

TIME WARNER CABLE INC.  
Form 10-Q  
April 30, 2015  
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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**Form 10-Q**

☐ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the quarterly period ended March 31, 2015 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**  
*(State or other jurisdiction of  
incorporation or organization)*

**84-1496755**  
*(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  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  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  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

**Shares Outstanding**

| <u>Description of Class</u>   | <u>as of April 28, 2015</u> |
|-------------------------------|-----------------------------|
| Common Stock \$0.01 par value | 282,518,129                 |

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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 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. This section also 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, 2015. This analysis is presented on both a consolidated and reportable segment basis.

*Financial condition and liquidity.* This section provides an analysis of the Company's financial condition as of March 31, 2015 and cash flows for the three months ended March 31, 2015.

*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, 2014 (the 2014 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. TWC's mission is to connect its customers to the world simply, reliably and with superior service. As of March 31, 2015, TWC served approximately 15.4 million residential and business services customers who subscribed to one or more of its video, high-speed data and voice services. During the three months ended March 31, 2015, TWC's revenue increased 3.5% to approximately \$5.8 billion.

**Comcast Merger and Charter Transactions**

On February 12, 2014, the Company entered into an Agreement and Plan of Merger (the Merger Agreement ) with Comcast Corporation ( Comcast ) whereby the Company agreed to merge with and into a 100% owned subsidiary of Comcast (the Comcast merger ). On April 24, 2015, Comcast and the Company entered into a Termination Agreement wherein the parties agreed to terminate the Merger Agreement.

On April 25, 2014, Comcast entered into a binding agreement with Charter Communications, Inc. ( Charter ), which contemplated three transactions (the divestiture transactions ): (1) a contribution, spin-off and merger transaction, (2) an asset exchange and (3) a sale of assets. The completion of the divestiture transactions would have resulted in the combined company divesting a net total of approximately 3.7 million video subscribers, a portion of which were TWC subscribers (primarily in the Midwest). On April 24, 2015, Comcast delivered a notice of termination of such agreement to Charter.

On March 31, 2015, Charter and Advance/Newhouse Partnership ( A/N ) announced that they and certain of their affiliates had reached a definitive agreement pursuant to which Charter would acquire Bright House Networks, LLC ( Bright House Networks ), subject to closing of the divestiture transactions and to TWC s right of first offer with respect to Bright House Networks. Bright House Networks is a 100% owned subsidiary of a partnership ( TWE-A/N ) between A/N and Time Warner Cable Enterprises LLC ( TWCE ), a subsidiary of TWC. As discussed further in Financial Statement Presentation Reportable Segments Other Operations Segment, TWC receives a fee from A/N for providing Bright House Networks with high-speed data services and certain management functions, which is included in Other Operations revenue.

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**TIME WARNER CABLE INC.**

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS**

**OF OPERATIONS AND FINANCIAL CONDITION (Continued)**

**Reportable Segments**

The Company has three reportable segments: Residential Services, Business Services and Other Operations, which have been determined based on how management evaluates and manages the business. For additional information about the components of each of the Company's reportable segments, as well as shared functions, refer to Financial Statement Presentation Reportable Segments, below.

***Residential Services Segment***

TWC offers video, high-speed data and voice services, as well as security and home management services, to residential customers. As of March 31, 2015, the Company served 14.7 million residential services customers and, during the three months ended March 31, 2015, TWC generated approximately \$4.7 billion of revenue from the provision of residential services, which represented 80.7% of TWC's total revenue.

TWC's video service provides over 300 channels (including, on average, over 200 high-definition ( HD ) channels) and nearly 20,000 video-on-demand choices, which, increasingly, consumers can watch on the device of their choosing, both inside and outside the home. TWC's high-speed data service is available in a range of speed (from up to 2 to up to 300 megabits per second ( Mbps ) downstream), price and consumption (unlimited, 30 gigabyte ( GB ) and 5 GB) levels and, for most high-speed data customers, includes access to a nationwide network of more than 300,000 Cable WiFi hotspots along with communications and Internet security features. TWC's voice service provides unlimited calling throughout the U.S. and to Canada, Puerto Rico, Mexico, China, Hong Kong and India, among others, and access to popular features in one simple package. TWC's IntelligentHome service provides state-of-the-art security and home management technology, taking advantage of TWC's always-on broadband network and around-the-clock security monitoring centers.

Residential Services programming costs represent a significant portion of the Company's operating costs and expenses and are expected to continue to increase, reflecting rate increases on existing programming services and the carriage of new networks. TWC expects that its programming costs as a percentage of video revenue will continue to increase, in part due to an increasingly competitive environment.

***Business Services Segment***

TWC offers a wide range of business high-speed data, networking, voice, video, hosting and cloud computing services. As of March 31, 2015, TWC served 701,000 business customers, including small and medium businesses; large enterprises; government, education and non-profit institutions; and telecommunications carriers. TWC offers business services at retail and wholesale using its own network infrastructure and third-party infrastructure as required to meet customer needs.

During the three months ended March 31, 2015, revenue from the provision of business services increased 16.9% to \$781 million, which represented 13.5% of TWC's total revenue. The Company expects continued strong growth in

Business Services revenue driven by an increase in the number of customers (the result of continued penetration of buildings currently on its network and investment to connect new buildings to its network) and revenue per customer (due to growing product penetration, demand for higher-priced tiers of service and price increases). Given the large opportunity and TWC's still modest share in business services, the Company has established a target of growing Business Services to exceed \$5 billion in annual revenue by 2018.

***Other Operations Segment***

TWC's Other Operations segment principally consists of (i) Time Warner Cable Media (TWC Media), the advertising sales arm of TWC; (ii) the Company's regional sports networks that carry Los Angeles Lakers basketball games and other sports programming (Time Warner Cable SportsNet and Time Warner Cable Deportes and, collectively, the Lakers RSNs); (iii) the Company's local sports, news and lifestyle channels (e.g., Time Warner Cable News NY1); (iv) other operating revenue and costs, including those derived from A/N and home shopping network-related services; and (v) operating revenue and costs associated with SportsNet LA, a regional sports network carrying the Los Angeles Dodgers baseball games and other sports programming. During the three months ended March 31, 2015, TWC generated revenue from Other Operations of \$398 million.

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**TIME WARNER CABLE INC.**

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS**

**OF OPERATIONS AND FINANCIAL CONDITION (Continued)**

As discussed further below in Financial Statement Presentation, TWC Media sells its video and online advertising inventory to local, regional and national advertising customers and also sells third-party advertising inventory on behalf of other video distributors, including, among others, Verizon Communications Inc. (Verizon) FiOS, AT&T Inc. (AT&T) U-verse and Charter. Advertising revenue generated by TWC Media is cyclical, benefiting in years that include political elections as a result of political candidate and issue-related advertising.

**Competition**

The operations of each of TWC's reportable segments face intense competition, both from existing competitors and, as a result of the rapid development of new technologies, services and products, from new entrants.

***Residential Services Segment***

TWC faces intense competition for residential customers from a variety of alternative communications, information and entertainment delivery sources. TWC competes with incumbent local telephone companies and overbuilders across each of its 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 service faces competition from wireless Internet providers and direct broadcast satellite services. TWC's residential voice service faces competition from wireless voice providers, over-the-top phone services and other alternatives.

***Business Services Segment***

TWC faces significant competition as to each of its business services offerings. Its business high-speed data, networking and voice services face competition from a variety of telecommunications carriers, including incumbent local telephone companies. TWC's cell tower backhaul service also faces competition from traditional telephone companies as well as other telecommunications carriers, such as metro and regional fiber-based carriers. 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.

***Other Operations Segment***

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.



## **Financial Statement Presentation**

### ***Basis of Presentation***

#### ***Reclassifications***

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

#### ***Consolidated***

***Revenue.*** The Company generates revenue from each of its reportable segments: Residential Services, Business Services and Other Operations, which includes revenue generated by TWC Media, the Lakers RSNs, SportsNet LA and other operating revenue, including amounts derived from A/N and home shopping network-related services. Each of the reportable segments is discussed below under Reportable Segments.

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**TIME WARNER CABLE INC.**

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS**

**OF OPERATIONS AND FINANCIAL CONDITION (Continued)**

*Operating costs and expenses*

Programming and content. Programming and content costs include (i) programming costs for the Residential Services and Business Services segments and (ii) content costs, which include (a) the content acquisition costs associated with the Lakers' RSNs and SportsNet LA and (b) other content production costs for the Lakers' RSNs, SportsNet LA and the Company's local sports, news and lifestyle channels. Content acquisition costs for the Los Angeles Lakers' basketball games and Los Angeles Dodgers' baseball games are recorded as games are exhibited over the applicable season.

Sales and marketing. Sales and marketing costs consist of the costs incurred at the Residential Services, Business Services and Other Operations segments to sell and market the Company's services. Costs primarily include employee-related and third-party marketing costs (e.g., television, online, print and radio advertising). Employee-related costs primarily include costs associated with retail centers and activities related to direct sales and retention sales.

Technical operations. Technical operations costs consist of the costs incurred at the Residential Services, Business Services and Other Operations segments associated with the installation, repair and maintenance of the Company's distribution plant. Costs primarily include employee-related costs and materials costs associated with non-capitalizable activities.

Customer care. Customer care costs consist of the costs incurred at the Residential Services and Business Services segments associated with the Company's customer service activities. Costs primarily include employee-related costs and outsourced customer care costs.

Other operating. Other operating costs consist of all other operating costs incurred at the Residential Services, Business Services and Other Operations segments that are not specifically identified above, including Residential Services and Business Services video franchise and other fees. Other operating costs also include operating costs associated with broad corporate functions (e.g., accounting and finance, information technology, executive management, legal and human resources). In addition, other operating costs include functions supporting more than one reportable segment that are centrally managed, including costs associated with facilities (e.g., rent, property taxes and utilities), network operations (e.g., employee costs associated with central engineering activities), vehicles and procurement.

***Reportable Segments***

The Company's segment results include intercompany transactions related to programming provided to the Residential Services and Business Services segments by the Lakers' RSNs, SportsNet LA and the Company's local sports, news and lifestyle channels. These services are reflected as programming expense for the Residential Services and Business Services segments and as revenue for the Other Operations segment and are eliminated in consolidation. Additionally, the operating costs described above that are associated with broad corporate functions or functions supporting more than one reportable segment are recorded as shared functions and are not allocated to the reportable segments. As

such, the reportable segment results reflect how management views such segments in assessing financial performance and allocating resources and are not necessarily indicative of the results of operations that each segment would have achieved had they operated as stand-alone entities during the periods presented.

*Residential Services Segment*

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

*Video.* Video 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. Video revenue also includes related equipment rental charges, installation charges, broadcast fees and fees collected on behalf of local franchising authorities and the Federal Communications Commission (the FCC). Additionally, video revenue includes revenue from the sale of premium networks, transactional video-on-demand (e.g., events and movies) and digital video recorder (DVR) service.

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**TIME WARNER CABLE INC.**

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS**

**OF OPERATIONS AND FINANCIAL CONDITION (Continued)**

*High-speed data.* High-speed data revenue primarily includes 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 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.

*Operating costs and expenses.* Residential Services segment operating costs and expenses include the operating costs and expenses that management believes are necessary to assess the performance of and allocate resources to the Residential Services segment. Such costs include programming costs, sales and marketing costs, technical operations costs, customer care costs, video franchise and other fees and other operating costs (e.g., high-speed data connectivity costs, voice network costs and bad debt expense). Employee costs directly attributable to the Residential Services segment are included within each operating cost and expense category as applicable. Operating costs and expenses exclude costs and expenses related to corporate functions and functions supporting more than one reportable segment that are centrally managed (e.g., facilities, network operations, vehicles and procurement) and are not within the control of segment management.

*Business Services Segment*

*Revenue.* Business Services segment revenue consists of revenue from video, high-speed data, voice, wholesale transport and other services offered to business customers. The Company sells video, high-speed data and voice services to business subscribers separately and in bundled packages, and the revenue is allocated to each product in a pro-rata manner based on the standalone selling price of each of the respective services.

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

*High-speed data.* High-speed data revenue primarily includes 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 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 telecommunications carriers.

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

*Operating costs and expenses.* Business Services segment operating costs and expenses include the operating costs and expenses that management believes are necessary to assess the performance of and allocate resources to the Business Services segment. Such costs are consistent with the operating costs and expense categories described above under Residential Services operating costs and expenses. Operating costs and expenses exclude costs and expenses related to corporate functions and functions supporting more than one reportable segment that are centrally managed (e.g., facilities, network operations, vehicles and procurement) and are not within the control of segment management.

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**TIME WARNER CABLE INC.**

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS**

**OF OPERATIONS AND FINANCIAL CONDITION (Continued)**

*Other Operations Segment*

Revenue

*Advertising.* Advertising revenue is generated through TWC Media's 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 Company in connection with its agreements to carry such networks or obtained through contractual agreements to sell advertising inventory on behalf of other video distributors (including, among others, Verizon's FiOS, AT&T's U-verse and Charter). The Company also generates advertising revenue from the sale of inventory on the Lakers' RSNs, SportsNet LA and the Company's local sports, news and lifestyle channels (e.g., Time Warner Cable News NY1).

*Other.* Other revenue primarily includes (i) fees received from distributors of the Lakers' RSNs and SportsNet LA; (ii) fees paid to TWC by A/N 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; and (iii) home shopping network-related revenue (including commissions earned on the sale of merchandise and carriage fees). Other revenue also includes intercompany revenue from the Residential Services and Business Services segments for programming provided by the Lakers' RSNs, SportsNet LA and the Company's local sports, news and lifestyle channels.

Operating costs and expenses. Other operating costs and expenses primarily include operating costs associated with TWC Media, the Lakers' RSNs, SportsNet LA and the Company's local sports, news and lifestyle channels.

*Shared Functions*

Operating costs and expenses. Shared functions operating costs and expenses consist of costs associated with broad corporate functions (e.g., accounting and finance, information technology, executive management, legal and human resources) or functions supporting more than one reportable segment that are centrally managed (e.g., facilities, network operations, vehicles and procurement) as well as other activities not attributable to a reportable segment.

Merger-related and restructuring costs. All merger-related and restructuring costs incurred by the Company are recorded as shared functions.

*Use of Operating Income before Depreciation and Amortization*

In discussing its segment 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. For additional information regarding the use of segment OIBDA, see Note 9 to the accompanying consolidated financial statements.

***Recent Accounting Standards***

See Note 2 to the accompanying consolidated financial statements for recently issued accounting standards yet to be adopted.

**RESULTS OF OPERATIONS**

**Three Months Ended March 31, 2015 Compared to Three Months Ended March 31, 2014**

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 2014 Form 10-K.

