

TIME WARNER CABLE INC.

Form 10-K

February 23, 2007

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

Form 10-K

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

For the fiscal year ended December 31, 2006

Commission file number 000-52471

TIME WARNER CABLE INC.

(Exact name of registrant as specified in its charter)

Delaware

*(State or other Jurisdiction of
Incorporation or Organization)*

84-1496755

*(I.R.S. Employer
Identification No.)*

290 Harbor Drive

Stamford, Connecticut, 06902-7441

(Address of Principal Executive Offices) (Zip Code)

Registrant's telephone number, including Area Code: (203) 328-0600

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
none	none

Securities registered pursuant to Section 12(g) of the Act:

Class A common stock, par value \$.01
(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes No

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer Accelerated filer Non-accelerated filer

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

The aggregate market value of the registrant's voting stock held by non-affiliates of the registrant as of June 30, 2006 was \$0.

As of the close of business on February 16, 2007, there were 901,913,430 shares of the registrant's Class A common stock and 75,000,000 shares of the registrant's Class B common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Description of Document

Part of the Form 10-K

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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 December 31, 2006, TWC had cable systems that passed approximately 26 million U.S. homes in well-clustered locations and had approximately 14.6 million customer relationships (after giving effect to the distribution of the assets of Texas and Kansas City Cable Partners, L.P. (*TKCCP*) to its partners on January 1, 2007). Approximately 85% of these homes passed were located in one of five principal geographic areas: New York state, the Carolinas, Ohio, southern California and Texas. As of February 1, 2007, Time Warner Cable was the largest cable system operator in a number of large cities, including New York City and Los Angeles.

As part of TWC's strategy to expand its cable footprint and improve the clustering of its cable systems, on July 31, 2006 Time Warner NY Cable LLC (*TW NY*), a subsidiary of TWC, and Comcast Corporation (*Comcast*) completed their respective acquisitions of assets comprising, in the aggregate, substantially all of the cable systems of Adelphia Communications Corporation (*Adelphia*). TW NY paid for the Adelphia assets acquired by it with approximately \$8.9 billion in cash (after certain purchase price adjustments) and shares of TWC's Class A common stock, par value \$.01 per share (*TWC Class A common stock*) representing approximately 16% of TWC's outstanding common stock. Immediately prior to the Adelphia acquisition, TWC and its subsidiary, Time Warner Entertainment Company, L.P. (*TWE*), redeemed Comcast's interests in TWC and TWE, respectively, with the result that Comcast no longer has an interest in either company. In addition, immediately after the acquisition of the Adelphia assets, TW NY exchanged certain cable systems with subsidiaries of Comcast. These transactions (referred to generally herein as the *Transactions*) resulted in a net increase of 3.2 million basic video subscribers served by TWC's cable systems, consisting of approximately 4.0 million subscribers in acquired systems and approximately 0.8 million subscribers in systems transferred to Comcast. Cable systems acquired by TWC from Adelphia or from Comcast in the *Transactions* are referred to herein as the *Acquired Systems*, and systems owned or operated by TWC since prior to the *Transactions* are referred to herein as the *Legacy Systems*.

On February 13, 2007, Adelphia's plan of reorganization under Chapter 11 of title 11 of the United States Code 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 on the same day. Under the terms of the plan, as of February 20, 2007, approximately 75% of the shares of TWC Class A common stock that Adelphia received as part of the payment for its assets in July 2006 have been distributed to Adelphia's creditors. The remaining shares are expected to be distributed during the coming months as remaining disputes are resolved by the bankruptcy court, including 4% of such shares that are being held in escrow in connection with the asset acquisition. It is expected that the TWC Class A common stock will begin to trade on the New York Stock Exchange (*NYSE*) on or about March 1, 2007.

Time Warner Inc. (*Time Warner*) holds an 84% economic interest in TWC (representing a 90.6% voting interest). The financial results of TWC's operations are consolidated by Time Warner. See TWC's Governing Documents Management and Operation of TWC.

As the marketplace for basic video services has matured, the cable industry has responded by introducing new services, including enhanced video services like high definition television (*HDTV*) and video-on-demand (*VOD*),

high-speed Internet access and Internet protocol (IP)-based telephony. As of December 31, 2006, approximately 7.3 million (or 54%) of TWC s 13.4 million basic video customers subscribed to digital video services, 6.6 million (or 26%) of high-speed data service-ready homes subscribed to a residential high-speed data service such as TWC s Road Runner service and 1.9 million (or 11%) of voice service-ready homes subscribed to Digital Phone, TWC s newest service. TWC launched Digital Phone broadly in the Legacy Systems during 2004 and it is available in some of the Acquired Systems on a limited basis. As of December 31, 2006, in the Legacy Systems, approximately 56% of TWC s 9.5 million basic video customers subscribed to digital video services and over 30% of high-speed data service ready homes subscribed to a residential high-speed data service. The customer data contained in this Item 1 include subscribers in managed, but unconsolidated, Kansas City Pool systems (as defined below), which were distributed to

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TWC by TKCCP effective on January 1, 2007. For additional information with respect to the distribution of the assets of TKCCP to its partners on January 1, 2007, see Management's Discussion and Analysis of Results of Operations and Financial Condition - Recent Developments in the financial pages herein.

Recent Developments

Transactions with Adelphia and Comcast

On July 31, 2006, TWC completed the following transactions with Adelphia and Comcast:

The Adelphia Acquisition. TW NY acquired certain assets and assumed certain liabilities from Adelphia for approximately \$8.9 billion in cash and 156 million shares, or 17.3%, of TWC Class A common stock (approximately 16% of TWC's total common stock). The former Adelphia cable systems acquired, after giving effect to the transactions with Adelphia and Comcast, are referred to herein as the Adelphia Acquired Systems. On the same day, Comcast purchased certain assets and assumed certain liabilities from Adelphia for approximately \$3.6 billion in cash. Together, TW NY and Comcast purchased substantially all of the cable assets of Adelphia (the Adelphia Acquisition).

The Redemptions. Immediately before the Adelphia Acquisition, TWC and TWE redeemed Comcast's interests in TWC and TWE, respectively, in exchange for the capital stock of a subsidiary of TWC and a subsidiary of TWE, respectively, together holding both an aggregate of approximately \$2 billion in cash and cable systems serving approximately 751,000 basic video subscribers (the TWC Redemption and the TWE Redemption, respectively, and, together, the Redemptions).

The Exchange. Immediately after the Adelphia Acquisition, TW NY and Comcast also swapped certain cable systems, most of which were acquired from Adelphia, in order to enhance TWC's and Comcast's respective geographic clusters of subscribers (the Exchange). The former Comcast cable systems acquired from Comcast in the Exchange are referred to herein as the Comcast Acquired Systems.

For additional information regarding the Adelphia Acquisition, the Redemptions and the Exchange, see The Transactions.

The Adelphia Acquisition was designed to be a taxable acquisition of assets that would result in a tax basis in the acquired assets equal to the purchase price TW NY paid. The resulting step-up in the tax basis of the assets would increase future tax deductions, reduce future net cash tax payments and thereby increase TWC's future cash flows. See Management's Discussion and Analysis of Results of Operations and Financial Condition - Recent Developments - Tax Benefits from the Transactions.

TKCCP Dissolution

TKCCP, a 50-50 joint venture between TWC and Comcast, which, as of December 31, 2006, served approximately 1.6 million basic video subscribers throughout Houston, Kansas City, south and west Texas and New Mexico is in the process of being dissolved. In connection with the pending dissolution, on January 1, 2007, TKCCP distributed its assets to its partners. TWC received TKCCP's cable systems in Kansas City, south and west Texas and New Mexico (the Kansas City Pool), which collectively served approximately 788,000 basic video subscribers as of December 31, 2006, and Comcast received the Houston cable systems (the Houston Pool). Comcast has refinanced the debt of TKCCP. TWC has not and will not assume any debt of TKCCP in connection with the distribution of TKCCP's assets or the dissolution. See Management's Discussion and Analysis of Results of Operations and Financial Condition - Recent Developments - Dissolution of TKCCP.

Caution Concerning Forward-Looking Statements and Risk Factors

This Annual Report on Form 10-K includes certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are based on management's current expectations and are subject to uncertainty and changes in circumstances. Actual results may vary materially from the expectations contained herein due to changes in economic, business, competitive, technological and/or regulatory factors. For more detailed information about these factors, and risk factors with respect to the Company's

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operations, see Item 1A, Risk Factors below and Caution Concerning Forward-Looking Statements in Management's Discussion and Analysis of Results of Operations and Financial Condition in the financial section of this Report. TWC is under no obligation to (and expressly disclaims any obligation to) update or alter its forward-looking statements, whether as a result of new information, subsequent events or otherwise.

Available Information and Website

Although TWC and its predecessors have been in the cable business for over 30 years in various legal forms, Time Warner Cable Inc. was incorporated as a Delaware corporation on March 21, 2003. TWC's annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments to such reports filed with or furnished to the Securities and Exchange Commission (SEC) pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 are available free of charge on the Company's website at www.timewarnercable.com as soon as reasonably practicable after such reports are electronically filed with the SEC.

