

ORIGINAL

NEW APPLICATION



0000080209

ARIZONA CORPORATION COMMISSION

Application and Petition for Certificate of Convenience and Necessity to Provide Intrastate Telecommunications Services

Mail original plus 13 copies of completed application to:

For Docket Control Only: (Please Stamp Here)

Docket Control Center
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007-2927

Please indicate if you have current applications pending in Arizona as an Interexchange reseller, AOS provider, or as the provider of other telecommunication services.

T-20449A-08-0044

Type of Service: None

Docket No.: Date: Date Docketed:

Type of Service:

Docket No.: Date: Date Docketed:

A. COMPANY AND TELECOMMUNICATION SERVICE INFORMATION

(A-1) Please indicate the type of telecommunications services that you want to provide in Arizona and answer the appropriate numbered items:

- Resold Long Distance Telecommunications Services (Answer Sections A, B).
Resold Local Exchange Telecommunications Services (Answer Sections A, B, C).
Facilities-Based Long Distance Telecommunications Services (Answer Sections A, B, D).
Facilities-Based Local Exchange Telecommunications Services (Answer Sections A, B, C, D, E).
Alternative Operator Services Telecommunications Services (Answer Sections A, B)
Other (Please attach complete description)

(A-2) The name, address, telephone number (including area code), facsimile number (including area code), e-mail address, and World Wide Web address (if one is available for consumer access) of the Applicant:

Time Warner Cable Information Services (Arizona LLC) d/b/a Time Warner Cable
290 Harbor Drive
Stamford, CT 06902
Office Phone: 203-315-6000
National Customer Service Phone: 888-683-1000
Fax: 203-351-2276
Website: www.timewarnercable.com

Arizona Corporation Commission DOCKETED

JAN 23 2008

DOCKETED BY [Signature]

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AZ GOVT COMM SERV
DOCKET CONTROL

(A-3) The d/b/a ("Doing Business As") name if the Applicant is doing business under a name different from that listed in Item (A-2):

Time Warner Cable Information Services (Arizona), LLC is doing business as Time Warner Cable.

(A-4) The name, address, telephone number (including area code), facsimile number (including area code), and E-mail address of the Applicant's Management Contact:

Julie P. Laine
Secretary
Time Warner Cable Information Services (Arizona), LLC
290 Harbor Drive
Stamford, CT 06902
Phone: 203-328-0600
Fax: 203-328-4042
e-mail: julie.laine@twcable.com

(A-5) The name, address, telephone number (including area code), facsimile number (including area code), and E-mail address of the Applicant's Attorney and/or Consultant:

*Joan S. Burke
Osborn Maledon P.A.
2929 North Central Avenue, Ste 2100
Phoenix, AZ 85012
Phone: (602) 640-9356
Fax: (602) 640-6074
jburke@omlaw.com*

*Vincent M. Paladini
Senior Counsel, Telephony
Time Warner Cable, Inc.
290 Harbor Drive
Stamford, CT 06902
Phone: (203) 328-3267
Fax: (203) 351-2276
Vincent.Paladini@twcable.com*

(A-6) The name, address, telephone number (including area code), facsimile number (including area code), E-mail address of the Applicant's Complaint Contact Person:

*Gary Wengrofsky
Administrator, Legal Affairs
Time Warner Cable
290 Harbor Drive
Stamford, CT 06902
Voice: 203.351.2147
E-Fax: 704.973.6228
Fax: 203.328.4042*

(A-7) What type of legal entity is the Applicant?

- Sole proprietorship
- Partnership: ___ Limited, ___ General, ___ Arizona, ___ Foreign
- Limited Liability Company: ___ Arizona, x Foreign (*Delaware*)
- Corporation: ___ "S", ___ "C", ___ Non-profit
- Other, specify: _____

(A-8) Please include "Attachment A":

Attachment "A" must include the following information:

1. A copy of the Applicant's Certificate of Good Standing as a domestic or foreign corporation, LLC, or other entity in the State of Arizona.

Attachment A is a Certificate of Good Standing for the Applicant.

2. A list of the names of all owners, partners, limited liability company managers (or if a member managed LLC, all members), or corporation officers and directors (specify).

Attachment B is a list of the Applicant's Officers.

3. Indicate percentages of ownership of each person listed in A-8.2.

Applicant is a wholly-owned subsidiary of Time Warner Cable, Inc. Time Warner Cable, Inc. is a public company traded on the New York Stock Exchange under the symbol TWC. As of January 31, 2007, all of Time Warner Cable, Inc.'s current directors and executive officers, as a group, owned less than one percent of Time Warner Cable Inc.'s issued and outstanding common shares.

(A-9) Include your Tariff as "Attachment B".

Your Tariff must include the following information:

1. Proposed Rates and Charges for each service offered (reference by Tariff page number).
2. Tariff Maximum Rate and Prices to be charged (reference by Tariff page number).
3. Terms and Conditions Applicable to provision of Service (reference by Tariff page number).
4. Deposits, Advances, and/or Prepayments Applicable to provision of Service (reference by Tariff page number).
5. The proposed fee that will be charged for returned checks (reference by Tariff page number).

Applicant intends to use the Draft Tariff included here as Attachment C.

(A-10) Indicate the geographic market to be served:

- Statewide. (Applicant adopts statewide map of Arizona provided with this application).
- Other. Describe and provide a detailed map depicting the area.

(A-11) Indicate if the Applicant or any of its officers, directors, partners, or managers has been or are currently involved in any formal or informal complaint proceedings pending before any state or federal regulatory commission, administrative agency, or law enforcement agency.

No. To our knowledge, no formal or informal complaint is currently pending before any state or federal regulatory commission administrative agency or law enforcement agency against either the Applicant or its officers.

Describe in detail any such involvement. Please make sure you provide the following information:

1. States in which the Applicant has been or is involved in proceedings.
2. Detailed explanations of the Substance of the Complaints.
3. Commission Orders that resolved any and all Complaints.
4. Actions taken by the Applicant to remedy and/or prevent the Complaints from re-occurring.

(A-12) Indicate if the Applicant or any of its officers, directors, partners, or managers has been or are currently involved in any civil or criminal investigation, or had judgments entered in any civil matter, judgments levied by any administrative or regulatory agency, or been convicted of any criminal acts within the last ten (10) years.

No. (In responding to this question, Applicant's officers, directors, partners or managers were asked to exclude divorce proceedings, family court matters, probate cases and personal bankruptcy/creditor proceedings that are unrelated to this application and the Applicant.)

Describe in detail any such judgments or convictions. Please make sure you provide the following information:

1. States involved in the judgments and/or convictions.
2. Reasons for the investigation and/or judgment.
3. Copy of the Court order, if applicable.

(A-13) Indicate if the Applicant's customers will be able to access alternative toll service providers or resellers via 1+101XXXX access.

Yes No

(A-14) Is applicant willing to post a Performance Bond? Please check appropriate box(s).

For Long Distance Resellers, a \$10,000 bond will be recommended for those resellers who collect advances, prepayments or deposits.

Yes No

If "No", continue to question (A-15).

For Local Exchange Resellers, a \$25,000 bond will be recommended.

Yes No

If "No", continue to question (A-15).

For Facilities-Based Providers of Long Distance, a \$100,000 bond will be recommended.

Yes No

If "No", continue to question (A-15).

For Facilities-Based Providers of Local Exchange, a \$100,000 bond will be recommended.

Yes No

If "No", continue to question (A-15).

Note: Amounts are cumulative if the Applicant is applying for more than one type of service.

(A-15) If No to any of the above, provide the following information. Clarify and explain the Applicant's deposit policy (reference by tariff page number). Provide a detailed explanation of why the applicant's superior financial position limits any risk to Arizona consumers.

Not Applicable in light of answers to A -14, above.

(A-16) Submit copies of affidavits of publication that the Applicant has, as required, published legal notice of the Application in all counties where the applicant is requesting authority to provide service.

Note: For Resellers, the Applicant must complete and submit an Affidavit of Publication Form as Attachment "C" before Staff prepares and issues its report. Refer to the Commission's website for Legal Notice Material (Newspaper Information, Sample Legal Notice and Affidavit of Publication). For Facilities-Based Service Providers, the Hearing Division will advise the Applicant of the date of the hearing and the publication of legal notice. Do not publish legal notice or file affidavits of publication until you are advised to do so by the Hearing Division.

Applicant will provide an Affidavit of Publication soon as possible after the Hearing Division advises it of the hearing date and the notice is published.

(A-17) Indicate if the Applicant is a switchless reseller of the type of telecommunications services that the Applicant will or intends to resell in the State of Arizona:

Yes No

If "Yes", provide the name of the company or companies whose telecommunications services the Applicant resells.

(A-18) List the States in which the Applicant has had an application approved or denied to offer telecommunications services similar to those that the Applicant will or intends to offer in the State of Arizona:

Note: If the Applicant is currently approved to provide telecommunications services that the Applicant intends to provide in Arizona in less than six states, excluding Arizona, list the Public Utility Commission ("PUC") of each state that granted the authorization. For each PUC listed provide the name of the contact person, their phone number, mailing address including zip code, and e-mail address.

Only Arizona. Applicant is approved to provide certain telecommunications services included within this application under the Certificate of Convenience and Necessity ("CC&N") granted to ACC Telecommunications, LLC dba Adelphia LLC in Decision No. 68650 (April 12, 2006). The Commission approved the transfer of this CC&N to Applicant in Decision No. 68824 (June 29, 2006).

Applicant is not approved (nor has it applied) to provide telecommunications services in any other state.

(A-19) List the States in which the Applicant currently offers telecommunications services similar to those that the Applicant will or intends to offer in the State of Arizona.

Note: If the Applicant currently provides telecommunication services that the Applicant intends to provide in Arizona in six or more states, excluding Arizona, list the states. If the Applicant does not currently provide telecommunications services that the Applicant intends to provide in Arizona in five or less states, list the key personnel employed by the Applicant. Indicate each employee's name, title, position, description of their work experience, and years of service in the telecommunications services industry.

None.

(A-20) List the names and addresses of any alternative providers of the service that are also affiliates of the telecommunications company, as defined in R14-2-801.

None in Arizona.

(A-21) Check here if you wish to adopt as your petition a statement that the service has already been classified as competitive by Commission Decision:

- Decision # 64178 Resold Long Distance
- Decision # 64178 Resold LEC
- Decision # 64178 Facilities Based Long Distance
- Decision # 64178 Facilities Based LEC

B. FINANCIAL INFORMATION

(B-1) Indicate if the Applicant has financial statements for the two (2) most recent years.

- Yes No

If "No," explain why and give the date on which the Applicant began operations.

Applicant has not been in operation for two years. Applicant was formed and began operations on February 27, 2006.

(B-2) Include "Attachment D".

Provide the Applicant's financial information for the two (2) most recent years.

1. A copy of the Applicant's balance sheet.
2. A copy of the Applicant's income statement.
3. A copy of the Applicant's audit report.
4. A copy of the Applicant's retained earnings balance.
5. A copy of all related notes to the financial statements and information.

Note: Make sure "most recent years" includes current calendar year or current year reporting period.

(B-3) Indicate if the Applicant will rely on the financial resources of its Parent Company, if applicable.

Yes. As a wholly owned subsidiary of Time Warner Cable, Inc., Applicant has access to capital resources as well as banking relationships that will permit it to provide the services requested in this Application. Time Warner Cable, Inc. will be providing working capital, as needed, to Applicant. Please find attached hereto as Attachment D Time Warner Cable, Inc. financial information.

(B-4) The Applicant must provide the following information.

1. Provide the projected total revenue expected to be generated by the provision of telecommunications services to Arizona customers for the first twelve months following certification, adjusted to reflect the maximum rates for which the Applicant requested approval. Adjusted revenues may be calculated as the number of units sold times the maximum charge per unit.

The estimated and projected revenue expected to be generated from telecommunications services to Arizona customers for the first 12 months of operations is less than \$250,000.00.

2. Provide the operating expenses expected to be incurred during the first twelve months of providing telecommunications services to Arizona customers following certification.

The estimated and projected operating expenses expected to be incurred during the first 12 months of providing telecommunications services to Arizona customers is less than \$80,000.00 annually.

3. Provide the net book value (original cost less accumulated depreciation) of all Arizona jurisdictional assets expected to be used in the provision of telecommunications service to Arizona customers at the end of the first twelve months of operation. Assets are not limited to plant and equipment. Items such as office equipment and office supplies should be included in this list.

The estimated and projected net book value (original cost less accumulated depreciation) of all Arizona jurisdictional assets expected to be used in the provision of telecommunications services to Arizona customers at the end of the first 12 months of operations is approximately \$315,000.00.

4. If the projected value of all assets is zero, please specifically state this in your response.

Not applicable.

5. If the projected fair value of the assets is different than the projected net book value, also provide the corresponding projected fair value amounts.

Not applicable.

C. RESOLD AND/OR FACILITIES-BASED LOCAL EXCHANGE TELECOMMUNICATIONS SERVICES

(C-1) Indicate if the Applicant has a resale agreement in operation,

Yes No

If "Yes", please reference the resale agreement by Commission Docket Number or Commission Decision Number.

D. FACILITIES-BASED LONG DISTANCE AND/OR FACILITIES BASED LOCAL EXCHANGE TELECOMMUNICATIONS SERVICES

(D-1) Indicate if the Applicant is currently selling facilities-based long distance telecommunications services AND/OR facilities-based local exchange telecommunications services in the State of Arizona. This item applies to an Applicant requesting a geographic expansion of their CC&N:

Yes No

If "Yes," provide the following information:

1. The date or approximate date that the Applicant began selling facilities-based long distance telecommunications services AND/OR facilities-based local exchange telecommunications services for the State of Arizona.

Applicant was approved to provide certain telecommunications services included within this application under the Certificate of Convenience and Necessity ("CC&N") granted to ACC Telecommunications, LLC dba Adelpia LLC in Decision No. 68650 (April 12, 2006). The Commission approved the transfer of this CC&N to Applicant in Decision No. 68824 (June 29, 2006).

2. Identify the types of facilities-based long distance telecommunications services AND/OR facilities-based local exchange telecommunications services that the Applicant sells in the State of Arizona.

Applicant currently provides point-to-point dedicated transport to a handful of customers. These customers purchase only data telecommunications services from Applicant and receive no voice services.

If "No," indicate the date when the Applicant will begin to sell facilities-based long distance telecommunications AND/OR facilities-based local exchange telecommunications services in the State of Arizona:

E. FACILITIES-BASED LOCAL EXCHANGE TELECOMMUNICATIONS SERVICES

(E-1) Indicate whether the Applicant will abide by the quality of service standards that were approved by the Commission in Commission Decision Number 59421:

Yes

No

(E-2) Indicate whether the Applicant will provide all customers with 911 and E911 service, where available, and will coordinate with incumbent local exchange carriers ("ILECs") and emergency service providers to provide this service:

Yes

No

(E-3) Indicate that the Applicant's switch is "fully equal access capable" (i.e., would provide equal access to facilities-based long distance companies) pursuant to A.A.C. R14-2-1111 (A):

Yes

No

I certify that if the applicant is an Arizona corporation, a current copy of the Articles of Incorporation is on file with the Arizona Corporation Commission and the applicant holds a Certificate of Good Standing from the Commission. If the company is a foreign corporation or partnership, I certify that the company has authority to transact business in Arizona. I certify that all appropriate city, county, and/or State agency approvals have been obtained. Upon signing of this application, I attest that I have read the Commission's rules and regulations relating to the regulations of telecommunications services (A.A.C. Title 14, Chapter 2, Article 11) and that the company will abide by Arizona state law including the Arizona Corporation Commission Rules. I agree that the Commission's rules apply in the event there is a conflict between those rules and the company's tariff, unless otherwise ordered by the Commission. I certify that to the best of my knowledge the information provided in this Application and Petition is true and correct.

Julie P. Laine
(Signature of Authorized Representative)

January 22, 2008
(Date)

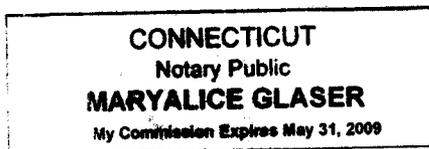
Julie P. Laine
(Print Name of Authorized Representative)

Secretary + VP
(Title)

SUBSCRIBED AND SWORN to before me this 22 day of January, 2008

Maryalice Glaser
NOTARY PUBLIC

My Commission Expires 5-31-2009



Attachment A

STATE OF ARIZONA



Office of the
CORPORATION COMMISSION
CERTIFICATE OF GOOD STANDING

To all to whom these presents shall come, greeting:

I, **Brian C. McNeil**, Executive Director of the Arizona Corporation Commission, do hereby certify that

*****TIME WARNER CABLE INFORMATION SERVICES (ARIZONA), LLC*****

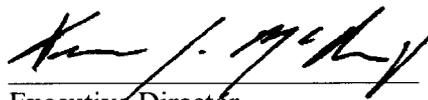
a foreign limited liability company organized under the laws of the jurisdiction of Delaware did obtain a Certificate of Registration in Arizona on the 27th day of February 2006.

