TIME WARNER CABLE INC.
Form 10-Q
May 02, 2007

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

Form 10-Q

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
for the quarterly period ended March 31, 2007

or

o **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.)*

One Time Warner Center
North Tower
New York, New York 10019
(Address of Principal Executive Offices) (Zip Code)
(212) 364-8200
(Registrant s Telephone Number, Including Area Code)

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 o No þ

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

Large accelerated filer o Accelerated filer o Non-accelerated filer þ

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

Description of Class		**Shares Outstanding as of April 27, 2007**
Class A Common Stock	$.01 par value	901,913,430
Class B Common Stock	$.01 par value	75,000,000

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AND OTHER FINANCIAL INFORMATION

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

INTRODUCTION

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

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

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

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

Financial condition and liquidity. This section provides an analysis of the Company s financial condition as of March 31, 2007 and cash flows for the three months ended March 31, 2007.

Caution concerning forward-looking statements. This section provides a description of the use of forward-looking information appearing in this report, including in MD&A and the consolidated financial statements. Such information is based on management s current expectations about future events, which are inherently susceptible to uncertainty and changes in circumstances. Refer to the Company s Annual Report on Form 10-K for the year ended December 31, 2006 (the 2006 Form 10-K) for a discussion of the risk factors applicable to the Company.

OVERVIEW

TWC is the second-largest cable operator in the U.S. and is an industry leader in developing and launching innovative video, data and voice services. At March 31, 2007, TWC had approximately 13.4 million basic video subscribers in technologically advanced, well-clustered systems located mainly in five geographic areas New York state, the Carolinas, Ohio, southern California and Texas. As of March 31, 2007, TWC was the largest cable operator in a number of large cities, including New York City and Los Angeles.

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

Time Warner Inc. (Time Warner) currently owns approximately 84.0% of the common stock of TWC (representing a 90.6% voting interest). The financial results of TWC s operations are consolidated by Time Warner.

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TWC principally offers three services video, high-speed data and voice, which have been primarily targeted to residential customers. Video is TWC s largest service in terms of revenues generated. TWC expects to continue to increase video revenues through the offering of advanced digital video services such as video-on-demand (VOD), subscription-video-on-demand (SVOD), high definition television (HDTV) and set-top boxes equipped with digital video recorders (DVRs), as well as through price increases and subscriber growth. TWC s digital video subscribers provide a broad base of potential customers for additional advanced services. During the first quarter of 2007, TWC experienced difficulty in obtaining sufficient quantities of HDTV-capable set-top boxes to satisfy all consumer requests for such boxes, and such difficulties may continue during the near term. Providing basic video services is a competitive and highly penetrated business, and, as a result, TWC expects slower incremental growth in the number of basic video subscribers compared to the growth in TWC s advanced service offerings. Video programming costs represent a major component of TWC s expenses and are expected to continue to increase, reflecting contractual rate increases, subscriber growth and the expansion of service offerings, and it is expected that the Company s video service margins will decline over the next few years as programming cost increases outpace growth in video revenues.

High-speed data has been one of TWC s fastest-growing services over the past several years and is a key driver of its results. As of March 31, 2007, TWC had approximately 7.0 million residential high-speed data subscribers. TWC expects continued strong growth in residential high-speed data subscribers and revenues for the foreseeable future; however, the rate of growth of both subscribers and revenues is expected to slow over time as high-speed data services become increasingly well-penetrated. In addition, as narrowband Internet users continue to migrate to broadband connections, TWC anticipates that an increasing percentage of its new high-speed data customers will elect to purchase its entry-level high-speed data service, which is generally less expensive than TWC s flagship service. As a result, over time, TWC s average high-speed data revenue per subscriber may decline reflecting this shift in mix. TWC also offers commercial high-speed data services and had approximately 254,000 commercial high-speed data subscribers as of March 31, 2007.

