TIME WARNER CABLE INC.
Form 10-Q
October 29, 2015
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 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	**84-1496755**
(State or other jurisdiction of	*(I.R.S. Employer*

incorporation or organization) *Identification No.)*

60 Columbus Circle

New York, New York 10023

(Address of principal executive offices) (Zip Code)

(212) 364-8200

(Registrant s telephone number, including area code)

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

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

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

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

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

Description of Class	Shares Outstanding as of October 27, 2015
Common Stock $0.01 par value	283,197,551

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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 and nine months ended September 30, 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 September 30, 2015 and cash flows for the nine months ended September 30, 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) and the Company s Quarterly Report on Form 10-Q for the quarter ended June 30, 2015 (the June 2015 Form 10-Q) 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 September 30, 2015, TWC served approximately 15.7 million residential and business services customers who subscribed to one or more of its video, high-speed data and voice services. During the nine months ended September 30, 2015, TWC s revenue increased 3.5% to approximately $17.6 billion.

Recent Developments

Charter Merger

On May 23, 2015, TWC entered into an Agreement and Plan of Mergers (the Charter Merger Agreement) with Charter Communications, Inc. (Charter) and certain of its subsidiaries, pursuant to which the parties will engage in a series of transactions (the Charter merger) that will result in the Company and Charter becoming 100% owned subsidiaries of a new public parent company (New Charter), on the terms and subject to the conditions set forth in the Charter Merger Agreement.

Upon the consummation of the Charter merger, each share of TWC common stock (other than treasury shares held by the Company and TWC stock held by the Liberty Parties (as defined below)) will be converted into the right to receive, at the option of each stockholder, either (i) $100 in cash and shares of New Charter Class A common stock equivalent to 0.5409 shares of Charter Class A common stock (Charter common stock) or (ii) $115 in cash and shares of New Charter Class A common stock equivalent to 0.4562 shares of Charter common stock. Upon the consummation of the Charter merger, subject to certain exceptions, each share of TWC common stock held by Liberty Broadband Corporation or Liberty Interactive Corporation (together, the Liberty Parties) will convert only into the right to receive shares of New Charter Class A common stock.

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On September 21, 2015, the Company s stockholders approved the adoption of the Charter Merger Agreement, and Charter s stockholders approved, among other things, the adoption of the Charter Merger Agreement and the issuance of New Charter Class A common stock to TWC stockholders in the Charter merger. The Charter merger is subject to regulatory approvals and certain other closing conditions.

Bright House Networks Transaction

On May 23, 2015, Charter and Advance/Newhouse Partnership (A/N) and certain of their affiliates amended an agreement the parties had signed on March 31, 2015 (the Bright House Networks Agreement). Under the amended Bright House Networks Agreement, Charter will acquire Bright House Networks, LLC (Bright House Networks), subject to, among other conditions, the closing of the Charter merger. 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. The closing of Charter s acquisition of Bright House Networks is expected to occur concurrently with the closing of the Charter merger. However, the closing of the Charter merger is not conditioned on the closing of the Bright House Networks transaction.

In the Charter Merger Agreement, the Company and TWCE agreed to irrevocably and unconditionally waive their right of first offer to acquire the assets of Bright House Networks during the pendency of the Charter merger. This waiver will expire if the Charter Merger Agreement is terminated in accordance with its terms, provided that the Company or any of its Affiliates (as defined in the Charter Merger Agreement) does not, within nine months following such a termination, enter into an agreement or understanding in respect of, or consummate, an alternative acquisition transaction. 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.

Termination of Comcast Merger

On April 24, 2015, Comcast Corporation (Comcast) and the Company terminated their February 12, 2014 Agreement and Plan of Merger, under which the Company had agreed, on the terms and subject to the conditions set forth therein, to merge with and into a 100% owned subsidiary of Comcast.

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 September 30, 2015, the Company served 14.9 million residential services customers and, during the nine months ended September 30, 2015, TWC generated approximately $14.2 billion of revenue from the provision of residential services, which represented 80.3% of TWC s total revenue.

TWC s video service provides over 300 channels (including, on average, over 200 high-definition (HD) channels) and over 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 monthly 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 400,000 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, India, the European Union and Norway, 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.

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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 September 30, 2015, TWC served 734,000 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 nine months ended September 30, 2015, revenue from the provision of business services increased 16.2% to $2.4 billion, which represented 13.7% 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 nine months ended September 30, 2015, TWC generated revenue from Other Operations of $1.2 billion.

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. s (Verizon) FiOS, AT&T Inc. s (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 companies providing telecommunication services and direct broadcast satellite services as well as 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.

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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.

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.

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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 and sports 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.

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 EarthLink, LLC, 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.

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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.

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.

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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 10 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 and Nine Months Ended September 30, 2015 Compared to Three and Nine Months Ended September 30, 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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Consolidated Results

The consolidated financial results for the Company for the three and nine months ended September 30, 2015 and 2014 were as follows (in millions):

	Three Months Ended September 30, 2015	Three Months Ended September 30, 2014	% Change	Nine Months Ended September 30, 2015	Nine Months Ended September 30, 2014	% Change
Revenue:						
Residential services	$ 4,735	$ 4,615	2.6%	$ 14,155	$ 13,845	2.2%
Business services	836	724	15.5%	2,420	2,083	16.2%
Other	351	375	(6.4%)	1,050	1,094	(4.0%)
Total revenue	5,922	5,714	3.6%	17,625	17,022	3.5%
Costs and expenses:						
Programming and content	1,461	1,326	10.2%	4,369	3,976	9.9%
Sales and marketing[(a)]	608	556	9.4%	1,763	1,655	6.5%
Technical operations[(a)]	437	401	9.0%	1,242	1,143	8.7%
Customer care[(a)]	224	210	6.7%	674	622	8.4%
Other operating[(a)]	1,212	1,167	3.9%	3,571	3,538	0.9%
Depreciation	901	824	9.3%	2,638	2,394	10.2%
Amortization	34	33	3.0%	102	101	1.0%
Merger-related and restructuring costs	44	46	(4.3%)	152	187	(18.7%)
Total costs and expenses	4,921	4,563	7.8%	14,511	13,616	6.6%
Operating Income	1,001	1,151	(13.0%)	3,114	3,406	(8.6%)
Interest expense	(351)	(353)	(0.6%)	(1,049)	(1,066)	(1.6%)
Other income, net	10	5	100.0%	147	28	NM
Income before income taxes	660	803	(17.8%)	2,212	2,368	(6.6%)
Income tax provision	(223)	(304)	(26.6%)	(854)	(891)	(4.2%)
Net income	437	499	(12.4%)	1,358	1,477	(8.1%)
Less: Net income attributable to noncontrolling interests			NM			NM

Net income attributable to TWC shareholders	$ 437	$ 499	(12.4%)	$ 1,358	$ 1,477	(8.1%)

NM Not meaningful.