I further certify that according to the records of the Arizona Corporation Commission, as of the date set forth hereunder, the said limited liability company has not had its Certificate of Registration revoked for failure to comply with the provisions of A.R.S. section 29-601 et seq., the Arizona Limited Liability Company Act; and that the said limited liability company has not filed a Certificate of Cancellation as of the date of this certificate.

This certificate relates only to the legal authority of the above named entity as of the date issued. This certificate is not to be construed as an endorsement, recommendation, or notice of approval of the entity's condition or business activities and practices.



IN WITNESS WHEREOF, I have hereunto set my hand and affixed the official seal of the Arizona Corporation Commission. Done at Phoenix, the Capital, this 5th Day of October, 2007, A. D.


Executive Director

Order Number: 179411

Attachment B

Officers of Time Warner Cable Information Services (Arizona LLC)

Name	Title
Carl U.J. Rossetti	President
Thomad C. Feige	President, National Group
Gerald D. Campbell	Executive Vice President, Technical Operations
David A. Christman	Senior Vice President & Assistant Secretary
Kristine Dankenbrink	Senior Vice President, Tax
Julie P. Laine	Vice President & Secretary
Riina Tohvert	Assistant Secretary
Ellen Alderdice	Assistant Treasurer
Meredith Garwood	Assistant Treasurer

Attachment C

Time Warner Cable Information Services
(Arizona), LLC d/b/a Time Warner Cable

Arizona Tariff No. 1
Competitive Local Exchange Service
Original Page 1

Issued: **Draft** __, 2008

Effective: _____, 2008

**TIME WARNER CABLE INFORMATION SERVICES (ARIZONA), LLC
D/B/A TIME WARNER CABLE**

A COMMISSION NO. 1

APPLICABLE TO LOCAL SERVICES

This Tariff contains the descriptions, regulations, and rates applicable to the furnishing of services and facilities for Local Exchange Service provided by Time Warner Cable Information Services (Arizona), LLC d/b/a Time Warner Cable, with principal offices at 290 Harbor Drive, Stamford, CT 06902. This Tariff applies to services furnished within Arizona. This Tariff is on file with the Arizona Corporation Commission and copies may be inspected, during normal business hours, at the Company's principal place of business.

Issued By: Julie P. Laine, Secretary
Time Warner Cable Information Services (Arizona), LLC
290 Harbor Drive
Stamford, CT 06902

Issued: **Draft** __, 2008

CHECK SHEET

The sheets listed below, which are inclusive of this Tariff, are effective as of the date shown at the top of the respective sheet(s). Original and revised sheets as named below comprise all changes from the original tariff and are currently in effect as of the date at the top of this page.

SHEET REVISION

SHEET REVISION

All Sheets Original

TABLE OF CONTENTS

Title Sheet	1
Check Sheet	2
Table of Contents	3
Symbols Sheet.....	5
Tariff Format.....	6
Section 1 – Definitions and Abbreviations	7
Section 1.1 – Explanation of Abbreviations and Acronyms.....	7
Section 1.2 – Definitions of Terms	8
Section 2 - Rules and Regulations	10
Section 2.1 – Undertaking of the Company.....	10
Section 2.2 – Limitations on Liability	12
Section 2.3 – Liability of the Company	18
Section 2.4 – Service Availability	19
Section 2.5 – Obligations of the Customer	21
Section 2.6 – Customer Equipment and Channels.....	23
Section 2.7 – Interruption of Service	25
Section 2.8 – Payment Arrangements.....	27
Section 2.9 – Advance Payments.....	31
Section 2.10 – Taxes and Other Charges.....	31
Section 2.11 – Backbilling.....	31
Section 2.12 – Termination for Cause Other than Nonpayment.....	32
Section 2.13 – Use of Customer’s Service by Others.....	35
Section 2.14 – Cancellation of Service	35
Section 2.15 – Notices and Communications	36

TABLE OF CONTENTS

Section 2 – Rules and Regulations, Cont’d

 Section 2.16 – Special Construction and Special Arrangements.....36

 Section 2.17 – Individual Case Basis Arrangements.....37

 Section 2.18 – Dual Party Relay Service.....38

 Section 2.19 – 911 Emergency Telephone Service.....39

Section 3 – Service Description.....40

 Section 3.1 – Trial Services.....40

 Section 3.2 – Transmission Service and Facilities.....40

Section 4 – Rates.....41

 Section 4.1 – Rates.....41

 Section 4.2 – Promotional Offerings.....42

 Section 4.3 – Employee Rates.....42

Issued: **Draft** __, 2008

SYMBOLS SHEET

The following symbols shall be used in this Tariff for the purpose indicated below:

- C – To signify changed rate, term or condition
- D – To signify decrease rate
- I – To signify increased rate
- M – To signify text moved from another tariff location, but no change in rate, term or condition
- N – To signify new rate, term or condition
- O – To signify omissions
- T – To signify temporary rate, term or condition

Issued: **Draft** __, 2008

Effective: _____, 2008

TARIFF FORMAT

- A. Sheet Numbering** – Sheet numbers appear in the upper right corner of the page. Sheets are numbered sequentially. However, new sheets are occasionally added to the Tariff. When a new sheet is added between sheets already in effect, a decimal is added. For example, a new sheet added between sheets 14 and 15 would be 14.1.
- B. Sheet Revision Numbers** – Revision numbers also appear in the upper right corner of each page. These numbers are used to determine the most current sheet version on file with the ACC. For example, the 4th revised Sheet 14 cancels the 3rd revised Sheet 14. Because of various suspension periods, deferrals, etc., that the ACC follows in its tariff approval process, the most current sheet number on file with the Commission is not always the tariff page in effect. Consult the Check Sheet for the sheet currently in effect.
- C. Paragraph Numbering Sequence** – There are nine levels of paragraph coding. Each level of coding is subservient to its next higher level:
- 2.
 - 2.1.
 - 2.1.1.
 - 2.1.1.A.
 - 2.1.1.A.1.
 - 2.1.1.A.1.(a).
 - 2.1.1.A.1.(a).I.
 - 2.1.1.A.1.(a).I.(i).
 - 2.1.1.A.1.(a).I.(i).(1).
- D. Check Sheets** – When a tariff filing is made with the ACC, an updated check sheet accompanies the tariff filing. The check sheet lists the sheets contained in the Tariff, with a cross reference to the current revision number. When new pages are added, the check sheet is changed to reflect the revision. All revisions made in a given filing are designated by the symbols given on the symbols sheet. There will be no other symbols used on this page if these are the only changes made to it (*i.e.*, the format remains the same, just revised revision levels on some pages). The Tariff user should refer to the latest check sheet to find out if a particular sheet is the most current on file with the ACC.

SECTION 1 - DEFINITIONS AND ABBREVIATIONS

1.1 EXPLANATION OF ABBREVIATIONS AND ACRONYMS

ACC – Arizona Public Service Corporation

Cont'd – Continued

IXC – Interexchange Carrier

ICO – Independent Company

ICE – Independent Company Exchange

LATA – Local Access and Transport Area

LEC – Local Exchange Company

MTS – Message Telecommunication Service

NPA – Numbering Plan Area

PIC – Primary Interexchange Carrier

TDD – Telephone Device for the Deaf

TRS – Telecommunications Relay Service

SECTION 1 - DEFINITIONS AND ABBREVIATIONS, CONT'D

1.2 DEFINITIONS OF TERMS

Commission – Arizona Corporation Commission

Company – Refers to Time Warner Cable Information Services (Arizona), LLC d/b/a Time Warner Cable.

Completed – A call which the Company's network has determined has been answered by a person, answering machine, fax machine, computer modem device, or other mechanical answering device.

Customer – The person or other entity which orders Service and is responsible for payment of charges due in compliance with the Company's Tariff regulations. This term also includes a person who was a Customer of the Company within the past 30 days and who requests Service at the same or different location. For purposes of this Tariff, "Customer" shall refer to local, county, state or federal entities, and those persons or entities whose use of service is or is represented to be primarily or substantially of a professional, business, institutional, occupational or commercial nature and who subscribe, from the Company or some other entity, to more than four access lines or to a service or services with a capacity for providing in the aggregate at least 256 DS0 equivalents for the transmission of voice and/or data.

Customer-Provided Equipment (CPE) – Equipment provided by the Customer for use with the Company's Service. CPE can include a station set, facsimile machine, key system, PBX, or other information, communication or power system.

End User – Any Customer or other person or entity that is not a carrier, except that a carrier (other than a telephone company) shall be deemed to be an "End User" when such carrier uses the Company's Service for administrative purposes.

Message – A completed telephone call.

Nonrecurring Charge – A one-time charge made under certain conditions to recover all or a portion of the cost of installing facilities or providing Service.

Recurring Charge – The monthly charge to the Customer for Service, facilities and equipment, which continue for the agreed upon duration of the Service.

Time Warner Cable Information Services
(Arizona), LLC d/b/a Time Warner Cable

Arizona Tariff No. 1
Competitive Local Exchange Service
Original Page 9

Issued: **Draft** __, 2008

Effective: _____ __, 2008

Service – Any Telecommunications Service(s) provided by the Company under this
Tariff.

Issued By: Julie P. Laine, Secretary
Time Warner Cable Information Services (Arizona), LLC
290 Harbor Drive
Stamford, CT 06902

SECTION 1 – DEFINITIONS AND ABBREVIATIONS, CONT'D

1.2 DEFINITIONS OF TERMS, CONT'D

Termination of Service – Discontinuance of both incoming and outgoing Service.

User – A Customer, or any other person authorized by a Customer to use Service provided under this Tariff.

SECTION 2 - RULES AND REGULATIONS

2.1 UNDERTAKING OF THE COMPANY

2.1.1 Regulatory Compliance

Company will comply with all applicable billing and termination rules of the Commission, as set forth in the Title 14, Chapter 2 of the Arizona Administrative Code and Title 40 of the Arizona Revised Statutes.

2.1.2 Application of Tariff

- A. This Tariff sets forth terms and conditions applicable to the furnishing of the Local Exchange Service defined herein offered by the Company within Arizona. Service is furnished for the use of End Users in placing and receiving calls within Arizona.
- B. When Service and facilities are provided in part by the Company and in part by other companies, the regulations of the Company apply only to that portion of the Service or facilities furnished by it.
- C. When Service and facilities provided by the Company are used to obtain access to the regulated or unregulated services provided by another company, or are used by another company as part of the regulated or unregulated services offered by that company, the regulations of the Company apply only to the use of the Company's Service and facilities.
- D. This Tariff applies only for the use of the Company's Service within Arizona. This includes the use of the Company's network to complete an end-to-end call within Arizona and to obtain access to the intrastate and interstate Toll Call services offered by the Company.
- E. The provision of Local Service defined herein is subject to the terms and conditions specified in this Tariff and may be revised, added to, or supplemented by superseding issues.
- F. The provision of Service by the Company as set forth in this Tariff does not constitute a joint undertaking with the Customer for the furnishing of any Service.

SECTION 2 – RULES AND REGULATIONS, CONT'D

2.1 UNDERTAKING OF THE COMPANY, CONT'D

2.1.3 Shortage of Equipment or Facilities

- A. The furnishing of Service under this Tariff is subject to the availability on a continuing basis of all the necessary facilities and technical capabilities and is limited to the capacity of the Company's facilities as well as facilities the Company may obtain from carriers to furnish Service from time to time as required at the sole discretion of the Company.
- B. The Company shall not be required to furnish, or continue to furnish, facilities or Service where the circumstances are such that the proposed use of the facilities or Service would tend to adversely affect the Company's plant, property or Service.

2.1.4 Terms and Conditions

- A. In furnishing facilities and Service, the Company does not undertake to transmit messages, but furnishes the use of its facilities to Customers for information services or communications.
- B. Service is provided on the basis of a minimum period of at least one month, 24 hours per day. For the purpose of computing charges in this Tariff, a month is considered to have 30 days. All calculations of dates set forth in this Tariff shall be based on calendar days, unless otherwise specified herein. The Customer must pay the regular tariffed rate for the Service it subscribes to for the minimum period of service. If a Customer disconnects Service before the end of the minimum service period, that Customer is responsible for paying the regular rates for the remainder of the minimum service period.
- C. Customers may be required to enter into written service orders which shall contain or reference a specific description of the Service ordered, the rates to be charged, the duration of the Service, and the terms and conditions in this Tariff. Customers also will be required to execute any other documents reasonably requested by the Company.

SECTION 2 – RULES AND REGULATIONS, CONT'D

2.1 UNDERTAKING OF THE COMPANY, CONT'D

2.1.4 Terms and Conditions, Cont'd

- D. The Company reserves the right to refuse an application for Service made by a present or former Customer who is indebted to the Company for Service previously rendered until the debt is satisfied.
- E. In any action between the parties to enforce any provision of this Tariff, the prevailing party shall be entitled to recover its legal fees and court costs from the non-prevailing party in addition to other relief a court may award, except as otherwise provided in this Tariff.
- F. This Tariff shall be interpreted and governed by the laws of Arizona without regard to its choice of law provision.

2.2 LIMITATIONS ON LIABILITY

2.2.1 Indemnification and Limits on Liability

- A. Except where the Commission, for good cause shown, determines otherwise, the Customer and any authorized or joint users, jointly and severally, shall indemnify, defend and hold harmless the Company and the Company shall not be liable for any claims, loss, damage or expenses (including attorneys' fees and court costs) involving:
 - 1. Any act or omission of: (a) the Customer; (b) any other entity furnishing service, equipment or facilities for use in conjunction with the Service or facilities provided by the Company; or (c) common carriers, warehousemen or middle men;

SECTION 2 – RULES AND REGULATIONS, CONT'D

2.2 LIMITATIONS ON LIABILITY, CONT'D

2.2.1 Indemnification and Limits on Liability, Cont'd

A. Cont'd

2. Any delay or failure of performance or equipment due to causes beyond the Company's control, including, but not limited to, acts of God, fires, floods, earthquakes, hurricanes, storms, or other natural catastrophes; pole hits; explosions; national emergencies, insurrections, riots, wars or other civil commotions; strikes, lockouts, work stoppages or other labor difficulties; criminal actions taken against the Company; unavailability, failure or malfunction of equipment or facilities provided by the Customer or third parties, including rights-of-way and materials; and any law, order, regulation, direct, request, or other action of any governing authority or agency thereof;
3. Any unlawful or unauthorized use of the Company's facilities and Service or the use of the Company's facilities and/or Service in violation of this Tariff;
4. Libel, slander, invasion of privacy or infringement of patents, trade secrets, or copyrights arising from or in connection with the transmission of communications or information by means of Company-provided facilities or Service, or by means of the combination of Company-provided facilities or Service with Customer-provided facilities or services;

SECTION 2 – RULES AND REGULATIONS, CONT'D

2.2 LIMITATIONS ON LIABILITY, CONT'D

2.2.1 Indemnification and Limits on Liability, Cont'd

A. Cont'd

5. The Company is not responsible for any infringement, breach or invasion of the right of privacy of any person or persons, caused or claimed to have been caused, directly or indirectly, by the installation, operation, failure to operate, maintenance, removal, presence, condition, occasion or use of emergency 911 service features and the equipment associated therewith, or by any services furnished by the Company, including, but not limited to, the identification of the telephone number, address or name associated with the telephone used by the party or parties accessing emergency 911 service, and which arise out of the negligence or other wrongful act of the Company, the Customer, its users, agencies or municipalities, or the employees or agents of any one of them.
6. Changes in any of the facilities, operations or procedures of the Company that render any equipment, facilities or services provided by the Customer obsolete, or require modification or alteration of such equipment, facilities or services, or otherwise affect their use or performance, except where reasonable notice is required by the Company and is not provided to the Customer, in which event the Company's liability is limited as set forth in this Section 2.2;
7. Defacement of or damage to Customer premises resulting from the furnishing of Service or equipment on such premises or the installation or removal thereof;

SECTION 2 – RULES AND REGULATIONS, CONT'D

2.2 LIMITATIONS ON LIABILITY, CONT'D

2.2.1 Indemnification and Limits on Liability, Cont'd

A. Cont'd

8. Injury to property or injury or death to persons, including claims for payments made under Workers' Compensation law or under any plan for employee disability or death benefits, arising out of, or caused by, any act or omission of the Customer, or the construction, installation, maintenance, presence, use or removal of the Customer's facilities or equipment connected, or to be connected, to the Company's facilities;
9. Any intentional, wrongful act of a Company employee when such act is not within the scope of the employee's responsibilities for the Company and/or is not authorized by the Company;
10. Any representations made by Company employees that do not comport, or that are inconsistent, with the provisions of this Tariff;
11. Any act, omission or network condition resulting in the non-availability of 911, E911, or similar services for any reason including, without limitation and by way of example only, due to any failure of Service functionality or interruption of electric service to Customer's premises;
12. Any non-completion of calls due to network busy conditions or network failures;
13. Any calls not actually attempted to be completed during any period that Service is unavailable;
14. Blockages by other providers of services on the public switched network;