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

**Consolidated Results**

The consolidated financial results for the Company for the three months ended March 31, 2015 and 2014 were as follows (in millions):

|   | <b>Three Months Ended March 31,</b> |               |                 |
|---|-------------------------------------|---------------|-----------------|
|   | <b>2015</b>                         | <b>2014</b>   | <b>% Change</b> |
| <b>Revenue:</b>   |                                     |               |                 |
| Residential services                                      | \$ 4,662                            | \$ 4,568      | 2.1%            |
| Business services   | 781                                 | 668           | 16.9%           |
| Other   | 334                                 | 346           | (3.5%)          |
| <b>Total revenue</b>                                      | <b>5,777</b>                        | <b>5,582</b>  | <b>3.5%</b>     |
| <b>Costs and expenses:</b>                                |                                     |               |                 |
| Programming and content                                   | 1,419                               | 1,309         | 8.4%            |
| Sales and marketing <sup>(a)</sup>                        | 559                                 | 555           | 0.7%            |
| Technical operations <sup>(a)</sup>                       | 399                                 | 371           | 7.5%            |
| Customer care <sup>(a)</sup>                              | 226                                 | 205           | 10.2%           |
| Other operating <sup>(a)</sup>                            | 1,178                               | 1,162         | 1.4%            |
| Depreciation  | 852                                 | 775           | 9.9%            |
| Amortization  | 34                                  | 33            | 3.0%            |
| Merger-related and restructuring costs                    | 26                                  | 80            | (67.5%)         |
| <b>Total costs and expenses</b>                           | <b>4,693</b>                        | <b>4,490</b>  | <b>4.5%</b>     |
| <b>Operating Income</b>                                   | <b>1,084</b>                        | <b>1,092</b>  | <b>(0.7%)</b>   |
| Interest expense  | (348)                               | (364)         | (4.4%)          |
| Other income, net   | 10                                  | 15            | (33.3%)         |
| <b>Income before income taxes</b>                         | <b>746</b>                          | <b>743</b>    | <b>0.4%</b>     |
| Income tax provision                                      | (288)                               | (264)         | 9.1%            |
| <b>Net income</b>   | <b>458</b>                          | <b>479</b>    | <b>(4.4%)</b>   |
| Less: Net income attributable to noncontrolling interests |                                     |               | NM              |
| <b>Net income attributable to TWC shareholders</b>        | <b>\$ 458</b>                       | <b>\$ 479</b> | <b>(4.4%)</b>   |



NM Not meaningful.

(a) Amounts include total employee costs, as follows (in millions):

|                | Three Months Ended March 31, |          |          |
|----------------|------------------------------|----------|----------|
|                | 2015                         | 2014     | % Change |
| Employee costs | \$ 1,321                     | \$ 1,256 | 5.2%     |

**Revenue.** The increase in revenue for the three months ended March 31, 2015 was due to increases in revenue at the Residential Services and Business Services segments. Revenue by segment is discussed in greater detail below in Segment Results.

### ***Costs and expenses***

**Operating costs and expenses.** The increase in operating costs and expenses for the three months ended March 31, 2015 was primarily due to increases in programming, employee, maintenance and bad debt expense; partially offset by declines in marketing costs and voice costs. The increase in employee costs reflects the Company's continued investments in sales and marketing, technical operations and customer care initiatives and a \$26 million increase in pension expense, partially offset by a \$27 million decrease in employee medical costs (as a result of changes in estimates of previously established employee medical accruals and lower claims activity) and lower shared functions personnel costs. Operating costs and expenses by segment are discussed in greater detail below in Segment Results.

**Depreciation.** Depreciation increased primarily due to the continued investment in customer premise equipment and scalable infrastructure, as well as shorter-lived capitalized software assets.

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**TIME WARNER CABLE INC.**

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS**

**OF OPERATIONS AND FINANCIAL CONDITION (Continued)**

*Merger-related and restructuring costs.* For the three months ended March 31, 2015, the Company incurred Comcast merger-related costs of \$24 million, including employee retention costs of \$14 million and advisory and legal fees of \$10 million. For the three months ended March 31, 2014, the Company incurred merger-related costs of \$63 million, which consisted of Comcast merger-related costs, including employee retention costs of \$29 million and advisory and legal fees of \$33 million, as well as \$1 million incurred in connection with the acquisition of DukeNet Communications, LLC. Additional merger-related costs were incurred in April 2015.

The Company incurred restructuring costs of \$2 million and \$17 million for the three months ended March 31, 2015 and 2014, respectively, primarily related to employee terminations and other exit costs. The Company expects to incur additional restructuring costs in 2015.

*Operating Income.* Operating Income decreased primarily due to higher operating cost and expenses and depreciation, partially offset by growth in revenue and lower merger-related and restructuring costs, as discussed above.

*Interest expense.* Interest expense decreased primarily due to lower average debt outstanding during the three months ended March 31, 2015 compared to 2014.

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

|   | <b>Three Months Ended March 31,</b> |             |
|---|-------------------------------------|-------------|
|   | <b>2015</b>                         | <b>2014</b> |
| Income from equity-method investments, net                        | \$ 10                               | \$ 14       |
| Gain on equity award reimbursement obligation to Time Warner Inc. |                                     | 1           |
| Other income, net   | \$ 10                               | \$ 15       |

*Income tax provision.* For the three months ended March 31, 2015 and 2014, the Company recorded income tax provisions of \$288 million and \$264 million, respectively. The effective tax rates were 38.6% and 35.5% for the three months ended March 31, 2015 and 2014, respectively.

The income tax provision and effective tax rate for the three months ended March 31, 2014 include a benefit of \$24 million as a result of the passage of the New York State budget during the first quarter of 2014 that, in part, lowers the New York State business tax rate beginning in 2016. Absent the impact of this item, the effective tax rates would have been 38.6% and 38.8% for the three months ended March 31, 2015 and 2014, respectively.

**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):

|  | <b>Three Months Ended March 31,</b> |             |                 |
|--|-------------------------------------|-------------|-----------------|
|  | <b>2015</b>                         | <b>2014</b> | <b>% Change</b> |
| Net income attributable to TWC shareholders                          | \$ 458                              | \$ 479      | (4.4%)          |
| Net income per common share attributable to TWC common shareholders: |                                     |             |                 |
| Basic  | \$ 1.60                             | \$ 1.71     | (6.4%)          |
| Diluted  | \$ 1.59                             | \$ 1.70     | (6.5%)          |

Net income attributable to TWC shareholders decreased primarily due to an increase in income tax provision and a decrease in Operating Income, partially offset by a decrease in interest expense.

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

**Segment Results**

**Residential Services.** The financial results of the Residential Services segment for the three months ended March 31, 2015 and 2014 were as follows (in millions):

|   | <b>Three Months Ended March 31,</b> |                 |                 |
|---|-------------------------------------|-----------------|-----------------|
|   | <b>2015</b>                         | <b>2014</b>     | <b>% Change</b> |
| <b>Revenue:</b>                               |                                     |                 |                 |
| Video   | \$ 2,469                            | \$ 2,495        | (1.0%)          |
| High-speed data                               | 1,696                               | 1,558           | 8.9%            |
| Voice   | 473                                 | 496             | (4.6%)          |
| Other   | 24                                  | 19              | 26.3%           |
| <b>Total revenue</b>                          | <b>4,662</b>                        | <b>4,568</b>    | <b>2.1%</b>     |
| <b>Operating costs and expenses:</b>          |                                     |                 |                 |
| Programming                                   | 1,369                               | 1,262           | 8.5%            |
| Sales and marketing <sup>(a)</sup>            | 371                                 | 385             | (3.6%)          |
| Technical operations <sup>(a)</sup>           | 355                                 | 335             | 6.0%            |
| Customer care <sup>(a)</sup>                  | 189                                 | 172             | 9.9%            |
| Video franchise and other fees <sup>(b)</sup> | 114                                 | 115             | (0.9%)          |
| Other <sup>(a)</sup>                          | 183                                 | 167             | 9.6%            |
| <b>Total operating costs and expenses</b>     | <b>2,581</b>                        | <b>2,436</b>    | <b>6.0%</b>     |
| <b>OIBDA</b>                                  | <b>\$ 2,081</b>                     | <b>\$ 2,132</b> | <b>(2.4%)</b>   |

<sup>(a)</sup> Amounts include total employee costs, as follows (in millions):

|                | <b>Three Months Ended March 31,</b> |             |                 |
|----------------|-------------------------------------|-------------|-----------------|
|                | <b>2015</b>                         | <b>2014</b> | <b>% Change</b> |
| Employee costs | \$ 726                              | \$ 672      | 8.0%            |

(b) Video franchise and other fees include fees collected on behalf of franchising authorities and the FCC. Selected residential subscriber-related statistics as of March 31, 2015 and 2014 were as follows (in thousands):

|                                       | <b>March 31,</b>          |             |                 |
|---------------------------------------|---------------------------|-------------|-----------------|
|                                       | <b>2015<sup>(a)</sup></b> | <b>2014</b> | <b>% Change</b> |
| Video <sup>(b)</sup>                  | 10,819                    | 11,163      | (3.1%)          |
| High-speed data <sup>(c)</sup>        | 11,990                    | 11,358      | 5.6%            |
| Voice <sup>(d)</sup>                  | 5,604                     | 4,913       | 14.1%           |
| Single play <sup>(e)</sup>            | 5,673                     | 5,695       | (0.4%)          |
| Double play <sup>(f)</sup>            | 4,389                     | 4,772       | (8.0%)          |
| Triple play <sup>(g)</sup>            | 4,654                     | 4,065       | 14.5%           |
| Customer relationships <sup>(h)</sup> | 14,716                    | 14,532      | 1.3%            |

(a) The Company's subscriber numbers as of March 31, 2015 reflect adjustments related to the treatment of employee accounts recorded during the second quarter of 2014 that decreased residential high-speed data subscribers by 10,000, residential voice subscribers by 17,000, residential single play subscribers by 19,000, residential double play subscribers by 4,000 and residential customer relationships by 23,000.

(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.

(d) Voice subscriber numbers reflect billable subscribers who purchase an IP-based telephony 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.

(e) Single play subscriber numbers reflect customers who subscribe to one of the Company's video, high-speed data and voice services.

(f) Double play subscriber numbers reflect customers who subscribe to two of the Company's video, high-speed data and voice services.

(g) Triple play subscriber numbers reflect customers who subscribe to all three of the Company's video, high-speed data and voice services.

(h) Customer relationships represent the number of subscribers who purchase at least one of the Company's video, high-speed data and voice 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.

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**OF OPERATIONS AND FINANCIAL CONDITION (Continued)**

*Revenue.* Residential Services segment revenue increased due to an increase in high-speed data revenue, partially offset by decreases in video and voice revenue, each of which is discussed further below.

Average monthly revenue per unit for the Residential Services segment for the three months ended March 31, 2015 and 2014 was as follows:

|                                      | <b>Three Months Ended March 31,</b> |             |                 |
|--------------------------------------|-------------------------------------|-------------|-----------------|
|                                      | <b>2015</b>                         | <b>2014</b> | <b>% Change</b> |
| Video <sup>(a)</sup>                 | \$ 76.26                            | \$ 74.51    | 2.3%            |
| High-speed data <sup>(b)</sup>       | 47.82                               | 46.32       | 3.2%            |
| Voice <sup>(c)</sup>                 | 29.00                               | 34.04       | (14.8%)         |
| Customer relationship <sup>(d)</sup> | 106.46                              | 105.45      | 1.0%            |

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

(b) 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.

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

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

The major components of residential video revenue for the three months ended March 31, 2015 and 2014 were as follows (in millions):

|   | <b>Three Months Ended March 31,</b> |                 |                 |
|---|-------------------------------------|-----------------|-----------------|
|   | <b>2015</b>                         | <b>2014</b>     | <b>% Change</b> |
| Programming tiers <sup>(a)</sup>                | \$ 1,587                            | \$ 1,624        | (2.3%)          |
| Premium networks                                | 209                                 | 201             | 4.0%            |
| Transactional video-on-demand                   | 61                                  | 58              | 5.2%            |
| Video equipment rental and installation charges | 343                                 | 332             | 3.3%            |
| DVR service                                     | 155                                 | 165             | (6.1%)          |
| Franchise and other fees <sup>(b)</sup>         | 114                                 | 115             | (0.9%)          |
| <b>Total</b>                                    | <b>\$ 2,469</b>                     | <b>\$ 2,495</b> | <b>(1.0%)</b>   |

(a) 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.

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

The decrease in residential video revenue was primarily due to a year-over-year decline in video subscribers, partially offset by an increase in average revenue per subscriber. The increase in average revenue per subscriber was primarily the result of price increases and higher premium network revenue.

Residential high-speed data revenue increased due to an increase in high-speed data subscribers and growth in average revenue per subscriber. The increase in average revenue per subscriber was primarily due to increases in prices and equipment rental charges and a greater percentage of subscribers purchasing higher-priced tiers of service.

The decrease in residential voice revenue was due to a decrease in average revenue per subscriber, partially offset by growth in voice subscribers.

*Operating costs and expenses.* Operating costs and expenses increased primarily due to higher programming, technical operations, customer care and other operating costs, partially offset by lower sales and marketing costs.

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

Selected Residential Services average monthly costs per subscriber for the three months ended March 31, 2015 and 2014 were as follows:

|  | <b>Three Months Ended March 31,</b> |             |                 |
|--|-------------------------------------|-------------|-----------------|
|  | <b>2015</b>                         | <b>2014</b> | <b>% Change</b> |
| Programming costs per video subscriber | \$ 42.28                            | \$ 37.69    | 12.2%           |
| Voice costs per voice subscriber       | \$ 3.68                             | \$ 4.97     | (26.0%)         |

The increase in programming costs (which include intercompany expense from the Other Operations segment for programming costs associated with the Lakers RSNs, SportsNet LA and the Company's local sports, news and lifestyle channels) was primarily due to contractual rate increases and the carriage of new networks (including SportsNet LA, which launched on February 25, 2014), partially offset by a year-over-year decline in video subscribers.

Sales and marketing costs decreased primarily due to lower marketing expense, partially offset by increased sales-related employee costs as a result of higher compensation costs per employee and headcount growth.

Technical operations costs increased primarily due to headcount growth and increased maintenance costs, reflecting the Company's continued investments to improve the customer experience.

Customer care costs increased primarily due to headcount growth, reflecting the Company's continued investments to improve the customer experience.

Other operating costs increased primarily due to higher bad debt expense and small increases in other miscellaneous expenses, partially offset by a decline in voice costs. Voice costs decreased \$12 million in the first quarter of 2015, primarily due to a decrease in delivery costs per subscriber as a result of the in-sourcing of voice transport, switching and interconnection services from Sprint Corporation (which was completed during the first quarter of 2014).

*OIBDA.* OIBDA decreased primarily due to higher operating costs and expenses, partially offset by the increase in revenue, as discussed above.