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

	Three Months Ended September 30, 2015	Three Months Ended September 30, 2014	% Change	Nine Months Ended September 30, 2015	Nine Months Ended September 30, 2014	% Change
Employee costs	$ 1,344	$ 1,238	8.6%	$ 3,995	$ 3,720	7.4%

Revenue. The increase in revenue for the three and nine months ended September 30, 2015 was due to increases in revenue at the Residential Services and Business Services segments, partially offset by a decrease at the Other Operations segment. 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 and nine months ended September 30, 2015 was primarily due to increases in programming, employee and maintenance costs, as well as higher content costs associated with SportsNet LA, partially offset by a decline in bad debt expense and, for the nine months ended September 30, 2015, lower marketing expense.

For both the three and nine months ended September 30, 2015, the increase in employee costs reflects the Company s continued investments in sales and marketing, technical operations and customer care initiatives and an increase in pension

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expense of $28 million and $81 million, respectively. The Company expects pension expense to increase to approximately $190 million in 2015 from $81 million in 2014.

Operating costs and expenses by segment are discussed in greater detail below in Segment Results.

Depreciation. Depreciation for the three and nine months ended September 30, 2015 increased primarily due to the continued investment in customer premise equipment and scalable infrastructure, as well as shorter-lived capitalized software assets.

Merger-related and restructuring costs. Merger-related costs for the three and nine months ended September 30, 2015 and 2014 were as follows (in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Comcast merger:				
Employee retention costs	$	$ 34	$ 27	$ 103
Advisory and legal fees		15	10	57
Charter merger:				
Employee retention costs	32		46	
Advisory and legal fees	9		51	
DukeNet Communications, LLC acquisition		(1)		3
Merger-related costs	$ 41	$ 48	$ 134	$ 163

The Company expects to incur additional merger-related costs in connection with the Charter merger through the closing of the merger.

The Company incurred restructuring costs of $3 million and $18 million for the three and nine months ended September 30, 2015, respectively, and a net reversal of $2 million and costs of $24 million for the three and nine months ended September 30, 2014, respectively, primarily related to employee terminations and other exit costs. The Company expects to incur additional restructuring costs during the remainder of 2015.

Operating Income. Operating Income for the three and nine months ended September 30, 2015 decreased primarily due to higher operating costs and expenses and depreciation, partially offset by growth in revenue and, for the nine months ended September 30, 2015, lower merger-related and restructuring costs, as discussed above.

Interest expense. The decrease in interest expense for the three and nine months ended September 30, 2015 was impacted by lower average debt outstanding during the periods compared to 2014 and an increase in average interest rates on such debt.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Income from equity-method investments, net	$ 5	$ 5	$ 21	$ 27
Gain on settlement of Verizon Wireless agency agreement[a]			120	
Gain on equity award reimbursement obligation to Time Warner Inc.				1
Other	5		6	
Other income, net	$ 10	$ 5	$ 147	$ 28

[a] In 2011, in conjunction with SpectrumCo, LLC s (a joint venture between TWC, Comcast and Bright House Networks) entry into an agreement to sell its advanced wireless spectrum licenses to Cellco Partnership (doing business as Verizon Wireless), TWC and Verizon Wireless entered into agency agreements that allowed TWC to sell Verizon Wireless-branded wireless service, and Verizon Wireless to sell TWC services. Amount represents the settlement of certain terms of the agency agreements in the second quarter of 2015.

Income tax provision. For the three months ended September 30, 2015 and 2014, the Company recorded income tax provisions of $223 million and $304 million, respectively. For the nine months ended September 30, 2015 and 2014, the Company recorded income tax provisions of $854 million and $891 million, respectively. The effective tax rates were 33.8% and 37.9% for the three months ended September 30, 2015 and 2014, respectively, and 38.6% and 37.6% for the nine months ended September 30, 2015 and 2014, respectively.

The income tax provision and effective tax rate for the nine months ended September 30, 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 rate would have been 38.6% for the nine months ended September 30, 2014.

The income tax provision and effective tax rate for the three months ended September 30, 2015 include the impact of certain state and local tax items affecting deferred income taxes that were recorded during the third quarter of 2015.

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

	Three Months Ended September 30, 2015	2014	% Change	Nine Months Ended September 30, 2015	2014	% Change
Net income attributable to TWC shareholders	$ 437	$ 499	(12.4%)	$ 1,358	$ 1,477	(8.1%)
Net income per common share attributable to TWC common shareholders:						
Basic	$ 1.53	$ 1.77	(13.6%)	$ 4.76	$ 5.25	(9.3%)
Diluted	$ 1.53	$ 1.76	(13.1%)	$ 4.74	$ 5.22	(9.2%)

Net income attributable to TWC shareholders for the three months ended September 30, 2015 decreased primarily due a decrease in Operating Income, partially offset by a decrease in income tax provision.

Net income attributable to TWC shareholders for the nine months ended September 30, 2015 decreased primarily due a decrease in Operating Income, partially offset by an increase in other income, net, which included a gain from the settlement of a Verizon Wireless agency agreement, and a decrease in income tax provision.

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OF OPERATIONS AND FINANCIAL CONDITION (Continued)

Segment Results

Residential Services. The financial results of the Residential Services segment for the three and nine months ended September 30, 2015 and 2014 were as follows (in millions):

	Three Months Ended September 30, 2015	Three Months Ended September 30, 2014	% Change	Nine Months Ended September 30, 2015	Nine Months Ended September 30, 2014	% Change
Revenue:						
Video	$ 2,453	$ 2,497	(1.8%)	$ 7,436	$ 7,538	(1.4%)
High-speed data	1,772	1,620	9.4%	5,210	4,784	8.9%
Voice	483	476	1.5%	1,434	1,462	(1.9%)
Other	27	22	22.7%	75	61	23.0%
Total revenue	4,735	4,615	2.6%	14,155	13,845	2.2%
Operating costs and expenses:						
Programming	1,369	1,274	7.5%	4,124	3,811	8.2%
Sales and marketing[(a)]	408	375	8.8%	1,168	1,113	4.9%
Technical operations[(a)]	390	362	7.7%	1,106	1,030	7.4%
Customer care[(a)]	186	176	5.7%	561	522	7.5%
Video franchise and other fees[(b)]	114	117	(2.6%)	344	350	(1.7%)
Other[(a)]	181	185	(2.2%)	537	569	(5.6%)
Total operating costs and expenses	2,648	2,489	6.4%	7,840	7,395	6.0%
OIBDA	$ 2,087	$ 2,126	(1.8%)	$ 6,315	$ 6,450	(2.1%)