Approximately 2.1 million subscribers received Digital Phone service, TWC s residential voice service, as of March 31, 2007. For a monthly fixed fee, Digital Phone customers typically receive the following services: an unlimited local, in-state and U.S., Canada and Puerto Rico calling plan, as well as call waiting, caller ID and E911 services. TWC also is currently deploying a lower-priced unlimited in-state-only calling plan to serve those customers that do not use an interstate calling plan extensively and is planning to offer additional plans with a variety of local and long-distance options. Digital Phone enables TWC to offer its customers a convenient package, or bundle, of video, high-speed data and voice services, and to compete effectively against bundled services available from its competitors. TWC expects strong increases in Digital Phone subscribers and revenues for the foreseeable future. TWC has begun to introduce a commercial voice service to small- to medium-sized businesses and will continue to deploy this service during the remainder of 2007 in most of the systems TWC owned before and retained after the transactions with Adelphia and Comcast (the Legacy Systems). TWC also expects to deploy this service in some of the systems acquired in and retained after the transactions with Adelphia and Comcast (the Acquired Systems) during the remainder of 2007.

In November 2005, TWC and several other cable companies, together with Sprint Nextel Corporation (Sprint), announced the formation of a joint venture to develop integrated wireline and wireless video, data and voice services. In 2006, TWC began offering a bundle that includes Sprint wireless service (with some unique TWC features) in limited operating areas and TWC will continue to roll out this service during the remainder of 2007.

Some of TWC s principal competitors, in particular, direct broadcast satellite operators and incumbent local telephone companies, either offer or are making significant capital investments that will allow them to offer services that provide features and functions comparable to the video, data and/or voice services that

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TWC offers and they are aggressively seeking to offer them in bundles similar to TWC s. TWC expects that the availability of these service offerings will intensify competition.

In addition to the subscription services described above, TWC also earns revenues by selling advertising time to national, regional and local businesses.

As of July 31, 2006, the date the transactions with Adelphia and Comcast closed, the penetration rates for basic video, digital video and high-speed data services were generally lower in the Acquired Systems than in the Legacy Systems. Furthermore, certain advanced services were not available in some of the Acquired Systems, and an IP-based telephony service was not available in any of the Acquired Systems. To increase the penetration of these services in the Acquired Systems, TWC is in the midst of a significant integration effort that includes upgrading the capacity and technical performance of these systems to levels that will allow the delivery of these advanced services and features. Such integration-related efforts are expected to be largely complete by the end of 2007. As of March 31, 2007, Digital Phone was available to over 15% of the homes passed in the Acquired Systems. TWC expects to continue to roll out Digital Phone service across the Acquired Systems during the remainder of 2007.

Improvement in the financial and operating performance of the Acquired Systems depends in part on the completion of these initiatives and the subsequent availability of the Company s bundled advanced services in the Acquired Systems. In addition, due to various operational and competitive challenges, the Company expects that the acquired systems located in Los Angeles, CA and Dallas, TX will likely require more time and resources than the other acquired systems to stabilize and then meaningfully improve their financial and operating performance. As of March 31, 2007, the Los Angeles and Dallas acquired systems together served approximately 2.0 million basic video subscribers (about 50% of the basic video subscribers served by the Acquired Systems). TWC believes that by upgrading the plant and integrating the Acquired Systems into its operations, there is a significant opportunity over time to increase service penetration rates, and improve Subscription revenues and Operating Income before Depreciation and Amortization in the Acquired Systems.

Recent Developments

2007 Bond Offering

On April 9, 2007, TWC issued $5.0 billion in aggregate principal amount of senior unsecured notes and debentures (the 2007 Bond Offering) consisting of $1.5 billion principal amount of 5.40% Notes due 2012, $2.0 billion principal amount of 5.85% Notes due 2017 and $1.5 billion principal amount of 6.55% Debentures due 2037 pursuant to Rule 144A and Regulation S under the Securities Act of 1933, as amended (the Securities Act). The Company used the net proceeds from this issuance to repay all of the outstanding indebtedness under its $4.0 billion three-year term loan facility and a portion of the outstanding indebtedness under its $4.0 billion five-year term loan facility. See Financial Condition and Liquidity Debt Securities for further details.

