

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TIME WARNER CABLE INC.

MANAGEMENT S DISCUSSION AND ANALYSIS OF RESULTS

OF OPERATIONS AND FINANCIAL CONDITION (Continued)

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

	Three Months Ended June 30,			Six Months Ended June 30,		
	2013	2012	% Change	2013	2012	% Change
Net income attributable to TWC shareholders	$ 481	$ 452	6.4%	$ 882	$ 834	5.8%
Net income per common share attributable to TWC common shareholders:						
Basic	$ 1.65	$ 1.44	14.6%	$ 3.00	$ 2.65	13.2%
Diluted	$ 1.64	$ 1.43	14.7%	$ 2.98	$ 2.63	13.3%

Net income attributable to TWC shareholders for the three and six months ended June 30, 2013 increased primarily due to an increase in Operating Income and the change in other income (expense), net, partially offset by an increase in the income tax provision. Net income per common share attributable to TWC common shareholders for the three and six months ended June 30, 2013 benefited from lower average common shares outstanding as a result of share repurchases under the Stock Repurchase Program.

FINANCIAL CONDITION AND LIQUIDITY

Management believes that cash generated by or available to TWC should be sufficient to fund its capital and liquidity needs for the next twelve months and for the foreseeable future thereafter, including quarterly dividend payments, common stock repurchases and maturities of long-term debt and the TW NY Cable Preferred Membership Units (defined below). TWC s sources of cash include cash and equivalents on hand, short-term investments in U.S. Treasury securities, cash provided by operating activities and borrowing capacity under the Company s $3.5 billion senior unsecured five-year revolving credit facility (the Revolving Credit Facility) and the Company s $2.5 billion unsecured commercial paper program, as well as access to capital markets.

In accordance with the Company s investment policy of diversifying its investments and limiting the amount of its investments in a single entity or fund, the Company may invest its cash and equivalents in a combination of money market and government funds and U.S. Treasury securities, as well as other similar instruments. As of June 30, 2013, nearly all of the Company s cash and equivalents was invested in money market funds and income earning bank deposits, including certificates of deposit. Additionally, as of June 30, 2013, the Company held short-term investments in U.S. Treasury securities.

TWC s unused committed financial capacity was $6.633 billion as of June 30, 2013, reflecting $2.623 billion of cash and equivalents, $575 million of short-term investments in U.S. Treasury securities and $3.435 billion of available borrowing capacity under the Revolving Credit Facility.

Current Financial Condition

As of June 30, 2013, the Company had $26.392 billion of debt, $2.623 billion of cash and equivalents, $575 million of short-term investments in U.S. Treasury securities (net debt of $23.194 billion, defined as total debt less cash and equivalents and short-term investments in U.S. Treasury securities), $300 million of mandatorily redeemable non-voting Series A Preferred Equity Membership Units (the TW NY Cable Preferred Membership Units) issued by a subsidiary of TWC, Time Warner NY Cable LLC (TW NY Cable), and $6.708 billion of total TWC shareholders equity. As of December 31, 2012, the Company had $26.689 billion of debt, $3.304 billion of cash and equivalents, $150 million of short-term investments in U.S. Treasury securities (net debt of $23.235 billion), $300 million of TW NY Cable Preferred Membership Units and $7.279 billion of total TWC shareholders equity.

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MANAGEMENT S DISCUSSION AND ANALYSIS OF RESULTS

OF OPERATIONS AND FINANCIAL CONDITION (Continued)

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

Balance as of December 31, 2012	$	23,235
Cash provided by operating activities		(2,945)
Capital expenditures		1,597
Repurchases of common stock		1,304
Dividends paid		386
Decrease in the fair value of debt subject to interest rate swaps[a]		(173)
Impact of the change in exchange rates on foreign currency denominated debt[b]		(133)
All other, net		(77)
Balance as of June 30, 2013	$	23,194

[a] The decrease in the fair value of debt subject to interest rate swaps is equal to the net decrease in the fair value of the underlying swaps, which are separately recorded on a gross basis as assets and liabilities in the accompanying consolidated balance sheet. See Note 3 to the accompanying consolidated financial statements for a discussion of the Company s accounting for its interest rate swaps.