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

	Three Months Ended September 30, 2015	Three Months Ended September 30, 2014	% Change	Nine Months Ended September 30, 2015	Nine Months Ended September 30, 2014	% Change
Employee costs	$ 751	$ 693	8.4%	$ 2,211	$ 2,032	8.8%

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

Selected residential subscriber-related statistics as of September 30, 2015 and 2014 were as follows (in thousands):

	September 30,		
	2015	**2014**	**% Change**
Video[a]	10,767	10,827	(0.6%)
High-speed data[b]	12,394	11,507	7.7%
Voice[c]	6,093	4,989	22.1%
Single play[d]	5,709	5,674	0.6%
Double play[e]	4,115	4,700	(12.4%)
Triple play[f]	5,105	4,083	25.0%
Customer relationships[g]	14,929	14,457	3.3%

(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.

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Revenue. Residential Services segment revenue for the three months ended September 30, 2015 increased due to increases in high-speed data and voice revenue, partially offset by a decrease in video revenue. Residential Services segment revenue for the nine months ended September 30, 2015 increased due to an increase in high-speed data revenue, partially offset by decreases in video and voice revenue. Each of the revenue categories is discussed further below.

Average monthly revenue per unit for the Residential Services segment for the three and nine months ended September 30, 2015 and 2014 was as follows:

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2015	2014	% Change	2015	2014	% Change
Video[(a)]	$ 76.06	$ 76.39	(0.4%)	$ 76.61	$ 75.77	1.1%
High-speed data[(b)]	48.17	47.24	2.0%	48.01	46.83	2.5%
Voice[(c)]	27.01	31.86	(15.2%)	27.88	32.97	(15.4%)
Customer relationship[(d)]	106.42	106.58	(0.2%)	106.77	106.34	0.4%

(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 and nine months ended September 30, 2015 and 2014 were as follows (in millions):

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2015	2014	% Change	2015	2014	% Change
Programming tiers[(a)]	$ 1,566	$ 1,621	(3.4%)	$ 4,743	$ 4,898	(3.2%)
Premium networks	216	204	5.9%	639	606	5.4%

Transactional video-on-demand	45	52	(13.5%)	186	172	8.1%
Video equipment rental and installation charges	362	349	3.7%	1,063	1,033	2.9%
DVR service	150	154	(2.6%)	461	479	(3.8%)
Franchise and other fees[b]	114	117	(2.6%)	344	350	(1.7%)
Total	$ 2,453	$ 2,497	(1.8%)	$ 7,436	$ 7,538	(1.4%)

[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.

Video. For the three months ended September 30, 2015, the decrease in residential video revenue was due to year-over-year declines in video subscribers and average revenue per subscriber. The decrease in average revenue per subscriber was primarily the result of lower programming tier and transactional video-on-demand revenue, partially offset by growth in video equipment rental and premium network revenue.

For the nine months ended September 30, 2015, the decrease in residential video revenue was 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 growth in video equipment rental and premium network revenue and higher transactional video-on-demand revenue (due to the May 2015 Mayweather vs. Pacquiao fight), partially offset by lower programming tier revenue.

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High-speed data. Residential high-speed data revenue for the three and nine months ended September 30, 2015 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.

Voice. The increase in residential voice revenue for the three months ended September 30, 2015 was due to growth in voice subscribers, partially offset by a decrease in average revenue per subscriber.

The decrease in residential voice revenue for the nine months ended September 30, 2015 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 for the three and nine months ended September 30, 2015 increased primarily due to higher programming, sales and marketing, technical operations and customer care costs, partially offset by lower other operating costs. Employee costs (which are included in each category, as applicable) were impacted by increased pension costs of $14 million and $43 million for the three and nine months ended September 30, 2015, respectively.

Selected Residential Services average monthly costs per subscriber for the three and nine months ended September 30, 2015 and 2014 were as follows:

	Three Months Ended September 30, 2015	Three Months Ended September 30, 2014	% Change	Nine Months Ended September 30, 2015	Nine Months Ended September 30, 2014	% Change
Programming costs per video subscriber	$ 42.43	$ 38.96	8.9%	$ 42.48	$ 38.31	10.9%
Voice costs per voice subscriber	$ 3.56	$ 3.95	(9.9%)	$ 3.62	$ 4.43	(18.3%)

Programming. For the three months ended September 30, 2015, 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, partially offset by a year-over-year decline in video subscribers.

For the nine months ended September 30, 2015, the increase in programming costs 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. Sales and marketing costs for the three and nine months ended September 30, 2015 increased primarily due to increased sales-related employee costs as a result of higher compensation costs per employee and increased headcount related to the Company s subscriber growth initiatives. For the nine months ended September 30, 2015, this increase was partially offset by lower marketing expense.

Technical operations. Technical operations costs for the three and nine months ended September 30, 2015 increased primarily due to higher headcount and increased maintenance costs, reflecting subscriber growth, as well as the Company s continued investments to improve the customer experience.

Customer care. Customer care costs for the three and nine months ended September 30, 2015 increased primarily due to higher compensation costs per employee and increased headcount, reflecting subscriber growth, as well as the Company s continued investments to improve the customer experience.

Other operating. Other operating costs for the three and nine months ended September 30, 2015 decreased primarily due to lower bad debt expense, partially offset by increases in a number of other categories.