Corporate Structure

The following chart illustrates TWC's corporate structure after giving effect to the dissolution of TKCCP (and the related distribution of a portion of its assets to TWC) and the distribution of shares of TWC Class A common stock by Adelphia to certain of its creditors. The subscriber numbers, long-term debt and preferred equity balances presented below are approximate as of December 31, 2006. Certain intermediate entities and certain preferred interests held by TWC or its subsidiaries are not reflected. The subscriber counts within each entity indicate the number of basic video subscribers attributable to cable systems owned by such entity. Basic video subscriber amounts reflect billable subscribers who receive TWC's basic video service.

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TWC offers a variety of services over its broadband cable systems, including video, high-speed data and voice services. TWC markets its services separately and as bundled packages of multiple services and features. Increasingly, TWC's customers subscribe to more than one of its services for a single price reflected on a single consolidated monthly bill.

Video Services

TWC offers a full range of analog and digital video service levels, including premium services such as HBO and Showtime, as well as advanced services such as VOD, HDTV, and set-top boxes equipped with digital video recorders (DVRs). The following table presents selected statistical data regarding TWC's video services:

	As of December 31,		
	2004	2005	2006
	(in thousands, except percentages)		
Homes passed ⁽¹⁾	15,977	16,338	26,062
Basic subscribers ⁽²⁾	9,336	9,384	13,402
Basic penetration ⁽³⁾	58.4%	57.4%	51.4%
Digital subscribers	4,067	4,595	7,270
Digital penetration ⁽⁴⁾	43.6%	49.0%	54.2%

(1) Homes passed represent the estimated number of service-ready single residence homes, apartment and condominium units and commercial establishments passed by TWC's cable systems without further extending TWC's transmission lines.

(2) Basic subscriber amounts reflect billable subscribers who receive basic video service.

(3) Basic penetration represents basic subscribers as a percentage of homes passed.

(4) Digital penetration represents digital subscribers as a percentage of basic video subscribers.

Analog services. Analog video service is available in all of TWC's operating areas. TWC typically offers two levels or tiers of service—Basic and Standard—which together offer, on average, approximately 70 channels for viewing on cable-ready television sets without the need for a separate set-top box.

Basic Tier generally, broadcast television signals, satellite delivered broadcast networks and superstations, local origination channels, and public access, educational and government channels; and

Standard Tier generally includes national, regional and local cable news, entertainment and other specialty networks, such as CNN, A&E, ESPN, CNBC and MTV.

TWC offers its Basic and Standard tiers for a fixed monthly fee. The rates TWC can charge for its Basic tier and certain video equipment are subject to regulation under federal law. See Regulatory Matters.

In certain areas, TWC's Basic and Standard tiers also include proprietary local programming devoted to the communities TWC serves. For example, TWC provides 24-hour local news channels in the following areas: NY1 News and NY1 Noticias in New York, NY; News 14 Carolina in Charlotte, Greensboro and Raleigh, NC; R News in Rochester, NY; Capital News 9 in Albany, NY; News 8 Austin in Austin, TX; and News 10 Now in Syracuse, NY. In

most of these areas, these news channels are available exclusively on TWC's cable systems.

As of December 31, 2006, 51.4% of TWC's homes passed, or 13.4 million subscribers, subscribed to its basic services and, in the Legacy Systems, 56.7% of TWC's homes passed, or 9.5 million subscribers, subscribed to its basic services. Although basic video subscriber penetration levels have generally been lower in the Acquired Systems, TWC believes it has an opportunity to increase the number of basic video subscribers in the Acquired Systems.

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Digital services. Subscribers to TWC's digital video services receive up to 250 digital video and audio services (in digital format in most of the Legacy Systems) and services that may include:

Additional Cable Networks up to 60 digitally delivered cable networks, including spin-off and successor networks to successful national cable services, new networks and niche programming services, such as Discovery Home and MTV2;

Interactive Program Guide an on-screen interactive program guide that contains descriptions of available viewing options, enables navigation among these options and provides convenient parental controls and access to TWC's On-Demand services, which are described below;

Premium and Multiplex Premium Channels multi-channel versions of premium services, such as the suite of HBO networks, which includes HBO, HBO 2, HBO Signature, HBO Family, HBO Comedy, HBO Zone and HBO Latino;

Music Channels up to 45 CD-quality genre-themed audio music stations;

Seasonal Sports Packages packages of sports programming, such as NBA League Pass and NHL Center Ice, which provide multiple channels displaying games from outside the subscriber's local area;

Digital Tiers specialized tiers comprising thematically linked programming services, including sports and Spanish language tiers; and

Family Choice Tier a specialized tier comprising about 15 standard and digital channels selected to be appropriate for family viewing based on ratings information provided by the programmers and based on TWC's best judgment.

TWC's analog and digital video subscribers pay a fixed monthly fee for the level of service they receive. Subscribers to premium channels are charged an additional monthly fee, with discounts generally available for the purchase of packages of more than one such service.

As of December 31, 2006, 54.2%, or approximately 7.3 million, of TWC's basic video subscribers subscribed to its digital video services and, in the Legacy Systems, approximately 55.6%, or approximately 5.3 million, of its basic video subscribers subscribed to its digital video services. Although digital video penetration levels have been lower in the Acquired Systems, TWC believes it has an opportunity to increase the number of digital subscribers in the Acquired Systems.

On-Demand services. TWC offers a number of On-Demand services that enable users to view what they want, when they want it. These services which are provided only to TWC's digital video customers feature advanced functionality, such as the ability to pause, rewind and fast-forward the programming using TWC's VOD system. TWC believes that access to On-Demand programming gives its existing analog subscribers and potential new subscribers a compelling reason to subscribe to its digital video service. TWC's On-Demand products and services include:

Movies-on-Demand offers a wide selection of movies and occasional special events to TWC's digital video subscribers. In December 2006, TWC offered on average approximately 720 hours of this programming.

Subscription-Video-on-Demand provides digital subscribers with On-Demand access to packages of programming that are either associated with a particular premium content provider, to which they already

subscribe, such as HBO On-Demand, or are otherwise made available on a subscription basis. In December 2006, TWC offered on average approximately 460 hours of this programming. Certain selected packages of programming are available for an additional fee.

Free Video-on-Demand provides digital subscribers with free On-Demand access to selected movies, programs and program excerpts from cable television networks such as A&E, PBS Sprout, Oxygen and CNN, as well as music videos, local programming and other content, and introduces subscribers to the convenience of TWC's On-Demand services. In December 2006, TWC offered on average approximately 460 hours of this programming.

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Start Over uses TWC's VOD technology to allow digital video customers to conveniently and instantly restart select programs then being aired by participating programming services. Users cannot fast forward through commercials while using Start Over, so traditional advertising economics are preserved for participating programming vendors. Introduced in TWC's Columbia, South Carolina, division in 2005, TWC deployed this service in several areas during 2006 and expects to introduce it more broadly in 2007.

TWC charges for most of the movies that are made available in its Movies-on-Demand service on a per-use basis, but its subscription video-on-demand (SVOD) services are generally included in premium packages or are made available as part of a separate package of SVOD services.

DVRs. Set-top boxes equipped with digital video recorders are available for a fixed monthly fee. These set-top boxes enable customers to:

pause and/or rewind live television programs;

record programs on a hard drive built into the set-top box by selecting the program's title from the interactive program guide rather than by start and stop times;

pause, rewind and fast-forward recorded programs;

automatically record each episode or only selected episodes of a particular series without the need to reprogram the DVR;

watch one show while recording another;

record two shows at the same time; and

set parental controls on what can be recorded.

Initially introduced in 2002, TWC currently offers its DVR product to its digital video subscribers in all of the Legacy Systems. As of December 31, 2006, 34.0%, or approximately 2.5 million, of TWC's digital video subscribers also received a DVR set-top box. Although penetration levels for DVRs have been lower in the Acquired Systems, TWC believes it has an opportunity to increase the number of DVR subscribers in the Acquired Systems. TWC charges an additional monthly fee for DVR set-top boxes over and above the normal set-top box charge. The monthly fee for DVR set-top boxes is subject to regulation. See *Regulatory Matters* below.

High definition services. TWC generally offers approximately 15 channels of high definition television, or HDTV, in each of its systems, mainly consisting of broadcast signals and standard and premium cable networks, as well as HDTV Movies-on-Demand in most of the Legacy Systems. HDTV provides a significantly clearer picture and improved audio quality. In most instances, customers who already subscribe to the standard-definition versions of these services, including in the case of broadcast stations those customers who receive only Basic service, are not charged for the high definition version of the channels. TWC also offers a package of HDTV channels for an additional monthly fee. Due to a number of factors, during the first quarter of 2007, TWC has experienced, and may continue to experience during the near term, difficulty in obtaining sufficient quantities of HDTV-capable set-top boxes to satisfy all consumer requests for such boxes. For more information, see Item 1A, *Risk Factors - Risks Related to Dependence on Third Parties* - TWC may not be able to obtain necessary hardware, software and operational support.