[b] As discussed further in Note 3 to the accompanying consolidated financial statements, the Company has entered into cross-currency swaps to effectively convert its £1.275 billion aggregate principal amount of fixed-rate British pound sterling denominated debt, including annual interest payments and the payment of principal at maturity, to fixed-rate U.S. dollar denominated debt.

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

On July 1, 2013, TWC s 6.200% senior notes due 2013 matured and all $1.500 billion in aggregate principal amount was repaid.

On July 25, 2013, the Company s Board of Directors declared a quarterly cash dividend of $0.65 per share of TWC common stock, payable in cash on September 16, 2013 to stockholders of record at the close of business on August 30, 2013.

From the inception of the Stock Repurchase Program in the fourth quarter of 2010 through July 30, 2013, the Company repurchased 82.8 million shares of TWC common stock for $6.505 billion and, as of July 30, 2013, the Company had $3.962 billion remaining under the Stock Repurchase Program.

On August 1, 2013, all of the TW NY Cable Preferred Membership Units are subject to mandatory redemption by TW NY Cable for an aggregate redemption price of $300 million.

Cash Flows

Cash and equivalents decreased $681 million and $1.951 billion for the six months ended June 30, 2013 and 2012, respectively. Components of these changes are discussed below in more detail.

Operating Activities

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

	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
OIBDA	$ 3,891	$ 3,818
Noncash equity-based compensation	74	78
Net interest payments[a]	(802)	(846)
Net income tax payments[b]	(190)	(77)
All other, net, including working capital changes	(28)	(53)
Cash provided by operating activities	$ 2,945	$ 2,920

[a] Amounts include interest income received (including amounts received under interest rate swap contracts) of $78 million and $84 million for the six months ended June 30, 2013 and 2012, respectively.

[b] Amounts include income tax refunds received of $1 million and $9 million for the six months ended June 30, 2013 and 2012, respectively.

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TIME WARNER CABLE INC.

MANAGEMENT S DISCUSSION AND ANALYSIS OF RESULTS

OF OPERATIONS AND FINANCIAL CONDITION (Continued)

Cash provided by operating activities increased from $2.920 billion for the six months ended June 30, 2012 to $2.945 billion for the six months ended June 30, 2013. This increase was primarily related to an increase in OIBDA and decreases in net interest payments and working capital requirements, partially offset by increases in net income tax payments.

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

Net interest payments for the six months ended June 30, 2013 decreased primarily as a result of the maturities of TWC s 5.400% senior notes due July 2012 ($1.5 billion in aggregate principal amount), Time Warner Cable Enterprises LLC s (TWCE) 8.875% senior notes due October 2012 ($350 million in aggregate principal amount) and Time Warner Entertainment Company, L.P. s (TWE), a subsidiary of the Company at the maturity date, 10.150% senior notes due May 2012 ($250 million in aggregate principal amount), partially offset by interest payments related to TWC s 4.500% senior unsecured debentures due 2042 ($1.25 billion in aggregate principal amount) issued in August 2012.

The Company was not required to make any cash contributions to its qualified defined benefit pension plans (the qualified pension plans) during the six months ended June 30, 2013, but may make discretionary cash contributions to the qualified pension plans during the remainder of 2013. Such contributions will be dependent on a variety of factors, including current and expected interest rates, asset performance, the funded status of the qualified pension plans and management s judgment. As of June 30, 2013, the qualified pension plans were estimated to be overfunded by $326 million.

Investing Activities

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

	Six Months Ended June 30, 2013	2012
Capital expenditures	$ (1,597)	$ (1,418)
Business acquisitions, net of cash acquired:		
Insight		(1,335)

All other				(1)
Purchases of investments:				
Short-term investments in U.S. Treasury securities		(575)		
Loan to Sterling Entertainment Enterprises, LLC[a]				(40)
All other		(6)		(17)
Return of capital from investees		7		
Proceeds from sale, maturity and collection of investments		151		
Acquisition of intangible assets		(20)		(16)
Other investing activities		13		12
Cash used by investing activities	$	(2,027)	$	(2,815)

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

Cash used by investing activities decreased from $2.815 billion for the six months ended June 30, 2012 to $2.027 billion for the six months ended June 30, 2013, principally due to the 2012 acquisition of Insight, partially offset by the 2013 short-term investments in U.S. Treasury securities (net of maturities) and an increase in capital expenditures.