OIBDA. OIBDA for the three and nine months ended September 30, 2015 decreased 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 and nine months ended September 30, 2015 and 2014 were as follows (in millions):

	Three Months Ended September 30, 2015	Three Months Ended September 30, 2014	% Change	Nine Months Ended September 30, 2015	Nine Months Ended September 30, 2014	% Change
Revenue:						
Video	$ 97	$ 93	4.3%	$ 286	$ 272	5.1%
High-speed data	412	343	20.1%	1,179	980	20.3%
Voice	153	132	15.9%	442	373	18.5%
Wholesale transport	122	105	16.2%	363	303	19.8%
Other	52	51	2.0%	150	155	(3.2%)
Total revenue	836	724	15.5%	2,420	2,083	16.2%
Operating costs and expenses:						
Programming	47	36	30.6%	133	109	22.0%
Sales and marketing[a]	151	132	14.4%	439	387	13.4%
Technical operations[a]	35	27	29.6%	99	75	32.0%
Customer care[a]	38	34	11.8%	113	100	13.0%
Video franchise and other fees[b]	5	5		13	13	
Other[a]	54	48	12.5%	158	146	8.2%
Total operating costs and expenses	330	282	17.0%	955	830	15.1%
OIBDA	$ 506	$ 442	14.5%	$ 1,465	$ 1,253	16.9%

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

	Three Months Ended September 30,	Nine Months Ended September 30,

	2015	2014	% Change	2015	2014	% Change
Employee costs	$ 190	$ 164	15.9%	$ 556	$ 476	16.8%

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

Selected business subscriber-related statistics as of September 30, 2015 and 2014 were as follows (in thousands):

	September 30, 2015	September 30, 2014	% Change
Video[a]	210	203	3.4%
High-speed data[b]	622	566	9.9%
Voice[c]	363	313	16.0%
Single play[d]	356	341	4.4%
Double play[e]	295	258	14.3%
Triple play[f]	83	75	10.7%
Customer relationships[g]	734	674	8.9%

(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.

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Revenue. Business services revenue for the three and nine months ended September 30, 2015 increased primarily due to growth in high-speed data and voice subscribers and higher wholesale transport revenue. The growth in wholesale transport revenue included an increase in cell tower backhaul revenue of $8 million and $33 million for the three and nine months ended September 30, 2015, respectively.

Operating costs and expenses. Operating costs and expenses for the three and nine months ended September 30, 2015 increased primarily as a result of increased headcount and higher compensation costs per employee (including increased pension costs of $5 million and $13 million, respectively) as well as growth in programming and marketing costs.

OIBDA. OIBDA for the three and nine months ended September 30, 2015 increased 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 and nine months ended September 30, 2015 and 2014 were as follows (in millions):

	Three Months Ended September 30, 2015	Three Months Ended September 30, 2014	% Change	Nine Months Ended September 30, 2015	Nine Months Ended September 30, 2014	% Change
Revenue:						
Advertising	$ 251	$ 276	(9.1%)	$ 744	$ 795	(6.4%)
Other	166	162	2.5%	502	479	4.8%
Total revenue	417	438	(4.8%)	1,246	1,274	(2.2%)
Operating costs and expenses[a]	267	240	11.3%	791	730	8.4%
OIBDA	$ 150	$ 198	(24.2%)	$ 455	$ 544	(16.4%)

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

	Three Months Ended September 30, 2015	Three Months Ended September 30, 2014	% Change	Nine Months Ended September 30, 2015	Nine Months Ended September 30, 2014	% Change

Employee costs	$	79	$	77	2.6%	$	246	$	240	2.5%

Revenue. Advertising revenue for the three and nine months ended September 30, 2015 decreased primarily due to lower political advertising revenue, which was $5 million and $10 million for the three and nine months ended September 30, 2015, respectively, compared to $26 million and $52 million for the three and nine months ended September 30, 2014, respectively. The Company expects advertising revenue in 2015 to decrease compared to 2014 due primarily to a cyclical decline in political advertising revenue.

Other revenue for the three and nine months ended September 30, 2015 increased primarily due to affiliate fees from the Residential Services segment. The Company continues to seek additional distribution agreements for the carriage of SportsNet LA by major distributors.

Operating costs and expenses. Operating costs and expenses for the three and nine months ended September 30, 2015 increased primarily as a result of higher content costs associated with SportsNet LA. Employee costs were impacted by increased pension costs of $2 million and $4 million for the three and nine months ended September 30, 2015, respectively.

OIBDA. OIBDA for the three and nine months ended September 30, 2015 decreased primarily due to an increase in operating costs and expenses and a decrease in revenue, as discussed above.

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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 and nine months ended September 30, 2015 and 2014 were as follows (in millions):

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2015	2014	% Change	2015	2014	% Change
Operating costs and expenses[a]	$ 763	$ 712	7.2%	$ 2,229	$ 2,159	3.2%
Merger-related and restructuring costs	44	46	(4.3%)	152	187	(18.7%)
Total costs and expenses	$ 807	$ 758	6.5%	$ 2,381	$ 2,346	1.5%

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

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2015	2014	% Change	2015	2014	% Change
Employee costs	$ 324	$ 304	6.6%	$ 982	$ 972	1.0%

Operating costs and expenses. Operating costs and expenses for the three and nine months ended September 30, 2015 increased primarily due to higher compensation costs per employee and increased maintenance and, for the three months ended September 30, 2015, insurance expense. For the nine months ended September 30, 2015, these increases were partially offset by lower costs as a result of operating efficiencies. Pension costs increased $7 million and $21 million for the three and nine months ended September 30, 2015, respectively.

Merger-related and restructuring costs. Refer to Consolidated Results Costs and expenses Merger-related and restructuring costs for detail of merger-related and restructuring costs for the three and nine months ended September 30, 2015 and 2014. The Company expects to incur additional merger-related costs in connection with the

Charter merger through the closing of the merger, as well as additional restructuring costs during the remainder of 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 $3.922 billion as of September 30, 2015, reflecting $485 million of cash and equivalents and $3.437 billion of available borrowing capacity under the Revolving Credit Facility.

Current Financial Condition

As of September 30, 2015, the Company had $22.695 billion of debt, $485 million of cash and equivalents (net debt of $22.210 billion, defined as total debt less cash and equivalents) and $8.745 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.

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The following table shows the significant items contributing to the change in net debt from December 31, 2014 to September 30, 2015 (in millions):

Balance as of December 31, 2014	$ 23,011
Cash provided by operating activities	(4,706)
Capital expenditures	3,500
Dividends paid	648
Proceeds from exercise of stock options	(121)
Proceeds from settlement of Verizon Wireless agency agreement	(120)
All other, net	(2)
Balance as of September 30, 2015	$ 22,210

On September 17, 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 October 22, 2015 to stockholders of record at the close of business on October 1, 2015.

Cash Flows

Cash and equivalents decreased $222 million for the nine months ended September 30, 2015 and increased $1 million for the nine months ended September 30, 2014. Components of these changes are discussed below in more detail.

Operating Activities

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

	Nine Months Ended September 30,	
	2015	2014
Operating Income	$ 3,114	$ 3,406
Depreciation	2,638	2,394
Amortization	102	101
Noncash equity-based compensation	119	138
Cash paid for interest, net[(a)]	(1,137)	(1,187)

Cash paid for income taxes, net[b]	(264)	(286)
All other, net, including working capital changes	134	(26)
Cash provided by operating activities	$ 4,706	$ 4,540

[a] Amounts include cash received under interest rate swap contracts of $65 million and $92 million for the nine months ended September 30, 2015 and 2014, respectively.