Interactive services. TWC's two-way digital cable infrastructure enables TWC to provide innovative interactive features and services. Examples of interactive services that TWC offers or is in the process of trialing or rolling out include:

Quick Clips permits TWC's digital subscribers to view on their televisions a variety of news, weather and sports content developed for web sites;

Instant News & More allows TWC's customers to gain access to information about the weather, sports, stocks, traffic, and other relevant data on TV;

Interactive voting and polling allows live, on-screen voting to determine the outcome of a television show such as Bravo's Top Chef and NBC's Last Comic Standing, or to simply participate in a poll;

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eBay on TV allows TWC's customers to place bids, track their progress, and raise their bids via set-top box alerts and their remote controls;

Football and Baseball Trackers allow TWC's customers to set a roster of players for whom they would like up-to-date statistics and alerts (e.g., such as when they score a touchdown or are injured); and

Bill paying and subscription upgrades enable customers to engage in self-help for these frequent interactions with the cable company using their remote control.

High-speed Data Services

TWC offers residential and commercial high-speed data services to nearly 99% of its homes passed as of December 31, 2006. TWC's high-speed data services provide customers with a fast, always-on connection to the Internet. Subscribers pay a monthly flat fee based on the level of service received. Due to their different characteristics, commercial and bulk subscribers are charged at different rates from residential subscribers.

The following table presents some statistical data regarding TWC's high-speed data services:

	As of December 31,		
	2004	2005	2006
	(in thousands, except percentages)		
Service-ready homes passed ⁽¹⁾	15,870	16,227	25,691
Residential high-speed data subscribers	3,368	4,141	6,644
Residential high-speed data penetration ⁽²⁾	21.2%	25.5%	25.9%
Commercial high-speed data subscribers	151	183	245

(1) Service-ready homes passed represent the number of high-speed data service-ready single residence homes, apartment and condominium units and commercial establishments passed by TWC's cable systems without further extending its transmission lines.

(2) Residential high-speed data penetration represents residential high-speed data subscribers as a percentage of high-speed data service-ready homes passed.

High-speed data subscribers connect their personal computers or other broadband ready devices to TWC's cable systems using a cable modem, which TWC provides at no charge or which subscribers can purchase themselves if they wish. TWC's high-speed data service enables subscribers to connect to the Internet at speeds much greater than traditional dial-up telephone modems. In contrast to dial-up services, subscribers to TWC's high-speed data service do not have to log in to their account each time they wish to access the service and can remain connected without being disconnected because of inactivity.

Road Runner. As of December 31, 2006, TWC offered its Road Runner branded, high-speed data service to residential subscribers in virtually all of the Legacy Systems and approximately 80% of the Acquired Systems. TWC was providing the same high-speed data service provided prior to the Transactions in the rest of the Acquired Systems on a temporary basis. TWC expects to transition these pre-existing high-speed data services to Road Runner before the end of 2007.

TWC's Road Runner service provides communication tools and personalized services, including e-mail, PC security, parental controls, news group, online radio and personal home pages. Electronic messages can be personalized with photo attachments or video clips. The Road Runner portal provides access to content and media from local, national and international providers and topic-specific channels including games, news, sports, autos, kids, music, movie listings, and shopping sites.

TWC offers multiple tiers of Road Runner service, each with different operating characteristics and a different monthly fee. In recent years, TWC has steadily increased maximum download speeds in response to competitive factors and TWC anticipates that it will continue to be able to do so for the foreseeable future.

Road Runner was a recipient of the SATMetrics award for highest consumer likelihood to recommend in 2006, well ahead of all other cable providers, digital subscriber line (DSL) providers, and other Internet service providers (ISPs). In addition to Road Runner, most of TWC's cable systems provide high-speed access to the services of certain other on-line providers, including EarthLink.

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Time Warner Cable Business Class. TWC offers commercial customers a variety of high-speed data services, including Internet access, website hosting and managed security. These services are offered to a broad range of businesses and are marketed under the Time Warner Cable Business Class brand. TWC expects that small to medium-sized businesses will increasingly find the need to purchase high-speed data services and intends to pursue opportunities in this area.

In addition to the residential subscribers and commercial accounts serviced through TWC's cable systems, TWC provides its Road Runner high-speed data service to third parties for a fee.

Voice Services

Digital Phone. Digital Phone is the newest of TWC's core services, having been launched broadly across the Legacy Systems in 2004. Most of TWC's customers receive a Digital Phone package that provides unlimited local, in-state and U.S., Canada and Puerto Rico long-distance calling and a number of calling features for a fixed monthly fee. During 2006, TWC introduced a lower priced unlimited in-state only calling plan to serve those of its customers that do not use long-distance services extensively, as well as second line service. TWC expects to introduce additional calling plans in the future. TWC's Digital Phone plans include, among others, the following calling features:

Call Waiting;

Caller ID;

Voicemail;

Call Forwarding;

Speed Dial;

Anonymous Call Reject;

International Direct Dial service;

3-way calling;

Enhanced 911 Service, which allows TWC's customers to contact local emergency services personnel by dialing 911. With Enhanced 911 service, the customer's address and phone number will automatically display on the emergency dispatcher's screen; and

Customer Service (611).

As of December 31, 2006, Digital Phone had been launched in all of the Legacy Systems and was available to nearly 94% of the homes passed in those systems. At that time, TWC had approximately 1.9 million Digital Phone customers and penetration of voice service to serviceable homes was approximately 11%. Since no comparable IP-based telephony service was available in the Acquired Systems at the time of acquisition, the continued introduction of Digital Phone in the Acquired Systems, separately and as part of a bundle, is a high priority. As of December 31, 2006, Digital Phone was available in some of the Acquired Systems on a limited basis. TWC expects to roll out Digital Phone across the Acquired Systems during 2007.

As an adjunct to TWC's existing commercial high-speed data business, TWC intends to introduce a commercial voice service to small- to medium-sized businesses in most of the Legacy Systems during 2007.

Digital Phone is delivered over the same system facilities TWC uses to provide video and high-speed data services. TWC provides customers with a voice-enabled cable modem that digitizes voice signals and routes them as data packets, using IP technology, over its own managed broadband cable systems. Calls to destinations outside of TWC's cable systems are routed to the traditional public switched telephone network. Unlike Internet phone providers, such as Vonage and Lingo, which utilize the Internet to transport telephone calls, TWC's Digital Phone service uses only TWC's own managed network and the public switched telephone network to route calls. TWC believes its managed approach to delivery of voice services allows it to better monitor and maintain call and service quality.

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TWC has agreements with Verizon Communications, Inc. (*Verizon*) and Sprint Nextel Corporation (*Sprint*) under which these companies assist TWC in providing Digital Phone service by routing voice traffic to the public switched telephone network, delivering enhanced 911 service and assisting in local number portability and long distance traffic carriage. In July 2006, TWC agreed to expand its multi-year relationship with Sprint as its primary provider of these services, including in the Acquired Systems. See Item 1A, *Risk Factors* *Risks Related to Dependence on Third Parties* TWC may not be able to obtain necessary hardware, software and operational support.

Circuit-switched Telephone. In the Exchange, TWC acquired customers in the Comcast Acquired Systems who receive traditional, circuit-switched local and long distance telephone services. TWC continues to provide traditional, circuit-switched services to those subscribers and will continue to do so for some period of time, while it will simultaneously market its Digital Phone product to those customers. After some period of time, TWC intends to discontinue the circuit-switched offering in accordance with regulatory requirements, at which time the only voice services provided by TWC in those systems will be its Digital Phone service.

Service Bundles

In addition to selling its services separately, TWC is focused on marketing differentiated packages of multiple services and features, or *bundles*, for a single price. Increasingly, many of TWC's customers subscribe to two or three of its services. The bundle represents a discount from the price of buying the services separately and the convenience of a single monthly bill. TWC believes that these *Double Play* and *Triple Play* offerings increase its customers' satisfaction with TWC, increase customer retention and encourage subscription to additional features. In the Legacy Systems as of December 31, 2006, 46.1% of TWC's customers, received at least two services. The table below sets forth the number of TWC's *Double Play* and *Triple Play* customers as of the dates indicated.

	As of December 31,		
	2004	2005	2006⁽¹⁾
	(in thousands)		
Double Play	2,850	3,099	4,647
Triple Play	145	760	1,523

- (1) Double Play and Triple Play subscribers include approximately 68,000 and 24,000 subscribers, respectively, acquired from Comcast in the Exchange who receive traditional, circuit-switched telephone service.

Cross-platform Features

In support of TWC's bundled services strategy, TWC is developing features that operate across two or more of its services. For example, TWC has begun to offer customers who subscribe to both Time Warner Digital Cable and Digital Phone, at no charge, a Caller ID on TV feature that displays incoming call information on the customer's television set. In July 2006, TWC introduced a new feature called *PhotoShowTV* in its Oceanic division in Hawaii that gives customers who subscribe to both Time Warner Digital Cable and Road Runner high-speed online service the ability to create and share their personal photo shows with TWC's other Time Warner Cable digital video customers using TWC's VOD technology.