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MANAGEMENT S DISCUSSION AND ANALYSIS OF RESULTS

OF OPERATIONS AND FINANCIAL CONDITION (Continued)

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

	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
Customer premise equipment[a]	$ 572	$ 526
Scalable infrastructure[b]	421	350
Line extensions[c]	253	168
Upgrades/rebuilds[d]	53	42
Support capital[e]	298	332
Total capital expenditures	$ 1,597	$ 1,418

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

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

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

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

(e) Amounts represent all other capital purchases required to run day-to-day operations. These costs typically include vehicles, land and buildings, computer hardware/software, office equipment, furniture and fixtures, tools and test equipment. Amounts include capitalized software costs of $164 million and $142 million for the six months ended June 30, 2013 and 2012, respectively.

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

Financing Activities

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

	Six Months Ended June 30, 2013	2012
Proceeds from issuance of long-term debt	$	$ 1,015
Repayments of long-term debt		(250)
Repayments of long-term debt assumed in acquisitions		(1,730)
Debt issuance costs		(13)
Repurchases of common stock	(1,304)	(787)
Dividends paid	(386)	(356)
Proceeds from exercise of stock options	88	93
Excess tax benefit from equity-based compensation	66	60
Taxes paid in cash in lieu of shares issued for equity-based compensation	(55)	(41)
Other financing activities	(8)	(47)
Cash used by financing activities	$ (1,599)	$ (2,056)

Cash used by financing activities was $1.599 billion for the six months ended June 30, 2013 compared to $2.056 billion for the six months ended June 30, 2012. Cash used by financing activities for the six months ended June 30, 2013 primarily consisted of repurchases of TWC common stock and the payment of quarterly cash dividends. Cash used by financing activities for the six months ended June 30, 2012 primarily consisted of the repayment of Insight s senior credit facility and senior notes, repurchases of TWC common stock, the payment of quarterly cash dividends and the repayment of TWE s 10.150% senior notes due May 2012, partially offset by the net proceeds of the public debt issuance in June 2012.

TIME WARNER CABLE INC.

MANAGEMENT S DISCUSSION AND ANALYSIS OF RESULTS

OF OPERATIONS AND FINANCIAL CONDITION (Continued)

Outstanding Debt and Mandatorily Redeemable Preferred Equity and Available Financial Capacity

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

	Maturity	Interest Rate	Outstanding Balance as of June 30, 2013	Outstanding Balance as of December 31, 2012
			(in millions)	
TWC notes and debentures[a]	2013-2042	5.693%[b]	$ 24,296	$ 24,594
TWCE debentures[c]	2023-2033	7.873%[b]	2,067	2,070
Revolving credit facility[d]	2017			
Commercial paper program	2017			
Capital leases	2016-2032		29	25
Total debt[e]			26,392	26,689
TW NY Cable Preferred Membership Units[e]	2013	8.210%	300	300
Total debt and mandatorily redeemable preferred equity			$ 26,692	$ 26,989

[a] Outstanding balance amounts of the TWC notes and debentures as of June 30, 2013 and December 31, 2012 each include £1.266 billion of senior unsecured notes valued at $1.926 billion and $2.058 billion, respectively, using the exchange rates at each date.

[b] Rate represents a weighted-average effective interest rate as of June 30, 2013 and, for the TWC notes and debentures, includes the effects of interest rate swaps and cross-currency swaps.

[c] Outstanding balance amounts of the TWCE debentures as of June 30, 2013 and December 31, 2012 include an unamortized fair value adjustment of $67 million and $70 million, respectively, primarily consisting of the fair value adjustment recognized as a result of the 2001 merger of America Online, Inc. (now known as AOL Inc.) and Time Warner Inc. (now known as Historic TW Inc.).

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

[e] Outstanding balance amounts of total debt as of June 30, 2013 and December 31, 2012 include current maturities of long-term debt of $3.281 billion and $1.518 billion, respectively. Additionally, as of June 30, 2013 and December 31, 2012, the TW NY Cable Preferred Membership Units, which mature on August 1, 2013, are

classified as a current liability in the accompanying consolidated balance sheet.