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**Business Services.** The financial results of the Business Services segment for the three months ended March 31, 2015 and 2014 were as follows (in millions):

|   | <b>Three Months Ended March 31,</b> |               |                 |
|---|-------------------------------------|---------------|-----------------|
|   | <b>2015</b>                         | <b>2014</b>   | <b>% Change</b> |
| <b>Revenue:</b>                               |                                     |               |                 |
| Video   | \$ 94                               | \$ 89         | 5.6%            |
| High-speed data                               | 376                                 | 306           | 22.9%           |
| Voice   | 142                                 | 118           | 20.3%           |
| Wholesale transport                           | 121                                 | 101           | 19.8%           |
| Other   | 48                                  | 54            | (11.1%)         |
| <b>Total revenue</b>                          | <b>781</b>                          | <b>668</b>    | <b>16.9%</b>    |
| <b>Operating costs and expenses:</b>          |                                     |               |                 |
| Programming                                   | 43                                  | 36            | 19.4%           |
| Sales and marketing <sup>(a)</sup>            | 137                                 | 119           | 15.1%           |
| Technical operations <sup>(a)</sup>           | 30                                  | 23            | 30.4%           |
| Customer care <sup>(a)</sup>                  | 37                                  | 33            | 12.1%           |
| Video franchise and other fees <sup>(b)</sup> | 4                                   | 5             | (20.0%)         |
| Other <sup>(a)</sup>                          | 51                                  | 50            | 2.0%            |
| <b>Total operating costs and expenses</b>     | <b>302</b>                          | <b>266</b>    | <b>13.5%</b>    |
| <b>OIBDA</b>                                  | <b>\$ 479</b>                       | <b>\$ 402</b> | <b>19.2%</b>    |

(a) Amounts include total employee costs, as follows (in millions):

|                | <b>Three Months Ended March 31,</b> |             |                 |
|----------------|-------------------------------------|-------------|-----------------|
|                | <b>2015</b>                         | <b>2014</b> | <b>% Change</b> |
| Employee costs | \$ 176                              | \$ 151      | 16.6%           |

(b) Video franchise and other fees include fees collected on behalf of franchising authorities and the FCC. Selected business subscriber-related statistics as of March 31, 2015 and 2014 were as follows (in thousands):

|                                       | <b>March 31,</b> |             | <b>% Change</b> |
|---------------------------------------|------------------|-------------|-----------------|
|                                       | <b>2015</b>      | <b>2014</b> |                 |
| Video <sup>(a)</sup>                  | 206              | 196         | 5.1%            |
| High-speed data <sup>(b)</sup>        | 591              | 531         | 11.3%           |
| Voice <sup>(c)</sup>                  | 334              | 289         | 15.6%           |
| Single play <sup>(d)</sup>            | 349              | 328         | 6.4%            |
| Double play <sup>(e)</sup>            | 274              | 239         | 14.6%           |
| Triple play <sup>(f)</sup>            | 78               | 70          | 11.4%           |
| Customer relationships <sup>(g)</sup> | 701              | 637         | 10.0%           |

- (a) 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.
- (b) 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.
- (c) Voice subscriber numbers reflect billable subscribers who purchase an IP-based telephony 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.
- (d) Single play subscriber numbers reflect customers who subscribe to one of the Company's video, high-speed data and voice services.
- (e) Double play subscriber numbers reflect customers who subscribe to two of the Company's video, high-speed data and voice services.
- (f) Triple play subscriber numbers reflect customers who subscribe to all three of the Company's video, high-speed data and voice services.
- (g) Customer relationships represent the number of subscribers who purchase at least one of the Company's video, high-speed data and voice 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. Customers who purchase wholesale transport or cloud services but do not purchase one of the Company's video, high-speed data or voice services are not included in the Company's subscriber results.

*Revenue.* Business services revenue increased primarily due to growth in high-speed data and voice subscribers and an increase in cell tower backhaul revenue of \$13 million (which included certain early termination fees).

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

*Operating costs and expenses.* Operating costs and expenses increased primarily as a result of increased headcount and higher compensation costs per employee.

*OIBDA.* OIBDA increased primarily due to the increase in revenue, partially offset by higher operating costs and expenses, as discussed above.

*Other Operations.* The financial results of the Other Operations segment for the three months ended March 31, 2015 and 2014 were as follows (in millions):

|   | Three Months Ended March 31, |        | % Change |
|---|------------------------------|--------|----------|
|   | 2015                         | 2014   |          |
| Revenue:                                    |                              |        |          |
| Advertising                                 | \$ 230                       | \$ 247 | (6.9%)   |
| Other                                       | 168                          | 153    | 9.8%     |
| Total revenue                               | 398                          | 400    | (0.5%)   |
| Operating costs and expenses <sup>(a)</sup> | 235                          | 227    | 3.5%     |
| OIBDA                                       | \$ 163                       | \$ 173 | (5.8%)   |

(a) Amounts include total employee costs, as follows (in millions):

|                | Three Months Ended March 31, |       | % Change |
|----------------|------------------------------|-------|----------|
|                | 2015                         | 2014  |          |
| Employee costs | \$ 85                        | \$ 83 | 2.4%     |

*Revenue.* Advertising revenue decreased primarily due to lower political advertising revenue, as well as overall softness in the television advertising market. Political advertising revenue was \$2 million for the three months ended March 31, 2015 compared to \$11 million for the three months ended March 31, 2014. The Company expects advertising revenue in 2015 to decrease compared to 2014 due primarily to a cyclical decline in political advertising revenue.

Other revenue increased primarily due to affiliate fees from the Residential Services segment. The Company continues to seek distribution agreements for the carriage of SportsNet LA by major distributors.

*Operating costs and expenses.* Operating costs and expenses increased primarily as a result of higher content costs associated with the Lakers RSNs.

*OIBDA.* OIBDA decreased primarily due to an increase in operating costs and expenses, as discussed above.

**Shared Functions.** Costs and expenses associated with the Company's shared functions, which consist of operating costs associated with broad corporate functions (e.g., accounting and finance, information technology, executive management, legal and human resources) or functions supporting more than one reportable segment that are centrally managed (e.g., facilities, network operations, vehicles and procurement) as well as other activities not directly attributable to a reportable segment, for the three months ended March 31, 2015 and 2014 were as follows (in millions):

|   | Three Months Ended March 31, |        | % Change |
|---|------------------------------|--------|----------|
|   | 2015                         | 2014   |          |
| Operating costs and expenses <sup>(a)</sup> | \$ 727                       | \$ 727 |          |
| Merger-related and restructuring costs      | 26                           | 80     | (67.5%)  |
| Total costs and expenses                    | \$ 753                       | \$ 807 | (6.7%)   |

<sup>(a)</sup> Amounts include total employee costs, as follows (in millions):

|                | Three Months Ended March 31, |        | % Change |
|----------------|------------------------------|--------|----------|
|                | 2015                         | 2014   |          |
| Employee costs | \$ 334                       | \$ 350 | (4.6%)   |

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**TIME WARNER CABLE INC.**

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS**

**OF OPERATIONS AND FINANCIAL CONDITION (Continued)**

*Operating costs and expenses.* Operating costs and expenses were flat primarily as increased maintenance expense was offset by lower costs as a result of operating efficiencies, including decreased employee-related expense.

*Merger-related and restructuring costs.* For the three months ended March 31, 2015, the Company incurred Comcast merger-related costs of \$24 million, consisting of employee retention costs of \$14 million and advisory and legal fees of \$10 million. During the three months ended March 31, 2014, the Company incurred merger-related costs of \$63 million, which consisted of Comcast merger-related costs, including employee retention costs of \$29 million and advisory and legal fees of \$33 million, as well as \$1 million incurred in connection with the acquisition of DukeNet Communications, LLC. Additional merger-related costs were incurred in April 2015.

The Company incurred restructuring costs of \$2 million and \$17 million for the three months ended March 31, 2015 and 2014, respectively, primarily related to employee terminations and other exit costs. The Company expects to incur additional restructuring costs in 2015.

**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 and maturities of long-term debt. TWC's sources of cash include cash and equivalents on hand, 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 (which is supported by unused committed capacity under the Revolving Credit Facility), 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.

TWC's unused committed financial capacity was \$3.345 billion as of March 31, 2015, reflecting \$547 million of cash and equivalents and \$2.798 billion of available borrowing capacity under the Revolving Credit Facility.

**Current Financial Condition**

As of March 31, 2015, the Company had \$23.286 billion of debt, \$547 million of cash and equivalents (net debt of \$22.739 billion, defined as total debt less cash and equivalents) and \$8.140 billion of total TWC shareholders' equity. As of December 31, 2014, the Company had \$23.718 billion of debt, \$707 million of cash and equivalents (net debt of \$23.011 billion) and \$8.013 billion of total TWC shareholders' equity.

The following table shows the significant items contributing to the change in net debt from December 31, 2014 to March 31, 2015 (in millions):

|                                       |        |            |
|---------------------------------------|--------|------------|
| Balance as of December 31, 2014       | \$     | 23,011     |
| Cash provided by operating activities |        | (1,508)    |
| Capital expenditures                  |        | 1,134      |
| Dividend paid                         |        | 216        |
| All other, net                        |        | (114)      |
| <br>Balance as of March 31, 2015      | <br>\$ | <br>22,739 |

On March 16, 2015, the Company's Board of Directors declared a quarterly cash dividend of \$0.75 per share of TWC common stock, payable in cash on April 22, 2015 to stockholders of record at the close of business on April 1, 2015.

### Cash Flows

Cash and equivalents decreased \$160 million and increased \$1.032 billion for the three months ended March 31, 2015 and 2014, respectively. Components of these changes are discussed below in more detail.

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

***Operating Activities***

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

|   | <b>Three Months Ended March 31,</b> |             |
|---|-------------------------------------|-------------|
|   | <b>2015</b>                         | <b>2014</b> |
| Operating Income  | \$ 1,084                            | \$ 1,092    |
| Depreciation  | 852                                 | 775         |
| Amortization  | 34                                  | 33          |
| Noncash equity-based compensation expense                   | 42                                  | 50          |
| Cash paid for interest, net <sup>(a)</sup>                  | (392)                               | (415)       |
| Cash refunds of (paid for) income taxes, net <sup>(b)</sup> | (3)                                 | 2           |
| All other, net, including working capital changes           | (109)                               | (140)       |
| Cash provided by operating activities                       | \$ 1,508                            | \$ 1,397    |

(a) Amounts include cash received under interest rate swap contracts of \$16 million and \$24 million for the three months ended March 31, 2015 and 2014, respectively.

(b) Amounts include cash refunds of income taxes of \$2 million and \$3 million for the three months ended March 31, 2015 and 2014, respectively.

Cash provided by operating activities increased from \$1.397 billion for the three months ended March 31, 2014 to \$1.508 billion for the three months ended March 31, 2015. This increase was primarily related to an increase in Operating Income (excluding depreciation and amortization) and decreases in working capital requirements and cash paid for interest, net.

Cash paid for interest, net, decreased primarily as a result of the maturity of TWC's 8.25% senior notes due February 2014 (\$750 million in aggregate principal amount).

On December 19, 2014, the Tax Increase Prevention Act of 2014 was enacted, extending bonus depreciation deductions of 50% of the cost of the Company's qualified 2014 capital expenditures. The Company expects cash paid for income taxes, net, to increase in 2015 primarily as a result of the reversal of prior year bonus depreciation benefits, partially offset by benefits relating to the late enactment of 50% bonus depreciation in December of 2014 (including a related overpayment of approximately \$120 million, which reduces the Company's 2015 cash paid for income taxes, net).

The Company made no cash contributions to its qualified defined benefit pension plans (the "qualified pension plans") and contributed \$1 million to its nonqualified defined benefit pension plan (the "nonqualified pension plan" and, together with the qualified pension plans, the "pension plans") during the three months ended March 31, 2015. As of March 31, 2015, the pension plans were estimated to be underfunded by \$255 million. The Company may make discretionary cash contributions to the qualified pension plans in 2015. 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. For the nonqualified pension plan, the Company will continue to make contributions during the remainder of 2015 to the extent benefits are paid.

### *Investing Activities*

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

|                                   | <b>Three Months Ended March 31,</b> |             |
|-----------------------------------|-------------------------------------|-------------|
|                                   | <b>2015</b>                         | <b>2014</b> |
| Capital expenditures              | \$ (1,134)                          | \$ (834)    |
| Acquisition of intangible assets  | (23)                                | (12)        |
| Other investing activities        | 3                                   | 27          |
| Cash used by investing activities | \$ (1,154)                          | \$ (819)    |

Cash used by investing activities increased from \$819 million for the three months ended March 31, 2014 to \$1.154 billion for the three months ended March 31, 2015, principally due to an increase in capital expenditures, primarily due to the Company's investments to improve network reliability, upgrade older customer premise equipment and expand its network to additional residences, commercial buildings and cell towers.



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**TIME WARNER CABLE INC.**  
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**OF OPERATIONS AND FINANCIAL CONDITION (Continued)**

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

|   | <b>Three Months Ended March 31,</b> |               |
|---|-------------------------------------|---------------|
|   | <b>2015</b>                         | <b>2014</b>   |
| Customer premise equipment <sup>(a)</sup> | \$ 467                              | \$ 298        |
| Scalable infrastructure <sup>(b)</sup>    | 270                                 | 163           |
| Line extensions <sup>(c)</sup>            | 174                                 | 146           |
| Upgrades/rebuilds <sup>(d)</sup>          | 38                                  | 23            |
| Support capital <sup>(e)</sup>            | 185                                 | 204           |
| <b>Total capital expenditures</b>         | <b>\$ 1,134</b>                     | <b>\$ 834</b> |

- (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 \$102 million and \$93 million for the three months ended March 31, 2015 and 2014, respectively.

The Company expects that 2015 capital expenditures will increase slightly compared to 2014 capital expenditures of approximately \$4.1 billion.

**Financing Activities**

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

|   | <b>Three Months Ended March 31,</b> |             |
|---|-------------------------------------|-------------|
|   | <b>2015</b>                         | <b>2014</b> |
| Short-term borrowings, net  | \$ 131                              | \$ 1,544    |
| Repayments of long-term debt  | (500)                               | (750)       |
| Dividends paid  | (216)                               | (214)       |
| Repurchases of common stock <sup>(a)</sup>                                |                                     | (259)       |
| Proceeds from exercise of stock options                                   | 71                                  | 79          |
| Excess tax benefit from equity-based compensation                         | 56                                  | 78          |
| Taxes paid in cash in lieu of shares issued for equity-based compensation | (56)                                | (66)        |
| Net collateral received on derivative financial instruments               |                                     | 43          |
| Other financing activities  |                                     | (1)         |
| Cash provided (used) by financing activities                              | \$ (514)                            | \$ 454      |

<sup>(a)</sup> In connection with the Company's entry into the Merger Agreement, the Company suspended its common stock repurchase program (the "Stock Repurchase Program") on February 13, 2014. As of March 31, 2015, the Company had \$2.723 billion remaining under the Stock Repurchase Program authorization.

Cash used by financing activities was \$514 million for the three months ended March 31, 2015 compared to cash provided by financing activities of \$454 million for the three months ended March 31, 2014. Cash used by financing activities for the three months ended March 31, 2015 primarily consisted of the repayment of TWC's 3.5% senior notes due February 2015 (\$500 million in aggregate principal amount) and the payment of a quarterly cash dividend, partially offset by borrowings under the Company's commercial paper program. Cash provided by financing activities for the three months ended March 31, 2014 primarily consisted of borrowings under the Company's commercial paper program, partially offset by the repayment of TWC's 8.25% senior notes due February 2014 (\$750 million in aggregate principal amount), repurchases of TWC common stock and the payment of a quarterly cash dividend.

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

**Outstanding Debt and Available Financial Capacity**

Debt as of March 31, 2015 and December 31, 2014 was as follows:

|  | Maturity  | Interest Rate         | Outstanding Balance as of |                      |
|--|-----------|-----------------------|---------------------------|----------------------|
|  |           |                       | March 31,<br>2015         | December 31,<br>2014 |
|  |           |                       | (in millions)             |                      |
| TWC notes and debentures <sup>(a)</sup>  | 2017-2042 | 5.904% <sup>(b)</sup> | \$ 20,504                 | \$ 21,065            |
| TWCE debentures <sup>(c)</sup>           | 2023-2033 | 7.905% <sup>(b)</sup> | 2,059                     | 2,061                |
| Revolving credit facility <sup>(d)</sup> | 2017      |                       |                           |                      |
| Commercial paper program <sup>(d)</sup>  | 2017      | 0.515% <sup>(b)</sup> | 638                       | 507                  |
| Capital leases                           | 2016-2042 |                       | 85                        | 85                   |
| Total debt <sup>(e)</sup>                |           |                       | \$ 23,286                 | \$ 23,718            |

(a) Outstanding balance amounts of the TWC notes and debentures as of March 31, 2015 and December 31, 2014 include £1.266 billion and £1.267 billion, respectively, of senior unsecured notes valued at \$1.876 billion and \$1.973 billion, respectively, using the exchange rates at each date.