SECTION 2 – RULES AND REGULATIONS, CONT'D

2.2 LIMITATIONS ON LIABILITY, CONT'D

2.2.1 Indemnification and Limits on Liability, Cont'd

- A. Cont'd
15. Any damage to CPE resulting from use of that system with the Service; and
 16. Breach in the privacy or security of communications transmitted over the Company's facilities.
- B. The Company shall be indemnified, defended and held harmless by the Customer or End User from and against any and all claims, loss, demands, suits, expense, or other action or any liability whatsoever, including attorney fees, whether suffered, made, insinuated, or asserted by the Customer or by any other party, for any personal injury to or death of any person or persons, and for any loss, damage or destruction of any property, including environmental contamination, whether owned by the Customer or by any other party, caused or claimed to have been caused directly or indirectly by the installation, operation, failure to operate, maintenance, presence, condition, location, use, or removal of any Company or Customer-provided equipment or facilities or Service provided by the Company.
- C. The Company does not guarantee nor make any warranty with respect to Service installations at locations at which there is present an atmosphere that is explosive, prone to fire, dangerous or otherwise unsuitable for such installations.
- D. The Company assumes no responsibility for the availability or performance of any systems or related facilities under the control of other entities, whether or not affiliated with the Company, or for other facilities provided by other entities used for Service to the Customer, even if the Company has acted as the Customer's agent in arranging for such facilities or services. Such facilities are provided subject to such degree of protection or non-preemptibility as may be provided by the other entities.
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SECTION 2 – RULES AND REGULATIONS, CONT'D

2.2 LIMITATIONS ON LIABILITY, CONT'D

2.2.1 Indemnification and Limits on Liability, Cont'd

- E. Except as otherwise stated in this Tariff, any claim of whatever nature against the Company shall be deemed conclusively to have been waived unless presented in writing to the Company within thirty (30) days after the date of the occurrence that gave rise to the claim.
- F. The Company is not liable for any errors and omissions in local directories. In cases where a specific charge has been made for a directory listing, the Company shall not be liable for any such error or omission beyond the amount of such charge.
- G. The Company makes no warranties or representations, express or implied either in fact or by operation of law, statutory or otherwise, including warranties of merchantability or fitness for a particular use, except those expressly set forth herein.
- H. The Company will not be liable for any charge incurred when any long distance (Toll Call) carrier or alternative operator service provider accepts third-number billed or collect calls.
- I. When the facilities of other companies are used in establishing a connection, the Company is not liable for any act, error, omission, or interruption caused by the other company or their agents or employees. This includes the provision of a signaling system database by another company.

SECTION 2 – RULES AND REGULATIONS, CONT'D

2.3 LIABILITY OF THE COMPANY

2.3.1 General

- A. Except as otherwise stated in this Tariff, liability of the Company for damages arising out of either (1) the furnishing of its Service, including, but not limited to, mistakes, omissions, interruptions, delays, or errors, or other defects, representations, or use of these Service, or (2) the failure to furnish its Service, whether caused by acts or omission, shall be limited to the extension of allowances to the Customer for interruptions in Service as set forth in Section 2.7, following.
- B. Except for the extension of allowances to the Customer for interruptions in Service as set forth in Section 2.7, following, the Company shall not be liable to a Customer or third party for any direct, indirect, special, incidental, reliance, consequential, exemplary or punitive damages, including, but not limited to, loss of revenue or profits, for any reason whatsoever, including, but not limited to, any act or omission, failure to perform, delay, interruption, failure to provide any Service, including the inability to access emergency 911 services during any such failure, or any failure in or breakdown of facilities associated with the Service.
- C. The liability of the Company for errors in billing that result in overpayment by the Customer shall be limited to a credit equal to the dollar amount erroneously billed or, in the event that payment has been made and Service has been discontinued, to a refund of the amount erroneously billed.

SECTION 2 – RULES AND REGULATIONS, CONT'D

2.4 SERVICE AVAILABILITY

2.4.1 Notification of Service-Affecting Activities

The Company will provide the Customer reasonable notification of Service-affecting activities that may occur in normal operation of its business. Such activities may include, but are not limited to, equipment or facilities additions, removals or rearrangements and routine preventative maintenance. Generally, such activities are not specific to an individual Customer but affect many Customers' Service. No specific advance notification period is applicable to all Service activities. The Company will work cooperatively with the Customer to determine the reasonable notification requirements. With some emergency or unplanned Service-affecting conditions, such as an outage resulting from a loss of power or damage to facilities or equipment, notification to the Customer may not be possible.

2.4.2 Provision of Equipment and Facilities

- A. The Company shall use reasonable efforts to make available Service to a Customer on or before a particular date, subject to the provisions of and compliance by the Customer with the regulations contained in this Tariff. The Company does not guarantee availability by any such date and shall not be liable for any delays in commencing Service to any Customer.
- B. The Company shall use reasonable efforts to maintain only the facilities and equipment that it furnishes to the Customer. The Customer may not, nor may the Customer permit others to, rearrange, disconnect, remove, attempt to repair, or otherwise interfere with any of the facilities or equipment installed by the Company, except upon the written consent of the Company.
- C. The Company may substitute, change or rearrange any equipment or facility at any time and from time to time, but shall not thereby alter the technical parameters of the Service provided to the Customer.

SECTION 2 – RULES AND REGULATIONS, CONT'D

2.4 SERVICE AVAILABILITY, CONT'D

2.4.2 Provision of Equipment and Facilities, Cont'd

- D. Equipment the Company provides or installs at the Customer's premises for use in connection with the Service the Company offers shall not be used for any purpose other than that for which the Company provided it.
- E. The Customer shall be responsible for the payment of Service charges as set forth herein for visits by the Company's agents or employees to the premises of the Customer or User when the Service difficulty or trouble reported results from the use of equipment or facilities provided by any party other than the Company, including, but not limited to, the Customer or User.
- F. The Company shall not be responsible for the installation, operation, or maintenance of any Customer- or User-provided communications equipment. Where such equipment is connected to the facilities furnished pursuant to this Tariff, the responsibility of the Company shall be limited to the furnishing of facilities offered under this Tariff and to the maintenance and operation of such facilities. Subject to this responsibility, the Company shall not be responsible for:
 - 1. the transmission of signals by Customer-Provided Equipment or for the quality of, or defects in, such transmission; or
 - 2. the reception of signals by Customer-Provided Equipment.

2.4.3 Ownership of Facilities

Title to all facilities provided in accordance with this Tariff remains in the Company, its affiliates, agents or contractors.

SECTION 2 – RULES AND REGULATIONS, CONT'D

2.5 OBLIGATIONS OF THE CUSTOMER

2.5.1 General

- A. The Customer shall be responsible for:
1. The payment of all applicable charges pursuant to this Tariff;
 2. Damage to or loss of the Company's facilities or equipment caused by the acts or omissions of the Customer or of any User, or by the noncompliance by the Customer or any User with these regulations, or by fire or theft or other casualty on the Customer's or any User's premises, unless caused by the negligence or willful misconduct of the employees or agents of the Company;
 3. Obtaining, maintaining, and otherwise having full responsibility for all rights-of-way and conduit necessary for installation of lines, facilities and associated equipment used to provide Service to the Customer from the Customer's property line to the location of the equipment space described above. Any and all costs associated with obtaining and maintaining the rights-of-way described herein, including the costs of altering the structure to permit installation of Company-provided facilities, shall be borne entirely by, or may be charged by the Company to, the Customer. The Company may require the Customer to demonstrate its compliance with this Section prior to accepting an order for Service;
 4. Not creating or allowing to be placed any liens or other encumbrances on the Company's equipment or facilities; and
 5. Making the Company's facilities and equipment available periodically for maintenance purposes at a time agreeable to both the Company and the Customer. No allowance will be made for the period during which Service is interrupted for such purposes.

SECTION 2 – RULES AND REGULATIONS, CONT'D

2.5 OBLIGATIONS OF THE CUSTOMER, CONT'D

2.5.2 Prohibited Activities and Uses

- A. The Service the Company offers shall not be used for any unlawful purpose or for any use as to which the Customer or User has not obtained all required governmental approvals, authorizations, licenses, consents and permits.
- B. The Company may require a Customer or User immediately to shut down its transmission of signals if said transmission is causing interference to others.
- C. A Customer or User may not assign, or transfer in any manner, the Service or any rights associated with the Service without the written consent of the Company. The Company will permit a Customer to transfer its existing Service to another person or entity if the existing Customer has paid all charges owed to the Company for Service provided pursuant to this Tariff. Such a transfer will be treated as a disconnection of existing Service and installation of new Service.

2.5.3 Claims

Notwithstanding Section 2.2 and 2.3 herein, with respect to any Service or facility provided by the Company, the Customer shall indemnify, defend and hold harmless the Company from and against all claims, actions, damages, liabilities, costs and expenses, including reasonable attorneys' fees and court costs for:

- A. Any loss, destruction or damage to property of the Company or any third party, or the death or injury to persons, including, but not limited to, employees or invitees of either party, to the extent caused by or resulting from the negligent or intentional act or omission of the Customer or User or either of their employees, agents, representatives or invitees; or
 - B. Any claim of any nature whatsoever brought by a User with respect to any matter for which the Company would not be directly liable to the Customer under the terms of this Tariff.
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SECTION 2 – RULES AND REGULATIONS, CONT'D

2.6 CUSTOMER EQUIPMENT AND CHANNELS

2.6.1 General

A User may transmit or receive information or signals via the facilities of the Company. A User may transmit any form of signal that is compatible with the Company's equipment, but, except as otherwise specifically stated in this Tariff, the Company does not guarantee that its Service will be suitable for purposes other than those described herein.

2.6.2 Station Equipment

- A. Terminal equipment on the User's premises and the electric power consumed by such equipment shall be provided by and maintained at the expense of the User. The User is responsible for the provision of wiring or cable to connect its terminal equipment to the Company's point of connection.
- B. The Customer is responsible for ensuring that Customer-Provided Equipment connected to the Company equipment and facilities is compatible with such equipment and facilities. All such Customer-Provided Equipment shall be registered by the Federal Communications Commission pursuant to Part 68 of Title 47, Code of Federal Regulations; and all User-provided wiring shall be installed and maintained in compliance with those regulations. The magnitude and character of the voltages and currents impressed on Company-provided equipment and wiring by the connection, operation or maintenance of such equipment and wiring shall be such as not to cause damage to Company-provided equipment and wiring or injury to the Company's employees or to other persons. Any additional protective equipment required to prevent such damage or injury shall be provided by the Company at the Customer's expense.
- C. The Company is not responsible for malfunctions of Customer-owned telephone sets or other Customer-Provided Equipment, or for misdirected calls, disconnects or other Service problems caused by the use of Customer-Provided Equipment.

SECTION 2 – RULES AND REGULATIONS, CONT'D

2.6 CUSTOMER EQUIPMENT AND CHANNELS, CONT'D

2.6.3 Interconnection of Facilities

- A. Any special interface equipment necessary to achieve compatibility between the facilities and equipment of the Company used for furnishing communications Service and the channels, facilities, or equipment of others shall be provided at the Customer's expense.
- B. The Service may be connected to the services or facilities of other communications carriers only when authorized by, and in accordance with, the terms and conditions of this Tariff and the tariff of the other communications carriers which are applicable to such connections.
- C. Facilities furnished under this Tariff may be connected to Customer-Provided Equipment in accordance with the provisions of this Tariff.

2.6.4 Inspections

If the protective requirements for Customer-Provided Equipment are not being complied with, the Company may take such action as it deems necessary to protect its facilities, equipment and personnel. The Company will notify the Customer promptly if there is any need for further corrective action. Within ten (10) days of receiving this notice, the Customer must take this corrective action and notify the Company of the action taken. If the Customer fails to do this, the Company may take whatever additional action is deemed necessary, including the suspension of Service, to protect its facilities, equipment and personnel from harm.

SECTION 2 – RULES AND REGULATIONS, CONT'D

2.7 INTERRUPTION OF SERVICE

2.7.1 General

- A. Upon Customer request, the Company will credit a Customer's account for Service interruptions that are not due to the Company's testing or adjusting, failure of facilities or services of other companies relied upon by Company to provide Service, negligence of the Customer, or to the failure of channels, wiring, equipment, facilities or power provided by the Customer. Before requesting a credit, the Customer will take reasonable steps to verify that the trouble could not have been prevented by the Customer and is not in the channels, wiring, equipment, facilities or power provided by the Customer. For purposes of computing a credit, a month consists of 720 hours. The Company will credit the Customer's account at the rate of 1/720th of the monthly charge for each full hour of any interruption. In addition, for Service interruptions greater than eight (8) consecutive hours, the Company will credit the Customer's account in an amount equal to the price of one month of Service.
- B. No credit allowance will be made for:
1. Interruptions due to the negligence of, or noncompliance with the provisions of this Tariff by the Customer, User, or other common carrier providing service connected to the Service of the Company;
 2. Interruptions due to the negligence of any person other than the Company, including but not limited to the Customer or other common carriers connected to the Company's facilities;
 3. Interruptions due to the failure or malfunction of non-Company equipment;
 4. Interruptions of Service during any period in which the Company is not given full and free access to its facilities and equipment for the purpose of investigating and correcting interruptions;

SECTION 2 – RULES AND REGULATIONS, CONT'D

2.7 INTERRUPTION OF SERVICE, CONT'D

2.7.1 General, Cont'd

B. Cont'd

5. Interruptions of Service during a period in which the Customer continues to use the Service on an impaired basis;
6. Interruptions of Service during any period when the Customer has released Service to the Company for maintenance purposes or for implementation of a Customer order for a change in Service arrangements; and
7. Interruption of Service due to circumstances or causes beyond the control of the Company.

- C. For the purposes of applying this provision, the word “interruption” shall mean the inability to complete calls either incoming or outgoing or both due to equipment malfunction or human errors. “Interruption” does not include and no allowance shall be given for service difficulties such as slow dial tone, circuits busy or other network capacity shortages. Nor shall the interruption allowance apply where Service is interrupted by the negligence or willful act of the Customer or where the Company, pursuant to the terms of this Tariff, suspends or terminates Service because of nonpayment of bills due to the Company, unlawful or improper use of facilities or Service, or any other reason covered by this Tariff. No allowance shall be made for interruptions due to electric power failure.

SECTION 2 – RULES AND REGULATIONS, CONT'D

2.8 PAYMENT ARRANGEMENTS

2.8.1 Payment

The Customer is responsible for the payment of all charges for facilities and Service furnished by the Company to the Customer and to all Users authorized by the Customer, and for all calls charged to the Customer's line where any person answering the Customer's line agrees to accept such charge.

2.8.2 Billing and Collection of Charges

- A. All Customer bills are due and payable on or before the due date provided on the bill. If any portion of the bill is received by the Company more than seven (7) days after the due date, or if any portion of the payment is received in funds which are not immediately available, then a late payment penalty may be assessed by the Company and the Company may proceed with collection activities.
- B. If objection is not received by the Company within three months after the bill is rendered, the items and charges appearing thereon shall be determined to be correct and binding upon the Customer, provided that the customer shall, within twelve months of the rendering by the Company of the disputed bill, be able to bring the matter to the Commission for resolution.
- C. When a check which has been presented to the Company by a Customer in payment for charges is returned by the bank, the Customer shall be responsible for the payment of a Returned Check Charge in an amount up to \$20.00.

2.8.3 Disputed Bills

If the Customer has a complaint, has a question about, or seeks to dispute charges on the bill, the Customer should contact the Company at the address, telephone number, or e-mail address provided on the bill.

SECTION 2 – RULES AND REGULATIONS, CONT'D

2.8 PAYMENT ARRANGEMENTS, CONT'D

2.8.4 Late Payment Charges

- A. Customer bills are due on the due date specified on the bill. A Customer is in default unless payment is made on or before the due date specified on the bill. If payment is not received by the Customer's next billing date, a late payment charge of 1.5% will be applied to all amounts previously billed under this Tariff, excluding one month's Service charge, but including arrears and unpaid late payment charges.
- B. Late payment charges do not apply to those portions (and only those portions) of unpaid balances that are associated with disputed amounts. Undisputed amounts on the same bill are subject to late payment charges if unpaid and carried forward to the next bill.
- C. Late payment charges do not apply to final accounts.

2.8.5 Suspension or Termination of Service for Nonpayment

- A. If payment is not received within thirty (30) days of the due date, a disconnect notice will be sent to the Customer. The Company will provide the Customer with written notice via first class U.S. Mail stating the reason for discontinuance and will allow the Customer not less than fifteen (15) days to remove the cause for discontinuance. Bills must be mailed to the Customer no later than six (6) business days after the date of the bill.
- B. After issuing the written notification in accordance with Section 2.8.5(A), at least one attempt shall be made during non-working hours to contact a residential Customer by telephone before the scheduled date of suspension/termination.