See the 2012 Form 10-K for further details regarding the Company s outstanding debt and mandatorily redeemable preferred equity and other financing arrangements, including certain information about maturities, covenants and rating triggers related to such debt and financing arrangements. As of June 30, 2013, TWC was in compliance with the leverage ratio covenant of the Revolving Credit Facility, with a ratio of consolidated total debt as of June 30, 2013 to consolidated EBITDA for the twelve months ended June 30, 2013 of approximately 2.9 times. In accordance with the Revolving Credit Facility agreement, consolidated total debt as of June 30, 2013 was calculated as (a) total debt per the accompanying consolidated balance sheet less the TWCE unamortized fair value adjustment (discussed above) and the fair value of debt subject to interest rate swaps, less (b) total cash and short-term investments in U.S. Treasury securities per the accompanying consolidated balance sheet in excess of $25 million. In accordance with the Revolving Credit Facility agreement, consolidated EBITDA for the twelve months ended June 30, 2013 was calculated as OIBDA plus equity-based compensation expense.

Contractual and Other Obligations

Contractual Obligations

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

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TIME WARNER CABLE INC.

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OF OPERATIONS AND FINANCIAL CONDITION (Continued)

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

	2013[(a)]	2014-2015	2016-2017	Thereafter	Total
Programming and content purchases[(b)]	$ 2,318	$ 7,987	$ 5,822	$ 14,392	$ 30,519
Outstanding debt and mandatorily redeemable preferred equity obligations[(c)]	1,801	2,254	2,006	20,706	26,767
Interest and dividends[(d)]	858	3,012	2,858	16,057	22,785
Operating leases[(e)]	72	267	207	305	851
Voice connectivity[(f)]	83	2			85
Data processing services	33	125	88		246
High-speed data connectivity[(g)]	29	48	11	61	149
Other[(h)]	201	152	24	57	434
Total	$ 5,395	$ 13,847	$ 11,016	$ 51,578	$ 81,836

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

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

(c) Outstanding debt and mandatorily redeemable preferred equity obligations represent principal amounts due on outstanding debt obligations and the TW NY Cable Preferred Membership Units as of June 30, 2013. Amounts do not include any fair value adjustments, bond premiums, discounts, interest rate derivatives, interest payments or dividends.

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

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

(f) Voice connectivity obligations relate to transport, switching and interconnection services, primarily provided by Sprint, that allow for the origination and termination of local and long-distance telephony traffic. These expenses also include related technical support services. As discussed in Results of Operations Three and Six Months Ended June 30, 2013 Compared to Three and Six Months Ended June 30, 2012 Cost of Revenue, the Company is in an ongoing process of replacing Sprint as the provider of transport, switching and interconnection services. There is generally no obligation to purchase these services if the Company is not providing voice service. The amounts included above are estimated based on the number of voice subscribers as of June 30, 2013 and the per-subscriber contractual rates contained in the contracts that were in effect as of June 30, 2013 and also reflect the replacement of Sprint, which is expected to be completed in the first quarter of 2014.

(g) High-speed data connectivity obligations are based on the contractual terms for bandwidth circuits that were in use as of June 30, 2013.

(h) Other contractual obligations does not include the Company s reserve for uncertain tax positions and related accrued interest and penalties, which as of June 30, 2013 totaled $106 million, as the specific timing of any cash payments relating to this obligation cannot be projected with reasonable certainty.

CAUTION CONCERNING FORWARD-LOOKING STATEMENTS

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

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MANAGEMENT S DISCUSSION AND ANALYSIS OF RESULTS

OF OPERATIONS AND FINANCIAL CONDITION (Continued)

The Company operates in a highly competitive, consumer and technology driven and rapidly changing business that is affected by government regulation and economic, strategic, political and social conditions. Various factors could adversely affect the operations, business or financial results of TWC in the future and cause TWC s actual results to differ materially from those contained in the forward-looking statements, including those factors discussed in detail in Item 1A, Risk Factors, in the 2012 Form 10-K, and in TWC s other filings made from time to time with the SEC after the date of this report. In addition, important factors that could cause the Company s actual results to differ materially from those in its forward-looking statements include:

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

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

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

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

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

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

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

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TIME WARNER CABLE INC.

ITEM 4. CONTROLS AND PROCEDURES

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

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

Changes in Internal Control Over Financial Reporting

There have not been any changes in the Company s internal control over financial reporting during the quarter ended June 30, 2013 that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

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TIME WARNER CABLE INC.