(b) Rate represents a weighted-average effective interest rate as of March 31, 2015 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 March 31, 2015 and December 31, 2014 include an unamortized fair value adjustment of \$59 million and \$61 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 March 31, 2015, the Company had \$2.798 billion of available borrowing capacity under the Revolving Credit Facility (which reflects a reduction of \$64 million for outstanding letters of credit backed by the Revolving Credit Facility).

(e) Outstanding balance amounts of total debt as of March 31, 2015 and December 31, 2014 include current maturities of long-term debt of \$647 million and \$1.017 billion, respectively.

See the 2014 Form 10-K for further details regarding the Company's outstanding debt and other financing arrangements, including certain information about maturities, covenants and rating triggers related to such debt and financing arrangements. As of March 31, 2015, TWC was in compliance with the leverage ratio covenant of the Revolving Credit Facility, with a ratio of consolidated total debt as of March 31, 2015 to consolidated EBITDA for the twelve months ended March 31, 2015 of approximately 2.8 times. In accordance with the Revolving Credit

Facility agreement, consolidated total debt as of March 31, 2015 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 per the accompanying consolidated balance sheet in excess of \$25 million. In accordance with the Revolving Credit Facility agreement, consolidated EBITDA for the twelve months ended March 31, 2015 was calculated as Operating Income plus depreciation, amortization and equity-based compensation expense.

#### **CAUTION CONCERNING FORWARD-LOOKING STATEMENTS**

This document contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, particularly statements anticipating future growth in revenue, Operating Income, cash provided by operating activities and other financial measures. Words such as anticipates, estimates, expects, projects, intends, plans, believes and words and terms of similar substance used in 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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**TIME WARNER CABLE INC.**

**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 2014 Form 10-K, and in TWC's other filings made from time to time with the Securities and Exchange Commission (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, telecommunication carriers, 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 rules recently adopted by the FCC 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 or delays in, or impediments to executing on, 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 March 31, 2015 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)

|   | <b>March 31,<br/>2015</b> | <b>December 31,<br/>2014</b> |
|---|---------------------------|------------------------------|
|   | (in millions)             |                              |
| <b>ASSETS</b>   |                           |                              |
| Current assets:   |                           |                              |
| Cash and equivalents  | \$ 547                    | \$ 707                       |
| Receivables, less allowances of \$112 million and \$109 million<br>as of March 31, 2015 and December 31, 2014, respectively                     | 811                       | 949                          |
| Deferred income tax assets  | 232                       | 269                          |
| Other current assets  | 416                       | 391                          |
| <b>Total current assets</b>   | <b>2,006</b>              | <b>2,316</b>                 |
| Investments   | 67                        | 64                           |
| Property, plant and equipment, net  | 16,207                    | 15,990                       |
| Intangible assets subject to amortization, net  | 511                       | 523                          |
| Intangible assets not subject to amortization   | 26,012                    | 26,012                       |
| Goodwill  | 3,137                     | 3,137                        |
| Other assets  | 390                       | 459                          |
| <b>Total assets</b>   | <b>\$ 48,330</b>          | <b>\$ 48,501</b>             |
| <b>LIABILITIES AND EQUITY</b>   |                           |                              |
| Current liabilities:  |                           |                              |
| Accounts payable  | \$ 446                    | \$ 567                       |
| Deferred revenue and subscriber-related liabilities   | 207                       | 198                          |
| Accrued programming and content expense   | 971                       | 902                          |
| Current maturities of long-term debt  | 647                       | 1,017                        |
| Other current liabilities   | 1,888                     | 1,813                        |
| <b>Total current liabilities</b>  | <b>4,159</b>              | <b>4,497</b>                 |
| Long-term debt  | 22,639                    | 22,701                       |
| Deferred income tax liabilities, net  | 12,616                    | 12,560                       |
| Other liabilities   | 772                       | 726                          |
| Commitments and contingencies (Note 10)   |                           |                              |
| TWC shareholders' equity:   |                           |                              |
| Common stock, \$0.01 par value, 282.4 million and 280.8 million<br>shares issued and<br>outstanding as of March 31, 2015 and December 31, 2014, | 3                         | 3                            |



respectively

|   |           |           |
|---|-----------|-----------|
| Additional paid-in capital                | 7,284     | 7,172     |
| Retained earnings                         | 1,189     | 1,162     |
| Accumulated other comprehensive loss, net | (336)     | (324)     |
| Total TWC shareholders equity             | 8,140     | 8,013     |
| Noncontrolling interests                  | 4         | 4         |
| Total equity                              | 8,144     | 8,017     |
| Total liabilities and equity              | \$ 48,330 | \$ 48,501 |

See accompanying notes.

Table of Contents**TIME WARNER CABLE INC.****CONSOLIDATED STATEMENT OF OPERATIONS**

(Unaudited)

|  | <b>Three Months Ended March 31,</b> |             |
|--|-------------------------------------|-------------|
|  | <b>2015</b>                         | <b>2014</b> |
|  | <b>(in millions, except</b>         |             |
|  | <b>per share data)</b>              |             |
| Revenue  | \$ 5,777                            | \$ 5,582    |
| Costs and expenses:  |                                     |             |
| Programming and content  | 1,419                               | 1,309       |
| Sales and marketing  | 559                                 | 555         |
| Technical operations   | 399                                 | 371         |
| Customer care  | 226                                 | 205         |
| Other operating  | 1,178                               | 1,162       |
| Depreciation   | 852                                 | 775         |
| Amortization   | 34                                  | 33          |
| Merger-related and restructuring costs                               | 26                                  | 80          |
| Total costs and expenses   | 4,693                               | 4,490       |
| Operating Income   | 1,084                               | 1,092       |
| Interest expense   | (348)                               | (364)       |
| Other income, net  | 10                                  | 15          |
| Income before income taxes   | 746                                 | 743         |
| Income tax provision   | (288)                               | (264)       |
| Net income   | 458                                 | 479         |
| Less: Net income attributable to noncontrolling interests            |                                     |             |
| Net income attributable to TWC shareholders                          | \$ 458                              | \$ 479      |
| Net income per common share attributable to TWC common shareholders: |                                     |             |
| Basic  | \$ 1.60                             | \$ 1.71     |
| Diluted  | \$ 1.59                             | \$ 1.70     |
| Weighted-average common shares outstanding:                          |                                     |             |
| Basic  | 281.5                               | 277.8       |
| Diluted  | 284.9                               | 281.8       |

|   |    |      |    |      |
|---|----|------|----|------|
| Cash dividends declared per share of common stock | \$ | 1.50 | \$ | 0.75 |
|---|----|------|----|------|

See accompanying notes.

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**TIME WARNER CABLE INC.**  
**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

(Unaudited)

|  | <b>Three Months Ended March 31,</b> |             |
|--|-------------------------------------|-------------|
|  | <b>2015</b>                         | <b>2014</b> |
|  | <b>(in millions)</b>                |             |
| Net income   | \$ 458                              | \$ 479      |
| Change in accumulated unrealized losses on pension benefit obligation, net of income tax provision of \$(4) million and \$0 in 2015 and 2014, respectively   | 6                                   | (1)         |
| Change in accumulated deferred gains (losses) on cash flow hedges, net of income tax benefit of \$11 million and \$29 million in 2015 and 2014, respectively | (18)                                | (45)        |
| Other comprehensive loss   | (12)                                | (46)        |
| Comprehensive income   | 446                                 | 433         |
| Less: Comprehensive income attributable to noncontrolling interests  |                                     |             |
| Comprehensive income attributable to TWC shareholders  | \$ 446                              | \$ 433      |

See accompanying notes.

Table of Contents**TIME WARNER CABLE INC.****CONSOLIDATED STATEMENT OF CASH FLOWS**

(Unaudited)

|  | <b>Three Months Ended March 31,</b> |             |
|--|-------------------------------------|-------------|
|  | <b>2015</b>                         | <b>2014</b> |
|  | <b>(in millions)</b>                |             |
| <b>OPERATING ACTIVITIES</b>  |                                     |             |
| Net income   | \$ 458                              | \$ 479      |
| Adjustments for noncash and nonoperating items:                                    |                                     |             |
| Depreciation   | 852                                 | 775         |
| Amortization   | 34                                  | 33          |
| Income from equity-method investments, net of cash distributions                   | (3)                                 | (7)         |
| Deferred income taxes  | 100                                 | 40          |
| Equity-based compensation expense  | 42                                  | 50          |
| Excess tax benefit from equity-based compensation                                  | (56)                                | (78)        |
| Changes in operating assets and liabilities, net of acquisitions and dispositions: |                                     |             |
| Receivables  | 152                                 | 105         |
| Accounts payable and other liabilities   | 54                                  | 64          |
| Other changes  | (125)                               | (64)        |
| Cash provided by operating activities  | 1,508                               | 1,397       |
| <b>INVESTING ACTIVITIES</b>  |                                     |             |
| Capital expenditures   | (1,134)                             | (834)       |
| Acquisition of intangible assets   | (23)                                | (12)        |
| Other investing activities   | 3                                   | 27          |
| Cash used by investing activities  | (1,154)                             | (819)       |
| <b>FINANCING ACTIVITIES</b>  |                                     |             |
| Short-term borrowings, net   | 131                                 | 1,544       |
| Repayments of long-term debt   | (500)                               | (750)       |
| Dividends paid   | (216)                               | (214)       |
| Repurchases of common stock  |                                     | (259)       |
| Proceeds from exercise of stock options  | 71                                  | 79          |
| Excess tax benefit from equity-based compensation                                  | 56                                  | 78          |
| Taxes paid in cash in lieu of shares issued for equity-based compensation          | (56)                                | (66)        |
| Net collateral received on derivative financial instruments                        |                                     | 43          |
| Other financing activities   |                                     | (1)         |

|  |        |          |
|--|--------|----------|
| Cash provided (used) by financing activities | (514)  | 454      |
| Increase (decrease) in cash and equivalents  | (160)  | 1,032    |
| Cash and equivalents at beginning of period  | 707    | 525      |
| Cash and equivalents at end of period        | \$ 547 | \$ 1,557 |

See accompanying notes.

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**TIME WARNER CABLE INC.**  
**CONSOLIDATED STATEMENT OF EQUITY**

(Unaudited)

|   | <b>TWC<br/>Shareholders<br/>Equity</b> | <b>Non-<br/>controlling<br/>Interests<br/>(in millions)</b> | <b>Total<br/>Equity</b> |
|---|--|---|-------------------------|
| Balance as of December 31, 2013                                   | \$ 6,943                               | \$ 4  | \$ 6,947                |
| Net income  | 479                                    |   | 479                     |
| Other comprehensive loss  | (46)                                   |   | (46)                    |
| Cash dividend declared (\$0.75 per common share)                  | (213)                                  |   | (213)                   |
| Repurchase and retirement of common stock                         | (208)                                  |   | (208)                   |
| Equity-based compensation expense                                 | 50                                     |   | 50                      |
| Excess tax benefit realized from equity-based compensation        | 78                                     |   | 78                      |
| Shares issued upon exercise of stock options                      | 79                                     |   | 79                      |
| Taxes paid in lieu of shares issued for equity-based compensation | (66)                                   |   | (66)                    |
| Other changes   | (2)                                    |   | (2)                     |
| Balance as of March 31, 2014                                      | \$ 7,094                               | \$ 4  | \$ 7,098                |
| Balance as of December 31, 2014                                   | \$ 8,013                               | \$ 4  | \$ 8,017                |
| Net income  | 458                                    |   | 458                     |
| Other comprehensive loss  | (12)                                   |   | (12)                    |
| Cash dividends declared (\$1.50 per common share)                 | (431)                                  |   | (431)                   |
| Equity-based compensation expense                                 | 42                                     |   | 42                      |
| Excess tax benefit realized from equity-based compensation        | 56                                     |   | 56                      |
| Shares issued upon exercise of stock options                      | 71                                     |   | 71                      |
| Taxes paid in lieu of shares issued for equity-based compensation | (56)                                   |   | (56)                    |
| Other changes   | (1)                                    |   | (1)                     |
| Balance as of March 31, 2015                                      | \$ 8,140                               | \$ 4  | \$ 8,144                |

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's mission is to connect its customers to the world simply, reliably and with superior service. TWC offers video, high-speed data and voice services to residential and business services customers. TWC's residential services also include security and home management services, and 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 video and online advertising inventory to a variety of local, regional and national customers.

On February 12, 2014, the Company entered into an Agreement and Plan of Merger (the Merger Agreement) with Comcast Corporation (Comcast) whereby the Company agreed to merge with and into a 100% owned subsidiary of Comcast (the Comcast merger). On April 24, 2015, Comcast and the Company entered into a Termination Agreement wherein the parties agreed to terminate the Merger Agreement.

On April 25, 2014, Comcast entered into a binding agreement with Charter Communications, Inc. (Charter), which contemplated three transactions (the divestiture transactions): (1) a contribution, spin-off and merger transaction, (2) an asset exchange and (3) a sale of assets. The completion of the divestiture transactions would have resulted in the combined company divesting a net total of approximately 3.7 million video subscribers, a portion of which were TWC subscribers (primarily in the Midwest). On April 24, 2015, Comcast delivered a notice of termination of such agreement to Charter.

On March 31, 2015, Charter and Advance/Newhouse Partnership (A/N) announced that they and certain of their affiliates had reached a definitive agreement pursuant to which Charter would acquire Bright House Networks, LLC (Bright House Networks), subject to closing of the divestiture transactions and to TWC's right of first offer with respect to Bright House Networks. Bright House Networks is a 100% owned subsidiary of a partnership (TWE-A/N) between A/N and Time Warner Cable Enterprises LLC (TWCE), a subsidiary of TWC.

**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 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.

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**TIME WARNER CABLE INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(Unaudited)

***Reclassifications***

Certain reclassifications have been made to the prior period 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, 2014.

**2. RECENT ACCOUNTING STANDARDS**

**Accounting Standards Not Yet Adopted**

***Revenue from Contracts with Customers***

In May 2014, the Financial Accounting Standards Board (the "FASB") issued authoritative guidance that outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most recent current revenue recognition guidance, including industry-specific guidance. The core principle of the revenue model is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance also specifies the accounting for certain incremental costs of obtaining a contract and costs to fulfill a contract with a customer. Entities have the option of applying either a full retrospective approach to all periods presented or a modified approach that reflects differences prior to the date of adoption as an adjustment to equity. In April 2015, the FASB deferred the effective date of this guidance by one year. As such, this guidance will be effective for TWC on January 1, 2018 and the Company is currently assessing the impact of this guidance on its consolidated financial statements.

***Presentation of Debt Issuance Costs***

In April 2015, the FASB issued authoritative guidance for the purpose of simplifying the presentation of debt issuance costs. Under this guidance, debt issuance costs related to a recognized debt liability are required to be presented in the balance sheet as a direct reduction from the carrying amount of such debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by this guidance. Entities will be required to apply a full retrospective approach to all periods presented. This guidance will be effective for TWC on January 1, 2016 and, upon adoption, debt issuance costs capitalized in other current assets and other assets in the

consolidated balance sheet will be reclassified and presented as a reduction to current and noncurrent long-term debt. As of March, 31, 2015, debt issuance costs, net of accumulated amortization, recognized in the consolidated balance sheet totaled \$100 million, of which \$10 million is recorded in other current assets.