New Opportunities

Commercial Voice

TWC believes that continued innovation on its advanced cable infrastructure may create additional business opportunities in the future. One such opportunity is the offering of IP-based telephony service to commercial customers as an adjunct to TWC's existing commercial data business. TWC intends to introduce a commercial voice service to small- to medium-sized businesses in most of the Legacy Systems during 2007.

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Wireless Joint Ventures

In November 2005, TWC and several other cable companies, together with Sprint, announced the formation of a joint venture to develop integrated video entertainment, wireline and wireless data and communications products and services. In 2006, TWC began offering a service bundle that includes Sprint wireless voice service in limited operating areas and will continue to roll out this product during 2007. The package contains some wireline/wireless integration, such as a common voice mail-box for both the home and wireless phone. See Item 1A, Risk Factors Risks Related to Competition TWC's competitive position could suffer if TWC is unable to develop a compelling wireless offering.

A separate joint venture formed by the same parties participated in the Federal Communication Commission (the FCC) Auction 66 for Advanced Wireless Spectrum (AWS), and was the winning bidder of 137 licenses. These licenses cover 20 MHz of AWS in about 90% of the continental United States and Hawaii. The FCC awarded these licenses to the venture on November 29, 2006. There can be no assurance that the venture will successfully develop mobile and related services. Under the joint venture agreement, Sprint has the ability to exit the venture upon 60 days notice and to require that the venture purchase its interests for an amount equal to Sprint's capital contributions to that point. In addition, under certain circumstances, the cable operators that are members of the venture have the ability to exit the venture and receive, subject to certain limitations and adjustments, AWS licenses covering their operating areas.

Advertising

TWC sells advertising time to a variety of national, regional and local businesses. As part of the agreements under which TWC acquires video programming, TWC typically receives an allocation of scheduled advertising time in such programming, generally two minutes per hour, into which its systems can insert commercials, subject to limitations regarding subject matter. The clustering of TWC's systems expands the share of viewers that TWC reaches within a local designated market area, which helps TWC's local advertising sales personnel to compete more effectively with broadcast and other media. Following the Transactions, TWC now has a strong presence in the country's two largest advertising markets, New York, New York, and Los Angeles, California.

In addition, in many locations, contiguous cable system operators have formed advertising interconnects to deliver locally inserted commercials across wider geographic areas, replicating the reach of the broadcast stations as much as possible. As of December 31, 2006, TWC participated in local advertising interconnects in 23 markets, including three markets covered by the Acquired Systems. TWC's local cable news channels also provide TWC with opportunities to generate advertising revenue.

TWC is exploring various means by which it could utilize its advanced services, such as VOD and interactive TV to increase advertising revenues. For example, in 2006 TWC launched Movie Trailers on-Demand, an ad-supported VOD channel which provides advertisers a way to reach customers as they are browsing movie previews; DriverTV, an ad-supported VOD channel which provides advertisers a way to reach customers interested in learning about new cars; and Expo TV, an ad-supported VOD channel which provides advertisers a way to reach customers interested in viewing infomercial and local advertising. With TWC's interactive TV technology, TWC now offers advertisers new tools. For example, in upstate New York, TWC provides overlays that enable customers to request information, to telescope from a traditional advertisement to a long form VOD segment regarding the advertised product, to vote on a hot topic or receive more specific additional information. These tools can be used to provide advertisers with important feedback about the impact of their advertising efforts.

Marketing and Sales

TWC seeks to deepen its relationships with existing customers, thereby increasing the amount of revenue it obtains from each home it serves and increasing customer retention, as well as to attract new customers. TWC's marketing is focused on conveying the benefits of its services—in particular, the way its services can enhance and simplify customers' lives—to these target groups. TWC's marketing strategy focuses on bundles of video, data and voice services, including premium services, offered in differentiated but easy to understand packages. These bundles provide discounted pricing as compared with the aggregate prices for the services provided if they were purchased separately, in addition to the convenience of a single bill. TWC generally markets bundles with entry

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level pricing, which provide its customer care representatives the opportunity to offer additional services or upgraded levels of existing services that are relevant to targeted customer groups.

To support these efforts, TWC utilizes its brand and the brand statement, *The Power of You*[™], in conjunction with a variety of integrated marketing, promotional and sales campaigns and techniques. TWC's advertising is intended to let its diverse base of subscribers and prospects know that it is a customer-centric company—one that empowers customers by providing maximum choice, convenience and value—and that TWC is committed to exceeding expectations through innovative product offerings and superior customer service. TWC's message is supported across broadcast, its own cable systems, print, radio and other outlets including outdoor advertising, direct mail, e-mail, on-line advertising, local grassroots efforts and non-traditional media.

TWC also employs a wide range of direct channels to reach its customers, including outbound telemarketing and door-to-door sales. In addition, TWC uses customer care channels and inbound call centers to increase awareness of its products and services offered. Creative promotional offers are also a key part of TWC's strategy, and an area where TWC works with third parties such as consumer electronics manufacturers and cable programmers. TWC also is developing new sales channels through agreements with local and national retail stores, where TWC's satellite competitors have a strong presence.

TWC has been developing and implementing a number of technology-based tools and capabilities. These initiatives include the development of customized data storage and flexible access tools. This infrastructure will ensure that critical customer information is in the hands of customer service representatives as they interact with customers and prospects and on an aggregate basis to help TWC develop marketing programs.

Each of TWC's local operations has a marketing and sales function responsible for selecting the relevant marketing communications, pricing and promotional offers for the products and services being sold and the consumer segments being targeted. The marketing and sales strategy is developed in coordination with its regional and corporate marketing teams, with execution by the local operating division.

TWC also maintains a sales presence in a number of retail locations across the markets it serves. This retail presence enables both new and existing customers to learn more about TWC, and purchase its products and services. TWC maintains dedicated customer service centers that allow for the resolution of billing and service issues as well as facilitate the sale of new products and services. TWC's centers are located in its local administrative offices or operations centers, independent facilities or kiosks or booths within larger retail establishments, such as shopping malls.

Customer Care

TWC believes that superior customer care can help increase customer satisfaction, promote customer loyalty and lasting customer relationships, and increase the penetration of its services. TWC is committed to putting its customers at the center of everything it does and is making significant investments in technology and people to support this commitment.

TWC's customer call centers use a range of software and systems to try to ensure the most efficient and effective customer care possible. For instance, many of TWC's customer call centers utilize workforce and call flow management systems to route the millions of calls it receives each month to available representatives and to maximize existing resources. Customer representatives have access to desktop tools to provide the information TWC's customers need, reducing call handling time. These desktop tools provide the representative with timely, valuable information regarding the customer then calling (e.g., notifying the representative if the customer has called previously on the same issue or helping to identify a new service in which the customer might be interested). TWC uses quality

assurance software that monitors both the representative's customer interactions and the desktop tools the representative selects during each call.

Many of TWC's divisions are utilizing interactive voice recognition systems and on-line customer care systems to allow customers to obtain information they require without the need to speak with a customer care representative. Most customers who wish or need to speak with a representative will talk to a locally-based representative, which enables TWC to respond to local customer needs and preferences. However, some specialized

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care functions, such as advanced technical support for TWC's high-speed data service, are handled regionally or nationally.

In order to enhance customer convenience and satisfaction, TWC has implemented a number of customer care initiatives. Depending on location, these may include:

- two-hour appointment windows with an on-time guarantee;
- customer loyalty and reward programs;
- weekend, evening and same-day installation and trouble-shooting service appointments;
- payment and/or billing information through the Internet or by phone; and
- follow-up calls to monitor satisfaction with installation or maintenance visits.

TWC also provides Answers on Demand, which allows customers to select discrete help topics from a menu and then view interactive videos that answer their questions. Customers can access Answers on Demand either on-line or on their television set (using TWC's VOD technology).

Technology

TWC's Cable Systems

TWC's cable systems employ a flexible and extensible network architecture known as hybrid fiber coax, or HFC. TWC transmits signals on these systems via laser-fed fiber optic cable from origination points known as headends and hubs to a group of distribution nodes, and use coaxial cable to deliver these signals from the individual nodes to the homes they serve. TWC pioneered this architecture and received an Emmy award in 1994 for its HFC development efforts. HFC architecture allows the delivery of two-way video and broadband transmissions, which is essential to providing advanced video services, like VOD, Road Runner high-speed data services and Digital Phone.

HFC architecture is the cornerstone technology in TWC's digital cable systems. HFC architecture provides TWC with numerous benefits, including the following:

Reliability. HFC enables the delivery of highly dependable traditional and two-way video and broadband services.

Signal quality. HFC delivers very clean signal quality, which permits TWC to provide excellent video signals, as well as facilitating the delivery of advanced services like VOD, high-speed data and voice services.

Flexibility. HFC utilizes optical networking that allows inexpensive and efficient bandwidth increases and takes advantage of favorable cost and performance curves.

Adaptability. HFC is highly adaptable, and allows TWC to utilize new networking techniques that afford increased capacity and performance without costly upgrades.