CONSOLIDATED BALANCE SHEET

(Unaudited)

	June 30, 2013	December 31, 2012
	(in millions)	
ASSETS		
Current assets:		
Cash and equivalents	$ 2,623	$ 3,304
Short-term investments in U.S. Treasury securities	575	150
Receivables, less allowances of $96 million and $65 million as of June 30, 2013 and December 31, 2012, respectively	858	883
Deferred income tax assets	317	317
Other current assets	237	223
Total current assets	4,610	4,877
Investments	84	87
Property, plant and equipment, net	14,690	14,742
Intangible assets subject to amortization, net	597	641
Intangible assets not subject to amortization	26,012	26,011
Goodwill	2,885	2,889
Other assets	350	562
Total assets	$ 49,228	$ 49,809
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	$ 521	$ 647
Deferred revenue and subscriber-related liabilities	196	183
Accrued programming expense	887	872
Current maturities of long-term debt	3,281	1,518
Mandatorily redeemable preferred equity issued by a subsidiary	300	300
Other current liabilities	1,821	1,805
Total current liabilities	7,006	5,325
Long-term debt	23,111	25,171
Deferred income tax liabilities, net	11,538	11,280
Other liabilities	861	750
Commitments and contingencies (Note 9)		
TWC shareholders equity:		
	3	3

Common stock, $0.01 par value, 287.2 million and 297.7 million shares issued and outstanding as of June 30, 2013 and December 31, 2012, respectively				
Additional paid-in capital		7,266		7,576
Retained earnings		42		363
Accumulated other comprehensive loss, net		(603)		(663)
Total TWC shareholders equity		6,708		7,279
Noncontrolling interests		4		4
Total equity		6,712		7,283
Total liabilities and equity	$	49,228	$	49,809

See accompanying notes.

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TIME WARNER CABLE INC.

CONSOLIDATED STATEMENT OF OPERATIONS

(Unaudited)

	Three Months Ended June 30, 2013	Three Months Ended June 30, 2012	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
	(in millions, except per share data)			
Revenue	$ 5,550	$ 5,404	$ 11,025	$ 10,538
Costs and expenses:				
Cost of revenue[(a)]	2,566	2,474	5,200	4,878
Selling, general and administrative[(a)]	947	919	1,876	1,776
Depreciation	792	817	1,581	1,588
Amortization	31	33	63	48
Merger-related and restructuring costs	27	21	58	66
Total costs and expenses	4,363	4,264	8,778	8,356
Operating Income	1,187	1,140	2,247	2,182
Interest expense, net	(398)	(397)	(796)	(802)
Other income (expense), net	11		10	(3)
Income before income taxes	800	743	1,461	1,377
Income tax provision	(319)	(290)	(579)	(541)
Net income	481	453	882	836
Less: Net income attributable to noncontrolling interests		(1)		(2)
Net income attributable to TWC shareholders	$ 481	$ 452	$ 882	$ 834
Net income per common share attributable to TWC common shareholders:				
Basic	$ 1.65	$ 1.44	$ 3.00	$ 2.65
Diluted	$ 1.64	$ 1.43	$ 2.98	$ 2.63
Average common shares outstanding:				
Basic	289.6	311.1	292.4	312.5
Diluted	293.3	315.3	296.3	317.1

Cash dividends declared per share of common stock	$	0.65	$	0.56	$	1.30	$	1.12

[a] Cost of revenue and selling, general and administrative expenses exclude depreciation.
See accompanying notes.

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TIME WARNER CABLE INC.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(in millions)			
Net income	$ 481	$ 453	$ 882	$ 836
Change in accumulated unrealized losses on pension benefit obligation, net of tax	34	(7)	46	2
Change in accumulated deferred gains (losses) on cash flow hedges, net of tax	3	(36)	14	(37)
Other comprehensive income (loss)	37	(43)	60	(35)
Comprehensive income	518	410	942	801
Less: Comprehensive income attributable to noncontrolling interests		(1)		(2)
Comprehensive income attributable to TWC shareholders	$ 518	$ 409	$ 942	$ 799

See accompanying notes.

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TIME WARNER CABLE INC.