***Customer s Accounting for Fees Paid in a Cloud Computing Arrangement***

In April 2015, the FASB issued authoritative guidance for the purpose of clarifying the accounting for cloud computing arrangements by providing criteria for determining whether a cloud computing arrangement includes a software license. Under this guidance, if it is determined that a cloud computing arrangement includes a software license, the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses; however, if it is determined that a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. Entities have the option of applying either a full retrospective approach to all periods presented or a prospective approach to all arrangements entered into or materially modified after the effective date. This guidance will be effective for TWC on January 1, 2016 and is not expected to have a material impact on the Company s consolidated financial statements.

Table of Contents**TIME WARNER CABLE INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(Unaudited)

**3. 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.

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):

|  | <b>Three Months Ended March 31,</b> |             |
|--|-------------------------------------|-------------|
|  | <b>2015</b>                         | <b>2014</b> |
| Net income attributable to TWC common shareholders                   | \$ 450                              | \$ 475      |
| Net income allocated to participating securities <sup>(a)</sup>      | 8                                   | 4           |
| Net income attributable to TWC shareholders                          | \$ 458                              | \$ 479      |
| Weighted-average basic common shares outstanding                     | 281.5                               | 277.8       |
| Dilutive effect of nonparticipating equity awards                    | 1.1                                 | 2.1         |
| Dilutive effect of participating equity awards <sup>(a)</sup>        | 2.3                                 | 1.9         |
| Weighted-average diluted common shares outstanding                   | 284.9                               | 281.8       |
| Net income per common share attributable to TWC common shareholders: |                                     |             |
| Basic  | \$ 1.60                             | \$ 1.71     |
| Diluted  | \$ 1.59                             | \$ 1.70     |

<sup>(a)</sup> Restricted stock units granted to employees and non-employee directors are considered participating securities with respect to regular quarterly cash dividends.

#### 4. DERIVATIVE FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENTS

##### Assets and Liabilities Measured at Fair Value on a Recurring Basis

The fair values of assets and liabilities associated with derivative financial instruments recorded in the consolidated balance sheet as of March 31, 2015 and December 31, 2014 consisted of the following (in millions):

|  | Assets            |                      | Liabilities       |                      |
|--|-------------------|----------------------|-------------------|----------------------|
|  | March 31,<br>2015 | December 31,<br>2014 | March 31,<br>2015 | December 31,<br>2014 |
| Interest rate swaps <sup>(a)(b)</sup>  | \$ 112            | \$ 93                | \$ 5              | \$ 19                |
| Cross-currency swaps <sup>(a)(c)</sup> | 117               | 197                  | 46                |                      |
| <b>Total</b>                           | <b>\$ 229</b>     | <b>\$ 290</b>        | <b>\$ 51</b>      | <b>\$ 19</b>         |

- (a) 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, including cash collateral received or paid, through a single payment in the event of default on or termination of any one contract by either party. The fair values of the 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) The fair value of assets associated with interest rate swaps as of March 31, 2015 is recorded in other assets in the consolidated balance sheet. Of the total fair value of assets associated with interest rate swaps as of December 31, 2014, \$1 million is recorded in other current assets with the remainder recorded in other assets in the consolidated balance sheet. The fair values of liabilities associated with interest rate swaps as of March 31, 2015 and December 31, 2014 are recorded in other liabilities in the consolidated balance sheet.
- (c) The fair values of assets and liabilities associated with cross-currency swaps are recorded in other assets and other liabilities, respectively, in the consolidated balance sheet.

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(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 recognized no gain or loss related to its interest rate swaps because the changes in the fair values of such instruments were completely offset by the changes in the fair values of the hedged fixed-rate debt. The fair value of interest rate swaps was determined using 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 (a Level 2 fair value measurement). The following table summarizes the terms of existing fixed to variable interest rate swaps as of March 31, 2015 and December 31, 2014:

|   | <b>March 31,<br/>2015</b> | <b>December 31,<br/>2014</b> |
|---|---------------------------|------------------------------|
| <b>Maturities</b>   | <b>2017-2019</b>          | <b>2015-2019</b>             |
| Notional amount (in millions)   | \$ 5,600                  | \$ 6,100                     |
| Weighted-average pay rate (variable based on LIBOR plus variable margins) | 5.13%                     | 4.78%                        |
| Weighted-average receive rate (fixed)                                     | 6.86%                     | 6.58%                        |

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 fair value of cross-currency swaps was determined using a DCF analysis based on expected forward interest and exchange rates, and incorporates the credit risk of the Company and each counterparty (a Level 2 fair value measurement). The following table summarizes the deferred gain (loss) activity related to cash flow hedges recognized in accumulated other comprehensive loss, net, and reclassified into other income, net, for the three months ended March 31, 2015 and 2014 (in millions):

|   | <b>Three Months Ended March 31,</b> |                |
|---|-------------------------------------|----------------|
|   | <b>2015</b>                         | <b>2014</b>    |
| Deferred losses recognized  | \$ (126)                            | \$ (62)        |
| Deferred (gains) losses reclassified into earnings <sup>(a)</sup> | 97                                  | (12)           |
| <b>Total net deferred losses recognized</b>                       | <b>(29)</b>                         | <b>(74)</b>    |
| Income tax benefit  | 11                                  | 29             |
| <b>Total net deferred losses recognized, net of tax</b>           | <b>\$ (18)</b>                      | <b>\$ (45)</b> |

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

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

#### **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.

Table of Contents**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 borrowings under the Company's commercial paper program, which are reflected at cost in the consolidated balance sheet, and (b) TWC senior notes and debentures and TWCE senior debentures (collectively, the senior notes and debentures) not subject to fair value hedge accounting, which are reflected at amortized cost in the consolidated balance sheet. With the exception of the senior notes and debentures, cost approximates fair value for these instruments due to their short-term nature. The carrying value and related estimated fair value of the senior notes and debentures was \$22.563 billion and \$27.233 billion, respectively, as of March 31, 2015 and \$23.126 billion and \$27.842 billion, respectively, as of December 31, 2014. Estimated fair values for the senior notes and debentures are determined by reference to the market value of the instrument as quoted on a national securities exchange or in an over-the-counter market (a Level 1 fair value measurement).

**5. TWC SHAREHOLDERS' EQUITY****Changes in Common Stock**

Changes in common stock from January 1 through March 31 are presented below (in millions):

|  | <b>2015</b> | <b>2014</b> |
|--|-------------|-------------|
| Balance at beginning of period                         | 280.8       | 277.9       |
| Shares issued under the equity-based compensation plan | 1.6         | 2.2         |
| Shares repurchased and retired                         |             | (1.5)       |
| Balance at end of period                               | 282.4       | 278.6       |

**Common Stock Repurchase Program**

In connection with the Company's entry into the Merger Agreement, the Company suspended its \$4.0 billion common stock repurchase program (the Stock Repurchase Program) on February 13, 2014. As of March 31, 2015, the Company had \$2.723 billion remaining under the Stock Repurchase Program authorization.

**Accumulated Other Comprehensive Income (Loss), Net**

Changes in accumulated other comprehensive income (loss), net, included in TWC shareholders' equity from January 1 through March 31 are presented below (in millions):



|   | <b>2015</b> | <b>2014</b> |
|---|-------------|-------------|
| Balance at beginning of period                                | \$ (324)    | \$ 44       |
| Other comprehensive loss before reclassifications, net of tax | (78)        | (39)        |
| Amounts reclassified into earnings, net of tax                | 66          | (7)         |
| Other comprehensive loss, net of tax                          | (12)        | (46)        |
| Balance at end of period                                      | \$ (336)    | \$ (2)      |

Table of Contents**TIME WARNER CABLE INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(Unaudited)

The following table summarizes the changes in the components of accumulated other comprehensive income (loss), net, included in TWC shareholders' equity from January 1 through March 31 (in millions):

|   | 2015     | 2014     |
|---|----------|----------|
| <i>Unrealized losses on pension benefit obligation:</i>             |          |          |
| Balance at beginning of period                                      | \$ (473) | \$ (104) |
| Amounts reclassified into earnings, net of tax:                     |          |          |
| Amortization of actuarial (gain) loss <sup>(a)</sup>                | 10       | (1)      |
| Income tax benefit  | (4)      |          |
| Amortization of actuarial (gain) loss, net of tax                   | 6        | (1)      |
| Other comprehensive income (loss), net of tax                       | 6        | (1)      |
| Balance at end of period  | \$ (467) | \$ (105) |
| <i>Deferred gains (losses) on cash flow hedges:</i>                 |          |          |
| Balance at beginning of period                                      | \$ 150   | \$ 149   |
| Other comprehensive loss before reclassifications, net of tax       | (78)     | (39)     |
| Amounts reclassified into earnings, net of tax:                     |          |          |
| Effective portion of (gain) loss on cash flow hedges <sup>(b)</sup> | 97       | (12)     |
| Income tax provision (benefit)                                      | (37)     | 6        |
| Effective portion of (gain) loss on cash flow hedges, net of tax    | 60       | (6)      |
| Other comprehensive loss, net of tax                                | (18)     | (45)     |
| Balance at end of period  | \$ 132   | \$ 104   |
| <i>Other changes:</i>   |          |          |
| Balance at beginning and end of period                              | \$ (1)   | \$ (1)   |

(a) Amounts are included in the computation of net periodic benefit costs as discussed further in Note 7.

(b) Amounts are recorded in other income, net, in the consolidated statement of operations as discussed further in Note 4.

**6. EQUITY-BASED COMPENSATION**

TWC is authorized under the Company's stock incentive plan (the 2011 Plan) to grant restricted stock units (RSUs) and options to purchase shares of TWC common stock to its employees and non-employee directors. As of March 31, 2015, the 2011 Plan provides for the issuance of up to 20.0 million shares of TWC common stock, of which 8.8 million shares were available for grant.

Equity-based compensation expense recognized for the three months ended March 31, 2015 and 2014 was as follows (in millions):

|  | <b>Three Months Ended March 31,</b> |              |
|--|-------------------------------------|--------------|
|  | <b>2015</b>                         | <b>2014</b>  |
| Restricted stock units <sup>(a)</sup>                        | \$ 38                               | \$ 43        |
| Stock options  | 4                                   | 7            |
| <b>Total equity-based compensation expense<sup>(a)</sup></b> | <b>\$ 42</b>                        | <b>\$ 50</b> |

<sup>(a)</sup> Of the total equity-based compensation expense recorded in 2015 and 2014, \$11 million and \$9 million, respectively, is recognized in merger-related and restructuring costs in the consolidated statement of operations.

**Restricted Stock Units**

For the three months ended March 31, 2015, TWC granted 18,000 RSUs at a weighted-average grant date fair value of \$146.80 per RSU, which included no RSUs subject to performance-based vesting conditions (PBUs). For the three months ended March 31, 2014, TWC granted 3.575 million RSUs at a weighted-average grant date fair value of \$135.31 per RSU, which included 143,000 PBUs at a weighted-average grant date fair value of \$135.31 per PBU. Total unrecognized

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**TIME WARNER CABLE INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(Unaudited)

compensation cost related to unvested RSUs as of March 31, 2015, without taking into account expected forfeitures, was \$422 million, which the Company expects to recognize over a weighted-average period of 3.53 years, without taking into account acceleration of vesting.

In connection with the Company's entry into the Merger Agreement, the Company advanced the timing of its annual grants that would have been made in 2015 and 2016 into 2014. As a result, eligible employees were granted additional RSUs having a value equal to (and with vesting terms consistent with) those that these employees otherwise would have received in each of 2015 and 2016 (the retention grants), but without performance-based vesting conditions. Specifically, the retention grant corresponding to the 2015 annual grant will vest 50% in February of 2018 and 50% in February of 2019; the retention grant corresponding to the 2016 annual grant will vest 50% in February of 2019 and 50% in February of 2020, in each case subject to continued employment. If the grantee's employment were terminated prior to the date on which either retention grant would have normally been made (i.e., February 2015 or 2016, as appropriate), such retention grant would be forfeited, absent a change in control of the Company prior to such termination of employment. Employees who received retention grants were generally not eligible for additional equity awards in 2015 and will generally not be eligible for additional equity awards in 2016 absent a change of responsibilities or other circumstances. Consequently, whether or not the Comcast merger was consummated, both the employees and the Company would generally be in the same position they would have been in had the additional RSUs been granted in 2015 and 2016, rather than in 2014.

With the exception of the retention grants discussed above, RSUs, including PBUs, generally vest 50% on each of the third and fourth anniversary of the grant date, subject to continued employment and, in the case of PBUs, subject to the satisfaction and certification of the applicable performance conditions. RSUs generally provide for accelerated vesting upon the termination of the grantee's employment after reaching a specified age and years of service or upon a termination of the grantee's employment within 24 months following a change in control of the Company and, in the case of PBUs, subject to the satisfaction and certification of the applicable performance conditions. PBUs are subject to forfeiture if the applicable performance condition is not satisfied. RSUs awarded to non-employee directors are not subject to vesting or forfeiture restrictions and the shares underlying the RSUs will generally be issued in connection with a director's termination of service as a director. Pursuant to the directors' compensation program, certain directors with more than three years of service on the Board of Directors have elected an in-service vesting period for their RSU awards. Holders of RSUs are generally entitled to receive cash dividend equivalents or retained distributions related to regular cash dividends or other distributions, respectively, paid by TWC. In the case of PBUs, the receipt of the dividend equivalents is subject to the satisfaction and certification of the applicable performance conditions. Retained distributions are subject to the vesting requirements of the underlying RSUs. Upon the vesting of a RSU, shares of TWC common stock may be issued from authorized but unissued shares or from treasury stock, if any.

**Stock Options**

For the three months ended March 31, 2015 and 2014, TWC granted no stock options. Total unrecognized compensation cost related to unvested stock options as of March 31, 2015, without taking into account expected forfeitures, was \$19 million, which the Company expects to recognize over a weighted-average period of 1.60 years,

without taking into account acceleration of vesting.

Stock options, including stock options subject to performance-based vesting conditions ( PBOs ), have exercise prices equal to the fair market value of TWC common stock at the date of grant. Generally, stock options vest ratably over a four-year vesting period and expire ten years from the date of grant, subject to continued employment and, in the case of PBOs, subject to the satisfaction and certification of the applicable performance condition. Certain stock option awards provide for accelerated vesting upon the termination of the grantee s employment after reaching a specified age and years of service or upon a termination of the grantee s employment within 24 months following a change in control of the Company and, in the case of PBOs, subject to the satisfaction and certification of the applicable performance conditions. PBOs are subject to forfeiture if the applicable performance condition is not satisfied. Upon the exercise of a stock option, shares of TWC common stock may be issued from authorized but unissued shares or from treasury stock, if any.