SECTION 2 – RULES AND REGULATIONS, CONT'D

2.8 PAYMENT ARRANGEMENTS, CONT'D

2.8.5 Suspension or Termination of Service for Nonpayment, Cont'd

- C. The Customer will be allowed at least five (5) days written notice via first class U.S. Mail that disconnection will take place within five (5) days, excluding Sundays and holidays, and the Customer will be given an opportunity to make full payment of all undisputed charges, and in no event will service be discontinued on the day preceding any day on which the Company is not prepared to accept payment of the amount due and to reconnect service.
- D. Suspension/termination may occur only between 8:00 AM and 7:30 PM on Monday through Thursday, and between 8:00 AM and 3:00 PM on Friday, provided that such day or the following day is not a public holiday or a day on which the main office is closed. In addition, Service may not be disconnected during the periods of December 23 through December 26 and December 30 through January 2.
- E. If the Customer's account is disconnected due to non-payment, and no arrangements have been made for a deferred payment plan, Service may be reconnected only by paying all past due amounts, a reconnection fee, and the first month of Service in advance.
- F. Service may be suspended or terminated for nonpayment of the undisputed portion of a disputed bill if the Customer does not pay the undisputed portion after being asked to do so.
- G. Suspended or terminated Service shall be reconnected within twenty-four (24) hours following payment or within twenty-four (24) hours of the end of circumstances beyond the Company's control which delay the reconnection.

SECTION 2 – RULES AND REGULATIONS, CONT'D

2.8 PAYMENT ARRANGEMENTS, CONT'D

2.8.6 Exceptions to Suspension and Termination for Nonpayment

Service shall not be suspended or terminated for:

- A. Nonpayment for Service for which a bill has not been rendered;
- B. Nonpayment for Service which has not been rendered;
- C. Nonpayment of any billed charge which is in dispute during the period before a determination of the dispute is made by the Company in accordance with the Company's complaint handling procedures.
- D. Nonpayment of backbilled amounts as outlined in Section 2.11 herein.

2.8.7 Deferred Payment Agreements

- A. Service will not be suspended or terminated unless the Customer has been advised that a deferred payment plan can be arranged. An existing residential Customer with three or more months Service and for whom Service has not been terminated for nonpayment is eligible for Deferred Payment Arrangements (DPA). Final notice of suspension/termination will advise the Customer of DPAs and will include, in bold print, a notice that assistance in reaching an agreement may be obtained from the Commission. The DPA notice will be mailed no less than six (6) days before termination of Service. Any DPA will be for a period agreed to by both the Company and the Customer.
- B. If the Company believes that the Customer has the resources to pay the bill, it shall notify both the Customer and the Commission in writing of the reasons for its belief. The Commission shall make the final determination as to whether a DPA should be provided. A Customer with medical emergencies or a Customer who is elderly, blind or disabled shall be exempt from such eligibility criteria.

SECTION 2 – RULES AND REGULATIONS, CONT'D

2.9 ADVANCE PAYMENTS

To safeguard its interests, the Company may require a Customer to make an advance payment before Service and facilities are furnished. The advance payment for residential customers will not exceed an amount equal to one-twelfth the annual estimated recurring charges for the Service or facility. The amount for business customers shall not exceed two and one-half month's estimated recurring charges for the Service or facility. In addition, where special construction is involved, the advance payment may also include an amount equal to the estimated nonrecurring charges for the special construction and recurring charges (if any) for a period to be set between the Company and the Customer. The advance payment for special construction will be credited to Customer's initial bill.

2.10 TAXES AND OTHER CHARGES

The Customer may be responsible for payment of any Federal, state or local sales, use, gross receipts, access or other taxes, charges, surcharges (however designated), franchise and permit fees, and all taxes, fees, and other exactions imposed on the Company or its Service by governmental jurisdictions, other than taxes imposed generally on the Company's net income.

2.11 BACKBILLING

The Company shall not charge Customers for previously unbilled Service or adjust upward a bill previously rendered when the period for the unbilled Service or billing adjustment is more than twenty-four (24) months prior to the mailing of the bill or the upward adjustment unless the conduct of the Customer caused or contributed to the failure of the Company to render timely accurate billing. Unless the Customer causes the late billing, the Company shall explain the reason for the late billing and shall advise the Customer that suspension/termination of Service is not permitted for charges billed in excess of six (6) months after the Service was provided. The Customer will be given the opportunity to pay the charges under an installment plan on a schedule equal in time to the length of the backbilling period.

SECTION 2 – RULES AND REGULATIONS, CONT'D

2.12 TERMINATION FOR CAUSE OTHER THAN NONPAYMENT

2.12.1 General

The Company after notice in writing to the Customer and after having given the Customer an appropriate opportunity to respond to such notice, may terminate Service and sever the connection(s) from the Customer's premises under the following conditions:

- A. In the event of prohibited, unlawful or improper use of the facilities or Service, or any other violation by the Customer of this Tariff or the rules and regulations governing the facilities and Service; or
- B. If, in the judgment of the Company, any use of the facilities or Service by the Customer may adversely affect the Company's personnel, plant, property or Service. The Company shall have the right to take immediate action, including termination of the Service and severing of the connection, without notice to the Customer when injury or damage to personnel, plant, property or Service is occurring, or is likely to occur; or
- C. In the event of unauthorized use, where the Customer fails to take reasonable steps to prevent the unauthorized use of the facilities or Service received from the Company; or
- D. In the event that Service is connected for a Customer who is indebted to the Company for Service or facilities previously furnished, that Service may be terminated by the Company unless the Customer satisfies the indebtedness within twenty (20) days after written notification. See Section 2.8.7 regarding Deferred Payment Agreements.

2.12.2 Prohibited, Unlawful or Improper Use of Facilities or Service

Prohibited, unlawful or improper use of the facilities or Service includes, but is not limited to:

- A. The use of facilities or Service of the Company without payment of Tariff charges;

SECTION 2 – RULES AND REGULATIONS, CONT'D

2.12 TERMINATION FOR CAUSE OTHER THAN NONPAYMENT, CONT'D

2.12.2 Prohibited, Unlawful or Improper Use of Facilities or Service, Cont'd

- B. Calling or permitting others to call another person or persons so frequently or at such times of the day or in such manner as to harass, frighten, abuse or torment such other person or persons;
- C. The use of profane or obscene language;
- D. The use of the Service in a manner such that it interferes with the Service of other Customers or prevents them from making or receiving calls;
- E. The use of a mechanical dialing device or recorded announcement equipment to seize a Customer's line, thereby interfering with the Customer's use of the Service; or
- F. Permitting fraudulent use.

2.12.3 Abandonment or Unauthorized Use of Facilities

- A. If it is determined that facilities have been abandoned, or are being used by unauthorized persons, or that the Customer has failed to take reasonable steps to prevent unauthorized use, the Company may terminate the Service.
- B. Suspension/termination of Service for abandonment or unauthorized use may only occur after the Company makes a reasonable attempt to determine occupancy or authorized use, or the Customer takes reasonable steps to prevent unauthorized use. A notice will be sent to the Customer five (5) days before such suspension or termination. The notification requirement is waived when previous mailings were returned by the Post Office or the Company is advised that a new Customer has moved into the location.

SECTION 2 – RULES AND REGULATIONS, CONT'D

2.12 TERMINATION FOR CAUSE OTHER THAN NONPAYMENT, CONT'D

2.12.3 Abandonment or Unauthorized Use of Facilities, Cont'd

- C. In the event that Service is terminated for abandonment of facilities or unauthorized use and Service is subsequently restored to the same Customer at the same location:
1. No charge shall apply for the period during which Service has been terminated; and
 2. Reconnection charges will apply when Service is restored. However, no charge shall be made for reconnection if the Service was terminated due to an error on the part of the Company.

2.12.4 Change in the Company's Ability to Secure Access

Any change in the Company's ability (a) to secure and retain suitable facilities and rights for the construction and maintenance of the necessary facilities and equipment, or (b) to secure and retain suitable space for its plant and facilities in the building where Service is provided to the Customer may require termination of a Customer's Service until such time as new arrangements can be made. Under such circumstances, no charges will be assessed the Customer while Service is terminated, and no connection charges will apply when Service is restored.

2.12.5 Emergency Termination of Service

The Company will immediately terminate the Service of any Customer, on request, when the Customer has reasonable belief that the Service is being used by an unauthorized person or persons. The Company may require that the request be submitted in writing as a follow-up to a request made by telephone.

SECTION 2 – RULES AND REGULATIONS, CONT'D

2.13 USE OF CUSTOMER'S SERVICE BY OTHERS

2.13.1 Customers and Authorized Users

Services provided hereunder are provided solely for the use of the Customer, except for occasional use of such Service by visitors and other invitees. Customers may not resell such Service to a third party for any form of compensation.

2.13.2 Transfers and Assignments

Neither the Company nor the Customer may assign or transfer its rights or duties in connection with the Service and facilities provided by the Company without the written consent of the other party, except that the Company may assign its rights and duties (a) to any subsidiary, parent company or affiliate of the Company, (b) pursuant to any sale or transfer of substantially all the assets of the Company; or (c) pursuant to any financing, merger or reorganization of the Company. Transfer of all or a portion of a Customer's account, the Service or the Company's equipment by the Customer to any other person or entity, or to a new residence or other location, is prohibited.

2.14 CANCELLATION OF SERVICE

If a Customer cancels a service order or terminates Service before the completion of the term for any reason whatsoever other than a Service interruption (as defined in Section 2.7), the Customer agrees to pay to the Company:

- A. All nonrecurring charges as specified in this Tariff; plus
- B. Any disconnection, early cancellation or termination charges reasonably incurred and paid to third parties by the Company on behalf of the Customer; plus
- C. All recurring charges specified in this Tariff for the balance of the then-current term.

SECTION 2 – RULES AND REGULATIONS, CONT'D

2.15 NOTICES AND COMMUNICATIONS

All notices or other communications required to be given pursuant to this Tariff will be delivered via e-mail and/or first-class mail. The Company or the Customer shall advise the other party of any changes to the addresses designated for notices, other communications or billing, by following the procedures for giving notice set forth herein.

2.16 SPECIAL CONSTRUCTION AND SPECIAL ARRANGEMENTS

2.16.1 Special Construction and Non-Routine Maintenance

- A. Subject to the agreement of the Company and to all of the regulations contained in this Tariff, special construction, special arrangements and non-routine maintenance may be undertaken on a reasonable-efforts basis at the request of the Customer. Such special construction, special arrangements and non-routine maintenance may be performed outside the Company's regular business hours or (in the Company's sole discretion and subject to any conditions it may impose) in hazardous locations. Special arrangements include any service or facility relating to a regulated telecommunications service not otherwise specified under this Tariff, or for the provision of Service on an expedited basis or in some other manner different from the normal tariff conditions. In such cases, charges based on the cost of labor, material and other costs incurred by or charged to the Company will apply. If installation is started during regular business hours but, at the Customers' request, extends beyond regular business hours into time periods including, but not limited to weekends, holidays and/or nights, additional charges may apply.

SECTION 2 – RULES AND REGULATIONS, CONT'D

2.16 SPECIAL CONSTRUCTION AND SPECIAL ARRANGEMENTS, CONT'D

2.16.2 Basis for Charges

Where the Company furnishes a facility or Service for which a rate or charge is not specified in this Tariff, charges will be based on the costs incurred by the Company and may include:

- Nonrecurring charges;
- Recurring charges;
- Termination liabilities; or
- Combinations thereof.

The agreement for special construction will ordinarily include a minimum Service commitment based upon the estimated service of the facilities provided.

2.16.3 Termination Liability

To the extent that there is no other requirement for use by the Company, a termination liability may apply for facilities specially constructed at the request of the Customer.

2.17 INDIVIDUAL CASE BASIS ARRANGEMENTS

Rates for Individual Case Basis (ICB) arrangements will be developed on a case-by-case basis in response to a bona fide request from a Customer or prospective Customer for services which vary from tariffed arrangements. Rates quoted in response to such requests may be different than those specified for such service in this Tariff. ICB rates will be offered to Customers in writing and will be made available to similarly situated Customers.

SECTION 2 – RULES AND REGULATIONS, CONT'D

2.18 DUAL PARTY RELAY SERVICE

2.18.1 General

The Company will provide access to a telephone relay center for Dual Party Relay Service. The Relay Service permits telephone communications between hearing and/or speech impaired individuals who must use a Telecommunications Device for the Deaf (TDD) or a Teletypewriter (TTY) and individuals with normal hearing and speech. The Relay Service can be reached by dialing an 800 number or 7-1-1. Specific 800 numbers have been designated for both impaired and non-impaired Customers to use.

2.18.2 Regulations

- A. Only intrastate calls can be completed using the Relay Service under the term and conditions of this Tariff.
- B. Charges for calls placed through the Relay Service will be billed as if direct distance dialed (DDD) from the point of origination to the point of termination. The actual routing of the call does not affect billing.
- C. Calls through the Relay Service may be billed to a third number only if that number is within Arizona. Calls may also be billed to calling cards issued by the Company or other carriers who may choose to participate in the Relay Service.
- D. The following calls may not be placed through the Relay Service:
 - 1. Calls to informational recordings and group bridging service;
 - 2. Calls to time or weather recorded messages;
 - 3. Station sent paid calls from coin telephones; and
 - 4. Operator-handled conference service and other teleconference calls.

SECTION 2 – RULES AND REGULATIONS, CONT'D

2.18 DUAL PARTY RELAY SERVICE, CONT'D

2.18.3 Liability

The Company contracts with an outside provider for the provision of the Relay Service. The outside provider has complete control over the provision of the Relay Service except for the facilities provided directly by the Company. In addition to other provisions of this Tariff dealing with liability, in the absence of gross negligence or willful misconduct on the part of the Company, the Company shall not be liable for and the Customer, by using the Relay Service, agrees to release, defend and hold harmless for all damages, whether direct, incidental or consequential, whether suffered, made, instituted or asserted by the Customer or by any other person, for any loss or destruction of any property, whatsoever whether covered by the Customers or others, or for any personal injury to or death of, any person. Notwithstanding any provision to the contrary, in no event shall the Company be liable for any special, incidental, consequential, exemplary or punitive damages of any nature whatsoever.

2.19 911 EMERGENCY TELEPHONE SERVICE

2.19.1 General

- A. 911 is the three-digit telephone number designated throughout the United States as the emergency telephone number to be used by the public to obtain law enforcement, medical, fire, rescue, and other emergency services.
- B. The Service shall include a 911 Emergency System, including but not limited to Enhanced 911 services, pursuant to applicable federal, state, and local laws and regulations. This system will provide use of the exchange network at no charge to the caller on a per call basis. Any calls from a pay telephone shall not require a coin to be deposited or payment of any charge for 911 calls. Company shall also provide the ability to transfer calls from a Public Safety Answering Point (PSAP) to the proper Emergency Response Agency (ERA), as required.

SECTION 3 - SERVICE DESCRIPTION

3.1 TRIAL SERVICES

The Company may offer new services, not otherwise tariffed, from time to time on a trial basis subject to Commission approval. Such trials are limited to a maximum of six months at which time the trial offering must be either withdrawn or made available on permanent basis.

3.2 TRANSMISSION SERVICES

The Company provides local and intrastate telecommunications services, as described hereunder.

3.2.1 Metro Ethernet

Metro Ethernet service provides high-capacity fiber optic point-to-point, point-to-multipoint and multipoint-to-multipoint dedicated connection between one or more customer locations and/or the Company. The service utilizes Ethernet interfaces, is scalable from 1 Mbps to 10 Gbps and will be designed and provisioned on an Individual Case Basis (ICB) pursuant to contracts with Customers. All requesting Customers shall have non-discriminatory access to ICB Services and facilities at nondiscriminatory rates

SECTION 4 - RATES

4.1 RATES

4.1.1 Service Connection and Related Charges

Nonrecurring charges may apply to Customer requests for connecting, moving, or changing Service. These charges will be determined on an Individual Case Basis (ICB) and will apply in addition to any other scheduled rates and charges that otherwise apply under this Tariff.

1. Charges for the connection, move, or change of Service may apply for work being performed during the Company's normal business hours. If the Customer requests that overtime labor be performed at a premises on the day or days of the week other than normal work hours or on holidays, or interrupts work once it has begun, an additional charge may apply based on the additional costs involved.
2. Changes in location of the Customer's Service from one premises to another may be treated as new Service connections with the appropriate Service Charges applying.

4.1.2 ICB Charges

ICB pricing will be developed and used for special circumstances and Services that are not listed in this Tariff or part of the Company's normal service offerings. ICB rates for similarly situated Customers shall be offered on a fair, equitable and nondiscriminatory basis.