CONSOLIDATED STATEMENT OF CASH FLOWS

(Unaudited)

	Six Months Ended June 30, 2013	2012
	(in millions)	
OPERATING ACTIVITIES		
Net income	$ 882	$ 836
Adjustments for noncash and nonoperating items:		
Depreciation	1,581	1,588
Amortization	63	48
(Income) loss from equity-method investments, net of cash distributions	(9)	3
Deferred income taxes	224	267
Equity-based compensation expense	74	78
Excess tax benefit from equity-based compensation	(66)	(60)
Changes in operating assets and liabilities, net of acquisitions and dispositions:		
Receivables	30	14
Accounts payable and other liabilities	138	116
Other changes	28	30
Cash provided by operating activities	2,945	2,920
INVESTING ACTIVITIES		
Capital expenditures	(1,597)	(1,418)
Business acquisitions, net of cash acquired		(1,336)
Purchases of investments	(581)	(57)
Return of capital from investees	7	
Proceeds from sale, maturity and collection of investments	151	
Acquisition of intangible assets	(20)	(16)
Other investing activities	13	12
Cash used by investing activities	(2,027)	(2,815)
FINANCING ACTIVITIES		
Proceeds from issuance of long-term debt		1,015
Repayments of long-term debt		(250)
Repayments of long-term debt assumed in acquisitions		(1,730)
Debt issuance costs		(13)
Repurchases of common stock	(1,304)	(787)
Dividends paid	(386)	(356)
Proceeds from exercise of stock options	88	93
Excess tax benefit from equity-based compensation	66	60

Taxes paid in cash in lieu of shares issued for equity-based compensation		(55)		(41)
Other financing activities		(8)		(47)
Cash used by financing activities		(1,599)		(2,056)
Decrease in cash and equivalents		(681)		(1,951)
Cash and equivalents at beginning of period		3,304		5,177
Cash and equivalents at end of period	$	2,623	$	3,226

See accompanying notes.

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TIME WARNER CABLE INC.

CONSOLIDATED STATEMENT OF EQUITY

(Unaudited)

	TWC Shareholders Equity	Non-controlling Interests (in millions)	Total Equity
Balance as of December 31, 2011	$ 7,530	$ 7	$ 7,537
Net income	834	2	836
Change in accumulated unrealized losses on pension benefit obligation, net of income tax provision of $0 million	2		2
Change in accumulated deferred gains (losses) on cash flow hedges, net of income tax benefit of $24 million	(37)		(37)
Other comprehensive loss	(35)		(35)
Comprehensive income	799	2	801
Equity-based compensation expense	78		78
Repurchase and retirement of common stock	(793)		(793)
Cash dividends declared ($1.12 per common share)	(356)		(356)
Shares issued upon exercise of stock options	94		94
Taxes paid in lieu of shares issued for equity-based compensation	(41)		(41)
Excess tax benefit realized from equity-based compensation	45		45
Other changes	1	(1)	
Balance as of June 30, 2012	$ 7,357	$ 8	$ 7,365
Balance as of December 31, 2012	$ 7,279	$ 4	$ 7,283
Net income	882		882
Change in accumulated unrealized losses on pension benefit obligation, net of income tax provision of $28 million	46		46
Change in accumulated deferred gains (losses) on cash flow hedges, net of income tax provision of $10 million	14		14

Other comprehensive income		60				60
Comprehensive income		942				942
Equity-based compensation expense		74				74
Repurchase and retirement of common stock		(1,298)				(1,298)
Cash dividends declared ($1.30 per common share)		(385)				(385)
Shares issued upon exercise of stock options		88				88
Taxes paid in lieu of shares issued for equity-based compensation		(55)				(55)
Excess tax benefit realized from equity-based compensation		66				66
Other changes		(3)				(3)
Balance as of June 30, 2013	$	6,708	$	4	$	6,712

See accompanying notes.

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TIME WARNER CABLE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

Description of Business

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

Basis of Presentation

Basis of Consolidation

The consolidated financial statements include all of the assets, liabilities, revenue, expenses and cash flows of TWC and all entities in which TWC has a controlling voting interest. The consolidated financial statements include the results of the Time Warner Entertainment-Advance/Newhouse Partnership (TWE-A/N) only for the TWE-A/N cable systems that are controlled by TWC and for which TWC holds an economic interest. Intercompany accounts and transactions between consolidated companies have been eliminated in consolidation.