TKCCP Joint Venture

As discussed further in Note 3 to the accompanying consolidated financial statements, TKCCP is a 50-50 joint venture between a consolidated subsidiary of TWC (Time Warner Entertainment-Advance/Newhouse Partnership (TWE-A/N)) and Comcast. On January 1, 2007, TKCCP distributed its assets to its partners. TWC received the Kansas City Pool, which served approximately 788,000 basic video subscribers as of December 31, 2006, and Comcast received the pool of assets consisting of the Houston cable systems (the Houston Pool), which served approximately 795,000 basic video subscribers as of December 31, 2006. TWC began consolidating the results of the Kansas City Pool on January 1, 2007. TWC expects that TKCCP will be formally dissolved in the second quarter of 2007. For accounting purposes, the Company has treated the distribution of TKCCP s assets as a sale of the Company s 50%

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equity interest in the Houston Pool and as an acquisition of Comcast s 50% equity interest in the Kansas City Pool. As a result of the sale of the Company s 50% equity interest in the Houston Pool, the Company recorded a pretax gain of approximately $146 million in the first quarter of 2007, which is included as a component of other income, net, in the accompanying consolidated statement of operations.

Adelphia Acquisition and Related Transactions

As discussed further in Note 3 to the accompanying consolidated financial statements, on July 31, 2006, TW NY and Comcast completed their respective acquisitions of assets comprising in the aggregate substantially all of the cable assets of Adelphia (the Adelphia Acquisition). Additionally, on July 31, 2006, immediately before the closing of the Adelphia Acquisition, Comcast s interests in TWC and Time Warner Entertainment Company, L.P. (TWE), a subsidiary of TWC, were redeemed (the Redemptions). Following the Redemptions and the Adelphia Acquisition, on July 31, 2006, TW NY and Comcast swapped certain cable systems, most of which were acquired from Adelphia, in order to enhance TWC s and Comcast s respective geographic clusters of subscribers (the Exchange and, together with the Adelphia Acquisition and the Redemptions, the Transactions). In addition, on July 28, 2006, American Television and Communications Corporation (ATC), a subsidiary of Time Warner, contributed its 1% common equity interest and $2.4 billion preferred equity interest in TWE to TW NY Cable Holding Inc. (TW NY Holding), a subsidiary of TWC and the parent of TW NY, in exchange for an approximately 12.4% non-voting common stock interest in TW NY Holding (the ATC Contribution).

The results of the systems acquired in connection with the Transactions have been included in the accompanying consolidated statement of operations since the closing of the Transactions. The systems previously owned by TWC and transferred to Comcast in connection with the Redemptions and the Exchange (the Transferred Systems) have been reflected as discontinued operations in the accompanying consolidated financial statements for all periods presented (Note 3).

As a result of the closing of the Transactions, TWC acquired systems with approximately 4.0 million basic video subscribers and disposed of the Transferred Systems, with approximately 0.8 million basic video subscribers, for a net gain of approximately 3.2 million basic video subscribers. As of March 31, 2007, Time Warner owned approximately 84.0% of TWC s outstanding common stock (including 82.7% of TWC s outstanding Class A common stock and all outstanding shares of TWC s Class B common stock), as well as an approximately 12.4% non-voting common stock interest in TW NY Holding. As a result of the Redemptions, Comcast no longer had an interest in TWC or TWE.

On February 13, 2007, Adelphia s Chapter 11 reorganization plan became effective and, under applicable securities law regulations and provisions of the U.S. bankruptcy code, TWC became a public company subject to the requirements of the Securities Exchange Act of 1934, as amended (the Exchange Act). Under the terms of the reorganization plan, most of the 155,913,430 shares of TWC Class A Common Stock that Adelphia received in the Adelphia Acquisition (representing approximately 16% of TWC s outstanding common stock) are being distributed to Adelphia s creditors. As of March 31, 2007, approximately 77% of these shares of Class A common stock had been distributed to Adelphia s creditors. The remaining shares are expected to be distributed during the coming months as the remaining disputes are resolved by the bankruptcy court, including 4% of such shares that are being held in escrow in connection with the Adelphia Acquisition. On March 1, 2007, TWC s Class A common stock began trading on the New York Stock Exchange under the symbol TWC (Note 3).

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FINANCIAL STATEMENT PRESENTATION

Revenues

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

Video revenues include monthly fees for basic, standard and digital services from both residential and commercial subscribers, together with related equipment rental charges, including charges for set-top boxes, and charges for premium programming and SVOD services. Video revenues also include installation, pay-per-view and VOD charges and franchise fees relating to video charges collected on behalf of local franchising authorities. Several ancillary items are also included within video revenues, such as commissions related to the sale of merchandise by home shopping services and rental income earned on the leasing of antenna attachments on the Company s transmission towers. In each period presented, these ancillary items constitute less than 2% of video revenues.