**Table of Contents****TIME WARNER CABLE INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(Unaudited)

**7. PENSION COSTS**

TWC sponsors the Time Warner Cable Pension Plan (the TWC Pension Plan ) and the Time Warner Cable Union Pension Plan (the Union Pension Plan and, together with the TWC Pension Plan, the qualified pension plans ), both qualified defined benefit pension plans, that together provide pension benefits to a majority of the Company's employees. TWC also provides a nonqualified defined benefit pension plan for certain employees (the nonqualified pension plan and, together with the qualified pension plans, the pension plans ). Pension benefits are based on formulas that reflect the employees' years of service and compensation during their employment period. TWC uses a December 31 measurement date for its pension plans. The components of net periodic benefit costs for the three months ended March 31, 2015 and 2014 is as follows (in millions):

|                                   | <b>Three Months Ended March 31,</b> |              |
|-----------------------------------|-------------------------------------|--------------|
|                                   | <b>2015</b>                         | <b>2014</b>  |
| Service cost                      | \$ 57                               | \$ 43        |
| Interest cost                     | 36                                  | 36           |
| Expected return on plan assets    | (57)                                | (58)         |
| Amounts amortized                 | 10                                  | (1)          |
| <b>Net periodic benefit costs</b> | <b>\$ 46</b>                        | <b>\$ 20</b> |

The Company made no cash contributions to the qualified pension plans during the three months ended March 31, 2015; however, the Company may make discretionary cash contributions to the qualified pension plans in 2015. 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. For the nonqualified pension plan, the Company will continue to make contributions during the remainder of 2015 to the extent benefits are paid.

**8. MERGER-RELATED AND RESTRUCTURING COSTS**

Merger-related and restructuring costs for the three months ended March 31, 2015 and 2014 consisted of the following (in millions):

|  | <b>Three Months Ended March 31,</b> |             |
|--|-------------------------------------|-------------|
|  | <b>2015</b>                         | <b>2014</b> |

|  |    |    |    |    |
|--|----|----|----|----|
| Merger-related costs                         | \$ | 24 | \$ | 63 |
| Restructuring costs                          |    | 2  |    | 17 |
| Total merger-related and restructuring costs | \$ | 26 | \$ | 80 |

**Table of Contents****TIME WARNER CABLE INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(Unaudited)

**Merger-related Costs**

For the three months ended March 31, 2015, the Company incurred Comcast merger-related costs of \$24 million, including employee retention costs of \$14 million and advisory and legal fees of \$10 million. For the three months ended March 31, 2014, the Company incurred merger-related costs of \$63 million, which consisted of Comcast merger-related costs, including employee retention costs of \$29 million and advisory and legal fees of \$33 million, as well as \$1 million incurred in connection with the acquisition of DukeNet Communications, LLC. Additional merger-related costs were incurred in April 2015. Changes in accruals for merger-related costs are presented below (in millions):

|   | <b>Employee<br/>Costs</b> |  | <b>Other<br/>Costs</b> |  | <b>Total</b> |
|---|---------------------------|--|------------------------|--|--------------|
| Remaining liability as of December 31, 2013             | \$ 3                      |  | \$ 3                   |  | \$ 6         |
| Costs incurred  | 68                        |  | 75                     |  | 143          |
| Adjustments   | (1)                       |  |                        |  | (1)          |
| Cash paid <sup>(a)</sup>                                | (5)                       |  | (61)                   |  | (66)         |
| Remaining liability as of December 31, 2014             | 65                        |  | 17                     |  | 82           |
| Costs incurred  | 3                         |  | 10                     |  | 13           |
| Cash paid   | (2)                       |  | (19)                   |  | (21)         |
| Remaining liability as of March 31, 2015 <sup>(b)</sup> | \$ 66                     |  | \$ 8                   |  | \$ 74        |

(a) Of the total cash paid in 2014, \$24 million was paid during the three months ended March 31, 2014.

(b) The remaining \$74 million liability as of March 31, 2015 is classified as a current liability in the consolidated balance sheet.

In addition to the cash settled liabilities shown in the table above, the Company also issued RSUs in connection with the retention grants, as discussed in Note 6, which resulted in additional merger-related costs of \$56 million for the year ended December 31, 2014 (\$9 million for the three months ended March 31, 2014) and \$11 million for the three months ended March 31, 2015.

**Restructuring Costs**

For the three months ended March 31, 2015 and 2014, the Company incurred restructuring costs of \$2 million and \$17 million, respectively, primarily related to employee terminations and other exit costs. The Company expects to incur



additional restructuring costs in 2015. Changes in restructuring reserves are presented below (in millions):

|   | <b>Employee<br/>Termination<br/>Costs</b> | <b>Other<br/>Exit<br/>Costs</b> | <b>Total</b> |
|---|---|---------------------------------|--------------|
| Remaining liability as of December 31, 2013             | \$ 39                                     | \$ 4                            | \$ 43        |
| Costs incurred  | 14  | 16                              | 30           |
| Adjustments   | (3)                                       |                                 | (3)          |
| Cash paid <sup>(a)</sup>                                | (42)                                      | (20)                            | (62)         |
| Remaining liability as of December 31, 2014             | 8   |                                 | 8            |
| Costs incurred  | 2   |                                 | 2            |
| Cash paid   | (5)                                       |                                 | (5)          |
| Remaining liability as of March 31, 2015 <sup>(b)</sup> | \$ 5                                      | \$                              | \$ 5         |

<sup>(a)</sup> Of the total cash paid in 2014, \$34 million was paid during the three months ended March 31, 2014.

<sup>(b)</sup> Of the remaining liability as of March 31, 2015, \$4 million is classified as a current liability, with the remaining amount classified as a noncurrent liability in the consolidated balance sheet. Amounts are expected to be paid through March 2018.

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**TIME WARNER CABLE INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(Unaudited)

**9. SEGMENT INFORMATION**

The Company classifies its operations into the following three reportable segments, which have been determined based on how management evaluates and manages the business:

Residential Services, which principally consists of video, high-speed data and voice services provided to residential customers as well as other residential services, including security and home management services.

Business Services, which principally consists of data, video and voice services provided to business customers as well as other business services, including enterprise-class, cloud-enabled hosting, managed applications and services.

Other Operations, which principally consists of (i) Time Warner Cable Media ( TWC Media ), the advertising sales arm of TWC, (ii) TWC-owned and/or operated regional sports networks ( RSNs ) and local sports, news and lifestyle channels (e.g., Time Warner Cable News NY1) and (iii) other operating revenue and costs, including those derived from A/N and home shopping network-related services. The business units reflected in the Other Operations segment individually do not meet the thresholds to be reported as separate reportable segments.

In addition to the above reportable segments, the Company has shared functions (referred to as Shared Functions ) that include activities not attributable to a specific reportable segment. Shared Functions consists of operating costs and expenses associated with broad corporate functions (e.g., accounting and finance, information technology, executive management, legal and human resources) or functions supporting more than one reportable segment that are centrally managed (e.g., facilities, network operations, vehicles and procurement) as well as other activities not attributable to a reportable segment. As such, the reportable segment results reflect how management views such segments in assessing financial performance and allocating resources and are not necessarily indicative of the results of operations that each segment would have achieved had they operated as stand-alone entities during the periods presented.

In evaluating the profitability of the Company s segments, the components of net income (loss) below OIBDA, as defined below, are not separately evaluated by management at the segment level. Due to the nature of the Company s operations, a majority of its assets, including its distribution systems, are utilized across the Company s operations and are not segregated by segment. In addition, segment assets are not reported to, or used by, management to allocate resources or assess the performance of the Company s segments. Accordingly, the Company has not disclosed asset information by segment.

Segment information for the three months ended March 31, 2015 and 2014 is as follows (in millions):

## Three Months Ended March 31, 2015

|  | <b>Residential<br/>Services<br/>Segment</b> | <b>Business<br/>Services<br/>Segment</b> | <b>Other<br/>Operations<br/>Segment</b> | <b>Shared<br/>Functions</b> | <b>Intersegment<br/>Eliminations</b> | <b>Total<br/>Consolidated</b> |
|--|---|--|---|-----------------------------|--------------------------------------|-------------------------------|
| Revenue <sup>(a)</sup>                 | \$ 4,662                                    | \$ 781                                   | \$ 398                                  | \$                          | \$ (64)                              | \$ 5,777                      |
| Operating costs and expenses           | (2,581)                                     | (302)                                    | (235)                                   | (727)                       | 64                                   | (3,781)                       |
| Merger-related and restructuring costs |   |  |   | (26)                        |                                      | (26)                          |
| OIBDA                                  | \$ 2,081                                    | \$ 479                                   | \$ 163                                  | \$ (753)                    | \$                                   | 1,970                         |
| Depreciation                           |   |  |   |                             |                                      | (852)                         |
| Amortization                           |   |  |   |                             |                                      | (34)                          |
| Operating Income                       |   |  |   |                             |                                      | \$ 1,084                      |

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## TIME WARNER CABLE INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

|   | Three Months Ended March 31, 2014  |                                 |                                |                     |                              |  |                       |  |
|---|------------------------------------|---------------------------------|--------------------------------|---------------------|------------------------------|--|-----------------------|--|
|   | Residential<br>Services<br>Segment | Business<br>Services<br>Segment | Other<br>Operations<br>Segment | Shared<br>Functions | Intersegment<br>Eliminations |  | Total<br>Consolidated |  |
| Revenue <sup>(a)</sup>                        | \$ 4,568                           | \$ 668                          | \$ 400                         | \$                  | \$ (54)                      |  | \$ 5,582              |  |
| Operating<br>costs and<br>expenses            | (2,436)                            | (266)                           | (227)                          | (727)               | 54                           |  | (3,602)               |  |
| Merger-related<br>and<br>structuring<br>costs |                                    |                                 |                                | (80)                |                              |  | (80)                  |  |
| BDA   | \$ 2,132                           | \$ 402                          | \$ 173                         | \$ (807)            | \$                           |  | 1,900                 |  |
| Depreciation<br>and amortization              |                                    |                                 |                                |                     |                              |  | (775)                 |  |
|   |                                    |                                 |                                |                     |                              |  | (33)                  |  |
| Operating<br>income                           |                                    |                                 |                                |                     |                              |  | \$ 1,092              |  |

(a) Revenue derived from outside the U.S. was insignificant in all periods presented. No single customer accounted for a significant amount of revenue in any period presented.

Intersegment Eliminations relates to the programming provided to the Residential Services and Business Services segments by the RSNs and local sports, news and lifestyle channels. These services are reflected as programming expense for the Residential Services and Business Services segments and as revenue for the Other Operations segment.

Intersegment revenue for the three months ended March 31, 2015 and 2014 consisted of the following (in millions):

|                      | Three Months Ended March 31, |      |
|----------------------|------------------------------|------|
|                      | 2015                         | 2014 |
| Residential Services | \$                           | \$   |
| Business Services    |                              |      |

|                            |    |    |    |    |
|----------------------------|----|----|----|----|
| Other Operations           |    | 64 |    | 54 |
| Total intersegment revenue | \$ | 64 | \$ | 54 |

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(Unaudited)

Revenue for the three months ended March 31, 2015 and 2014 was derived from the following sources (in millions):

|   | <b>Three Months Ended March 31,</b> |                 |
|---|-------------------------------------|-----------------|
|   | <b>2015</b>                         | <b>2014</b>     |
| Residential Services revenue:             |                                     |                 |
| Video                                     | \$ 2,469                            | \$ 2,495        |
| High-speed data                           | 1,696                               | 1,558           |
| Voice                                     | 473                                 | 496             |
| Other                                     | 24                                  | 19              |
| <b>Total Residential Services revenue</b> | <b>4,662</b>                        | <b>4,568</b>    |
| Business Services revenue:                |                                     |                 |
| Video                                     | 94                                  | 89              |
| High-speed data                           | 376                                 | 306             |
| Voice                                     | 142                                 | 118             |
| Wholesale transport                       | 121                                 | 101             |
| Other                                     | 48                                  | 54              |
| <b>Total Business Services revenue</b>    | <b>781</b>                          | <b>668</b>      |
| Other Operations revenue:                 |                                     |                 |
| Advertising                               | 230                                 | 247             |
| Other                                     | 168                                 | 153             |
| <b>Total Other Operations revenue</b>     | <b>398</b>                          | <b>400</b>      |
| Intersegment eliminations                 | (64)                                | (54)            |
| <b>Total revenue</b>                      | <b>\$ 5,777</b>                     | <b>\$ 5,582</b> |

**Use of OIBDA**

Management uses Operating Income before Depreciation and Amortization ( OIBDA ), among other measures, in evaluating the segment's performance 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). Management also uses this measure to evaluate the Company's consolidated operating performance and to allocate resources and capital to the segments. 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 the Company's consolidated 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.

## **10. COMMITMENTS AND CONTINGENCIES**

### **Legal Proceedings**

Following the announcement of the Comcast merger on February 13, 2014, eight putative class action complaints challenging the merger were filed on behalf of purported TWC stockholders, seven in the Supreme Court of the State of New York, County of New York and one in the Court of Chancery of the State of Delaware. These complaints were captioned: *Barrett v. Time Warner Cable Inc., et al.* (N.Y. Sup. Ct.); *Karl Graulich IRA v. Marcus, et al.* (N.Y. Sup. Ct.); *Wedeking v.*

**Table of Contents****TIME WARNER CABLE INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(Unaudited)

*Time Warner Cable Inc., et al.* (N.Y. Sup. Ct.); *Lassoff v. Time Warner Cable Inc., et al.* (N.Y. Sup. Ct.); *Thomas v. Marcus, et al.* (N.Y. Sup. Ct.); *Tangarone v. Time Warner Cable Inc., et al.* (N.Y. Sup. Ct.); *Louisiana Municipal Police Employees Retirement System v. Black, et al.* (Del. Ch.); and *Empire State Supply Corp. v. Time Warner Cable Inc., et al.* (N.Y. Sup. Ct.). On March 25, 2014, the plaintiff in *Tangarone v. Time Warner Cable Inc.* voluntarily discontinued the action in the New York Supreme Court and re-filed the action in the Court of Chancery of the State of Delaware under the caption *Tangarone v. Time Warner Cable Inc., et al.* (Del. Ch.). Likewise, on March 26, 2014, the plaintiffs in *Empire State Supply Corp. v. Time Warner Cable Inc., et al.* voluntarily discontinued the action in the New York Supreme Court, and re-filed the action on March 27, 2014 in the Court of Chancery of the State of Delaware under the caption *Empire State Supply Corp. v. Time Warner Cable Inc., et al.* (Del. Ch.). On March 28, 2014, the plaintiffs in *Louisiana Municipal Police Employees Retirement System v. Black, et al.* (Del. Ch.) filed an amended complaint. On April 2, 2014, the Court orally granted a motion to consolidate the pending actions in the New York Supreme Court under the caption *Barrett, et al. v. Time Warner Cable Inc., et al.* (N.Y. Sup. Ct.), which the Court did formally by written order on April 15, 2014. On April 3, 2014, the plaintiffs in *Barrett, et al. v. Time Warner Cable Inc., et al.* (N.Y. Sup. Ct.) filed a consolidated amended complaint. The various complaints name as defendants the Company, the members of the Company's Board of Directors, Comcast and Tango Acquisition Sub, Inc. ( Merger Sub ). The complaints assert that the members of the Company's Board of Directors breached their fiduciary duties to the Company's stockholders during the Comcast merger negotiations and by entering into the Merger Agreement and approving the Comcast merger, and that Comcast and Merger Sub aided and abetted such breaches of fiduciary duties. The complaints also allege that the Company and its Board of Directors failed to disclose in the registration statement related to the Comcast merger material facts relating to the merger. The complaints seek, among other relief, injunctive relief enjoining the shareholder vote on the Comcast merger, unspecified declaratory and equitable relief, compensatory damages in an unspecified amount, and costs and fees. On July 22, 2014, the parties to the litigation entered into a memorandum of understanding reflecting the terms of an agreement, subject to final approval by the New York Supreme Court and certain other conditions, to settle all of the outstanding litigation challenging the merger. The Company believes that the claims asserted against it in the lawsuits are without merit and, if the settlement does not receive final approval by the New York Supreme Court or otherwise is not consummated, intends to defend against the litigation vigorously.