[b] Amounts include cash refunds of income taxes of $15 million and $14 million for the nine months ended September 30, 2015 and 2014, respectively.

Cash provided by operating activities increased from $4.540 billion for the nine months ended September 30, 2014 to $4.706 billion for the nine months ended September 30, 2015. This increase was primarily related to changes in working capital requirements and decreases in cash paid for interest, net, and cash paid for income taxes, net, partially offset by a decrease in Operating Income (excluding depreciation and amortization).

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. Due to the late enactment of this Act, the Company made all 2014 income tax payments as if bonus depreciation was not going to be extended. This resulted in a 2014 overpayment of approximately $120 million, the application of which reduced the Company s cash paid for income taxes, net, in the first nine months of 2015. The Company expects cash paid for income taxes, net, to be higher in 2015 than in 2014 primarily as a result of the reversal of prior year bonus depreciation benefits, partially offset by the application of the 2014 overpayment.

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Cash paid for interest, net, decreased primarily as a result of the maturities of TWC s 8.25% senior notes due February 2014 ($750 million in aggregate principal amount), 7.50% senior notes due April 2014 ($1.0 billion in aggregate principal amount) and 3.50% senior notes due February 2015 ($500 million in aggregate principal amount).

The Company made no cash contributions to its qualified defined benefit pension plans (the qualified pension plans) during the nine months ended September 30, 2015. As of September 30, 2015, the qualified pension plans and the nonqualified defined benefit pension plan (the nonqualified pension plan) were estimated to be underfunded by $316 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):

	Nine Months Ended September 30,	
	2015	**2014**
Capital expenditures	$ (3,500)	$ (3,179)
Acquisition of intangible assets	(41)	(31)
Other investing activities:		
Proceeds from settlement of Verizon Wireless agency agreement[a]	120	
Other	15	38
Cash used by investing activities	$ (3,406)	$ (3,172)

[a] Refer to Results of Operations Consolidated Results Other income, net for additional information.

Cash used by investing activities increased from $3.172 billion for the nine months ended September 30, 2014 to $3.406 billion for the nine months ended September 30, 2015, principally due to an increase in capital expenditures, partially offset by the proceeds from the settlement of certain terms of an agency agreement with Verizon Wireless. The increase in capital expenditures was due to customer relationship growth, as well as 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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OF OPERATIONS AND FINANCIAL CONDITION (Continued)

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

	Nine Months Ended September 30,	
	2015	2014
Customer premise equipment[(a)]	$ 1,452	$ 1,231
Scalable infrastructure[(b)]	770	797
Line extensions[(c)]	567	517
Upgrades/rebuilds[(d)]	202	107
Support capital[(e)]	509	527
Total capital expenditures	$ 3,500	$ 3,179

(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 $270 million and $247 million for the nine months ended September 30, 2015 and 2014, respectively.

The Company expects that 2015 capital expenditures will increase to approximately $4.4 billion compared to 2014 capital expenditures of approximately $4.1 billion.

Financing Activities

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

	Nine Months Ended September 30, 2015	Nine Months Ended September 30, 2014
Short-term borrowings (repayments), net	$ (507)	$ 1,027
Repayments of long-term debt	(500)	(1,750)
Dividends paid	(648)	(642)
Repurchases of common stock[a]		(259)
Proceeds from exercise of stock options	121	199
Excess tax benefit from equity-based compensation	85	131
Taxes paid in cash in lieu of shares issued for equity-based compensation	(67)	(74)
Other financing activities	(6)	1
Cash used by financing activities	$ (1,522)	$ (1,367)

[a] In February 2014, the Company suspended its common stock repurchase program (the Stock Repurchase Program). As of September 30, 2015, the Company had $2.723 billion remaining under the Stock Repurchase Program authorization.

Cash used by financing activities was $1.522 billion for the nine months ended September 30, 2015 compared to $1.367 billion for the nine months ended September 30, 2014. Cash used by financing activities for the nine months ended September 30, 2015 primarily consisted of payments of quarterly cash dividends, repayments of borrowings under the Company s commercial paper program and the repayment of TWC s 3.50% senior notes due February 2015 ($500 million in aggregate principal amount). Cash used by financing activities for the nine months ended September 30, 2014 primarily consisted of repayments of TWC s 8.25% senior notes due February 2014 ($750 million in aggregate principal amount) and

TIME WARNER CABLE INC.

MANAGEMENT S DISCUSSION AND ANALYSIS OF RESULTS

OF OPERATIONS AND FINANCIAL CONDITION (Continued)

7.50% senior notes due April 2014 ($1.0 billion in aggregate principal amount), payments of quarterly cash dividends and repurchases of TWC common stock (prior to the suspension of the Stock Repurchase Program), partially offset by borrowings under the Company s commercial paper program.

Outstanding Debt and Available Financial Capacity

Debt as of September 30, 2015 and December 31, 2014 was as follows:

			Outstanding Balance as of	
	Maturity	Interest Rate	September 30, 2015	December 31, 2014
			(in millions)	
TWC notes and debentures[a]	2017-2042	5.899%[b]	$ 20,560	$ 21,065
TWCE debentures[c]	2023-2033	7.914%[b]	2,057	2,061
Revolving credit facility[d]	2017			
Commercial paper program[d]	2017			507
Capital leases	2016-2042		78	85
Total debt[e]			$ 22,695	$ 23,718

(a) Outstanding balance amounts of the TWC notes and debentures as of September 30, 2015 and December 31, 2014 each include £1.267 billion of senior unsecured notes valued at $1.916 billion and $1.973 billion, respectively, using the exchange rates at each date.

(b) Rate represents a weighted-average effective interest rate as of September 30, 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 September 30, 2015 and December 31, 2014 include an unamortized fair value adjustment of $57 million and $61 million, respectively, primarily consisting of the fair value adjustment recognized as a result of the 2001 merger of America Online, Inc. and Time Warner Inc.

(d) As of September 30, 2015, the Company had $3.437 billion of available borrowing capacity under the Revolving Credit Facility (which reflects a reduction of $63 million for outstanding letters of credit backed by the Revolving Credit Facility).