SECTION 4 – RATES, CONT'D

4.2 PROMOTIONAL OFFERINGS

The Company may from time to time elect to offer temporary promotional programs that shall waive, for a specified period of time not to exceed six (6) months, in whole or in part (1) any installation fee and/or (2) any recurring or nonrecurring fees for any Services other than intrastate toll service to introduce present or potential Customers to a service not previously received by the Customer.

4.3 EMPLOYEE RATES

The Company may offer special rates or rate packages to its employees or employees of its affiliates.

Attachment D

TIME WARNER CABLE INC.
CONSOLIDATED BALANCE SHEET
(Unaudited)

	September 30, 2007	December 31, 2006
(in millions)		
ASSETS		
Current assets		
Cash and equivalents	\$ 511	\$ 51
Receivables, less allowances of \$88 million in 2007 and \$73 million in 2006.....	758	632
Receivables from affiliated parties	1	98
Other current assets	120	77
Current assets of discontinued operations	<u>—</u>	<u>52</u>
Total current assets	1,390	910
Investments	733	2,072
Property, plant and equipment, net	12,455	11,601
Intangible assets subject to amortization, net	772	876
Intangible assets not subject to amortization	38,957	38,051
Goodwill.....	2,126	2,059
Other assets	160	174
Total assets	\$ 56,593	\$ 55,743
 LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 301	\$ 516
Deferred revenue and subscriber-related liabilities	185	156
Payables to affiliated parties.....	166	165
Accrued programming expense	500	524
Other current liabilities.....	1,244	1,113
Current liabilities of discontinued operations	<u>9</u>	<u>16</u>
Total current liabilities	2,405	2,490
Long-term debt.....	14,178	14,428
Mandatorily redeemable preferred membership units issued by a subsidiary.....	300	300
Deferred income tax obligations, net.....	13,127	12,902
Long-term payables to affiliated parties	62	137
Other liabilities	423	296
Noncurrent liabilities of discontinued operations	1	2
Minority interests	1,697	1,624
Commitments and contingencies (Note 8)		
Shareholders' equity		
Class A common stock, \$0.01 par value, 902 million shares issued and outstanding as of September 30, 2007 and December 31, 2006	9	9
Class B common stock, \$0.01 par value, 75 million shares issued and outstanding as of September 30, 2007 and December 31, 2006	1	1
Paid-in-capital	19,381	19,314
Accumulated other comprehensive loss, net.....	(123)	(130)
Retained earnings	<u>5,132</u>	<u>4,370</u>
Total shareholders' equity	24,400	23,564
Total liabilities and shareholders' equity	\$ 56,593	\$ 55,743

See accompanying notes.

TIME WARNER CABLE INC.
CONSOLIDATED STATEMENT OF OPERATIONS
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
	(in millions, except per share data)		(in millions, except per share data)	
Revenues:				
Subscription:				
Video	\$ 2,530	\$ 2,090	\$ 7,613	\$ 5,289
High-speed data	942	745	2,760	1,914
Voice	308	196	857	493
Total Subscription	3,780	3,031	11,230	7,696
Advertising	221	178	636	420
Total revenues^(a)	4,001	3,209	11,866	8,116
Costs and expenses:				
Costs of revenues ^{(a)(b)}	1,890	1,495	5,645	3,697
Selling, general and administrative ^{(a)(b)}	679	573	2,022	1,456
Depreciation	683	513	2,001	1,281
Amortization	64	56	207	93
Merger-related and restructuring costs	4	22	20	43
Total costs and expenses	3,320	2,659	9,895	6,570
Operating Income	681	550	1,971	1,546
Interest expense, net ^(a)	(227)	(186)	(681)	(411)
Income (loss) from equity investments, net	(3)	37	4	79
Minority interest expense, net	(38)	(30)	(117)	(73)
Other income, net	1	—	144	1
Income before income taxes, discontinued operations and cumulative effect of accounting change	414	371	1,321	1,142
Income tax provision	(166)	(145)	(525)	(452)
Income before discontinued operations and cumulative effect of accounting change	248	226	796	690
Discontinued operations, net of tax	—	954	—	1,018
Cumulative effect of accounting change, net of tax	—	—	—	2
Net income	\$ 248	\$ 1,180	\$ 796	\$ 1,710
Basic income per common share before discontinued operations and cumulative effect of accounting change				
	\$ 0.25	\$ 0.23	\$ 0.81	\$ 0.69
Discontinued operations	—	0.97	—	1.03
Cumulative effect of accounting change	—	—	—	—
Basic net income per common share	\$ 0.25	\$ 1.20	\$ 0.81	\$ 1.72
Average basic common shares	976.9	984.6	976.9	994.9
Diluted income per common share before discontinued operations and cumulative effect of accounting change				
	\$ 0.25	\$ 0.23	\$ 0.81	\$ 0.69
Discontinued operations	—	0.97	—	1.03
Cumulative effect of accounting change	—	—	—	—
Diluted net income per common share	\$ 0.25	\$ 1.20	\$ 0.81	\$ 1.72
Average diluted common shares	977.5	984.6	977.2	994.9

^(a) Includes the following income (expenses) resulting from transactions with related companies:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
	(in millions)		(in millions)	
Revenues	\$ 6	\$ 29	\$ 15	\$ 83
Costs of revenues	(249)	(222)	(776)	(610)
Selling, general and administrative	4	1	12	15
Interest expense, net	—	(1)	—	(74)

^(b) Costs of revenues and selling, general and administrative expenses exclude depreciation.

See accompanying notes.

TIME WARNER CABLE INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
(Unaudited)

	Nine Months Ended September 30,	
	2007	2006
	(in millions)	
OPERATING ACTIVITIES		
Net income ^(a)	\$ 796	\$ 1,710
Adjustments for noncash and nonoperating items:		
Cumulative effect of accounting change, net of tax.....	—	(2)
Depreciation and amortization.....	2,208	1,374
Pretax gain on sale of 50% equity interest in the Houston Pool of TKCCP.....	(146)	—
(Income) loss from equity investments, net of cash distributions.....	13	(79)
Minority interest expense, net.....	117	73
Deferred income taxes.....	225	120
Equity-based compensation.....	49	27
Changes in operating assets and liabilities, net of acquisitions:		
Receivables.....	5	(110)
Accounts payable and other liabilities.....	(65)	367
Other changes.....	8	10
Adjustments relating to discontinued operations ^(a)	43	(929)
Cash provided by operating activities.....	3,253	2,561
INVESTING ACTIVITIES		
Investments and acquisitions, net of cash acquired and distributions received.....	(10)	(9,259)
Investment in Wireless Joint Venture.....	(30)	(182)
Capital expenditures from continuing operations.....	(2,415)	(1,720)
Capital expenditures from discontinued operations.....	—	(56)
Proceeds from disposal of property, plant and equipment.....	7	6
Cash used by investing activities.....	(2,448)	(11,211)
FINANCING ACTIVITIES		
Borrowings (repayments), net ^(b)	(1,029)	315
Borrowings.....	7,683	9,900
Repayments.....	(6,921)	—
Issuance of mandatorily redeemable preferred membership units.....	—	300
Redemption of Comcast's interest in TWC.....	—	(1,857)
Excess tax benefit from exercise of stock options.....	6	—
Principal payments on capital leases.....	(3)	—
Distributions to owners, net.....	(20)	(20)
Other.....	(61)	—
Cash provided (used) by financing activities.....	(345)	8,638
INCREASE (DECREASE) IN CASH AND EQUIVALENTS	460	(12)
CASH AND EQUIVALENTS AT BEGINNING OF PERIOD	51	12
CASH AND EQUIVALENTS AT END OF PERIOD	\$ 511	\$ —

^(a) Includes income from discontinued operations of \$1.018 billion for the nine months ended September 30, 2006 (none for the nine months ended September 30, 2007). Income from discontinued operations in 2006 includes tax benefits and gains of approximately \$949 million. Net cash flows from discontinued operations were \$43 million and \$89 million for the nine months ended September 30, 2007 and 2006, respectively.

^(b) Borrowings (repayments), net, reflects borrowings under the Company's commercial paper program with original maturities of three months or less, net of repayments of such borrowings. Borrowings (repayments), net, also includes \$28 million and \$13 million of debt issuance costs for the nine months ended September 30, 2007 and 2006, respectively.

See accompanying notes.

TIME WARNER CABLE INC.
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
(Unaudited)

	Nine Months Ended September 30,	
	2007	2006
	(in millions)	
BALANCE AT BEGINNING OF PERIOD	\$ 23,564	\$ 20,347
Net income ^(a)	796	1,710
Other comprehensive income	7	—
Comprehensive income	803	1,710
Impact of adopting new accounting pronouncements ^(b)	(34)	—
Shares of Class A common stock issued in the Adelphia acquisition	—	5,500
Redemption of Comcast's interest in TWC	—	(4,327)
Adjustment to goodwill resulting from pushdown of Time Warner's basis in TWC	—	(710)
Reclassification of mandatorily redeemable Class A common stock ^(c)	—	984
Allocations from Time Warner and other, net	67	11
BALANCE AT END OF PERIOD	<u>\$ 24,400</u>	<u>\$ 23,515</u>

^(a) Includes income from discontinued operations of \$1.018 billion for the nine months ended September 30, 2006 (none for the nine months ended September 30, 2007).

^(b) Relates to the impact of adopting the provisions of Emerging Issues Task Force Issue No. 06-02, *Accounting for Sabbatical Leave and Other Similar Benefits*, of \$37 million, partially offset by the impact of adopting the provisions of Financial Accounting Standards Board Interpretation No. 48, *Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109*, of \$3 million. Refer to Note 2 for further details.

^(c) The mandatorily redeemable Class A common stock represents shares of TWC's Class A common stock that were held by Comcast Corporation ("Comcast") until July 31, 2006. During 2004, these shares were classified as mandatorily redeemable as a result of an agreement with Comcast that under certain circumstances would have required TWC to redeem such shares. During 2006, this requirement terminated upon the closing of the redemption of Comcast's interests in TWC and TWE, and, as a result, these shares were reclassified to shareholders' equity (Class A common stock and paid-in-capital) before ultimately being redeemed on July 31, 2006.

See accompanying notes.

TIME WARNER CABLE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. DESCRIPTION OF BUSINESS, RECENT DEVELOPMENTS AND BASIS OF PRESENTATION

Description of Business

Time Warner Cable Inc. (together with its subsidiaries, "TWC" or the "Company") is the second-largest cable operator in the U.S. and is an industry leader in developing and launching innovative video, data and voice services. As of September 30, 2007, TWC had approximately 13.3 million basic video subscribers in technologically advanced, well-clustered systems located mainly in five geographic areas – New York state, the Carolinas, Ohio, southern California and Texas. As of September 30, 2007, TWC was the largest cable operator in a number of large cities, including New York City and Los Angeles.

On July 31, 2006, a subsidiary of TWC, Time Warner NY Cable LLC ("TW NY"), and Comcast Corporation (together with its subsidiaries, "Comcast") completed the acquisition of substantially all of the cable assets of Adelphia Communications Corporation ("Adelphia") and related transactions. In addition, effective January 1, 2007, TWC began consolidating the results of certain cable systems located in Kansas City, south and west Texas and New Mexico (the "Kansas City Pool") upon the distribution of the assets of Texas and Kansas City Cable Partners, L.P. ("TKCCP") to TWC and Comcast. Prior to January 1, 2007, TWC's interest in TKCCP was reported as an equity method investment. Refer to Note 3 for further details.

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

TWC principally offers three services – video, high-speed data and voice, which have been primarily targeted to residential customers. Video is TWC's largest service in terms of revenues generated, and providing video services is a competitive and highly penetrated business. TWC continues to increase video revenues through the offering of advanced digital video services, as well as through price increases and digital video subscriber growth. TWC's digital video subscribers provide a broad base of potential customers for additional advanced services.

High-speed data has been one of TWC's fastest-growing services over the past several years and is a key driver of its results. As of September 30, 2007, TWC had approximately 7.4 million residential high-speed data subscribers. TWC also offers commercial high-speed data services and had approximately 272,000 commercial high-speed data subscribers as of September 30, 2007.

Approximately 2.6 million subscribers received Digital Phone service, TWC's voice service, as of September 30, 2007. Under TWC's primary calling plan, for a monthly fixed fee, Digital Phone customers typically receive the following services: an unlimited local, in-state and U.S., Canada and Puerto Rico calling plan, as well as call waiting, caller ID and E911 services. TWC also offers additional calling plans with a variety of calling options that are designed to meet customers' particular usage patterns. TWC is currently introducing an international calling plan and it intends to offer additional plans in the future. Digital Phone enables TWC to offer its customers a convenient package, or "bundle," of video, high-speed data and voice services, and to compete effectively against bundled services available from its competitors. TWC has begun to introduce Business Class Phone, a commercial Digital Phone service, to small- and medium-sized businesses.

TIME WARNER CABLE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

In November 2005, TWC and several other cable companies, together with Sprint Nextel Corporation (“Sprint”), announced the formation of a joint venture to develop integrated wireline and wireless video, data and voice services. Since 2006, TWC has offered a bundle that includes Sprint wireless service (with some unique TWC features) in some of its operating areas. Additionally, TWC is a participant in a wireless spectrum joint venture with several other cable companies (the “Wireless Joint Venture”), which, on November 29, 2006, was awarded certain advanced wireless spectrum licenses in an FCC auction.

Some of TWC’s principal competitors, direct broadcast satellite operators and incumbent local telephone companies in particular, either offer or are making significant capital investments that will allow them to offer services that provide features and functions comparable to the video, data and/or voice services that TWC offers, and they also offer them in bundles similar to TWC’s. The availability of these bundled service offerings has intensified competition.

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

As of July 31, 2006, the date the transactions with Adelphia and Comcast closed, the penetration rates for basic video, digital video and high-speed data services were generally lower in the Acquired Systems than in the Legacy Systems. Furthermore, certain advanced services were not available in some of the Acquired Systems, and an IP-based telephony service was not available in any of the Acquired Systems. To increase the penetration of these services in the Acquired Systems, TWC has undertaken a significant integration effort that includes upgrading the capacity and technical performance of these systems to levels that will allow the delivery of these advanced services and features. Such integration-related efforts are expected to be substantially complete by the end of 2007. As of September 30, 2007, Digital Phone was available to nearly 80% of the homes passed in the Acquired Systems.

Recent Developments

Time Warner’s Interest in TW NY Cable Holding Inc.

In September 2007, Time Warner proposed to TWC that it enter into discussions regarding a transaction pursuant to which the Company’s subsidiary, TW NY Cable Holding Inc. (“TW NY Holding”), would redeem a significant portion of Time Warner’s 12.43% non-voting, equity interest in it. On September 13, 2007, the Company’s Board of Directors appointed a special committee of independent directors and authorized it to consider any proposal Time Warner may make in this regard and negotiate with Time Warner regarding the terms of such a transaction. No assurance can be given that any proposal made by Time Warner will result in an agreement for TW NY Holding to redeem a portion of Time Warner’s interest in it or, if an agreement is reached, that a redemption transaction will be consummated. In April 2005, in connection with the announcement of the Transactions (as defined below), the Company valued this interest (as if the Transactions had occurred at that time) at approximately \$2.9 billion. This valuation is not necessarily indicative of the fair value of the interest as of the date of this report. If a redemption transaction takes place, the Company would expect to finance the transaction through available borrowing capacity under its existing committed revolving credit facility or by accessing the bank credit or debt capital markets. If a redemption transaction is completed, it will not change the 84% ownership interest Time Warner has in the Company’s common stock.

TIME WARNER CABLE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

Basis of Presentation

Changes in Basis of Presentation

Consolidation of Kansas City Pool. As discussed more fully in Note 3, on January 1, 2007, the Company began consolidating the results of the Kansas City Pool it received upon the distribution of the assets of TKCCP to TWC and Comcast.

Discontinued Operations. As discussed more fully in Note 3, the Company has reflected the operations of the Transferred Systems (as defined in Note 3 below) as discontinued operations for all periods presented.

Basis of Consolidation

The consolidated financial statements include 100% of the assets, liabilities, revenues, expenses and cash flows of TWC and all companies in which TWC has a controlling voting interest, as well as allocations of certain Time Warner corporate costs deemed reasonable by management to present the Company's consolidated results of operations, financial position, changes in equity and cash flows on a stand-alone basis. The consolidated financial statements include the results of Time Warner Entertainment-Advance/Newhouse Partnership ("TWE-A/N") only for the systems that are controlled by TWC and for which TWC holds an economic interest. The Time Warner corporate costs include specified administrative services, including selected tax, human resources, legal, information technology, treasury, financial, public policy and corporate and investor relations services, and approximate Time Warner's estimated cost for services rendered. Intercompany accounts and transactions between consolidated companies have been eliminated.

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

Reclassifications

Certain reclassifications have been made to the prior year's financial information to conform to the September 30, 2007 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, the 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, 2006.