High-speed data revenues include monthly subscriber fees from both residential and commercial subscribers, along with related equipment rental charges, home networking fees and installation charges. High-speed data revenues also include fees received from third party internet service providers, certain cable systems owned by a subsidiary of TWE-A/N and managed by the Advance/Newhouse Partnership (A/N) and, in 2006, fees received from TKCCP.

Voice revenues include monthly subscriber fees principally from residential voice subscribers, including Digital Phone subscribers and approximately 93,000 circuit-switched subscribers (as of March 31, 2007) acquired from Comcast in the Exchange, along with related installation charges. TWC continues to provide traditional, circuit-switched services to those subscribers and will continue to do so for some period of time until it is able to discontinue the circuit-switched offering in accordance with regulatory requirements, at which time the only voice services provided by TWC will be Digital Phone and commercial voice.

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

Costs and Expenses

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

Selling, general and administrative expenses include amounts not directly associated with the delivery of services to subscribers or the maintenance of the Company s delivery systems, such as administrative labor costs, marketing expenses, billing charges, repair and maintenance costs, management fees paid to Time Warner and other administrative overhead costs, net of management fees received from TKCCP. Effective August 1, 2006, as a result of the pending dissolution of TKCCP, TWC no longer receives management fees from TKCCP.

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

Operating Income before Depreciation and Amortization (OIBDA) is a financial measure not calculated and presented in accordance with U.S. generally accepted accounting principles (GAAP). The Company defines OIBDA as Operating Income before depreciation of tangible assets and amortization of intangible assets. Management utilizes OIBDA, among other measures, in evaluating the performance of the Company s business because OIBDA eliminates the uneven effect across its business of considerable amounts of depreciation of tangible assets and amortization of intangible assets recognized in business combinations. It is also a significant component of the Company s annual incentive compensation programs. OIBDA is also a measure used by the Company s parent, Time Warner, to evaluate the Company s performance and is an important metric in the Time Warner reportable segment disclosures. Management also uses OIBDA because it provides an indication of the Company s ability to service debt and fund capital expenditures, as OIBDA removes the impact of depreciation and amortization. A limitation of this measure, however, is that it does not reflect the periodic costs of certain capitalized tangible and intangible assets used in generating revenues in the Company s business. To compensate for this limitation, management evaluates the investments in such tangible and intangible assets through other financial measures, such as capital expenditure budget variances, investment spending levels and return on capital analysis. Additionally, OIBDA should be considered in addition to, and not as a substitute for, Operating Income, net income and other measures of financial performance reported in accordance with GAAP and may not be comparable to similarly titled measures used by other companies.

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

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

RESULTS OF OPERATIONS

Basis of Presentation

Consolidation of Kansas City Pool

On January 1, 2007, the Company began consolidating the results of the Kansas City Pool upon the distribution of the assets of TKCCP to its partners. The results of operations for the Kansas City Pool have been presented below separately from the results of the Legacy Systems.

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Discontinued Operations

The Company has reflected the operations of the Transferred Systems as discontinued operations for all periods presented. See Note 3 to the accompanying consolidated financial statements for additional information regarding the discontinued operations.

Reclassifications

Certain reclassifications have been made to the prior year s financial information to conform to the March 31, 2007 presentation.

Recent Accounting Standards

Accounting for Sabbatical Leave and Other Similar Benefits

On January 1, 2007, the Company adopted the provisions of Emerging Issues Task Force (EITF) Issue No. 06-02, *Accounting for Sabbatical Leave and Other Similar Benefits* (EITF 06-02), related to certain sabbatical leave and other employment arrangements that are similar to a sabbatical leave. EITF 06-02 provides that an employee s right to a compensated absence under a sabbatical leave or similar benefit arrangement in which the employee is not required to perform any duties during the absence is an accumulating benefit. Therefore, such arrangements should be accounted for as a liability with the cost recognized over the service period during which the employee earns the benefit. Adoption of this guidance resulted in a decrease in retained earnings of $62 million ($37 million, net of tax) on January 1, 2007. The resulting change in the accrual for the three months ended March 31, 2007 was not material.