As of December 31, 2006, almost all of the homes passed in the Legacy Systems and, according to TWC's estimates, approximately 94% of the homes passed in the Acquired Systems were served by plant that had been upgraded to provide at least 750MHz of capacity. Carriage of analog programming (approximately 70 channels per system) uses

about two thirds of a typical system's capacity leaving capacity for digital video, high-speed data and voice products. Digital signals, including video, high-speed data and voice signals, can be carried more efficiently than analog signals. Generally 10 to 12 digital channels or their equivalent can be broadcast using the same amount of capacity required to broadcast just one analog channel. TWC is in the process of upgrading the plant in the Acquired Systems to TWC's Legacy Systems standards.

TWC believes that its network architecture is sufficiently flexible and extensible to support TWC's current requirements. However, in order for TWC to continue to innovate and deliver new services to its customers, as well as meet competitive imperatives, TWC anticipates that it will need to increase the amount of usable bandwidth available to TWC in most of its systems over the next few years. TWC believes that this can be achieved largely

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through the maximization and careful management of its systems' existing bandwidth, without costly upgrades. For example, to accommodate increasing numbers of HDTV channels and other demands for greater capacity in TWC's network, in certain areas TWC has begun deployment of a technology known as switched digital video (SDV). SDV ensures that only those channels that are being watched within a given grouping of households are being transmitted to those households. Since it is generally the case that not all channels are being watched at all times by a given group of households, this frees up capacity that can then be made available for other uses. This expansion of network capacity does not rely on extensive upgrade construction. Instead, TWC invests in switching equipment in its headends and hubs and, as necessary, segments its plant to ensure that switches and lasers are shared among fewer households. As a result of this process, capacity is made available for new services, including HDTV channels.

Video, High-speed Data and Voice Distribution

In most systems, TWC delivers its services via laser-fed fiber optic cable from the headend, either directly or via a hub, to a group of nodes, and uses coaxial cable to deliver these signals and services from individual nodes to the homes they serve. A typical hub provides service to approximately 20,000 homes, and TWC's average node provides service to approximately 500 homes.

National and regional video services are generally delivered to TWC through satellites that are owned or leased by the relevant programmer. These services' signals are transmitted to downlink facilities located at TWC's headends. Local video signals, including local broadcast signals, are picked up by antennae or are delivered to TWC's headends via fiber connection. VOD content is received using a variety of these methods and generally stored on servers located at each system's headend.

TWC delivers high-speed data services to its subscribers through its HFC network, its regional fiber networks that are either owned by TWC or leased from third parties, including, in some instances, AOL LLC (formerly America Online, Inc., AOL), a subsidiary of Time Warner, and through backbone networks that provide connectivity to the Internet and are operated by third parties, including AOL. TWC pays fees for leased circuits based on the amount of capacity used and pays for Internet connectivity based either on a fixed fee for a specified amount of available capacity or on the amount of data traffic received from and sent over the provider's backbone network. TWC provides all major high-speed data customer service applications and monitors its IP network, through its operation of two national data centers, eight regional data centers and two network operations centers, including one acquired in the Adelphia Acquisition.

TWC delivers Digital Phone voice services to its customers over the same system facilities used to provide video and high-speed data services. TWC provides Digital Phone customers with a voice-enabled cable modem that digitizes voice signals and routes them as data packets, using Internet protocol, a common standard for the packaging of data for transmission, over the cable system to one of TWC's regional data centers. At the regional data center, a softswitch routes the data packets as appropriate based on the call's destination. Calls destined for end users outside of TWC's network are routed through devices called session border controllers in the session initiation protocol format and delivered to TWC's wholesale service providers. Such calls are then routed to a traditional public telephone switch, operated by one of TWC's wholesale service providers, and then to their final destination (e.g., a residential or business end-user, a 911 dispatcher, or an operator). Calls placed outside of TWC's network and intended for TWC's subscribers follow a reverse route. Calls entirely within TWC's network are generally routed by the softswitch to the appropriate end user without the use of a traditional public telephone switch.

Set-top Boxes

TWC's Basic and Standard tier subscribers generally do not require a set-top box to view their video services. However, because TWC's digital signals and signals for premium programming are secured, TWC's digital video

customers receiving one-way (i.e., non-interactive) programming, such as premium channels and digital cable networks, can only receive such channels if they have a digital set-top box or if they have a digital cable ready television or similar device equipped with a CableCARD (discussed below). Customers receiving TWC's two-way video services, such as VOD and TWC's interactive program guide, must have a digital set-top box that TWC

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provides to receive these services. Each of TWC's cable systems uses one of only two conditional access systems to secure signals from unauthorized receipt, the intellectual property rights to which are controlled by set-top box manufacturers. In part as a result of the proprietary nature of these conditional access schemes, TWC currently purchases set-top boxes from a limited number of suppliers. For more information, see Item 1A, Risk Factors Risks Related to Dependence on Third Parties TWC may not be able to obtain necessary hardware, software and operational support. The cable industry has recently entered into agreements with certain consumer electronics manufacturers under which they will shortly complete development of a limited number of interactive digital cable ready televisions (i.e., sets capable of utilizing its two-way services without the need for a set-top box). TWC has begun ordering some set-top boxes from some of these manufacturers as well. TWC's purchasing agreements generally provide TWC with most favored nation treatment under which the suppliers must offer TWC favorable price terms, subject to some limitations.

Historically, TWC has also relied primarily on set-top box suppliers to create the applications and interfaces TWC makes available to its customers. Although TWC believes that its current applications and interfaces are compelling to customers, the lack of compatibility among set-top box operating systems has in the past hindered applications development. This is beginning to change somewhat, as third parties have begun to develop interactive applications, such as gaming and polling applications, notwithstanding the lack of common platform among set-top box schemes. Over the last few years, TWC has been developing its own interactive program guide and user interface, which TWC began to deploy during 2006.

As described below under Set-top Box Developments, as current technological and compatibility issues for set-top box applications are resolved and a common platform for set-top box applications emerges, TWC expects that applications developers will devote more time and resources to the creation of innovative digital platform products, which should enable TWC to offer new features to its subscribers in the future.

Set-top Box Developments

There have been a number of market and regulatory developments in recent years that may impact the costs and benefits to TWC of providing customers with set-top boxes.

Plug and play. In December 2002, cable operators and consumer-electronics companies entered into a standard-setting agreement, known as the plug and play agreement, relating to interoperability between cable systems and reception equipment. The FCC promulgated rules to implement the agreement, under which cable systems with activated spectrum of 750MHz or higher must, among other things, support digital cable ready consumer electronic devices (e.g., televisions) equipped with a slot for a CableCARD. The CableCARD performs certain security functions normally handled by the kinds of set-top boxes TWC leases to customers. By inserting a cable-operator provided CableCARD into this slot, the device is able to tune and receive encrypted (or scrambled) digital signals without the need for a separate set-top box.

The plug and play agreement and the FCC rules address only unidirectional devices (i.e., devices capable of utilizing only cable operators one-way transmission services) and not devices capable of carrying two-way services, such as interactive program guides and VOD. As a result, those of TWC's customers who use a CableCARD equipped television set, and who do not have a set-top box, cannot access these advanced services. If a significant number of TWC's subscribers decline set-top boxes in favor of one-way devices purchased at retail, it could have an adverse effect on TWC's business. For more information, see Item 1A, Risk Factors Risks Related to Dependence on Third Parties The adoption of, or the failure to adopt, certain consumer electronics devices may negatively impact TWC's offerings of new and enhanced services. Cable operators, consumer-electronics companies and other market participants have been holding discussions that may lead to a similar set of interoperability agreements covering digital devices capable of carrying cable operators two-way, interactive products and services. Although efforts to

reach an inter-industry agreement on two-way interoperability standards have not yielded results, as noted above, certain consumer electronics manufacturers have entered into direct agreements with the cable industry under which they will shortly complete development of a limited number of two-way capable television sets.

If two-way interoperability standards can be agreed upon, or if other efforts to enable consumer electronics devices to securely receive and utilize TWC's two-way services are successful, TWC's business could be benefited.

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First, consumer electronic companies could manufacture set-top boxes without the need to license TWC's current suppliers' conditional access technology, which could lead to greater competition and innovation. Second, if customers widely adopted such devices sold at retail, it would likely reduce TWC's set-top box capital expenditures and the need for installation appointments in homes already wired for cable. However, TWC could suffer a decline in set-top box revenues. Furthermore, in the long term, as interoperability for two-way devices evolves, consumer electronics companies may be more willing to develop products that make enhanced use of digital cable's capabilities, expanding the range of services TWC could offer.

Under another set of FCC regulations, which are scheduled to go into effect on July 1, 2007, cable operators must cease placing into service new set-top boxes with security functions built into the box. In other words, beginning on that date, new set-top boxes deployed by cable operators will be required to utilize a CableCARD or similar means of separating security functions from other set-top box functions. See *Regulatory Matters* Communications Act and FCC Regulation Other regulatory requirements of the Communications Act and the FCC below. The provision of set-top boxes that accept a CableCARD, or similar separate security device, will significantly increase per-unit set-top box costs as compared with the set-top boxes TWC currently buys, which utilize integrated security. See Item 1A,

Risk Factors Risks Related to Government Regulation The FCC's set-top box rules could impose significant additional costs on TWC. The FCC has also ordered the cable industry to investigate and report on the possibility of implementing a downloadable security system that would be accessible to all set-top devices. If the implementation of such a system proves technologically feasible, this may eliminate the need for consumers to lease separate conditional-access security devices.