TIME WARNER CABLE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

Income per Common Share

Basic income per common share is computed by dividing net income by the weighted average of common shares outstanding during the period. Weighted-average common shares include shares of Class A common stock and Class B common stock. Diluted income per common share adjusts basic income per common share for the effects of stock options, restricted stock, restricted stock units and other potentially dilutive financial instruments, only in the periods in which such effect is dilutive. Refer to Note 6 for further details. Set forth below is a reconciliation of basic and diluted income per common share before discontinued operations and cumulative effect of accounting change (in millions, except per share data):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Income before discontinued operations and cumulative effect of accounting change — basic and diluted	\$ 248	\$ 226	\$ 796	\$ 690
Average common shares — basic	976.9	984.6	976.9	994.9
Dilutive effect of equity awards	0.6	—	0.3	—
Average common shares — diluted	977.5	984.6	977.2	994.9
Income per common share before discontinued operations and cumulative effect of accounting change:				
Basic	\$ 0.25	\$ 0.23	\$ 0.81	\$ 0.69
Diluted	\$ 0.25	\$ 0.23	\$ 0.81	\$ 0.69

Equity-based Compensation

The Company follows the provisions of Financial Accounting Standards Board (“FASB”) Statement of Financial Accounting Standards (“Statement”) No. 123 (revised 2004), *Share-Based Payment* (“FAS 123R”), which require that a company measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. That cost is recognized in the statement of operations over the period during which an employee is required to provide service in exchange for the award. FAS 123R also requires that excess tax benefits, as defined, realized from the exercise of stock options be reported as a financing cash inflow rather than as a reduction of taxes paid in cash flow from operations.

Historically, TWC employees were granted equity awards under Time Warner’s equity plans. Since April 2007, grants of equity awards to TWC employees have been and will continue to be made under TWC’s equity plans.

With respect to Time Warner equity grants to TWC employees, the grant-date fair value of a stock option award is estimated using the Black-Scholes option-pricing model, consistent with the provisions of FAS 123R and the Securities and Exchange Commission Staff Accounting Bulletin No. 107, *Share-Based Payment*. Because option-pricing models require the use of subjective assumptions, changes in these assumptions can materially affect the fair value of the options with respect to Time Warner stock options issued to TWC employees. The Company determines the volatility assumption for these stock options using implied volatilities from Time Warner’s traded options as well as quotes from third-party investment banks. The expected term, which represents the period of time that options granted are expected to be outstanding, is estimated based on the historical exercise experience of all Time Warner employees with respect to their ownership of Time Warner stock options. Separate groups of employees that have similar historical exercise behavior are considered separately for valuation purposes. The risk-free rate assumed in valuing the options is based on the U.S. Treasury yield curve in effect at the time of grant for the expected term of

TIME WARNER CABLE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

the option. The Company determines the expected dividend yield percentage by dividing the expected annual dividend by the market price of Time Warner common stock at the date of grant.

Prior to the adoption of FAS 123R on January 1, 2006, the Company recognized equity-based compensation expense for awards with graded vesting by treating each vesting tranche as a separate award and recognizing compensation expense ratably for each tranche. For equity awards granted subsequent to the adoption of FAS 123R, the Company treats such awards as a single award and recognizes equity-based compensation expense on a straight-line basis (net of estimated forfeitures) over the employee service period. Equity-based compensation expense is recorded in costs of revenues or selling, general and administrative expense depending on the employee's job function.

When recording compensation cost for equity awards, FAS 123R requires companies to estimate the number of equity awards granted that are expected to be forfeited. Prior to the adoption of FAS 123R, the Company recognized forfeitures when they occurred, rather than using an estimate at the grant date and subsequently adjusting the estimated forfeitures to reflect actual forfeitures. The Company recorded a benefit of \$2 million, net of tax, as the cumulative effect of a change in accounting principle upon the adoption of FAS 123R in the first quarter of 2006, to recognize the effect of estimating the number of awards granted prior to January 1, 2006 that are not ultimately expected to vest.

In April 2007, the Company started granting stock options and restricted stock units based on its Class A common stock. The valuation of, as well as the expense recognition for, such awards is generally consistent with the treatment of Time Warner awards that have been granted to TWC employees as described above. However, because the Class A common stock has a limited trading history, the volatility assumption is determined by reference to a comparable peer group of publicly traded companies. Furthermore, the volatility assumption is calculated using a 75%-25% weighted average of implied volatilities from traded options and the historical stock price volatility of the peer group. Refer to Note 6 for a discussion of the Company's stock option and restricted stock unit awards granted through September 30, 2007.

Classification of Taxes Collected from Customers

In the normal course of business, TWC is assessed non-income related taxes by governmental authorities, including franchising authorities, and collects such taxes from its customers. TWC's policy is that, in instances where the tax is being assessed directly on the Company, amounts paid to the governmental authorities and amounts received from the customers are recorded on a gross basis. That is, amounts paid to the governmental authorities are recorded as costs of revenues and amounts received from the customer are recorded as Subscription revenues. The amount of non-income related taxes recorded on a gross basis was \$371 million and \$265 million during the nine months ended September 30, 2007 and 2006, respectively.

2. RECENT ACCOUNTING STANDARDS

Accounting for Sabbatical Leave and Other Similar Benefits

On January 1, 2007, the Company adopted the provisions of Emerging Issues Task Force ("EITF") Issue No. 06-02, *Accounting for Sabbatical Leave and Other Similar Benefits* ("EITF 06-02"), related to certain sabbatical leave and other employment arrangements that are similar to a sabbatical leave. EITF 06-02 provides that an employee's right to a compensated absence under a sabbatical leave or similar benefit arrangement in which the employee is not required to perform any duties during the absence is an accumulating benefit. Therefore, such arrangements should be accounted for as a liability with the cost recognized over the service period during which the employee earns the benefit. Adoption of this guidance

TIME WARNER CABLE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

resulted in a decrease in retained earnings of \$62 million (\$37 million, net of tax) on January 1, 2007. The resulting change in the accrual for the nine months ended September 30, 2007 was not material.

Accounting for Uncertainty in Income Taxes

The Company does not file as a separate taxpayer for U.S. federal and certain state income tax purposes and its results are included on a consolidated, combined or unitary basis with Time Warner in such cases. Under the Company's tax sharing agreement with Time Warner, the Company is indemnified for U.S. federal and state income taxes with respect to periods ending on or prior to March 31, 2003. For periods after such date, the Company is responsible for U.S. federal and state income taxes as if it were a stand-alone taxpayer. The Company makes tax sharing payments to Time Warner consistent with such responsibility in accordance with the tax sharing agreement.

On January 1, 2007, the Company adopted the provisions of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109* ("FIN 48"), which clarifies the accounting for uncertainty in income tax positions. This interpretation requires the Company to recognize in the consolidated financial statements those tax positions determined to be more likely than not of being sustained upon examination, based on the technical merits of the positions. Upon adoption, the Company recognized a \$3 million reduction of previously recorded tax reserves, which was accounted for as an increase to the retained earnings balance as of January 1, 2007. After considering the impact of adopting FIN 48, the Company had an \$11 million reserve for uncertain income tax positions as of January 1, 2007.

During the nine months ended September 30, 2007, changes in the reserve balance were not material. The Company does not presently anticipate that its existing reserves related to uncertain income tax positions as of September 30, 2007 will significantly increase or decrease during the twelve month period ended September 30, 2008; however, various events could cause the Company's current expectations to change in the future. These uncertain tax positions, if ever recognized in the financial statements, would be recorded in the statement of operations as part of the income tax provision.

The income tax reserve as of January 1, 2007 included an accrual for interest and penalties of approximately \$1 million. The change in the accrual for interest and penalties for the nine months ended September 30, 2007 was not material. The Company's policy is to recognize interest and penalties accrued on uncertain tax positions as part of income tax expense.

With few exceptions, periods ending after March 31, 2003 are subject to U.S., state and local income tax examinations by tax authorities.

3. TRANSACTIONS WITH ADELPHIA AND COMCAST

Adelphia Acquisition and Related Transactions

On July 31, 2006, TW NY and Comcast completed their respective acquisitions of assets comprising in the aggregate substantially all of the cable assets of Adelphia (the "Adelphia Acquisition"). At the closing of the Adelphia Acquisition, TW NY paid approximately \$8.9 billion in cash, after giving effect to certain purchase price adjustments, and shares representing 17.3% of TWC's Class A common stock (approximately 16% of TWC's outstanding common stock) valued at approximately \$5.5 billion for the portion of the Adelphia assets it acquired. The valuation of approximately \$5.5 billion for the approximately 16% interest in TWC as of July 31, 2006 was determined by management using a discounted cash flow and market comparable valuation model. The discounted cash flow valuation model was based upon the Company's estimated future cash flows derived from its business plan and utilized a

TIME WARNER CABLE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

discount rate consistent with the inherent risk in the business. The 16% interest reflects 155,913,430 shares of TWC Class A common stock issued to Adelphia, which were valued at \$35.28 per share for purposes of the Adelphia Acquisition.

In addition, on July 28, 2006, American Television and Communications Corporation (“ATC”), a subsidiary of Time Warner, contributed its 1% common equity interest and \$2.4 billion preferred equity interest in Time Warner Entertainment Company, L.P. (“TWE”) to TW NY Holding, a newly created subsidiary of TWC and the parent of TW NY, in exchange for a 12.43% non-voting common stock interest in TW NY Holding having an equivalent fair value.

On July 31, 2006, immediately before the closing of the Adelphia Acquisition, Comcast’s interests in TWC and TWE were redeemed. Specifically, Comcast’s 17.9% interest in TWC was redeemed in exchange for 100% of the capital stock of a subsidiary of TWC holding both cable systems serving approximately 589,000 subscribers, with an estimated fair value of approximately \$2.470 billion, as determined by management using a discounted cash flow and market comparable valuation model, and approximately \$1.857 billion in cash (the “TWC Redemption”). In addition, Comcast’s 4.7% interest in TWE was redeemed in exchange for 100% of the equity interests of a subsidiary of TWE holding both cable systems serving approximately 162,000 subscribers, with an estimated fair value of approximately \$630 million, as determined by management using a discounted cash flow and market comparable valuation model, and approximately \$147 million in cash (the “TWE Redemption” and, together with the TWC Redemption, the “Redemptions”). The discounted cash flow valuation model was based upon the Company’s estimated future cash flows derived from its business plan and utilized a discount rate consistent with the inherent risk in the business. The TWC Redemption was designed to qualify as a tax-free split-off under section 355 of the Internal Revenue Code of 1986, as amended (the “Tax Code”). For accounting purposes, the Redemptions were treated as an acquisition of Comcast’s minority interests in TWC and TWE and a disposition of the cable systems that were transferred to Comcast. As of December 31, 2006, the purchase of the minority interests resulted in a reduction of goodwill of \$738 million related to the excess of the carrying value of the Comcast minority interests over the total fair value of the Redemptions. In addition, the disposition of the cable systems resulted in an after-tax gain of \$945 million included in discontinued operations for the year ended December 31, 2006, which is comprised of a \$131 million pretax gain (calculated as the difference between the carrying value of the systems acquired by Comcast in the Redemptions totaling \$2.969 billion and the estimated fair value of \$3.100 billion) and a net tax benefit of \$814 million, including the reversal of historical deferred tax liabilities of approximately \$838 million that had existed on systems transferred to Comcast in the TWC Redemption.

Following the Redemptions and the Adelphia Acquisition, on July 31, 2006, TW NY and Comcast swapped certain cable systems, most of which were acquired from Adelphia, each with an estimated value of approximately \$8.7 billion, as determined by management using a discounted cash flow and market comparable valuation model, in order to enhance TWC’s and Comcast’s respective geographic clusters of subscribers (the “Exchange” and, together with the Adelphia Acquisition and the Redemptions, the “Transactions”), and TW NY paid Comcast approximately \$67 million for certain adjustments related to the Exchange. The discounted cash flow valuation model was based upon estimated future cash flows and utilized a discount rate consistent with the inherent risk in the business. The Exchange was accounted for as a purchase of cable systems from Comcast and a sale of TW NY’s cable systems to Comcast. The systems exchanged by TW NY included Urban Cable Works of Philadelphia, L.P. (“Urban Cable”) and systems acquired from Adelphia. The Company did not record a gain or loss on systems TW NY acquired from Adelphia and transferred to Comcast in the Exchange because such systems were recorded at fair value in the Adelphia Acquisition. The Company did, however, record a pretax gain of \$34 million (\$20 million, net of tax) on the Exchange related to the disposition of Urban Cable, which is included in discontinued operations for the year ended December 31, 2006.

TIME WARNER CABLE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

The purchase price for each of the Adelpia Acquisition and the Exchange is as follows as of September 30, 2007 (in millions):

Cash consideration for the Adelpia Acquisition.....	\$	8,935
Fair value of equity consideration for the Adelpia Acquisition.....		5,500
Fair value of Urban Cable.....		190
Other costs.....		<u>227</u>
Total purchase price.....	\$	<u>14,852</u>

Other costs consist of (i) contractual closing adjustments totaling \$56 million, (ii) \$116 million of total transaction costs and (iii) \$55 million of transaction-related taxes.

The purchase price allocation for the Adelpia Acquisition and the Exchange is as follows (in millions):

		<u>Depreciation/ Amortization Periods^(a)</u>
Intangible assets not subject to amortization (cable franchise rights).....	\$ 10,487	non-amortizable
Intangible assets subject to amortization (primarily customer relationships).....	882	4 years
Property, plant and equipment (primarily cable television equipment).....	2,426	1-20 years
Other assets.....	162	not applicable
Goodwill.....	1,114	non-amortizable
Liabilities.....	<u>(219)</u>	not applicable
Total purchase price.....	<u>\$ 14,852</u>	

^(a) Intangible assets and goodwill associated with the Adelpia Acquisition are deductible over a 15-year period for tax purposes and would reduce net cash tax payments by more than \$300 million per year, assuming the following: (i) straight-line amortization deductions over 15 years, (ii) sufficient taxable income to utilize the amortization deductions and (iii) a 40% effective tax rate.

The allocation of the purchase price for the Adelpia Acquisition and the Exchange primarily used a discounted cash flow approach with respect to identified intangible assets and a combination of the cost and market approaches with respect to property, plant and equipment. The discounted cash flow approach was based upon management's estimated future cash flows from the acquired assets and liabilities and utilized a discount rate consistent with the inherent risk of each of the acquired assets and liabilities.

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

TIME WARNER CABLE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

Financial data for the Transferred Systems included in discontinued operations for the three and nine months ended September 30, 2006 is as follows (in millions, except per share data):

	Three Months Ended September 30, 2006	Nine Months Ended September 30, 2006
Total revenues.....	\$ 63	\$ 457
Pretax income	\$ 158	\$ 265
Income tax benefit	796	753
Net income.....	\$ 954	\$ 1,018
Basic and diluted net income per common share	\$ 0.97	\$ 1.03
Average basic and diluted common shares	984.6	994.9

Included in discontinued operations for the three and nine months ended September 30, 2006 were a pretax gain of approximately \$145 million on the Transferred Systems and a tax benefit of approximately \$804 million, comprised of a tax benefit of \$817 million on the Redemptions, partially offset by a provision of \$13 million on the Exchange. The tax benefit of \$817 million resulted primarily from the reversal of historical deferred tax liabilities (included in noncurrent liabilities of discontinued operations) that had existed on systems transferred to Comcast in the TWC Redemption. The TWC Redemption was designed to qualify as a tax-free split-off under section 355 of the Tax Code, and, as a result, such liabilities were no longer required. However, if the Internal Revenue Service were successful in challenging the tax-free characterization of the TWC Redemption, an additional cash liability on account of taxes of up to an estimated \$900 million could become payable by the Company.

As a result of the closing of the Transactions, TWC acquired systems with approximately 4.0 million basic video subscribers and disposed of the Transferred Systems, with approximately 0.8 million basic video subscribers, for a net gain of approximately 3.2 million basic video subscribers. As of September 30, 2007, Time Warner owned approximately 84.0% of TWC's outstanding common stock (including 82.7% of TWC's outstanding Class A common stock and all outstanding shares of TWC's Class B common stock), as well as a 12.43% non-voting common stock interest in TW NY Holding. As a result of the Redemptions, Comcast no longer had an interest in TWC or TWE.

On February 13, 2007, Adelphia's Chapter 11 reorganization plan became effective and, under applicable securities law regulations and provisions of the U.S. bankruptcy code, TWC became a public company subject to the requirements of the Securities Exchange Act of 1934, as amended. Under the terms of the reorganization plan, most of the 155,913,430 shares of TWC's Class A common stock that Adelphia received in the Adelphia Acquisition (representing approximately 16% of TWC's outstanding common stock) are being distributed to Adelphia's creditors. As of September 30, 2007, approximately 96% of these shares of Class A common stock had been distributed to Adelphia's creditors. The remaining shares are expected to be distributed during the coming months as the remaining disputes are resolved by the bankruptcy court. On March 1, 2007, TWC's Class A common stock began trading on the New York Stock Exchange under the symbol "TWC."