(e) Outstanding balance amounts of total debt as of September 30, 2015 and December 31, 2014 include current maturities of long-term debt of $6 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 September 30, 2015, TWC was in compliance with the leverage ratio covenant of the Revolving Credit Facility, with a ratio of consolidated total debt as of September 30, 2015 to consolidated EBITDA for the twelve months ended September 30, 2015 of approximately 2.7 times. In accordance with the Revolving Credit Facility agreement, consolidated total debt as of September 30, 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 September 30, 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, int 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.

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 the June 2015 Form 10-Q, which should be read in conjunction with this report, and in

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TIME WARNER CABLE INC.

MANAGEMENT S DISCUSSION AND ANALYSIS OF RESULTS

OF OPERATIONS AND FINANCIAL CONDITION (Continued)

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 wireline and wireless telecommunications carriers, direct broadcast satellite operators and companies that deliver programming over the Internet;

- 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, including the proposed Charter merger.

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 Acting Co-Chief Financial Officers, 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 Acting Co-Chief Financial Officers 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 September 30, 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)

	September 30, 2015	December 31, 2014
	(in millions)	
ASSETS		
Current assets:		
Cash and equivalents	$ 485	$ 707
Receivables, less allowances of $124 million and $109 million as of September 30, 2015 and December 31, 2014, respectively	935	949
Deferred income tax assets	219	269
Other current assets	250	391
Total current assets	1,889	2,316
Investments	68	64
Property, plant and equipment, net	16,746	15,990
Intangible assets subject to amortization, net	462	523
Intangible assets not subject to amortization	26,014	26,012
Goodwill	3,139	3,137
Other assets	403	459
Total assets	$ 48,721	$ 48,501
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	$ 482	$ 567
Deferred revenue and subscriber-related liabilities	214	198
Accrued programming and content expense	960	902
Current maturities of long-term debt	6	1,017
Other current liabilities	2,101	1,813
Total current liabilities	3,763	4,497
Long-term debt	22,689	22,701
Deferred income tax liabilities, net	12,688	12,560
Other liabilities	832	726
Commitments and contingencies (Note 11)		
TWC shareholders equity:		
Common stock, $0.01 par value, 283.2 million and 280.8 million shares issued and outstanding as of September 30, 2015 and December 31, 2014, respectively	3	3

Additional paid-in capital		7,431		7,172
Retained earnings		1,656		1,162
Accumulated other comprehensive loss, net		(345)		(324)
Total TWC shareholders equity		8,745		8,013
Noncontrolling interests		4		4
Total equity		8,749		8,017
Total liabilities and equity	$	48,721	$	48,501

See accompanying notes.

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TIME WARNER CABLE INC.

CONSOLIDATED STATEMENT OF OPERATIONS

(Unaudited)

	Three Months Ended September 30, 2015	Three Months Ended September 30, 2014	Nine Months Ended September 30, 2015	Nine Months Ended September 30, 2014
	(in millions, except per share data)			
Revenue	$ 5,922	$ 5,714	$ 17,625	$ 17,022
Costs and expenses:				
Programming and content	1,461	1,326	4,369	3,976
Sales and marketing	608	556	1,763	1,655
Technical operations	437	401	1,242	1,143
Customer care	224	210	674	622
Other operating	1,212	1,167	3,571	3,538
Depreciation	901	824	2,638	2,394
Amortization	34	33	102	101
Merger-related and restructuring costs	44	46	152	187
Total costs and expenses	4,921	4,563	14,511	13,616
Operating Income	1,001	1,151	3,114	3,406
Interest expense	(351)	(353)	(1,049)	(1,066)
Other income, net	10	5	147	28
Income before income taxes	660	803	2,212	2,368
Income tax provision	(223)	(304)	(854)	(891)
Net income	437	499	1,358	1,477
Less: Net income attributable to noncontrolling interests				
Net income attributable to TWC shareholders	$ 437	$ 499	$ 1,358	$ 1,477
Net income per common share attributable to TWC common shareholders:				
Basic	$ 1.53	$ 1.77	$ 4.76	$ 5.25
Diluted	$ 1.53	$ 1.76	$ 4.74	$ 5.22
Weighted-average common shares outstanding:				

Basic		283.0		279.8		282.4		278.8
Diluted		286.3		283.5		285.7		282.5
Cash dividends declared per share of common stock	$	0.75	$	0.75	$	3.00	$	2.25

See accompanying notes.

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TIME WARNER CABLE INC.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	(in millions)			
Net income	$ 437	$ 499	$ 1,358	$ 1,477
Change in accumulated unrealized losses on pension benefit obligation, net of income tax benefit (provision) of $(3) million and $0 for the three months ended September 30, 2015 and 2014, respectively, and $(3) and $16 million for the nine months ended September 30, 2015 and 2014, respectively	7	(1)	6	(26)
Change in accumulated deferred gains (losses) on cash flow hedges, net of income tax benefit (provision) of $31 million and $(36) million for the three months ended September 30, 2015 and 2014, respectively, and $16 million and $21 million for the nine months ended September 30, 2015 and 2014, respectively	(51)	58	(26)	(33)
Other changes	(1)		(1)	
Other comprehensive income (loss)	(45)	57	(21)	(59)
Comprehensive income	392	556	1,337	1,418
Less: Comprehensive income attributable to noncontrolling interests				
Comprehensive income attributable to TWC shareholders	$ 392	$ 556	$ 1,337	$ 1,418

See accompanying notes.

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TIME WARNER CABLE INC.

CONSOLIDATED STATEMENT OF CASH FLOWS

(Unaudited)

	Nine Months Ended September 30, 2015	Nine Months Ended September 30, 2014
	(in millions)	
OPERATING ACTIVITIES		
Net income	$ 1,358	$ 1,477
Adjustments for noncash and nonoperating items:		
Depreciation	2,638	2,394
Amortization	102	101
Income from equity-method investments, net of cash distributions	(9)	(19)
Pretax gain on settlement of Verizon Wireless agency agreement	(120)	
Deferred income taxes	190	185
Equity-based compensation expense	119	138
Excess tax benefit from equity-based compensation	(85)	(131)
Changes in operating assets and liabilities, net of acquisitions and dispositions:		
Receivables	45	20
Accounts payable and other liabilities	418	317
Other changes	50	58
Cash provided by operating activities	4,706	4,540
INVESTING ACTIVITIES		
Capital expenditures	(3,500)	(3,179)
Acquisition of intangible assets	(41)	(31)
Other investing activities	135	38
Cash used by investing activities	(3,406)	(3,172)
FINANCING ACTIVITIES		
Short-term borrowings (repayments), net	(507)	1,027
Repayments of long-term debt	(500)	(1,750)
Dividends paid	(648)	(642)
Repurchases of common stock		(259)
Proceeds from exercise of stock options	121	199
Excess tax benefit from equity-based compensation	85	131
Taxes paid in cash in lieu of shares issued for equity-based compensation	(67)	(74)
Other financing activities	(6)	1
Cash used by financing activities	(1,522)	(1,367)

Increase (decrease) in cash and equivalents	(222)	1
Cash and equivalents at beginning of period	707	525
Cash and equivalents at end of period	$ 485	$ 526

See accompanying notes.