Open cable application platform. CableLabs, a nonprofit research and development consortium founded by members of the cable industry, has put forward a set of hardware and software specifications known as OpenCable, which represent an effort to achieve compatibility across cable network interfaces. The OpenCable software specification, which is known as open cable application platform, or OCAP, is intended to create a common platform for set-top box applications regardless of what operating system the box uses. The OpenCable specification is consistent with the CableCARD specification promulgated under the FCC's plug and play rules and the encryption technology that allows the CableCARD to securely communicate with the host device. If widely adopted, OCAP could spur innovation in applications for set-top boxes and cable-ready consumer electronics devices. Furthermore, the availability of multi-platform set-top box applications should, together with the move toward separable conditional access systems, help to make set-top boxes more fungible, resulting in increased competition among manufacturers.

Content and Equipment Suppliers

Video Programming Content

TWC believes that offering a wide variety of programming is an important factor influencing a subscriber's decision to subscribe to and retain TWC's video services. TWC devotes considerable resources to obtaining access to a wide range of programming that it believes will appeal to both existing and potential subscribers.

Cable television networks. The terms and conditions of carriage of cable programming services are generally established through written affiliation agreements between programmers, including affiliates of Time Warner, and TWC. Most cable programming services are available to TWC for a fixed monthly per subscriber fee, which sometimes includes a volume discount pricing structure. However, payments to the providers of some premium channels, may be based on a percentage of TWC's gross receipts from subscriptions to the channels. For home shopping channels, TWC does not pay and generally receives a percentage of the amount spent on home shopping purchases that is attributable to TWC's subscribers and in some instances receive minimum guarantees.

TWC's programming contracts usually continue for a fixed period of time, generally from three to seven years. TWC believes that its ability to provide compelling programming packages is best served when TWC has maximum flexibility to determine on which systems and tiers a programming service will be carried. Sometimes, TWC's flexibility is limited by the affiliation agreement. It is often necessary to agree to carry a particular programming service in certain of TWC's cable systems and/or carry the service on a specific tier. In some cases, it is necessary for TWC to agree to distribute a programming service to a minimum number of subscribers or to a minimum percentage of its subscribers.

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Broadcast television signals. Generally, TWC carries all local full power analog broadcast stations serving the areas in which TWC provides cable service. In most areas, TWC also carries the digital broadcast signals of a number of these stations. In some cases, TWC carries these stations under the FCC must-carry rules. In other cases, TWC must negotiate with the stations owners for the right to retransmit these stations signals. For more information, see Regulatory Matters below. Currently, TWC has multi-year retransmission consent agreements in place with most of the retransmission consent stations it carries. In other cases, TWC is carrying stations under short-term arrangements while it negotiates new long-term agreements.

Pay-Per-View and On-Demand content. Generally, TWC obtains rights to carry movies on an on-demand basis, as well as Pay-Per-View events, through iN Demand, a company in which TWC holds a minority interest. iN Demand negotiates with motion picture studios to obtain the relevant distribution rights. In some instances, TWC has contracted directly with the motion picture studios for the rights to carry their movies on an on-demand basis. Movies-on-Demand content is generally provided to TWC under a revenue-sharing arrangement, although in some cases there are minimum guaranteed payments required.

TWC's ability to get access to current hit films in a timely fashion is hampered to some extent by the traditional sequence of Hollywood's distribution windows. Typically, after theatrical release, films are made available to home video distributors on an exclusive basis for a set period of time, currently about 45 days. It is only after home video has enjoyed its exclusive window that Movies-on-Demand and Pay-Per-View distributors can gain access to the content. It is possible that subscriber purchases of Movies-on-Demand would increase if TWC was able to provide hit films during the home video window. However, despite efforts to do so, TWC has been unable to obtain the right to offer current hit films during this window.

In line with TWC's goal of offering a wide variety of programming that will appeal to both existing and potential subscribers, TWC is trying to maximize the quantity and quality of all of its video offerings, especially its VOD offerings. As additional VOD content becomes available TWC evaluates it to determine if it meets TWC's standards and to the extent it does, TWC begins offering it to TWC's digital subscribers.

TWC obtains SVOD and other free on-demand content directly from the relevant content providers.

Set-top boxes. TWC purchases set-top boxes, and CableCARDs (which enable some digital televisions and other devices to receive certain non-interactive digital services without a set-top box) from a limited number of suppliers. TWC leases these devices to subscribers at monthly rates. TWC's video equipment fees are regulated. Under FCC rules, cable operators are allowed to set equipment rates for set-top boxes, CableCARDs and remote controls on the basis of actual capital costs, plus an annual after-tax rate of return of 11.25%, on the capital cost (net of depreciation). This rate of return allows TWC to economically provide sophisticated customer premises equipment to subscribers. Certain FCC regulations relating to set-top box equipment, slated to come into effect in 2007, are expected to increase TWC's set-top box costs. See Technology Set-top Boxes above and Regulatory Matters below.

Competition

TWC faces intense competition from a variety of alternative information and entertainment delivery sources, principally from direct-to-home satellite video providers and certain regional telephone companies, each of which offers or will shortly be able to offer a broad range of services through increasingly varied technologies. In addition, technological advances will likely increase the number of alternatives available to TWC's customers from other providers and intensify the competitive environment. See Item 1A, Risk Factors Risks Related to Competition.

Principal Competitors

Direct broadcast satellite. TWC's video services face competition from direct broadcast satellite services, such as the Dish Network and DirecTV. DirecTV and Dish Network offer satellite-delivered pre-packaged programming services that can be received by relatively small and inexpensive receiving dishes. The video services provided by these satellite providers are comparable, in many respects, to TWC's analog and digital video services, and direct broadcast satellite subscribers can obtain satellite receivers with integrated digital video recorders from those providers as well. Both major direct broadcast satellite providers have entered into co-

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marketing arrangements with regional telephone companies that allow these telephone companies to offer customers a bundle of video, telephone and DSL services, which competes with TWC's Triple Play of video, high-speed data and Digital Phone services.

Incumbent local telephone companies. TWC's high-speed data and Digital Phone services face competition from the DSL and traditional phone offerings of incumbent local telephone companies in most TWC operating areas. In some cases, DSL providers have partnered with ISPs such as AOL, which may enhance DSL's competitive position. In addition, some incumbent local telephone companies, such as AT&T Inc. (AT&T) and Verizon, have undertaken fiber-optic upgrades of their networks. The technologies they are using, such as fiber-to-the-node (FTTN) and fiber-to-the-home (FTTH), are capable of carrying two-way video, high-speed data with substantial bandwidth and IP-based telephony services, each of which is similar to the comparable services TWC offers. These networks allow for the marketing of service bundles of video, data and voice services and these companies also have the ability to include wireless services provided by owned or affiliated companies in bundles that they may offer.

Cable overbuilds. TWC operates its cable systems under non-exclusive franchises granted by state or local authorities. The existence of more than one cable system, including municipality-owned systems, operating in the same territory is referred to as an overbuild. In some of TWC's operating areas, other operators have overbuilt TWC's systems and/or offer video, data and voice services in competition with TWC.

Satellite Master Antenna Television (SMATV). Additional competition comes from private cable television systems servicing condominiums, apartment complexes and certain other multiple dwelling units, often on an exclusive basis, with local broadcast signals and many of the same satellite-delivered program services offered by franchised cable systems. Some SMATV operators now offer voice and high-speed data services as well.

Wireless Cable/Multi-channel Microwave Distribution Services (MMDS). TWC faces competition from wireless cable operators, including digital wireless operators, who use terrestrial microwave technology to distribute video programming and some of which now offer voice and high-speed data services.

Other Competition and Competitive Factors

Aside from competing with the video, data and voice services offered by direct broadcast satellite providers, local incumbent telephone companies, cable overbuilders and some SMATVs and MMDSs, each of TWC's services also faces competition from other companies that provide services on a stand-alone basis.

Video competition. TWC's video services face competition on a stand-alone basis from a number of different sources, including:

local television broadcast stations that provide free over-the-air programming which can be received using an antenna and a television set;

local television broadcasters, which in selected markets sell digital subscription services; and

video programming delivered over broadband Internet connections.

TWC's VOD services compete with online movie services, which are delivered over broadband Internet connections, and with video stores and home video products.

Online competition. TWC's high-speed data services face or may face competition from a variety of companies that offer other forms of online services, including low cost dial-up services over ordinary telephone lines, and developing

technologies, such as Internet service via power lines, satellite and various wireless services (e.g., Wi-Fi), including those of local municipalities.

Digital Phone competition. TWC's Digital Phone service also competes with wireless phone providers and national providers of Internet-based phone products such as Vonage. The increase in the number of different technologies capable of carrying voice services has intensified the competitive environment in which TWC's Digital Phone service operates.

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Additional competition. In addition to multi-channel video providers, cable systems compete with all other sources of news, information and entertainment, including over-the-air television broadcast reception, live events, movie theaters and the Internet. In general, TWC also faces competition from other media for advertising dollars. To the extent that TWC's products and services converge with theirs, TWC competes with the manufacturers of consumer electronics products. For instance, TWC's digital video recorders compete with similar devices manufactured by consumer electronics companies.