On December 19, 2011, Sprint Communications Company L.P. filed a complaint in the U.S. District Court for the District of Kansas alleging that the Company infringes 12 patents purportedly relating to Voice over Internet Protocol ( VoIP ) services. The plaintiff is seeking unspecified monetary damages as well as injunctive relief. The Company intends to defend against this lawsuit vigorously, but is unable to predict the outcome of this lawsuit or reasonably estimate a range of possible loss.

The Company is the defendant in *In re: Set-Top Cable Television Box Antitrust Litigation*, ten purported class actions filed in federal district courts throughout the U.S. These actions are subject to a Multidistrict Litigation ( MDL ) Order transferring the cases for pretrial proceedings to the U.S. District Court for the Southern District of New York. On July 26, 2010, the plaintiffs filed a third amended consolidated class action complaint (the Third Amended Complaint ), alleging that the Company violated Section 1 of the Sherman Antitrust Act, various state antitrust laws and state unfair/deceptive trade practices statutes by tying the sales of premium cable television services to the leasing



of set-top converter boxes. The plaintiffs are seeking, among other things, unspecified treble monetary damages and an injunction to cease such alleged practices. On September 30, 2010, the Company filed a motion to dismiss the Third Amended Complaint, which the court granted on April 8, 2011. On June 17, 2011, the plaintiffs appealed this decision to the U.S. Court of Appeals for the Second Circuit. The Company intends to defend against this lawsuit vigorously, but is unable to predict the outcome of this lawsuit or reasonably estimate a range of possible loss.

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

**Table of Contents****TIME WARNER CABLE INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(Unaudited)

**Other Matters**

The California Attorney General and the Alameda County, California District Attorney are investigating whether certain of the Company's waste disposal policies, procedures and practices are in violation of the California Business and Professions Code and the California Health and Safety Code. These entities are seeking injunctive relief, unspecified civil penalties and attorneys' fees. While the Company is unable to predict the outcome of this investigation, it does not believe that the outcome will have a material effect on its results of operations, financial condition or cash flows.

In March 2003, the interests in cable networks and filmed entertainment held by Time Warner Entertainment Company, L.P. (TWE) were transferred to Time Warner and all of Time Warner's interests in cable systems were transferred to the Company (the TWE Restructuring). As part of the TWE Restructuring, Time Warner agreed to indemnify the Company from and against any and all liabilities relating to, arising out of or resulting from specified litigation matters brought against the TWE non-cable businesses (and assumed by TWCE in connection with various internal reorganizations). Although Time Warner has agreed to indemnify the Company against such liabilities, TWE (as assumed by TWCE) remains a named party in certain litigation matters.

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

**11. ADDITIONAL FINANCIAL INFORMATION****Other Current Assets**

Other current assets as of March 31, 2015 and December 31, 2014 consisted of the following (in millions):

|                            | <b>March 31,<br/>2015</b> | <b>December 31,<br/>2014</b> |
|----------------------------|---------------------------|------------------------------|
| Prepaid income taxes       | \$ 41                     | \$ 157                       |
| Other prepaid expenses     | 349                       | 208                          |
| Other current assets       | 26                        | 26                           |
| Total other current assets | \$ 416                    | \$ 391                       |

**Other Current Liabilities**

Other current liabilities as of March 31, 2015 and December 31, 2014 consisted of the following (in millions):

|  | <b>March 31,<br/>2015</b> | <b>December 31,<br/>2014</b> |
|--|---------------------------|------------------------------|
| Accrued interest                       | \$ 448                    | \$ 486                       |
| Accrued compensation and benefits      | 370                       | 397                          |
| Accrued dividends                      | 216                       |                              |
| Accrued insurance                      | 198                       | 199                          |
| Accrued franchise fees                 | 119                       | 151                          |
| Accrued sales and other taxes          | 113                       | 132                          |
| Other accrued expenses                 | 424                       | 448                          |
| <b>Total other current liabilities</b> | <b>\$ 1,888</b>           | <b>\$ 1,813</b>              |

Table of Contents**TIME WARNER CABLE INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(Unaudited)

**Related Party Transactions**

Transactions with related parties (i.e., equity-method investees) for the three months ended March 31, 2015 and 2014 consisted of the following (in millions):

|                         | <b>Three Months Ended March 31,</b> |                |
|-------------------------|-------------------------------------|----------------|
|                         | <b>2015</b>                         | <b>2014</b>    |
| Revenue                 | \$ 1                                | \$ 1           |
| Costs and expenses:     |                                     |                |
| Programming and content | \$ (48)                             | \$ (45)        |
| Other operating         | (5)                                 | (6)            |
| <b>Total</b>            | <b>\$ (53)</b>                      | <b>\$ (51)</b> |

**Supplemental Cash Flow Information**

Additional financial information with respect to cash (payments) and receipts for the three months ended March 31, 2015 and 2014 is as follows (in millions):

|   | <b>Three Months Ended March 31,</b> |                 |
|---|-------------------------------------|-----------------|
|   | <b>2015</b>                         | <b>2014</b>     |
| Cash paid for interest                              | \$ (408)                            | \$ (439)        |
| Cash received under interest rate swap contracts    | 16                                  | 24              |
| <b>Cash paid for interest, net</b>                  | <b>\$ (392)</b>                     | <b>\$ (415)</b> |
| Cash paid for income taxes                          | \$ (5)                              | \$ (1)          |
| Cash refunds of income taxes                        | 2                                   | 3               |
| <b>Cash (paid for) refunds of income taxes, net</b> | <b>\$ (3)</b>                       | <b>\$ 2</b>     |

## **12. CONDENSED CONSOLIDATING FINANCIAL STATEMENTS**

Set forth below are condensed consolidating financial statements presenting the financial position, results of operations (including comprehensive income) and cash flows of (i) Time Warner Cable Inc. (the Parent Company ), (ii) Time Warner Cable Enterprises LLC ( TWCE or the Guarantor Subsidiary ), a direct 100% owned subsidiary of the Parent Company, (iii) the direct and indirect non-guarantor subsidiaries of the Parent Company (the Non-Guarantor Subsidiaries ) on a combined basis and (iv) the eliminations necessary to arrive at the information for Time Warner Cable Inc. on a consolidated basis. The Guarantor Subsidiary has fully and unconditionally guaranteed the debt securities issued by the Parent Company in its 2007 registered exchange offer and subsequent public offerings. The Parent Company directly owns all of the voting and economic interests of the Guarantor Subsidiary.

There are no legal or regulatory restrictions on the Parent Company s ability to obtain funds from any of its 100% owned subsidiaries through dividends, loans or advances.

These condensed consolidating financial statements should be read in conjunction with the consolidated financial statements of Time Warner Cable Inc.

### **Basis of Presentation**

In presenting the condensed consolidating financial statements, the equity method of accounting has been applied to (i) the Parent Company s interests in the Guarantor Subsidiary and the Non-Guarantor Subsidiaries and (ii) the Guarantor Subsidiary s interests in the Non-Guarantor Subsidiaries, where applicable, even though all such subsidiaries meet the requirements to be consolidated under GAAP. All intercompany balances and transactions between the Parent Company, the Guarantor Subsidiary and the Non-Guarantor Subsidiaries have been eliminated, as shown in the column Eliminations. All

Table of Contents**TIME WARNER CABLE INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(Unaudited)

assets and liabilities have been allocated to the Parent Company, the Guarantor Subsidiary and the Non-Guarantor Subsidiaries generally based on legal entity ownership. Certain administrative costs have been allocated to the Parent Company, the Guarantor Subsidiary and the Non-Guarantor Subsidiaries based on revenue recorded at the respective entity. The Parent Company allocates 100% of its third-party interest expense, net of interest income received from intercompany loans, to the Guarantor Subsidiary. The income tax provision has been presented based on each subsidiary's legal entity activity including income tax benefits related to allocated administrative costs and interest expense. Deferred income taxes have been presented based upon the temporary differences between the carrying amounts of the respective assets and liabilities of the applicable entities.

Condensed consolidating financial information as of March 31, 2015 and December 31, 2014 and for the three months ended March 31, 2015 and 2014 is as follows (in millions):

**Condensed Consolidating Balance Sheet as of March 31, 2015**

|   | <b>Parent<br/>Company</b> | <b>Guarantor<br/>Subsidiary</b> | <b>Non-<br/>Guarantor<br/>Subsidiaries</b> | <b>Eliminations</b> | <b>TWC<br/>Consolidated</b> |
|---|---------------------------|---------------------------------|--|---------------------|-----------------------------|
| <b>ASSETS</b>   |                           |                                 |  |                     |                             |
| Current assets:   |                           |                                 |  |                     |                             |
| Cash and equivalents  | \$ 308                    | \$                              | \$ 239                                     | \$                  | \$ 547                      |
| Receivables, net  | 51                        |                                 | 760  |                     | 811                         |
| Receivables from affiliated parties                           | 218                       |                                 | 27   | (245)               | 210                         |
| Deferred income tax assets                                    |                           |                                 | 235  | (3)                 | 232                         |
| Other current assets  | 11                        | 44                              | 361  |                     | 416                         |
| Total current assets  | 588                       | 44                              | 1,622                                      | (248)               | 2,012                       |
| Investments in and amounts due from consolidated subsidiaries | 45,269                    | 47,128                          | 7,641                                      | (100,038)           | 97,000                      |
| Investments   |                           | 55                              | 12   |                     | 67                          |
| Property, plant and equipment, net                            |                           | 27                              | 16,180                                     |                     | 16,207                      |
| Intangible assets subject to amortization, net                |                           | 19                              | 492  |                     | 511                         |
| Intangible assets not subject to amortization                 |                           |                                 | 26,012                                     |                     | 26,012                      |
| Goodwill  |                           |                                 | 3,137                                      |                     | 3,137                       |
| Other assets  | 328                       |                                 | 67   | (5)                 | 390                         |

|  |    |        |    |        |    |         |    |           |    |       |
|--|----|--------|----|--------|----|---------|----|-----------|----|-------|
| al assets  | \$ | 46,185 | \$ | 47,273 | \$ | 55,163  | \$ | (100,291) | \$ | 48,33 |
| <b>LIABILITIES AND EQUITY</b>                          |    |        |    |        |    |         |    |           |    |       |
| Current liabilities:                                   |    |        |    |        |    |         |    |           |    |       |
| Accounts payable                                       | \$ |        | \$ |        | \$ | 446     | \$ |           | \$ | 44    |
| Deferred revenue and<br>subscriber-related liabilities |    |        |    |        |    | 207     |    |           |    | 20    |
| Payables to affiliated parties                         |    | 27     |    | 213    |    | 5       |    | (245)     |    |       |
| Accrued programming and content<br>expense             |    |        |    |        |    | 971     |    |           |    | 97    |
| Current maturities of long-term debt                   |    | 638    |    |        |    | 9       |    |           |    | 64    |
| Other current liabilities                              |    | 745    |    | 24     |    | 1,122   |    | (3)       |    | 1,88  |
| Total current liabilities                              |    | 1,410  |    | 237    |    | 2,760   |    | (248)     |    | 4,15  |
| Long-term debt   |    | 20,505 |    | 2,059  |    | 75      |    |           |    | 22,63 |
| Deferred income tax liabilities, net                   |    |        |    | 222    |    | 12,399  |    | (5)       |    | 12,61 |
| Long-term payables to affiliated<br>parties            |    | 7,641  |    | 14,702 |    |         |    | (22,343)  |    |       |
| Other liabilities                                      |    | 220    |    | 93     |    | 459     |    |           |    | 77    |
| TWC shareholders' equity:                              |    |        |    |        |    |         |    |           |    |       |
| Due to (from) TWC and subsidiaries                     |    | 8,269  |    | 1,528  |    | (9,797) |    |           |    |       |
| Other TWC shareholders' equity                         |    | 8,140  |    | 28,432 |    | 49,263  |    | (77,695)  |    | 8,14  |
| Total TWC shareholders' equity                         |    | 16,409 |    | 29,960 |    | 39,466  |    | (77,695)  |    | 8,14  |
| Noncontrolling interests                               |    |        |    |        |    | 4       |    |           |    |       |
| Total equity   |    | 16,409 |    | 29,960 |    | 39,470  |    | (77,695)  |    | 8,14  |
| Total liabilities and equity                           | \$ | 46,185 | \$ | 47,273 | \$ | 55,163  | \$ | (100,291) | \$ | 48,33 |

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## TIME WARNER CABLE INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

## Condensed Consolidating Balance Sheet as of December 31, 2014

|   | Parent<br>Company | Guarantor<br>Subsidiary | Non-<br>Guarantor<br>Subsidiaries | Eliminations | T<br>Cons |
|---|-------------------|-------------------------|-----------------------------------|--------------|-----------|
| ts:                                       |                   |                         |                                   |              |           |
| Equivalents                               | \$ 481            | \$                      | \$ 226                            | \$           | \$        |
| , net                                     | 31                |                         | 918                               |              |           |
| from affiliated parties                   | 215               |                         | 27                                | (242)        |           |
| ome tax assets                            | 9                 |                         | 264                               | (4)          |           |
| nt assets                                 | 121               | 46                      | 224                               |              |           |
| t assets                                  | 857               | 46                      | 1,659                             | (246)        |           |
| in and amounts due from<br>l subsidiaries | 44,790            | 46,401                  | 7,641                             | (98,832)     |           |
|   |                   | 51                      | 13                                |              |           |
| ant and equipment, net                    |                   | 28                      | 15,962                            |              |           |
| ssets subject to amortization, net        |                   | 5                       | 518                               |              |           |
| ssets not subject to amortization         |                   |                         | 26,012                            |              |           |
|   |                   |                         | 3,137                             |              |           |
|   | 385               |                         | 74                                |              |           |
|   | \$ 46,032         | \$ 46,531               | \$ 55,016                         | \$ (99,078)  | \$        |
| <b>ASSETS AND EQUITY</b>                  |                   |                         |                                   |              |           |
| ilities:                                  |                   |                         |                                   |              |           |
| ayable                                    | \$                | \$                      | \$ 567                            | \$           | \$        |
| venue and subscriber-related              |                   |                         | 198                               |              |           |
| affiliated parties                        | 27                | 212                     | 3                                 | (242)        |           |
| rogramming and content expense            |                   |                         | 902                               |              |           |
| urities of long-term debt                 | 1,008             |                         | 9                                 |              |           |
| t liabilities                             | 529               | 67                      | 1,221                             | (4)          |           |
| t liabilities                             | 1,564             | 279                     | 2,900                             | (246)        |           |