Accounting for Uncertainty in Income Taxes

On January 1, 2007, the Company adopted the provisions of Financial Accounting Standards Board (FASB) Interpretation No. 48, *Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109* (FIN 48), which clarifies the accounting for uncertainty in income tax positions. This interpretation requires the Company to recognize in the consolidated financial statements only those tax positions determined to be more likely than not of being sustained upon examination, based on the technical merits of the positions. Upon adoption, the Company recognized a $3 million reduction of previously recorded tax reserves, which was accounted for as an increase to the retained earnings balance as of January 1, 2007.

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Three Months Ended March 31, 2007 Compared to Three Months Ended March 31, 2006

Consolidated Results

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

	Three Months Ended March 31,		
	2007[(a)]	2006[(b)]	% Change
Subscription:			
Video	$ 2,504	$ 1,574	59%
High-speed data	894	568	57%
Voice	264	134	97%
Total Subscription	3,662	2,276	61%
Advertising	189	109	73%
Total	$ 3,851	$ 2,385	61%

(a) Revenues for the three months ended March 31, 2007 include the results of the Legacy Systems, the Acquired Systems and the Kansas City Pool as reported in the table below.

(b) Revenues for the three months ended March 31, 2006 consist only of the results of the Legacy Systems.

Revenues, including the components of Subscription revenues, for the Legacy Systems, the Acquired Systems and the Kansas City Pool were as follows for the three months ended March 31, 2007 (in millions):

	Legacy Systems	Acquired Systems	Kansas City Pool	Total
Subscription:				
Video	$ 1,674	$ 695	$ 135	$ 2,504
High-speed data	648	197	49	894
Voice	230	15	19	264
Total Subscription	2,552	907	203	3,662
Advertising	116	64	9	189
Total	$ 2,668	$ 971	$ 212	$ 3,851

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Subscriber numbers were as follows (in thousands):

	Consolidated Subscribers[(a)] as of March 31,			Managed Subscribers[(a)] as of March 31,		
	2007	2006	% Change	2007	2006	% Change
Basic video[(b)]	13,448	8,657	55%	13,448	9,447	42%
Digital video[(c)]	7,548	4,493	68%	7,548	4,808	57%
Residential high-speed data[(d)]	7,000	4,116	70%	7,000	4,443	58%
Commercial high-speed data[(d)]	254	173	47%	254	188	35%
Digital Phone[(e)]	2,094	1,149	82%	2,094	1,248	68%

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

(b) Basic video subscriber

numbers reflect billable subscribers who receive basic video service.

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

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

(e) Digital Phone subscriber numbers reflect billable subscribers who receive IP-based telephony service. Digital Phone subscribers exclude subscribers acquired from Comcast in the Exchange who receive traditional, circuit-switched telephone service (which totaled approximately 93,000 consolidated subscribers at March 31, 2007).

Subscription revenues increased for the three months ended March 31, 2007 as a result of increases in video, high-speed data and voice revenues. The increase in video revenues was primarily due to the impact of the Acquired Systems, the consolidation of the Kansas City Pool, the continued penetration of digital video services, video price increases and growth in basic video subscriber levels in the Legacy Systems. Aggregate revenues associated with the Company s digital video services, including digital tiers, pay-per-view, VOD, SVOD and DVRs, increased 70% to $563 million for the three months ended March 31, 2007 from $332 million for the three months ended March 31, 2006.

High-speed data revenues for the three months ended March 31, 2007 increased primarily due to the impact of the Acquired Systems, the consolidation of the Kansas City Pool and growth in high-speed data subscribers in the Legacy Systems. Commercial high-speed data revenues increased to $101 million for the three months ended March 31, 2007 from $70 million for the three months ended March 31, 2006. Strong growth rates for high-speed data service revenues are expected to continue during the remainder of 2007.