Use of Estimates

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

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

Reclassifications

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

Interim Financial Statements

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

2. EARNINGS PER SHARE

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

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TIME WARNER CABLE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Net income attributable to TWC common shareholders	$ 479	$ 449	$ 877	$ 828
Net income allocated to participating securities[a]	2	3	5	6
Net income attributable to TWC shareholders	$ 481	$ 452	$ 882	$ 834
Average basic common shares outstanding	289.6	311.1	292.4	312.5
Dilutive effect of nonparticipating equity awards	1.6	1.9	1.7	2.1
Dilutive effect of participating equity awards[a]	2.1	2.3	2.2	2.5
Average diluted common shares outstanding	293.3	315.3	296.3	317.1
Net income per common share attributable to TWC common shareholders:				
Basic	$ 1.65	$ 1.44	$ 3.00	$ 2.65
Diluted	$ 1.64	$ 1.43	$ 2.98	$ 2.63

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

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

3. DERIVATIVE FINANCIAL INSTRUMENTS

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

	Assets		Liabilities	
	June 30, 2013	**December 31, 2012**	**June 30, 2013**	**December 31, 2012**
Interest rate swaps[(a)(b)]	$ 166	$ 295	$ 45	$ 1
Cross-currency swaps[(a)(c)]	53	112	50	
Equity award reimbursement obligation[(d)]			11	19
Total	$ 219	$ 407	$ 106	$ 20

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

(b) Of the total amount of interest rate swap assets recorded as of June 30, 2013 and December 31, 2012, $29 million and $16 million, respectively, is recorded in other current assets in the consolidated balance sheet. The total amount of interest rate swap liabilities recorded as of June 30, 2013 and December 31, 2012 is recorded in other liabilities in the consolidated balance sheet.

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

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

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TIME WARNER CABLE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Fair Value Hedges

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

	June 30, 2013	December 31, 2012
Maturities	2013-2019	2013-2018
Notional amount (in millions)	$ 8,650	$ 7,750
Weighted-average pay rate (variable based on LIBOR plus variable margins)	4.61%	4.35%
Weighted-average receive rate (fixed)	6.63%	6.43%

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

Cash Flow Hedges

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Deferred gains (losses) recognized:				

Cross-currency swaps	$	8	$	(86)	$	(109)	$	(60)
Deferred (gains) losses reclassified to income:								
Cross-currency swaps[a]		(2)		27		133		(1)
Total net deferred gains (losses) recognized		6		(59)		24		(61)
Income tax (provision) benefit		(3)		23		(10)		24
Total net deferred gains (losses) recognized, net of tax	$	3	$	(36)	$	14	$	(37)

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

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

Equity Award Reimbursement Obligation

Prior to 2007, some of TWC s employees were granted options to purchase shares of Time Warner Inc. (Time Warner) common stock in connection with their past employment with subsidiaries and affiliates of Time Warner, including TWC. Upon the exercise of Time Warner stock options held by TWC employees, TWC is obligated to reimburse Time Warner for the excess of the market price of Time Warner common stock on the day of exercise over the option exercise price (the intrinsic value of the award). The Company records the equity award reimbursement obligation at fair value in other current liabilities in the consolidated balance sheet, which is estimated using the Black-Scholes model. The change in

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TIME WARNER CABLE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

the equity award reimbursement obligation fluctuates primarily with the fair value and expected volatility of Time Warner common stock and changes in fair value are recorded in other income (expense), net, in the period of change. As of June 30, 2013, the weighted-average remaining contractual term of outstanding Time Warner stock options held by TWC employees was 0.67 years. Changes in the fair value of the equity award reimbursement obligation are discussed in Note 4 below.

4. FAIR VALUE MEASUREMENTS

Assets and Liabilities Measured at Fair Value on a Recurring Basis

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

	June 30, 2013			December 31, 2012		
		Fair Value Measurements			Fair Value Measurements	
	Fair Value	Level 2	Level 3	Fair Value	Level 2	Level 3
ssets:						
terest rate swaps	$ 166	$ 166	$	$ 295	$ 295	$
oss-currency swaps	53	53		112	112	
otal	$ 219	$ 219	$	$ 407	$ 407	$
abilities:						
terest rate swaps	$ 45	$ 45	$	$ 1	$ 1	$
oss-currency swaps	50	50				
quity award reimbursement obligation	11		11	19		19
otal	$ 106	$ 95	$ 11	$ 20	$ 1	$ 19