Franchise process. Under the Cable Television Consumer Protection and Competition Act of 1992, franchising authorities are prohibited from unreasonably refusing to award additional franchises. In December 2006, the FCC adopted an order intended to make it easier for competitors to obtain franchises, by defining when the actions of county- and municipal-level franchising authorities will be deemed to be unreasonable as part of the franchising process. The order, among other things, establishes deadlines for franchising authorities to act on competitive franchise applications; prohibits franchising authorities from placing unreasonable build-out demands on competitive applicants; and prohibits franchising authorities from requiring competitive applicants to undertake certain obligations concerning the provision of public, educational, and governmental access programming. Furthermore, legislation supported by regional telephone companies has been proposed at the state and federal level and enacted in a number of states to allow these companies to enter the video distribution business without obtaining local franchise approval and often on substantially more favorable terms than those afforded TWC and other existing cable operators. Legislation of this kind has been enacted in California, New Jersey, North Carolina, South Carolina and Texas. See Item 1A, Risk Factors Risks Related to Government Regulation.

Employees

As of February 1, 2007, TWC had approximately 43,000 employees, including approximately 1,700 part-time employees. Approximately 5.0% of TWC's employees are represented by labor unions. TWC considers its relations with its employees to be good.

Regulatory Matters

TWC's business is subject, in part, to regulation by the FCC and by most local and some state governments where TWC has cable systems. In addition, TWC's business is operated subject to compliance with the terms of the Memorandum Opinion and Order issued by the FCC in July 2006 in connection with the regulatory clearance of the Transactions (the Adelphia/Comcast Transactions Order). In addition, various legislative and regulatory proposals under consideration from time to time by the United States Congress (Congress) and various federal agencies have in the past materially affected TWC and may do so in the future.

The following is a summary of the terms of the Adelphia/Comcast Transactions Order as well as current significant federal, state and local laws and regulations affecting the growth and operation of TWC's businesses. The summary of the Adelphia/Comcast Transactions Order herein does not purport to be complete and is subject to, and is qualified in its entirety by reference to, the provisions of the Adelphia/Comcast Transactions Order.

Adelphia/Comcast Transactions Order

In the Adelphia/Comcast Transactions Order, the FCC imposed conditions on TWC related to regional sports networks (RSNs), as defined in the Adelphia/Comcast Transactions Order, and the resolution of disputes pursuant to the FCC's leased access regulations. In particular, the Adelphia/Comcast Transactions Order provides that:

neither TWC nor its affiliates may offer an affiliated RSN on an exclusive basis to any multichannel video programming distributor (MVPD);

TWC may not unduly or improperly influence:

the decision of any affiliated RSN to sell programming to an unaffiliated MVPD; or

the prices, terms, and conditions of sale of programming by an affiliated RSN to an unaffiliated MVPD;

if an MVPD and an affiliated RSN cannot reach an agreement on the terms and conditions of carriage, the MVPD may elect commercial arbitration to resolve the dispute;

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if an unaffiliated RSN is denied carriage by TWC, it may elect commercial arbitration to resolve the dispute in accordance with federal and FCC rules; and

with respect to leased access, if an unaffiliated programmer is unable to reach an agreement with TWC, that programmer may elect commercial arbitration to resolve the dispute, with the arbitrator being required to resolve the dispute using the FCC's existing rate formula relating to pricing terms.

The application and scope of these conditions, which will expire in July 2012, have not yet been tested. TWC retains the right to obtain FCC and judicial review of any arbitration awards made pursuant to these conditions.

Communications Act and FCC Regulation

The Communications Act of 1934, as amended (the Communications Act) and the regulations and policies of the FCC affect significant aspects of TWC's cable system operations, including video subscriber rates; carriage of broadcast television stations, as well as the way TWC sells its program packages to subscribers; the use of cable systems by franchising authorities and other third parties; cable system ownership; offering of voice and high-speed data services; and use of utility poles and conduits.

Net neutrality legislative and regulatory proposals. In the 2005-2006 Congressional term, several net neutrality -type provisions were introduced as part of broader Communications Act reform legislation. These provisions would have limited to a greater or lesser extent the ability of broadband providers to adopt pricing models and network management policies that would differentiate based on different uses of the Internet. None of these provisions was adopted. Similar legislation has been introduced in the current Congressional term.

In September 2005, the FCC issued a non-binding policy statement regarding net neutrality (the Net Neutrality Policy Statement). The FCC indicated that the statement was intended to offer guidance and insight into its approach to the Internet and broadband related issues. The principles contained in the statement set forth the FCC's view that consumers are entitled to access and use the lawful Internet content and applications of their choice, to connect lawful devices of their choosing that do not harm the broadband provider's network and are entitled to competition among network, application, service and content providers. The FCC statement also noted that these principles are subject to reasonable network management. Subsequently, the FCC has made these principles binding as to certain telecommunications companies in orders adopted in connection with mergers undertaken by those companies. To date, the FCC has declined to adopt any such regulations that would be applicable to TWC.

Several parties are seeking to persuade the FCC to adopt net neutrality-type regulations in a number of proceedings that are currently pending before the agency. These include pending FCC rulemakings regarding IP-enabled services and broadband Internet access services.

TWC is unable to predict the likelihood that legislative or additional regulatory proposals regarding net neutrality will be adopted. For a discussion of net neutrality and the impact such proposals could have on TWC if adopted, see the discussion in Item 1A, Risk Factors Risks Related to Government Regulation Net neutrality legislation or regulation could limit TWC's ability to operate its high-speed data business profitably, to manage its broadband facilities efficiently and to make upgrades to those facilities sufficient to respond to growing bandwidth usage by its high-speed data customers.

Subscriber rates. The Communications Act and the FCC's rules regulate rates for basic cable service and equipment in communities that are not subject to effective competition, as defined by federal law. Where there is no effective competition, federal law authorizes franchising authorities to regulate the monthly rates charged by the operator for

the minimum level of video programming service, referred to as basic service, which generally includes local broadcast channels and public access or educational and government channels required by the franchise. This kind of regulation also applies to the installation, sale and lease of equipment used by subscribers to receive basic service, such as set-top boxes and remote control units. In many localities, TWC is no longer subject to this rate regulation, either because the local franchising authority has not become certified by the FCC to regulate these rates or because the FCC has found that there is effective competition.

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Carriage of broadcast television stations and other programming regulation. The Communications Act and the FCC's regulations contain broadcast signal carriage requirements that allow local commercial television broadcast stations to elect once every three years to require a cable system to carry their stations, subject to some exceptions, or to negotiate with cable systems the terms by which the cable systems may carry their stations, commonly called retransmission consent. The most recent election by broadcasters became effective on January 1, 2006.

The Communications Act and the FCC's regulations require a cable operator to devote up to one-third of its activated channel capacity for the mandatory carriage of local commercial television stations. The Communications Act and the FCC's regulations give local non-commercial television stations mandatory carriage rights, but non-commercial stations do not have the option to negotiate retransmission consent for the carriage of their signals by cable systems. Additionally, cable systems must obtain retransmission consent for all distant commercial television stations (i.e., those television stations outside the designated market area to which a community is assigned) except for commercial satellite-delivered independent superstations and some low-power television stations.

FCC regulations require TWC to carry the signals of both commercial and non-commercial local digital-only broadcast stations and the digital signals of local broadcast stations that return their analog spectrum to the government and convert to a digital broadcast format. The FCC's rules give digital-only broadcast stations discretion to elect whether the operator will carry the station's primary signal in a digital or converted analog format, and the rules also permit broadcasters with both analog and digital signals to tie the carriage of their digital signals to the carriage of their analog signals as a retransmission consent condition.

The Communications Act also permits franchising authorities to negotiate with cable operators for channels for public, educational and governmental access programming. It also requires a cable system with 36 or more activated channels to designate a significant portion of its channel capacity for commercial leased access by third parties to provide programming that may compete with services offered by the cable operator. The FCC regulates various aspects of such third party commercial use of channel capacity on TWC's cable systems, including the rates and some terms and conditions of the commercial use.

In connection with certain changes in TWC's programming line-up, the Communications Act and FCC regulations also require TWC to give various kinds of advance notice. Under certain circumstances, TWC must give as much as 30 days' advance notice to subscribers, programmers and franchising authorities. Under certain circumstances, notice may have to be given in the form of bill inserts, on-screen announcements and/or newspaper advertisements. Giving notice can be expensive and, given long lead times, may limit TWC's ability to implement programming changes quickly. Direct broadcast satellite operators and other non-cable programming distributors are not subject to analogous duties.

High-speed Internet access. From time to time, industry groups, telephone companies and ISPs have sought local, state and federal regulations that would require cable operators to sell capacity on their systems to ISPs under a common carrier regulatory scheme. Cable operators have successfully challenged regulations requiring this forced access, although courts that have considered these cases have employed varying legal rationales in rejecting these regulations.