The increase in Voice revenues for the three months ended March 31, 2007 was primarily due to growth in Digital Phone subscribers and the consolidation of the Kansas City Pool. Voice revenues associated with the Acquired Systems for the three months ended March 31, 2007 also included approximately $14 million of revenues associated with subscribers acquired from Comcast who received traditional, circuit-switched telephone service. As of March 31, 2007, Digital Phone service was available to over 15% of the homes passed in the Acquired Systems. Strong growth rates for voice revenues are expected to continue during the remainder of 2007.

Average monthly subscription revenue (which includes video, high-speed data and voice revenues) per basic video subscriber (subscription ARPU) increased approximately 3% to $91 for the three months ended March 31, 2007 from approximately $88 for the three months ended March 31, 2006 as a result of the increased penetration of advanced services in the Legacy Systems and higher video prices, as discussed above, partially offset by lower penetration of advanced services in the Acquired Systems and the Kansas City Pool.

For the three months ended March 31, 2007, Advertising revenues increased due to a $70 million increase in local advertising and a $10 million increase in national advertising, primarily due to the impact of the Acquired Systems and the consolidation of the Kansas City Pool.

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

	Three Months Ended March 31,		
	2007	**2006**	**% Change**
Video programming	$ 880	$ 510	73%
Employee	547	305	79%
High-speed data	44	34	29%
Voice	112	60	87%
Other	300	178	69%
Total	$ 1,883	$ 1,087	73%

Costs of revenues increased 73%, and, as a percentage of revenues, were 49% for the three months ended March 31, 2007 compared to 46% for the three months ended March 31, 2006. The increase in costs of revenues was primarily related to the impact of the Acquired Systems and the consolidation of the Kansas City Pool, as well as increases in video programming, employee, voice and other costs. The increase in costs of revenues as a percentage of revenues reflects the lower margins in the Acquired Systems.

The increase in video programming costs was due primarily to the impact of the Acquired Systems and the consolidation of the Kansas City Pool, as well as contractual rate increases, the increase in video subscribers and the expansion of service offerings in the Legacy Systems. Video programming costs for the three months ended March 31, 2006 also included an $11 million benefit reflecting an adjustment in the amortization of certain launch support payments. Video programming costs in the Acquired Systems and the Kansas City Pool totaled $257 million and $50 million, respectively, for the three months ended March 31, 2007. Per subscriber programming costs increased 11%, to $21.88 per month in 2007 from $19.71 per month in 2006.

Employee costs increased primarily due to the impact of the Acquired Systems, the consolidation of the Kansas City Pool, higher headcount resulting from the continued roll-out of advanced services and salary increases. Additionally, employee costs for the three months ended March 31, 2006 included a benefit of approximately $16 million (with an additional benefit of approximately $5 million included in selling, general and administrative expenses) due to changes in estimates related to prior period medical benefit accruals.

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

Voice costs consist of the direct costs associated with the delivery of voice services, including network connectivity costs. Voice costs increased primarily due to growth in Digital Phone subscribers and the consolidation of the Kansas City Pool.

Other costs increased primarily due to the impact of the Acquired Systems and the consolidation of the Kansas City Pool, as well as revenue-driven increases in fees paid to local franchise authorities and increases in other costs associated with the continued roll-out of advanced services in the Legacy Systems.

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

	Three Months Ended March 31,		
	2007	**2006**	**% Change**
Employee	$ 263	$ 206	28%
Marketing	123	85	45%
Other	265	146	82%
Total	$ 651	$ 437	49%

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

Merger-related and restructuring costs. The Company expensed $4 million of non-capitalizable merger-related costs associated with the Transactions for both the three months ended March 31, 2007 and 2006. In addition, the results included $6 million of restructuring costs for both the three months ended March 31, 2007 and 2006. The Company s restructuring activities are part of the Company s broader plans to simplify its organizational structure and enhance its customer focus. TWC is in the process of executing these initiatives and expects to incur additional costs as these plans continue to be implemented throughout 2007.

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

	Three Months Ended March 31,		
	2007	**2006**	**% Change**
Net income	$ 276	$ 237	16%
Discontinued operations, net of tax		(31)	-100%
Cumulative effect of accounting change, net of tax		(2)	-100%
Income before discontinued operations and cumulative effect of accounting change	276	204	35%
Income tax provision	187	137	36%
Income before income taxes, discontinued operations and cumulative effect of accounting change	463	341	36%
Interest expense, net	227	112	103%
Income from equity investments, net	(3)	(18)	-83%
Minority interest expense, net	38	18	111%
Other income	(146)	(1)	NM
Operating Income	579	452	28%
Depreciation	649	380	71%

Amortization	79	19	316%
OIBDA	$ 1,307	$ 851	54%

NM Not meaningful.