The fair value of interest rate swaps, classified as Level 2, utilized a discounted cash flow (DCF) analysis based on the terms of the contract and expected forward interest rates, and incorporates the credit risk of the Company and each counterparty. The fair value of cross-currency swaps, classified as Level 2, utilized a DCF analysis based on expected forward interest and exchange rates, and incorporates the credit risk of the Company and each counterparty. The fair value of the equity award reimbursement obligation, classified as Level 3, utilized a Black-Scholes model to determine the estimated weighted-average fair value of Time Warner stock options outstanding, which was $20.75 per option as of June 30, 2013. The weighted-average assumptions used in the Black-Scholes model were as follows: expected volatility of Time Warner common stock of 25.08%, expected term of 0.55 years, risk-free rate of 0.07% and expected dividend yield of 1.99%.

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

	2013	2012
Balance at beginning of period	$ 19	$ 22
(Gains) losses recognized in other income (expense), net	5	(2)
Payments to Time Warner for awards exercised	(13)	(3)
Balance at end of period	$ 11	$ 17

Assets Measured at Fair Value on a Nonrecurring Basis

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

TIME WARNER CABLE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Fair Value of Other Financial Instruments

The Company s other financial instruments not measured at fair value on a recurring basis include (a) cash and equivalents, receivables, accounts payable, accrued liabilities and mandatorily redeemable preferred equity, which are reflected at cost in the consolidated balance sheet, and (b) short-term investments in U.S. Treasury securities and long-term debt not subject to fair value hedge accounting, which are reflected at amortized cost in the consolidated balance sheet. With the exception of long-term debt, cost and amortized cost approximates fair value for these instruments due to their short-term nature. The carrying value and related estimated fair value of the Company s long-term debt, excluding capital leases, was $26.363 billion and $28.219 billion, respectively, as of June 30, 2013 and $26.664 billion and $31.759 billion, respectively, as of December 31, 2012. Estimated fair values for long-term debt have generally been determined by reference to the market value of the instrument as quoted on a national securities exchange or in an over-the-counter market. In cases where a quoted market value is not available, fair value is based on an estimate using a DCF analysis value or other valuation techniques.

5. TWC SHAREHOLDERS EQUITY

Changes in Common Stock

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

	2013	**2012**
Balance at beginning of period	297.7	315.0
Shares issued under equity-based compensation plan	3.2	3.6
Shares repurchased and retired	(13.7)	(10.4)
Balance at end of period	287.2	308.2

Common Stock Repurchase Program

As of June 30, 2013, the Company had $934 million remaining under its $4.0 billion common stock repurchase program (the Stock Repurchase Program). Purchases under the Stock Repurchase Program may be made from time to time on the open market and in privately negotiated transactions. The size and timing of the Company s purchases under the Stock Repurchase Program are based on a number of factors, including business and market conditions, financial capacity and TWC s common stock price. For the six months ended June 30, 2013, the Company repurchased 13.7 million shares of TWC common stock for $1.298 billion, including 0.2 million shares repurchased for $26 million that settled in July 2013. On July 25, 2013, the Company s Board of Directors increased the remaining authorization under the Stock Repurchase Program, which was $775 million as of July 24, 2013, to an aggregate of up to $4.0 billion of TWC common stock effective July 25, 2013.

Accumulated Other Comprehensive Loss, Net

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

	2013	2012
Balance at beginning of period	$ (663)	$ (559)
Other comprehensive loss before reclassifications, net of tax	(42)	(54)
Amounts reclassified from accumulated other comprehensive loss, net of tax	102	19
Other comprehensive income (loss), net of tax	60	(35)
Balance at end of period	$ (603)	$ (594)

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TIME WARNER CABLE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

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

	2013	2012
Accumulated unrealized losses on pension benefit obligation:		
Balance at beginning of period	$ (708)	$ (541)
Other comprehensive income (loss) before reclassifications, net of tax	23	(18)
Amounts reclassified from accumulated other comprehensive loss, net of tax:		
Amortization of actuarial loss[(a)]	37	30
Income tax benefit	(14)	(10)
Amortization of actuarial loss, net of tax	23	20
Other comprehensive income, net of tax	46	2
Balance at end of period	$ (662)	$ (539)
Accumulated deferred gains (losses) on cash flow hedges:		