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|                                |           |           |           |             |
|--------------------------------|-----------|-----------|-----------|-------------|
| debt                           | 20,564    | 2,061     | 76        |             |
| income tax liabilities, net    | 23        | 214       | 12,323    |             |
| payables to affiliated parties | 7,641     | 14,702    |           | (22,343)    |
| ties                           | 154       | 91        | 481       |             |
| holders' equity:               |           |           |           |             |
| n) TWC and subsidiaries        | 8,073     | 1,216     | (9,289)   |             |
| shareholders' equity           | 8,013     | 27,968    | 48,521    | (76,489)    |
| shareholders' equity           | 16,086    | 29,184    | 39,232    | (76,489)    |
| ing interests                  |           |           | 4         |             |
|                                | 16,086    | 29,184    | 39,236    | (76,489)    |
| ies and equity                 | \$ 46,032 | \$ 46,531 | \$ 55,016 | \$ (99,078) |

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## TIME WARNER CABLE INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

## Condensed Consolidating Statement of Operations for the Three Months Ended March 31, 2015

|  | Parent<br>Company | Guarantor<br>Subsidiary | Non-<br>Guarantor<br>Subsidiaries | Eliminations | TWC<br>Consolidated |
|--|-------------------|-------------------------|-----------------------------------|--------------|---------------------|
| Revenue  | \$                | \$                      | \$ 5,777                          | \$           | \$ 5,777            |
| Costs and expenses:                                  |                   |                         |                                   |              |                     |
| Programming and content                              |                   |                         | 1,419                             |              | 1,419               |
| Sales and marketing                                  |                   |                         | 559                               |              | 559                 |
| Technical operations                                 |                   |                         | 399                               |              | 399                 |
| Customer care  |                   |                         | 226                               |              | 226                 |
| Other operating                                      |                   |                         | 1,178                             |              | 1,178               |
| Depreciation   |                   |                         | 852                               |              | 852                 |
| Amortization   |                   |                         | 34                                |              | 34                  |
| Merger-related and restructuring costs               | 4                 |                         | 22                                |              | 26                  |
| Total costs and expenses                             | 4                 |                         | 4,689                             |              | 4,693               |
| Operating Income (Loss)                              | (4)               |                         | 1,088                             |              | 1,084               |
| Equity in pretax income of consolidated subsidiaries | 807               | 1,131                   |                                   | (1,938)      |                     |
| Interest income (expense), net                       | (57)              | (350)                   | 59                                |              | (348)               |

|   |       |     |       |     |       |     |         |         |    |     |
|---|-------|-----|-------|-----|-------|-----|---------|---------|----|-----|
| Other income, net   |       | 1   |       | 9   |       |     |         | 10      |    |     |
| Income before income taxes                                | 746   |     | 782   |     | 1,156 |     | (1,938) | 746     |    |     |
| Income tax provision                                      | (288) |     | (303) |     | (289) |     | 592     | (288)   |    |     |
| Net income  | 458   |     | 479   |     | 867   |     | (1,346) | 458     |    |     |
| Less: Net income attributable to noncontrolling interests |       |     |       |     |       |     |         |         |    |     |
| Net income attributable to TWC shareholders               | \$    | 458 | \$    | 479 | \$    | 867 | \$      | (1,346) | \$ | 458 |

**Condensed Consolidating Statement of Comprehensive Income for the Three Months Ended March 31, 2015**

|   | <b>Parent Company</b> | <b>Guarantor Subsidiary</b> | <b>Non-Guarantor Subsidiaries</b> | <b>Eliminations</b> | <b>TWC Consolidated</b> |
|---|-----------------------|-----------------------------|-----------------------------------|---------------------|-------------------------|
| Net income  | \$ 458                | \$ 479                      | \$ 867                            | \$ (1,346)          | \$ 458                  |
| Change in accumulated unrealized losses on pension benefit obligation, net of tax | 6                     |                             |                                   |                     | 6                       |
| Change in accumulated deferred gains (losses) on cash flow hedges, net of tax     | (18)                  |                             |                                   |                     | (18)                    |
| Other comprehensive loss  | (12)                  |                             |                                   |                     | (12)                    |
| Comprehensive income  | 446                   | 479                         | 867                               | (1,346)             | 446                     |

Less:  
 Comprehensive  
 income  
 attributable to  
 noncontrolling  
 interests

|   |    |     |    |     |    |     |    |         |    |     |
|---|----|-----|----|-----|----|-----|----|---------|----|-----|
| Comprehensive<br>income<br>attributable to<br>TWC<br>shareholders | \$ | 446 | \$ | 479 | \$ | 867 | \$ | (1,346) | \$ | 446 |
|---|----|-----|----|-----|----|-----|----|---------|----|-----|

Table of Contents**TIME WARNER CABLE INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(Unaudited)

**Condensed Consolidating Statement of Operations for the Three Months Ended March 31, 2014**

|  | Parent<br>Company | Guarantor<br>Subsidiary | Non-<br>Guarantor<br>Subsidiaries | Eliminations | TWC<br>Consolidated |
|--|-------------------|-------------------------|-----------------------------------|--------------|---------------------|
|  | \$                | \$                      | \$                                | \$           | \$                  |
| Operating expenses:  |                   |                         | 5,582                             |              |                     |
| Programming and content                                    |                   |                         | 1,309                             |              |                     |
| Advertising and marketing                                  |                   |                         | 555                               |              |                     |
| General operations   |                   |                         | 371                               |              |                     |
| Customer care  |                   |                         | 205                               |              |                     |
| Depreciating   |                   |                         | 1,162                             |              |                     |
| Amortization   |                   |                         | 775                               |              |                     |
| Intangible assets  |                   |                         | 33                                |              |                     |
| Other related and restructuring costs                      | 33                |                         | 47                                |              |                     |
| Operating costs and expenses                               | 33                |                         | 4,457                             |              |                     |
| Operating Income (Loss)                                    | (33)              |                         | 1,125                             |              |                     |
| Nonoperating income (expense) of consolidated subsidiaries | 824               | 1,152                   |                                   | (1,976)      |                     |
| Operating income (expense), net                            | (48)              | (366)                   | 50                                |              |                     |
| Nonoperating income (expense), net                         |                   | 5                       | 10                                |              |                     |
| Income before income taxes                                 | 743               | 791                     | 1,185                             | (1,976)      |                     |
| Income tax provision                                       | (264)             | (284)                   | (295)                             | 579          |                     |
| Income   | 479               | 507                     | 890                               | (1,397)      |                     |
| Net income attributable to noncontrolling interests        |                   |                         |                                   |              |                     |
| Net income attributable to TWC shareholders                | \$ 479            | \$ 507                  | \$ 890                            | \$ (1,397)   | \$                  |

**Condensed Consolidating Statement of Comprehensive Income for the Three Months Ended March 31, 2014****Eliminations**

|   | <b>Parent<br/>Company</b> | <b>Guarantor<br/>Subsidiary</b> | <b>Non-<br/>Guarantor<br/>Subsidiaries</b> | <b>TWC<br/>Consolidated</b> |
|---|---------------------------|---------------------------------|--|-----------------------------|
| Income  | \$ 479                    | \$ 507                          | \$ 890                                     | \$ (1,397)                  |
| Change in accumulated unrealized losses on<br>pension benefit obligation, net of tax                              | (1)                       |                                 |  |                             |
| Change in accumulated deferred gains (losses)<br>on interest rate and foreign currency<br>flow hedges, net of tax | (45)                      |                                 |  |                             |
| Other comprehensive loss  | (46)                      |                                 |  |                             |
| Other comprehensive income  | 433                       | 507                             | 890  | (1,397)                     |
| Other comprehensive income attributable to<br>noncontrolling interests  |                           |                                 |  |                             |
| Other comprehensive income attributable to<br>shareholders  | \$ 433                    | \$ 507                          | \$ 890                                     | \$ (1,397)                  |

Table of Contents**TIME WARNER CABLE INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(Unaudited)

**Condensed Consolidating Statement of Cash Flows for the Three Months Ended March 31, 2015**

|   | Parent<br>Company | Guarantor<br>Subsidiary | Non-<br>Guarantor<br>Subsidiaries | Eliminations | TWC<br>Consolidated |
|---|-------------------|-------------------------|-----------------------------------|--------------|---------------------|
| provided (used) by operating activities                               | \$ 90             | \$ (407)                | \$ 1,825                          | \$           | \$                  |
| <b>INVESTING ACTIVITIES</b>   |                   |                         |                                   |              |                     |
| capital expenditures  |                   |                         | (1,134)                           |              |                     |
| acquisition of intangible assets                                      |                   | (14)                    | (9)                               |              |                     |
| investing activities  |                   | (3)                     | 6                                 |              |                     |
| provided (used) by investing activities                               |                   | (17)                    | (1,137)                           |              |                     |
| <b>FINANCING ACTIVITIES</b>   |                   |                         |                                   |              |                     |
| term borrowings, net  | 131               |                         |                                   |              |                     |
| payments of long-term debt  | (500)             |                         |                                   |              |                     |
| dividends paid  | (216)             |                         |                                   |              |                     |
| proceeds from exercise of stock options                               | 71                |                         |                                   |              |                     |
| tax benefit from equity-based compensation                            | 56                |                         |                                   |              |                     |
| cash paid in lieu of shares issued for equity-based compensation      |                   |                         | (56)                              |              |                     |
| change in investments in and amounts due to consolidated subsidiaries | 195               | 424                     | (619)                             |              |                     |
| provided (used) by financing activities                               | (263)             | 424                     | (675)                             |              |                     |
| (decrease) in cash and equivalents                                    | (173)             |                         | 13                                |              |                     |
| cash and equivalents at beginning of period                           | 481               |                         | 226                               |              |                     |
| cash and equivalents at end of period                                 | \$ 308            | \$                      | \$ 239                            | \$           | \$                  |





Table of Contents**TIME WARNER CABLE INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(Unaudited)

**Condensed Consolidating Statement of Cash Flows for the Three Months Ended March 31, 2014**

|   | <b>Parent<br/>Company</b> | <b>Guarantor<br/>Subsidiary</b> | <b>Non-<br/>Guarantor<br/>Subsidiaries</b> | <b>Eliminations</b> | <b>TWC<br/>Consolidated</b> |
|---|---------------------------|---------------------------------|--|---------------------|-----------------------------|
| Cash provided<br>(used) by<br>operating<br>activities | \$ 73                     | \$ (362)                        | \$ 1,686                                   | \$                  | \$ 1,397                    |
| <b>INVESTING<br/>ACTIVITIES</b>                       |                           |                                 |  |                     |                             |
| Capital<br>expenditures                               |                           |                                 | (834)                                      |                     | (834)                       |
| Acquisition of<br>intangible<br>assets                |                           |                                 | (12)                                       |                     | (12)                        |
| Other investing<br>activities                         | 18                        | (2)                             | 11   |                     | 27                          |
| Cash provided<br>(used) by<br>investing<br>activities | 18                        | (2)                             | (835)                                      |                     | (819)                       |
| <b>FINANCING<br/>ACTIVITIES</b>                       |                           |                                 |  |                     |                             |
| Short-term<br>borrowings,<br>net                      | 1,544                     |                                 |  |                     | 1,544                       |
| Repayments of<br>long-term debt                       | (750)                     |                                 |  |                     | (750)                       |
| Dividends paid  | (214)                     |                                 |  |                     | (214)                       |
| Repurchases of<br>common stock                        | (259)                     |                                 |  |                     | (259)                       |
|   | 79                        |                                 |  |                     | 79                          |

|   |          |     |        |          |
|---|----------|-----|--------|----------|
| Proceeds from exercise of stock options                                     |          |     |        |          |
| Excess tax benefit from equity-based compensation                           | 78       |     |        | 78       |
| Taxes paid in cash in lieu of shares issued for equity-based compensation   |          |     | (66)   | (66)     |
| Net collateral received on derivative financial instruments                 | 43       |     |        | 43       |
| Net change in investments in and amounts due from consolidated subsidiaries | 419      | 364 | (783)  |          |
| Other financing activities  | (1)      |     |        | (1)      |
| Cash provided (used) by financing activities                                | 939      | 364 | (849)  | 454      |
| Increase in cash and equivalents  | 1,030    |     | 2      | 1,032    |
| Cash and equivalents at beginning of period                                 | 316      |     | 209    | 525      |
| Cash and equivalents at end of period                                       | \$ 1,346 | \$  | \$ 211 | \$ 1,557 |

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**Part II. Other Information**

**Item 1. Legal Proceedings.**

The information set forth under Note 10 to the accompanying consolidated financial statements included in this Quarterly Report on Form 10-Q is incorporated herein by reference.

**Item 1A. Risk Factors.**

There have been no material changes in the Company's risk factors from those disclosed in Part I, Item 1A of the Company's Annual Report on Form 10-K for the year ended December 31, 2014.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.**

**Issuer Purchases of Equity Securities**

In connection with the Company's entry into the merger agreement with Comcast Corporation, the Company suspended its common stock repurchase program (the "Stock Repurchase Program") on February 13, 2014. The Company did not purchase any equity securities registered by the Company pursuant to Section 12 of the Securities Exchange Act of 1934, as amended, during the quarter ended March 31, 2015 and, as of March 31, 2015, the Company had \$2.723 billion remaining under the Stock Repurchase Program authorization.

**Item 4. Mine Safety Disclosures.**

Not applicable.

**Item 6. Exhibits.**

The exhibits listed on the accompanying Exhibit Index are filed or incorporated by reference as a part of this report and such Exhibit Index is incorporated herein by reference.

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

TIME WARNER CABLE INC.

By: /s/ Arthur T. Minson, Jr.  
Name: Arthur T. Minson, Jr.  
Title: Executive Vice President and  
Chief Financial Officer

Date: April 30, 2015

**Table of Contents****EXHIBIT INDEX**

Pursuant to Item 601 of Regulation S-K

| <b>Exhibit</b> |   |
|----------------|---|
| <b>Number</b>  | <b>Description</b>  |
| 10.1*          | Letter Agreement, dated August 20, 2014, between Time Warner Cable Inc. and Marc Lawrence-Apfelbaum.  |
| 10.2*          | Employment Agreement, dated October 25, 2011 and effective as of November 1, 2011, between Time Warner Cable Inc. and Peter C. Stern.   |
| 10.3*          | Letter Agreement, dated January 15, 2014, between Time Warner Cable Inc. and Peter C. Stern.  |
| 10.4           | Letter dated January 28, 2015 among Comcast Corporation, Tango Acquisition Sub, Inc. and Time Warner Cable Inc. (incorporated herein by reference to Exhibit 99.1 to the Company's Current Report on Form 8-K dated January 28, 2015 and filed with the SEC on January 29, 2015).   |
| 31.1*          | Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, with respect to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2015.   |
| 31.2*          | Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, with respect to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2015.   |
| 32*            | Certification of Principal Executive Officer and Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, with respect to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2015.   |
| 101            | The following financial information from the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2015, filed with the SEC on April 30, 2015, formatted in eXtensible Business Reporting Language:<br><br>(i) Consolidated Balance Sheet as of March 31, 2015 and December 31, 2014, (ii) Consolidated Statement of Operations for the three months ended March 31, 2015 and 2014, (iii) Consolidated Statement of Comprehensive Income for the three months ended March 31, 2015 and 2014, (iv) Consolidated Statement of Cash Flows for the three months ended March 31, 2015 and 2014, (v) Consolidated Statement of Equity for the three months ended March 31, 2015 and 2014 and (vi) Notes to Consolidated Financial Statements. |

\* Filed herewith.

This exhibit will not be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934 (15 U.S.C. 78r), or otherwise subject to the liability of that section. Such exhibit will not be deemed to be incorporated by reference into any filing under the Securities Act or Securities Exchange Act, except to the extent that the Company specifically incorporates it by reference.