OIBDA. OIBDA increased for the three months ended March 31, 2007 due to revenue growth, partially offset by higher costs of revenues and selling, general and administrative expenses, as discussed above.

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Depreciation expense. Depreciation expense increased for the three months ended March 31, 2007 primarily due to the impact of the Acquired Systems, the consolidation of the Kansas City Pool and demand-driven increases in recent years of purchases of customer premise equipment, which generally has a significantly shorter useful life compared to the mix of assets previously purchased.

Amortization expense. Amortization expense increased for the three months ended March 31, 2007 primarily as a result of the amortization of intangible assets associated with customer relationships acquired as part of the Transactions.

Operating Income. Operating Income increased for the three months ended March 31, 2007 primarily due to the increase in OIBDA, partially offset by increases in both depreciation and amortization expense, as discussed above.

The Company anticipates that OIBDA and Operating Income will continue to increase during the remainder of 2007 as compared to the similar period in the prior year, although the full year rates of growth are expected to be lower than those experienced in the first quarter of 2007 as the last five months of 2006 also included the benefit of the Adelphia Acquisition.

Interest expense, net. Interest expense, net, increased for the three months ended March 31, 2007 primarily due to an increase in long-term debt and mandatorily redeemable preferred membership units issued by a subsidiary in connection with the Transactions, partially offset by a decrease in mandatorily redeemable preferred equity issued by a subsidiary in the ATC Contribution.

Income from equity investments, net. Income from equity investments, net, decreased for the three months ended March 31, 2007 primarily due to the Kansas City Pool no longer being treated as an equity method investment as a result of the TKCCP asset distribution on January 1, 2007. Additionally, since July 1, 2006, the Company has not been entitled to any economic benefit of ownership from the Houston Pool, which was distributed to Comcast on January 1, 2007 in the TKCCP asset distribution. During the three months ended March 31, 2006, the Company s 50% ownership interest in TKCCP was accounted for as an equity investment. Refer to Overview Recent Developments TKCCP Joint Venture for additional information.

Minority interest expense, net. Minority interest expense, net, increased for the three months ended March 31, 2007 primarily reflecting the change in the ownership structure of the Company and TWE as a result of the ATC Contribution and the Redemptions.

Other income, net. The Company recorded a pretax gain of approximately $146 million for the three months ended March 31, 2007 as a result of the distribution of TKCCP s assets, which was treated as a sale of the Company s 50% equity interest in the Houston Pool. Refer to Overview Recent Developments TKCCP Joint Venture for additional information.

Income tax provision. TWC s income tax provision has been prepared as if the Company operated as a stand-alone taxpayer for all periods presented. For the three months ended March 31, 2007 and 2006, the Company recorded income tax provisions of $187 million and $137 million, respectively. The effective tax rate was approximately 40% for both the three months ended March 31, 2007 and 2006.

Income before discontinued operations and cumulative effect of accounting change. Income before discontinued operations and cumulative effect of accounting change was $276 million for the three months ended March 31, 2007 compared to $204 million for the three months ended March 31, 2006. Basic and diluted income per common share before discontinued operations and cumulative effect of accounting change were $0.28 for the three months ended March 31, 2007 compared to $0.20 for the three months ended March 31, 2006. These increases were primarily due to increases in Operating Income and other

TIME WARNER CABLE INC.
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income, net, partially offset by increases in interest expense, net, income tax provision and minority interest expense, net, and a decrease in income from equity investments, net.

Discontinued operations, net of tax. Discontinued operations, net of tax, reflect the impact of treating the Transferred Systems as discontinued operations. For the three months ended March 31, 2006, the Company recognized pretax income applicable to these systems of $52 million ($31 million, net of tax).