TKCCP Joint Venture

TKCCP was a 50-50 joint venture between TWE-A/N, which is a consolidated subsidiary of TWC, and Comcast. In accordance with the terms of the TKCCP partnership agreement, on July 3, 2006, Comcast notified TWC of its election to trigger the dissolution of the partnership and its decision to allocate all of TKCCP's debt, which totaled approximately \$2 billion, to the pool of assets consisting of the Houston cable systems (the "Houston Pool"). On August 1, 2006, TWC notified Comcast of its election to

TIME WARNER CABLE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

receive the Kansas City Pool. On October 2, 2006, TWC received approximately \$630 million from Comcast due to the repayment of debt owed by TKCCP to TWE-A/N that had been allocated to the Houston Pool. From July 1, 2006 through December 31, 2006, TWC was entitled to 100% of the economic interest in the Kansas City Pool (and recognized such interest pursuant to the equity method of accounting), and it was not entitled to any economic benefits of ownership from the Houston Pool.

On January 1, 2007, TKCCP distributed its assets to TWC and Comcast. TWC received the Kansas City Pool, which served approximately 788,000 basic video subscribers as of December 31, 2006, and Comcast received the Houston Pool, which served approximately 795,000 basic video subscribers as of December 31, 2006. TWC began consolidating the results of the Kansas City Pool on January 1, 2007. TKCCP was formally dissolved on May 15, 2007.

For accounting purposes, the Company has treated the distribution of TKCCP's assets as a sale of the Company's 50% equity interest in the Houston Pool and as an acquisition of Comcast's 50% equity interest in the Kansas City Pool. As a result of the sale of the Company's 50% equity interest in the Houston Pool, the Company recorded a pretax gain of approximately \$146 million in the first quarter of 2007, which is included as a component of other income, net, in the consolidated statement of operations for the nine months ended September 30, 2007.

The acquisition of Comcast's 50% equity interest in the Kansas City Pool on January 1, 2007 was treated as a step-acquisition and accounted for as a purchase business combination. The consideration paid to acquire the 50% equity interest in the Kansas City Pool was the fair value of the 50% equity interest in the Houston Pool transferred to Comcast. The estimated fair value of TWC's 50% interest in the Houston Pool (approximately \$880 million) was determined using a discounted cash flow analysis and was reduced by debt assumed by Comcast. The purchase price allocation is as follows as of September 30, 2007 (in millions):

		<u>Depreciation/ Amortization Periods</u>
Intangible assets not subject to amortization (cable franchise rights)	\$ 612	non-amortizable
Intangible assets subject to amortization (primarily customer relationships).....	66	4 years
Property, plant and equipment (primarily cable television equipment).....	183	1-20 years
Other assets.....	67	not applicable
Liabilities.....	<u>(48)</u>	not applicable
Total purchase price.....	<u>\$ 880</u>	

The allocation of the purchase price for the acquisition of Comcast's 50% equity interest in the Kansas City Pool primarily used a discounted cash flow approach with respect to identified intangible assets and a combination of the cost and market approaches with respect to property, plant and equipment. The discounted cash flow approach was based upon management's estimated future cash flows from the acquired assets and liabilities and utilized a discount rate consistent with the inherent risk of each of the acquired assets and liabilities.

TIME WARNER CABLE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

Supplemental Unaudited Pro Forma Information

The following schedule presents supplemental unaudited pro forma information for the three and nine months ended September 30, 2006 as if the Transactions and the consolidation of the Kansas City Pool had occurred on January 1, 2006. The unaudited pro forma information is presented based on information available, is intended for informational purposes only and is not necessarily indicative of and does not purport to represent what the Company's future financial condition or operating results will be after giving effect to the Transactions and the consolidation of the Kansas City Pool and does not reflect actions that may be undertaken by management in integrating these businesses (e.g., the cost of incremental capital expenditures). In addition, this supplemental information does not reflect financial and operating benefits the Company expects to realize as a result of the Transactions and the consolidation of the Kansas City Pool. The amounts presented for the three and nine months ended September 30, 2007 are the Company's actual results.

	<u>Three Months Ended</u> <u>September 30,</u>		<u>Nine Months Ended</u> <u>September 30,</u>	
	<u>2007</u>	<u>2006</u> (pro forma)	<u>2007</u>	<u>2006</u> (pro forma)
	(in millions, except per share data)		(in millions, except per share data)	
Revenues:				
Subscription:				
Video	\$ 2,530	\$ 2,466	\$ 7,613	\$ 7,347
High-speed data	942	831	2,760	2,405
Voice.....	308	217	857	578
Total Subscription.....	3,780	3,514	11,230	10,330
Advertising	221	208	636	592
Total revenues.....	4,001	3,722	11,866	10,922
Costs and expenses:				
Costs of revenues ^(a)	1,890	1,800	5,645	5,230
Selling, general and administrative ^(a)	679	627	2,022	1,869
Depreciation.....	683	592	2,001	1,736
Amortization	64	82	207	239
Merger-related and restructuring costs.....	4	22	20	43
Other, net ^(b)	—	—	—	9
Total costs and expenses.....	3,320	3,123	9,895	9,126
Operating Income	681	599	1,971	1,796
Interest expense, net.....	(227)	(223)	(681)	(674)
Other income (expense), net	(40)	(39)	31	(94)
Income before income taxes, discontinued operations and cumulative effect of accounting change.....	414	337	1,321	1,028
Income tax provision	(166)	(132)	(525)	(412)
Income before discontinued operations and cumulative effect of accounting change.....	<u>\$ 248</u>	<u>\$ 205</u>	<u>\$ 796</u>	<u>\$ 616</u>
Basic income per common share before discontinued operations and cumulative effect of accounting change	<u>\$ 0.25</u>	<u>\$ 0.21</u>	<u>\$ 0.81</u>	<u>\$ 0.63</u>
Diluted income per common share before discontinued operations and cumulative effect of accounting change	<u>\$ 0.25</u>	<u>\$ 0.21</u>	<u>\$ 0.81</u>	<u>\$ 0.63</u>

^(a) Costs of revenues and selling, general and administrative expenses exclude depreciation.

^(b) Other, net, includes asset impairments recorded at the Acquired Systems of \$9 million for the nine months ended September 30, 2006.

TIME WARNER CABLE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

4. MERGER-RELATED AND RESTRUCTURING COSTS

Merger-related Costs

Cumulatively, through September 30, 2007, the Company has expensed non-capitalizable merger-related costs associated with the Transactions of approximately \$56 million. During the nine months ended September 30, 2007, the Company incurred merger-related costs of approximately \$10 million (\$3 million in the third quarter). During the nine months ended September 30, 2006, the Company incurred merger-related costs of approximately \$29 million (\$18 million in the third quarter).

As of September 30, 2007, payments of \$55 million have been made against this accrual, of which approximately \$3 million and \$13 million were made during the three and nine months ended September 30, 2007. During the three and nine months ended September 30, 2006, payments of \$23 million and \$31 million, respectively, were made against this accrual. The remaining \$1 million was classified as a current liability in the consolidated balance sheet as of September 30, 2007.

Restructuring Costs

Cumulatively, through September 30, 2007, the Company has incurred restructuring costs of approximately \$62 million as part of its broader plans to simplify its organizational structure and enhance its customer focus. For the three and nine months ended September 30, 2007, the Company incurred costs of approximately \$1 million and \$10 million, respectively.

As of September 30, 2007, payments of \$46 million have been made against this accrual. Approximately \$9 million of the remaining \$16 million liability was classified as a current liability, with the remaining \$7 million classified as a noncurrent liability in the consolidated balance sheet as of September 30, 2007. Amounts are expected to be paid through 2011.

Information relating to the restructuring costs is as follows (in millions):

	<u>Employee Terminations</u>	<u>Other Exit Costs</u>	<u>Total</u>
Remaining liability as of December 31, 2005	\$ 23	\$ 3	\$ 26
2006 accruals ^(a)	8	10	18
Cash paid—2006 ^(b)	(13)	(8)	(21)
Remaining liability as of December 31, 2006	18	5	23
2007 accruals	6	4	10
Cash paid—2007 ^(c)	(11)	(6)	(17)
Remaining liability as of September 30, 2007	<u>\$ 13</u>	<u>\$ 3</u>	<u>\$ 16</u>

^(a) Of the \$18 million incurred in 2006, \$4 million and \$14 million was incurred during the three and nine months ended September 30, 2006, respectively.

^(b) Of the \$21 million paid in 2006, \$6 million and \$20 million was paid during the three and nine months ended September 30, 2006, respectively.

^(c) Of the \$17 million paid in 2007, \$3 million was paid during the three months ended September 30, 2007.

TIME WARNER CABLE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

5. DEBT AND MANDATORILY REDEEMABLE PREFERRED EQUITY

The Company's debt and mandatorily redeemable preferred equity, as of September 30, 2007, and December 31, 2006, includes the following components:

	Face Amount (in millions)	Interest Rate at September 30, 2007	Maturity	Outstanding Balance as of	
				September 30, 2007	December 31, 2006
Debt due within one year ^(a)				\$ 1	\$ 4
Bank credit agreements and commercial paper program ^{(b)(c)}		5.725% ^(d)	2011	5,855	11,077
TWE notes and debentures:					
Senior debentures ^(e)	\$ 600	7.250% ^(f)	2008	601	602
Senior notes	250	10.150% ^(f)	2012	268	271
Senior notes	350	8.875% ^(f)	2012	366	369
Senior debentures	1,000	8.375% ^(f)	2023	1,041	1,043
Senior debentures	1,000	8.375% ^(f)	2033	1,054	1,055
Total TWE notes and debentures ^(g)	<u>\$ 3,200</u>			3,330	3,340
TWC notes and debentures:					
Notes	\$ 1,500	5.400% ^(h)	2012	1,497	—
Notes	2,000	5.850% ^(h)	2017	1,996	—
Debentures	1,500	6.550% ^(h)	2037	1,491	—
Total TWC notes and debentures	<u>\$ 5,000</u>			4,984	—
Capital leases and other				9	11
Total long-term debt				<u>14,178</u>	<u>14,428</u>
Total debt				14,179	14,432
Mandatorily redeemable preferred membership units	\$ 300	8.210%	2013	<u>300</u>	<u>300</u>
Total debt and mandatorily redeemable preferred membership units				<u>\$ 14,479</u>	<u>\$ 14,732</u>

^(a) Debt due within one year primarily related to capital lease obligations.

^(b) Unused capacity, which included \$511 million and \$51 million in cash and equivalents as of September 30, 2007 and December 31, 2006, respectively, totaled \$3.557 billion and \$2.798 billion as of September 30, 2007 and December 31, 2006, respectively. Unused capacity as of September 30, 2007 and December 31, 2006 reflected a reduction of \$135 million and \$159 million, respectively, for outstanding letters of credit backed by the Cable Revolving Facility, as defined below.

^(c) Outstanding balance amounts excluded an unamortized discount on commercial paper of \$8 million and \$17 million as of September 30, 2007 and December 31, 2006, respectively.

^(d) Rate represents a weighted-average interest rate.

^(e) As of September 30, 2007, the Company has classified \$601 million of TWE debentures due within the next twelve months as long-term in the consolidated balance sheet to reflect management's intent and ability to refinance the obligation on a long-term basis, through the utilization of the unused committed capacity under the Cable Revolving Facility, as defined below, if necessary.

^(f) Rate represents the stated rate at original issuance. The effective weighted-average interest rate for the TWE notes and debentures in the aggregate was 7.64% at September 30, 2007.

^(g) Amounts included an unamortized fair value adjustment of \$130 million and \$140 million as of September 30, 2007 and December 31, 2006, respectively.

^(h) Rate represents the stated rate at original issuance. The effective weighted-average interest rate for the TWC notes and debentures in the aggregate was 5.97% at September 30, 2007.

TIME WARNER CABLE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

Debt Securities

On April 9, 2007, the Company issued \$5.0 billion in aggregate principal amount of senior unsecured notes and debentures (the "2007 Bond Offering") consisting of \$1.5 billion principal amount of 5.40% Notes due 2012 (the "2012 Initial Notes"), \$2.0 billion principal amount of 5.85% Notes due 2017 (the "2017 Initial Notes") and \$1.5 billion principal amount of 6.55% Debentures due 2037 (the "2037 Initial Debentures" and, together with the 2012 Initial Notes and the 2017 Initial Notes, the "Initial Debt Securities") pursuant to Rule 144A and Regulation S under the Securities Act of 1933, as amended. The Initial Debt Securities are guaranteed by TWE and TW NY Holding (the "Guarantors").

In connection with the issuance of the Initial Debt Securities, on April 9, 2007, the Company, the Guarantors and the initial purchasers of the Initial Debt Securities entered into a Registration Rights Agreement (the "Registration Rights Agreement") pursuant to which the Company agreed, among other things, to use its commercially reasonable efforts to consummate a registered exchange offer for the Initial Debt Securities within 270 days after the issuance date of the Initial Debt Securities or cause a shelf registration statement covering the resale of the Initial Debt Securities to be declared effective within specified periods. On November 5, 2007, pursuant to a registered exchange offer, the Company and the Guarantors exchanged (i) substantially all of the 2012 Initial Notes for a like aggregate principal amount of registered debt securities without transfer restrictions or registration rights (the "2012 Registered Notes," and, together with the 2012 Initial Notes, the "2012 Notes"), (ii) all of the 2017 Initial Notes for a like aggregate principal amount of registered debt securities without transfer restrictions or registration rights (the "2017 Registered Notes," and, together with the 2017 Initial Notes, the "2017 Notes"), and (iii) substantially all of the 2037 Initial Debentures for a like aggregate principal amount of registered debt securities without transfer restrictions or registration rights (the "2037 Registered Debentures," and, together with the 2037 Initial Debentures, the "2037 Debentures"). Collectively, the 2012 Notes, the 2017 Notes and the 2037 Debentures are referred to as the "Debt Securities."

The Debt Securities were issued pursuant to an Indenture, dated as of April 9, 2007 (the "Base Indenture"), by and among the Company, the Guarantors and The Bank of New York, as trustee, as supplemented by the First Supplemental Indenture, dated as of April 9, 2007 (the "First Supplemental Indenture" and, together with the Base Indenture, the "Indenture"), by and among the Company, the Guarantors and The Bank of New York, as trustee.

The 2012 Notes mature on July 2, 2012, the 2017 Notes mature on May 1, 2017 and the 2037 Debentures mature on May 1, 2037. Interest on the 2012 Notes is payable semi-annually in arrears on January 2 and July 2 of each year, beginning on July 2, 2007. Interest on the 2017 Notes and the 2037 Debentures is payable semi-annually in arrears on May 1 and November 1 of each year, beginning on November 1, 2007. The Debt Securities are unsecured senior obligations of the Company and rank equally with its other unsecured and unsubordinated obligations. The guarantees of the Debt Securities are unsecured senior obligations of the Guarantors and rank equally in right of payment with all other unsecured and unsubordinated obligations of the Guarantors.

The Debt Securities may be redeemed in whole or in part at any time at the Company's option at a redemption price equal to the greater of (i) 100% of the principal amount of the Debt Securities being redeemed and (ii) the sum of the present values of the remaining scheduled payments on the Debt Securities discounted to the redemption date on a semi-annual basis at a government treasury rate plus 20 basis points for the 2012 Notes, 30 basis points for the 2017 Notes and 35 basis points for the 2037 Debentures as further described in the Indenture, plus, in each case, accrued but unpaid interest to the redemption date.

The Indenture contains customary covenants relating to restrictions on the ability of the Company or any material subsidiary to create liens and on the ability of the Company and the Guarantors to consolidate,

TIME WARNER CABLE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

merge or convey or transfer substantially all of their assets. The Indenture also contains customary events of default.

Bank Credit Agreements and Commercial Paper Program

In the first quarter of 2006, the Company entered into \$14.0 billion of bank credit agreements, consisting of an amended and restated \$6.0 billion senior unsecured five-year revolving credit facility maturing February 15, 2011 (the "Cable Revolving Facility"), a \$4.0 billion five-year term loan facility maturing February 21, 2011 (the "Five-Year Term Facility") and a \$4.0 billion three-year term loan facility maturing February 24, 2009 (the "Three-Year Term Facility" and, together with the Five-Year Term Facility, the "Term Facilities"). The Term Facilities, together with the Cable Revolving Facility, are referred to as the "Cable Facilities." Collectively, the Cable Facilities refinanced \$4.0 billion of previously existing committed bank financing, and \$2.0 billion of the Cable Revolving Facility and \$8.0 billion of the Term Facilities were used to finance, in part, the cash portions of the Transactions. The Cable Facilities are guaranteed by TWE and TW NY Holding (or, in the case of the Three-Year Term Facility, was guaranteed by TWE and TW NY Holding, as discussed below).