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TIME WARNER CABLE INC.

CONSOLIDATED STATEMENT OF EQUITY

(Unaudited)

	TWC Shareholders Equity	Non-controlling Interests (in millions)	Total Equity
Balance as of December 31, 2013	$ 6,943	$ 4	$ 6,947
Net income	1,477		1,477
Other comprehensive loss	(59)		(59)
Cash dividends declared ($2.25 per common share)	(642)		(642)
Repurchase and retirement of common stock	(208)		(208)
Equity-based compensation expense	138		138
Excess tax benefit realized from equity-based compensation	131		131
Shares issued upon exercise of stock options	199		199
Taxes paid in lieu of shares issued for equity-based compensation	(74)		(74)
Balance as of September 30, 2014	$ 7,905	$ 4	$ 7,909
Balance as of December 31, 2014	$ 8,013	$ 4	$ 8,017
Net income	1,358		1,358
Other comprehensive loss	(21)		(21)
Cash dividends declared ($3.00 per common share)	(865)		(865)
Equity-based compensation expense	119		119
Excess tax benefit realized from equity-based compensation	85		85
Shares issued upon exercise of stock options	121		121
Taxes paid in lieu of shares issued for equity-based compensation	(67)		(67)
Other changes	2		2
Balance as of September 30, 2015	$ 8,745	$ 4	$ 8,749

See accompanying notes.

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.

Charter Merger

On May 23, 2015, TWC entered into an Agreement and Plan of Mergers (the Charter Merger Agreement) with Charter Communications, Inc. (Charter) and certain of its subsidiaries, pursuant to which the parties will engage in a series of transactions (the Charter merger) that will result in the Company and Charter becoming 100% owned subsidiaries of a new public parent company (New Charter), on the terms and subject to the conditions set forth in the Charter Merger Agreement.

Upon the consummation of the Charter merger, each share of TWC common stock (other than treasury shares held by the Company and TWC stock held by the Liberty Parties (as defined below)) will be converted into the right to receive, at the option of each stockholder, either (i) $100 in cash and shares of New Charter Class A common stock equivalent to 0.5409 shares of Charter Class A common stock (Charter common stock) or (ii) $115 in cash and shares of New Charter Class A common stock equivalent to 0.4562 shares of Charter common stock. Upon the consummation of the Charter merger, subject to certain exceptions, each share of TWC common stock held by Liberty Broadband Corporation or Liberty Interactive Corporation (together, the Liberty Parties) will convert only into the right to receive shares of New Charter Class A common stock.

On September 21, 2015, the Company s stockholders approved the adoption of the Charter Merger Agreement, and Charter s stockholders approved, among other things, the adoption of the Charter Merger Agreement and the issuance of New Charter Class A common stock to TWC stockholders in the Charter merger. The Charter merger is subject to regulatory approvals and certain other closing conditions.

Bright House Networks Transaction

On May 23, 2015, Charter and Advance/Newhouse Partnership (A/N) and certain of their affiliates amended an agreement the parties had signed on March 31, 2015 (the Bright House Networks Agreement). Under the amended Bright House Networks Agreement, Charter will acquire Bright House Networks, LLC (Bright House Networks), subject to, among other conditions, the closing of the Charter merger. 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. The closing of Charter s acquisition of Bright House Networks is expected to occur concurrently with the closing of the Charter merger. However, the closing of the Charter merger is not conditioned on the closing of the Bright House Networks transaction.

In the Charter Merger Agreement, the Company and TWCE agreed to irrevocably and unconditionally waive their right of first offer to acquire the assets of Bright House Networks during the pendency of the Charter merger. This waiver will expire if the Charter Merger Agreement is terminated in accordance with its terms, provided that the Company or any of its Affiliates (as defined in the Charter Merger Agreement) does not, within nine months following such a termination, enter into an agreement or understanding in respect of, or consummate, an alternative acquisition transaction. 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.

TIME WARNER CABLE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Termination of Comcast Merger

On April 24, 2015, Comcast Corporation (Comcast) and the Company terminated their February 12, 2014 Agreement and Plan of Merger (the Comcast Merger Agreement), under which the Company had agreed, on the terms and subject to the conditions set forth therein, to merge with and into a 100% owned subsidiary of Comcast.

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.

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 July 2015, the FASB deferred

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TIME WARNER CABLE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

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 September 30, 2015, debt issuance costs, net of accumulated amortization, recognized in the consolidated balance sheet totaled $94 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.

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.

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TIME WARNER CABLE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

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

	Three Months Ended September 30, 2015	Three Months Ended September 30, 2014	Nine Months Ended September 30, 2015	Nine Months Ended September 30, 2014
Net income attributable to TWC common shareholders	$ 434	$ 495	$ 1,343	$ 1,464
Net income allocated to participating securities[a]	3	4	15	13
Net income attributable to TWC shareholders	$ 437	$ 499	$ 1,358	$ 1,477
Weighted-average basic common shares outstanding	283.0	279.8	282.4	278.8
Dilutive effect of nonparticipating equity awards	0.9	1.6	1.0	1.8
Dilutive effect of participating equity awards[a]	2.4	2.1	2.3	1.9
Weighted-average diluted common shares outstanding	286.3	283.5	285.7	282.5
Net income per common share attributable to TWC common shareholders:				
Basic	$ 1.53	$ 1.77	$ 4.76	$ 5.25
Diluted	$ 1.53	$ 1.76	$ 4.74	$ 5.22

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

For the nine months ended September 30, 2015, the computation of diluted net income per common share attributable to TWC common shareholders excludes 0.8 million of potential common shares related to the Company s equity-based compensation plan, because the inclusion of such shares would have an antidilutive effect. For the three months ended September 30, 2015 and 2014 and for the nine months ended September 30, 2014, antidilutive common shares related to the Company s equity-based compensation plan were insignificant.