Cumulative effect of accounting change, net of tax. For the three months ended March 31, 2006, the Company recorded a benefit of $2 million, net of tax, as the cumulative effect of a change in accounting principle upon the adoption of FAS 123R in 2006, to recognize the effect of estimating the number of Time Warner equity-based awards granted to TWC employees prior to January 1, 2006 that are not ultimately expected to vest.

Net income and Net income per common share. Net income was $276 million for the three months ended March 31, 2007 compared to $237 million for the three months ended March 31, 2006. Basic and diluted net income per common share were $0.28 for the three months ended March 31, 2007 compared to $0.23 for the three months ended March 31, 2006.

FINANCIAL CONDITION AND LIQUIDITY

Current Financial Condition

Management believes that cash generated by or available to TWC should be sufficient to fund its capital and liquidity needs for the foreseeable future. TWC s sources of cash include cash provided by operating activities, cash and equivalents on hand, $3.023 billion of available borrowing capacity under its committed credit facilities and commercial paper program as of March 31, 2007 and access to the capital markets. On April 9, 2007, TWC issued $5.0 billion of debt securities in the 2007 Bond Offering and used the net proceeds to repay all of the outstanding indebtedness under its Three-Year Term Facility and a portion of the outstanding indebtedness under its Five-Year Term Facility, each as defined below.

At March 31, 2007, the Company had $14.445 billion of debt and mandatorily redeemable non-voting Series A Preferred Membership Units issued by TW NY in connection with the Adelphia Acquisition (the TW NY Series A Preferred Membership Units), $47 million of cash and equivalents and $23.811 billion of shareholders equity. At December 31, 2006, the Company had $14.732 billion of debt and TW NY Series A Preferred Membership Units, $51 million of cash and equivalents and $23.564 billion of shareholders equity.

The following table shows the significant items contributing to the decrease in net debt (defined as total debt and TW NY Series A Preferred Membership Units less cash and equivalents) from December 31, 2006 to March 31, 2007 (in millions):

Balance at December 31, 2006	$ 14,681
Cash provided by operating activities	(1,006)
Capital expenditures from continuing operations	720
All other, net	3
Balance at March 31, 2007[(a)]	$ 14,398

(a) Includes an unamortized fair value adjustment of $137 million.

Cash Flows

Cash and equivalents decreased by $4 million and $12 million for the three months ended March 31, 2007 and 2006, respectively. Components of these changes are discussed below in more detail.

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Operating Activities

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

	Three Months Ended March 31, 2007	Three Months Ended March 31, 2006
OIBDA	$ 1,307	$ 851
Net interest payments[(a)]	(255)	(166)
Net income taxes refunded (paid)[(b)]	1	(1)
Noncash equity-based compensation	5	14
Net cash flows from discontinued operations[(c)]	54	76
Merger-related and restructuring payments, net of accruals[(d)]	(5)	1
All other, net, including working capital changes	(101)	7
Cash provided by operating activities	$ 1,006	$ 782

(a) Includes interest income received of $2 million for the three months ended March 31, 2007 (none for the three months ended March 31, 2006).

(b) Includes income tax refunds received of $5 million and $4 million for the three months ended March 31, 2007 and 2006, respectively.

(c) Reflects net income from discontinued operations of $31 million for the three months ended

March 31, 2006 (none for the three months ended March 31, 2007), net of noncash gains and expenses and working capital-related adjustments of $54 million and $45 million for the three months ended March 31, 2007 and 2006, respectively.

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

Cash provided by operating activities increased from $782 million for the three months ended March 31, 2006 to $1.006 billion for the three months ended March 31, 2007. This increase was primarily related to an increase in OIBDA (due to revenue growth, partially offset by increases in costs of revenues and selling, general and administrative expenses). The increase in OIBDA was partially offset by an increase in working capital requirements and an increase in net interest payments reflecting the increase in debt levels attributable to the Transactions. The increase in working capital requirements was primarily due to the timing of accounts payable and accrual payments, partially offset by the timing of receivables from affiliated parties.

Investing Activities

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

	Three Months Ended March 31,	
	2007	**2006**
Investments and acquisitions, net of cash acquired and distributions received:		
Distributions received from an investee	$ 48	$
All other	9	(55)
Capital expenditures from continuing operations	(720)	(472)
Capital expenditures from discontinued operations		(25)
Proceeds from disposal of property, plant and equipment	3	