In April 2007, TWC used the net proceeds of the 2007 Bond Offering to repay all of the outstanding indebtedness under the Three-Year Term Facility, which was terminated on April 13, 2007. The balance of the net proceeds was used to repay a portion of the outstanding indebtedness under the Five-Year Term Facility on April 27, 2007, which reduced the outstanding indebtedness under such facility to \$3.045 billion as of such date.

Borrowings under the Cable Revolving Facility bear interest at a rate based on the credit rating of TWC, which rate was LIBOR plus 0.27% per annum at September 30, 2007. In addition, TWC is required to pay a facility fee on the aggregate commitments under the Cable Revolving Facility at a rate determined by the credit rating of TWC, which rate was 0.08% per annum at September 30, 2007. TWC may also incur an additional usage fee of 0.10% per annum on the outstanding loans and other extensions of credit under the Cable Revolving Facility if and when such amounts exceed 50% of the aggregate commitments thereunder. Borrowings under the Five-Year Term Facility accrue interest at a rate based on the credit rating of TWC, which rate was LIBOR plus 0.40% per annum at September 30, 2007.

The Cable Revolving Facility provides same-day funding capability and a portion of the commitment, not to exceed \$500 million at any time, may be used for the issuance of letters of credit. The Cable Revolving Facility and the Five-Year Term Facility contain a maximum leverage ratio covenant of 5.0 times the consolidated EBITDA of TWC. The terms and related financial metrics associated with the leverage ratio are defined in the applicable agreements. At September 30, 2007, TWC was in compliance with the leverage covenant, with a leverage ratio, calculated in accordance with the agreements, of approximately 2.5 times. The Cable Revolving Facility and the Five-Year Term Facility do not contain any credit ratings-based defaults or covenants or any ongoing covenant or representations specifically relating to a material adverse change in the financial condition or results of operations of Time Warner or TWC. Borrowings under the Cable Revolving Facility may be used for general corporate purposes and unused credit is available to support borrowings under TWC's commercial paper program.

In addition to the Cable Revolving Facility and the Five-Year Term Facility, TWC maintains a \$6.0 billion unsecured commercial paper program (the "CP Program") that is also guaranteed by TW NY Holding and TWE. Commercial paper issued under the CP Program is supported by unused committed capacity under the Cable Revolving Facility and ranks pari passu with other unsecured senior indebtedness of TWC, TWE and TW NY Holding. As a result of recent market volatility in the U.S. debt markets, including the dislocation of the overall commercial paper market, TWC has decreased the amount of commercial paper outstanding under the CP Program, and has offset this decrease by increasing borrowings outstanding under the Cable Revolving Facility.

TIME WARNER CABLE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

As of September 30, 2007, there were borrowings of \$3.045 billion outstanding under the Five-Year Term Facility, borrowings of \$1.800 billion and letters of credit totaling \$135 million outstanding under the Cable Revolving Facility, and \$1.018 billion of commercial paper outstanding under the CP Program. TWC's available committed capacity under the Cable Revolving Facility as of September 30, 2007 was approximately \$3.046 billion, and TWC had \$511 million of cash and equivalents on hand.

Time Warner Approval Rights

Under a shareholder agreement entered into between TWC and Time Warner on April 20, 2005 (the "Shareholder Agreement"), TWC is required to obtain Time Warner's approval prior to incurring additional debt (except for ordinary course issuances of commercial paper or borrowings under the Cable Revolving Facility up to the limit of that credit facility, to which Time Warner has consented) or rental expenses (other than with respect to certain approved leases) or issuing preferred equity, if its consolidated ratio of debt, including preferred equity, plus six times its annual rental expense to EBITDAR (the "TW Leverage Ratio") then exceeds, or would as a result of the incurrence or issuance exceed, 3:1. Under certain circumstances, TWC is required to include the indebtedness, annual rental expense obligations and EBITDAR of certain unconsolidated entities that it manages and/or in which it owns an equity interest, in the calculation of the TW Leverage Ratio. The Shareholder Agreement defines EBITDAR, at any time of measurement, as operating income plus depreciation, amortization and rental expense (for any lease that is not accounted for as a capital lease) for the twelve months ending on the last day of TWC's most recent fiscal quarter, including certain adjustments to reflect the impact of significant transactions as if they had occurred at the beginning of the period.

The following table sets forth the calculation of the TW Leverage Ratio for the twelve months ended September 30, 2007 (in millions, except ratio):

Indebtedness	\$ 14,179
Preferred Membership Units	300
Six times annual rental expense	<u>1,092</u>
Total	<u>\$ 15,571</u>
EBITDAR	<u>\$ 5,742</u>
TW Leverage Ratio	<u>2.71x</u>

As indicated in the table above, as of September 30, 2007, the TW Leverage Ratio did not exceed 3:1.

6. EQUITY-BASED COMPENSATION

TWC Equity Plan

On June 8, 2006, the Company's board of directors approved the Time Warner Cable Inc. 2006 Stock Incentive Plan (the "2006 Plan") under which awards covering the issuance of up to 100,000,000 shares of TWC Class A common stock may be granted to directors, employees and certain non-employee advisors of TWC. The Company made its first grant of equity awards based on TWC Class A common stock in April 2007. Stock options have been granted under the 2006 Plan with exercise prices equal to the fair market value at the date of grant. Generally, the stock options vest ratably over a four-year vesting period and expire ten years from the date of grant. Certain stock option awards provide for accelerated vesting upon an election to retire pursuant to TWC's defined benefit retirement plans or after reaching a specified age and years of service. For the nine months ended September 30, 2007, TWC granted approximately 2.9 million options at a weighted-average grant date fair value of \$13.33 (\$8.00, net of tax) per option. The

TIME WARNER CABLE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

assumptions presented in the table below represent the weighted-average value of the applicable assumption used to value TWC stock options at their grant date for the nine months ended September 30, 2007.

Expected volatility	24.1%
Expected term to exercise from grant date	6.59 years
Risk-free rate	4.7%
Expected dividend yield	0.0%

Under the 2006 Plan, the Company also granted restricted stock units (“RSUs”), which generally vest over a four-year period from the date of grant. Certain RSU awards provide for accelerated vesting upon an election to retire pursuant to TWC’s defined benefit retirement plans or after reaching a specified age and years of service. Shares of TWC Class A common stock will generally be issued in connection with the vesting of an RSU. RSUs awarded to non-employee directors are not subject to vesting restrictions and the shares underlying the RSUs will be issued in connection with a director’s termination of service as a director. For the nine months ended September 30, 2007, TWC granted approximately 2.1 million RSUs at a weighted-average grant date fair value of \$37.07 per RSU.

Compensation expense recognized for TWC equity-based compensation plans for the three and nine months ended September 30, 2007 is as follows (in millions):

	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2007
Compensation cost recognized:		
Stock options	\$ 2	\$ 12
Restricted stock units	5	24
Total impact on Operating Income	<u>\$ 7</u>	<u>\$ 36</u>
Tax benefit recognized	<u>\$ 2</u>	<u>\$ 14</u>

Time Warner Equity Plans

Historically, Time Warner granted options to purchase Time Warner common stock under its equity plans to employees of TWC. Upon TWC becoming a public company, Time Warner ceased making equity awards under its equity plans to employees of TWC. The options granted by Time Warner to employees of TWC were granted with exercise prices equal to, or in excess of, the fair market value at the date of grant. Generally, the options vest ratably over a four-year vesting period and expire ten years from the date of grant. Certain option awards provide for accelerated vesting upon an election to retire pursuant to TWC’s defined benefit retirement plans or after reaching a specified age and years of service. For the nine months ended September 30, 2006, Time Warner granted approximately 8.8 million options to employees of TWC at a weighted-average grant date fair value of \$4.47 (\$2.68, net of tax) per option. For the nine months ended September 30, 2007, no Time Warner options were granted to TWC employees. The assumptions presented in the table below represent the weighted-average value of the applicable assumption used to value stock options at their grant date for the nine months ended September 30, 2006.

Expected volatility	22.2%
Expected term to exercise from grant date	5.07 years
Risk-free rate	4.6%
Expected dividend yield	1.1%

Time Warner also granted shares of Time Warner common stock or RSUs, which generally vest between three to five years from the date of grant, to employees of TWC pursuant to Time Warner’s equity

TIME WARNER CABLE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

plans. Certain RSU awards provide for accelerated vesting upon an election to retire pursuant to TWC's defined benefit retirement plans or after reaching a specified age and years of service. For the nine months ended September 30, 2006, Time Warner issued approximately 429,000 RSUs to employees of TWC and its subsidiaries at a weighted-average grant date fair value of \$17.40 per RSU. For the nine months ended September 30, 2007, no Time Warner RSUs were issued to TWC employees.

Compensation expense recognized for Time Warner equity-based compensation plans for the three and nine months ended September 30, 2007 and 2006 is as follows (in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Compensation cost recognized:				
Stock options	\$ 4	\$ 6	\$ 12	\$ 24
Restricted stock and restricted stock units	—	—	1	3
Total impact on Operating Income.....	<u>\$ 4</u>	<u>\$ 6</u>	<u>\$ 13</u>	<u>\$ 27</u>
Tax benefit recognized.....	<u>\$ 2</u>	<u>\$ 2</u>	<u>\$ 6</u>	<u>\$ 11</u>

7. PENSION COSTS

The Company participates in various funded and unfunded noncontributory defined benefit pension plans administered by Time Warner (the "Pension Plans"). Benefits under the Pension Plans for all employees are determined based on formulas that reflect the employees' years of service and compensation during their employment period and participation in the plans. TWC uses a December 31 measurement date for the majority of its plans. A summary of the components of the net periodic benefit cost from continuing operations is as follows (in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Service cost.....	\$ 19	\$ 15	\$ 54	\$ 46
Interest cost.....	17	15	51	44
Expected return on plan assets.....	(21)	(18)	(67)	(55)
Amounts amortized.....	2	7	9	22
Net periodic benefit costs ^(a)	<u>\$ 17</u>	<u>\$ 19</u>	<u>\$ 47</u>	<u>\$ 57</u>

^(a) On August 1, 2007, the former employees of Adelphia and Comcast who became employees of TWC became eligible to participate in the Pension Plans, which resulted in a new measurement of those plans as of that date. The impact of the new measurement on these plans as of August 1, 2007 will result in an increase in pension expense of \$4 million over the last five months of 2007.

After considering the funded status of the Company's defined benefit pension plans, movements in the discount rate, investment performance and related tax consequences, the Company may choose to make contributions to its pension plans in any given year. There currently are no minimum required contributions and no discretionary or noncash contributions are currently planned.

8. COMMITMENTS AND CONTINGENCIES

Legal Proceedings

On September 20, 2007, *Brantley, et al. v. NBC Universal, Inc., et al.* was filed in the U.S. District Court for the Central District of California against the Company and Time Warner. The complaint, which also names as defendants several other programming content providers (collectively, the "programmer

TIME WARNER CABLE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

defendants”) as well as other cable and satellite providers (collectively, the “distributor defendants”), alleges violations of Sections 1 and 2 of the Sherman Antitrust Act. Among other things, the complaint alleges coordination between and among the programmer defendants to sell and/or license programming on a “bundled” basis to the distributor defendants, who in turn purportedly offer that programming to subscribers in packaged tiers, rather than on a per channel (or “à la carte”) basis. Plaintiffs, who seek to represent a purported nationwide class of cable and satellite subscribers, demand, among other things, unspecified treble monetary damages and an injunction to compel the offering of channels to subscribers on an “à la carte” basis. The Company intends to defend against this lawsuit vigorously, but is unable to predict the outcome of this suit or reasonably estimate a range of possible loss.

On May 20, 2006, America Channel LLC (“America Channel”) filed a lawsuit in U.S. District Court for the District of Minnesota against both TWC and Comcast alleging that the purchase of Adelphia by Comcast and TWC would injure competition in the cable system and cable network markets and violate the federal antitrust laws. The lawsuit sought monetary damages as well as an injunction blocking the Adelphia Acquisition. The United States Bankruptcy Court for the Southern District of New York issued an order enjoining America Channel from pursuing injunctive relief in the District of Minnesota and ordering that America Channel’s efforts to enjoin the transaction could only be heard in the Southern District of New York, where the Adelphia bankruptcy is pending. America Channel’s appeal of this order was dismissed on October 10, 2006, and its claim for injunctive relief should now be moot. However, America Channel announced its intention to proceed with its damages case in the District of Minnesota. On September 19, 2006, the Company filed a motion to dismiss this action, which was granted on January 17, 2007 with leave to replead. On February 5, 2007, America Channel filed an amended complaint. TWC filed a motion to dismiss the amended complaint on April 10, 2007, which motion was granted on June 28, 2007. America Channel filed a notice of appeal of the dismissal of its amended complaint on July 9, 2007. On October 26, 2007, the parties submitted a stipulation to dismiss the appeal with prejudice and, on October 30, 2007, the appeal was dismissed to end the lawsuit.

On June 22, 2005, Mecklenburg County filed suit against TWE-A/N in the General Court of Justice District Court Division, Mecklenburg County, North Carolina. Mecklenburg County, the franchisor in TWE-A/N’s Mecklenburg County cable system, alleges that TWE-A/N’s predecessor failed to construct an institutional network in 1981 and that TWE-A/N assumed that obligation upon the transfer of the franchise in 1995. Mecklenburg County is seeking compensatory damages and TWE-A/N’s release of certain video channels it is currently using on the cable system. On April 14, 2006, TWE-A/N filed a motion for summary judgment, which is pending. TWE-A/N intends to defend against this lawsuit vigorously, but the Company is unable to predict the outcome of this suit or reasonably estimate a range of possible loss.

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

TIME WARNER CABLE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

Certain Patent Litigation

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

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

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

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

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

As part of the TWE Restructuring, Time Warner agreed to indemnify the cable businesses of TWE from and against any and all liabilities relating to, arising out of or resulting from specified litigation

TIME WARNER CABLE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

matters brought against the TWE non-cable businesses. Although Time Warner has agreed to indemnify the cable businesses of TWE against such liabilities, TWE remains a named party in certain litigation matters.

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

9. ADDITIONAL FINANCIAL INFORMATION

Other Cash Flow Information

Additional financial information with respect to cash (payments) and receipts is as follows (in millions):

	Nine Months Ended September 30,	
	2007	2006
Cash paid for interest	\$ (617)	\$ (458)
Interest income received	7	3
Cash paid for interest, net	<u>\$ (610)</u>	<u>\$ (455)</u>
Cash paid for income taxes	\$ (205)	\$ (273)
Cash refunds of income taxes	6	4
Cash paid for income taxes, net	<u>\$ (199)</u>	<u>\$ (269)</u>

Noncash financing and investing activities during the nine months ended September 30, 2006 included shares of TWC's common stock, valued at \$5.5 billion, delivered as part of the purchase price for the assets acquired in the Adelphia Acquisition, mandatorily redeemable preferred equity, valued at \$2.4 billion, contributed by ATC to TW NY Holding in connection with the TWE Redemption, Urban Cable, with a fair value of \$190 million, transferred as part of the Exchange, and cable systems with a fair value of \$3.1 billion transferred by TWC in the Redemptions.

Additional information with respect to capital expenditures from continuing operations is as follows (in millions):

	Nine Months Ended September 30, 2007
Cash paid for capital expenditures from continuing operations	\$ (2,415)
Decrease in accruals for capital expenditures	63
Accrual basis capital expenditures from continuing operations	<u>\$ (2,352)</u>

The difference between cash paid and accruals for capital expenditures was not material for the nine months ended September 30, 2006.

TIME WARNER CABLE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

Interest Expense, Net

Interest expense, net consists of (in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Interest income.....	\$ 2	\$ 16	\$ 7	\$ 42
Interest expense.....	(229)	(202)	(688)	(453)
Total interest expense, net.....	<u>\$ (227)</u>	<u>\$ (186)</u>	<u>\$ (681)</u>	<u>\$ (411)</u>

Video, High-speed Data and Voice Direct Costs

Direct costs associated with the video, high-speed data and voice services (included within costs of revenues) consist of (in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Video	\$ 881	\$ 708	\$ 2,643	\$ 1,749
High-speed data	42	45	125	115
Voice.....	115	86	338	217
Total direct costs.....	<u>\$ 1,038</u>	<u>\$ 839</u>	<u>\$ 3,106</u>	<u>\$ 2,081</u>

The direct costs associated with the video service include video programming costs. The direct costs associated with the high-speed data and voice services include network connectivity and certain other costs.

Other Current Liabilities

Other current liabilities consists of (in millions):

	September 30, 2007	December 31, 2006
Accrued compensation and benefits.....	\$ 267	\$ 275
Accrued franchise fees.....	149	162
Accrued sales and other taxes	178	136
Accrued insurance.....	128	66
Accrued interest.....	208	130
Accrued advertising and marketing support.....	78	97
Other accrued expenses.....	236	247
Total other current liabilities.....	<u>\$ 1,244</u>	<u>\$ 1,113</u>