4. GOODWILL AND INDEFINITE-LIVED INTANGIBLE ASSETS

As of the Company s July 1, 2015 annual testing date and based on its qualitative assessment, the Company determined that it was not more likely than not that its cable franchise rights and goodwill were impaired and, therefore, the Company did not perform a quantitative assessment as part of its annual impairment testing. In making that determination, management identified and analyzed qualitative factors, including factors that would most significantly impact a discounted cash flow (DCF) analysis of the fair values of the cable franchise rights and the fair values of the Company s reporting units. This process included a review of the Company s most recent projections, analysis of operating results versus the prior year and budget, changes in market values, changes in discount rates and changes in terminal growth rate assumptions.

TIME WARNER CABLE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

5. 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 September 30, 2015 and December 31, 2014 consisted of the following (in millions):

	Assets		Liabilities	
	September 30, 2015	December 31, 2014	September 30, 2015	December 31, 2014
Interest rate swaps[a][b]	$ 117	$ 93	$	$ 19
Cross-currency swaps[a][c]	139	197	37	
Total	$ 256	$ 290	$ 37	$ 19

[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 September 30, 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 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.

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 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 September 30, 2015 and December 31, 2014:

	September 30, 2015	December 31, 2014
Maturities	2017-2019	2015-2019
Notional amount (in millions)	$ 5,600	$ 6,100
Weighted-average pay rate (variable based on LIBOR plus variable margins)	5.16%	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

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(Unaudited)

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 effect of cash flow hedges on the consolidated statements of income and comprehensive income for the three and nine months ended September 30, 2015 and 2014 (in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Deferred loss recognized in other comprehensive income (loss) (effective portion)	$ (157)	$ (19)	$ (99)	$ (98)
Deferred loss reclassified from accumulated other comprehensive loss, net, into other income, net (effective portion)[a]	(75)	(113)	(57)	(44)

(a) Deferred gains (losses) on cross-currency swaps were reclassified from accumulated other comprehensive loss, net, into 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 insignificant.

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. Refer to Note 4 for further details regarding the Company s fair value analysis of cable franchise rights and goodwill.

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 $22.617 billion and $23.614 billion, respectively, as of September 30, 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).

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6. TWC SHAREHOLDERS EQUITY

Changes in Common Stock

Changes in common stock from January 1 through September 30 are presented below (in millions):

	2015	2014
Balance at beginning of period	280.8	277.9
Shares issued under the equity-based compensation plan	2.4	4.0
Shares repurchased and retired		(1.5)
Balance at end of period	283.2	280.4

Common Stock Repurchase Program

In February 2014, the Company suspended its $4.0 billion common stock repurchase program (the Stock Repurchase Program). As of September 30, 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 September 30 are presented below (in millions):

	2015	2014
Balance at beginning of period	$ (324)	$ 44
Other comprehensive loss before reclassifications, net of tax	(76)	(86)
Amounts reclassified into earnings, net of tax	55	27
Other comprehensive loss, net of tax	(21)	(59)
Balance at end of period	$ (345)	$ (15)

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(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 September 30 (in millions):

	2015	2014
Unrealized losses on pension benefit obligation:		
Balance at beginning of period	$ (473)	$ (104)
Other comprehensive loss before reclassifications, net of tax	(14)	(25)
Amounts reclassified into earnings, net of tax:		
Amortization of actuarial (gain) loss[a]	31	(2)
Income tax (benefit) provision	(11)	1
Amortization of actuarial (gain) loss, net of tax	20	(1)
Other comprehensive income (loss), net of tax	6	(26)
Balance at end of period	$ (467)	$ (130)
Deferred gains (losses) on cash flow hedges:		
Balance at beginning of period	$ 150	$ 149
Other comprehensive loss before reclassifications, net of tax	(61)	(61)
Amounts reclassified into earnings, net of tax:		
Effective portion of loss on cash flow hedges[b]	57	44
Income tax benefit	(22)	(16)
Effective portion of loss on cash flow hedges, net of tax	35	28
Other comprehensive loss, net of tax	(26)	(33)
Balance at end of period	$ 124	$ 116
Other changes:		
Balance at beginning of period	$ (1)	$ (1)
Other comprehensive loss before reclassifications, net of tax	(1)	

Amounts reclassified into earnings, net of tax				
Other comprehensive loss, net of tax		(1)		
Balance at end of period	$	(2)	$	(1)

[a] Amounts are included in the computation of net periodic benefit costs as discussed further in Note 8.
[b] Amounts are recorded in other income, net, in the consolidated statement of operations as discussed further in Note 5.

7. 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 September 30, 2015, the 2011 Plan provides for the issuance of up to 20.0 million shares of TWC common stock, of which 8.3 million shares were available for grant.

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(Unaudited)

Equity-based compensation expense recognized for the three and nine months ended September 30, 2015 and 2014 was as follows (in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Restricted stock units[(a)]	$ 38	$ 40	$ 109	$ 121
Stock options	2	5	10	17
Total equity-based compensation expense[(a)]	$ 40	$ 45	$ 119	$ 138

(a) Amounts include $13 million and $17 million for the three months ended September 30, 2015 and 2014, respectively, and $32 million and $40 million for the nine months ended September 30, 2015 and 2014, respectively, of equity-based compensation expense recognized in merger-related and restructuring costs in the consolidated statement of operations related to certain retention grants (as defined below).

Restricted Stock Units

For the nine months ended September 30, 2015, TWC granted 926,000 RSUs subject to time-based vesting at a weighted-average grant date fair value of $178.62 per RSU. For the nine months ended September 30, 2014, TWC granted 3.778 million RSUs at a weighted-average grant date fair value of $135.72 per RSU, which included 143,000 RSUs subject to performance-based vesting conditions (PBUs) at a weighted-average grant date fair value of $135.31 per PBU. Total unrecognized compensation cost related to unvested RSUs as of September 30, 2015, without taking into account expected forfeitures, was $473 million, which the Company expects to recognize over a weighted-average period of 3.72 years, without taking into account acceleration of vesting.

In connection with the Company s entry into the Charter Merger Agreement, the Company advanced into 2015 its annual grants of equity awards that would otherwise have been made in 2017. As a result, eligible employees were granted RSUs having a value equal to (and with vesting terms consistent with) those that these employees otherwise would have received in 2017 (the 2015 retention grant), but without performance-based vesting conditions. Specifically, the 2015 retention grant will vest 50% in February of 2020 and 50% in February of 2021, subject to continued employment. If the grantee s employment is terminated prior to the date on which the 2015 retention grant would have normally been made (i.e., February 2017), such retention grant would be forfeited, absent a change in control of the Company prior to such termination of employment.

In connection with the Company&