In 2002, the FCC released an order in which it determined that cable-modem service constitutes an information service rather than a cable service or a telecommunications service, as those terms are used in the Communications Act. That determination was sustained by the U.S. Supreme Court. According to the FCC, an information service classification may permit but does not require it to impose multiple ISP requirements. In 2002, the FCC initiated a rulemaking proceeding to consider whether it may and should do so and whether local franchising authorities should be permitted to do so. As of February 1, 2007, this rulemaking proceeding was still pending. As noted above, in 2005,

the FCC adopted a Net Neutrality Policy Statement intended to offer guidance on its approach to the Internet and broadband access. Among other things, the Policy Statement stated that consumers are entitled to competition among network, service and content providers, and to access the lawful content and services of their choice, subject to the needs of law enforcement. The FCC may in the future adopt specific regulations to implement the Policy Statement.

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Ownership limitations. There are various rules prohibiting joint ownership of cable systems and other kinds of communications facilities. Local telephone companies generally may not acquire more than a small equity interest in an existing cable system in the telephone company's service area, and cable operators generally may not acquire more than a small equity interest in a local telephone company providing service within the cable operator's franchise area. In addition, cable operators may not have more than a small interest in MMDS facilities or SMATV systems in their service areas. Finally, the FCC has been exploring whether it should prohibit cable operators from holding ownership interests in satellite operators.

The Communications Act also required the FCC to adopt reasonable limits on the number of subscribers a cable operator may reach through systems in which it holds an ownership interest. In September 1993, the FCC adopted a rule that was later amended to prohibit any cable operator from serving more than 30% of all cable, satellite and other multi-channel subscribers nationwide. The Communications Act also required the FCC to adopt reasonable limits on the number of channels that cable operators may fill with programming services in which they hold an ownership interest. In September 1993, the FCC imposed a limit of 40% of a cable operator's first 75 activated channels. In March 2001, a federal appeals court struck down both limits and remanded the issue to the FCC for further review. The FCC initiated a rulemaking in 2001 to consider adopting a new horizontal ownership limit and announced a follow-on proceeding to consider the issue anew. As of February 1, 2007, the FCC was continuing to explore whether it should re-impose any limits. TWC believes that it is unlikely that the FCC will adopt limits more stringent than those struck down.

Pole attachment regulation. The Communications Act requires that utilities provide cable systems and telecommunications carriers with nondiscriminatory access to any pole, conduit or right-of-way controlled by investor-owned utilities. The Communications Act also requires the FCC to regulate the rates, terms and conditions imposed by these utilities for cable systems' use of utility pole and conduit space unless state authorities demonstrate to the FCC that they adequately regulate pole attachment rates, as is the case in some states in which TWC operates. In the absence of state regulation, the FCC administers pole attachment rates on a formula basis. The FCC's original rate formula governs the maximum rate utilities may charge for attachments to their poles and conduit by cable operators providing cable services. The FCC also adopted a second rate formula that became effective in February 2001 and governs the maximum rate investor-owned utilities may charge for attachments to their poles and conduit by companies providing telecommunications services. The U.S. Supreme Court has upheld the FCC's jurisdiction to regulate the rates, terms and conditions of cable operators' pole attachments that are being used to provide both cable service and high-speed data service.

Set-top box regulation. Certain regulatory requirements are also applicable to set-top boxes. Currently, many cable subscribers rent from their cable operator a set-top box that performs both signal-reception functions and conditional-access security functions. The lease rates cable operators charge for this equipment are subject to rate regulation to the same extent as basic cable service. In 1996, Congress enacted a statute seeking to allow subscribers to use set-top boxes obtained from third party retailers. The most important of the FCC's implementing regulations requires cable operators to offer separate equipment providing only the security function (so that subscribers can purchase set-top boxes or other navigational devices from other sources) and to cease placing into service new set-top boxes that have integrated security. The regulations requiring cable operators to cease distributing new set-top boxes with integrated security are currently scheduled to go into effect on July 1, 2007. TWC expects to incur approximately \$50 million in incremental set-top box costs during 2007 as a result of these regulations. In addition, the FCC ordered the cable industry to investigate and report on the possibility of implementing a downloadable security system that would be accessible to all set-top devices. If the implementation of such a system proves technologically feasible, this may eliminate the need for consumers to lease separate conditional-access security devices. On August 16, 2006, the National Cable and Telecommunications Association (the NCTA) filed with the FCC a request that these rules be waived for all cable operators, including TWC, until a downloadable security solution is available or December 31,

2009, whichever is earlier. As of February 1, 2007, this request was still pending. No assurance can be given that the FCC will grant this or any other waiver request.

In December 2002, cable operators and consumer-electronics companies entered into a standard-setting agreement relating to reception equipment that uses a conditional-access security card a CableCARD[®] provided by the cable operator to receive one-way cable services. To implement the agreement, the FCC adopted regulations that (i) establish a voluntary labeling system for such one-way devices; (ii) require most cable systems to

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support these devices; and (iii) adopt various content-encoding rules, including a ban on the use of selectable output controls. The FCC has issued a notice of proposed rulemaking to consider additional changes. Cable operators, consumer-electronics companies and other market participants are holding discussions that may lead to a similar set of interoperability agreements covering digital devices capable of carrying cable operators two-way and interactive products and services.

Other regulatory requirements of the Communications Act and the FCC. The Communications Act also includes provisions regulating customer service, subscriber privacy, marketing practices, equal employment opportunity, technical standards and equipment compatibility, antenna structure notification, marking, lighting, emergency alert system requirements and the collection from cable operators of annual regulatory fees, which are calculated based on the number of subscribers served and the types of FCC licenses held.

Separately, the FCC has adopted cable inside wiring rules to provide specific procedures for the disposition of residential home wiring and internal building wiring where a subscriber terminates service or where an incumbent cable operator is forced by a building owner to terminate service in a multiple dwelling unit building. The FCC has also adopted rules providing that, in the event that an incumbent cable operator sells the inside wiring, it must make the wiring available to the multiple dwelling unit owner or the alternative cable service provider during the 24-hour period prior to the actual service termination by the incumbent, in order to avoid service interruption.

Compulsory copyright licenses for carriage of broadcast stations and music performance licenses. TWC's cable systems provide subscribers with, among other things, local and distant television broadcast stations. TWC generally does not obtain a license to use the copyrighted performances contained in these stations programming directly from program owners. Instead, TWC obtains this license pursuant to a compulsory license provided by federal law, which requires TWC to make payments to a copyright pool. The elimination or substantial modification of the cable compulsory license could adversely affect TWC's ability to obtain suitable programming and could substantially increase the cost of programming that remains available for distribution to its subscribers.

When TWC obtains programming from third parties, it generally obtains licenses that include any necessary authorizations to transmit the music included in it. When TWC creates its own programming and provides various other programming or related content, including local origination programming and advertising that TWC inserts into cable-programming networks, TWC is required to obtain any necessary music performance licenses directly from the rights holders. These rights are generally controlled by three music performance rights organizations, each with rights to the music of various composers. TWC generally has obtained the necessary licenses, either through negotiated licenses or through procedures established by consent decrees entered into by some of the music performance rights organizations.

State and Local Regulation

Cable operators operate their systems under non-exclusive franchises. Franchises are awarded, and cable operators are regulated, by state franchising authorities, local franchising authorities, or both. TWC believes it generally has good relations with state and local cable regulators.

Franchise agreements typically require payment of franchise fees and contain regulatory provisions addressing, among other things, upgrades, service quality, cable service to schools and other public institutions, insurance and indemnity bonds. The terms and conditions of cable franchises vary from jurisdiction to jurisdiction. The Communications Act provides protections against many unreasonable terms. In particular, the Communications Act imposes a ceiling on franchise fees of five percent of revenues derived from cable service. TWC generally passes the franchise fee on to its subscribers, listing it as a separate item on the bill.

Franchise agreements usually have a term of ten to 15 years from the date of grant, although some renewals may be for shorter terms. Franchises usually are terminable only if the cable operator fails to comply with material provisions. TWC has not had a franchise terminated due to breach. After a franchise agreement expires, a local franchising authority may seek to impose new and more onerous requirements, including requirements to upgrade facilities, to increase channel capacity and to provide various new services. Federal law, however, provides significant substantive and procedural protections for cable operators seeking renewal of their franchises. In addition, although TWC occasionally reaches the expiration date of a franchise agreement without having a written

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renewal or extension, TWC generally has the right to continue to operate, either by agreement with the local franchising authority or by law, while continuing to negotiate a renewal. In the past, substantially all of the material franchises relating to TWC's systems have been renewed by the relevant local franchising authority, though sometimes only after significant time and effort. During 2006, in adopting new regulations intended to limit the ability of local franchising authorities to delay or refuse the grant of competitive franchises (by, for example, imposing deadlines on franchise negotiations), the FCC announced the adoption of a Further Notice of Proposed Rulemaking that concluded tentatively that these new regulations should also apply to existing franchisees, including cable operators, at the time of their next franchise renewal. The FCC indicated it would issue an order in the Further Notice of Proposed Rulemaking within six months from release of the final order adopting the new regulations applicable to new entrants. Despite TWC's efforts and the protections of federal law, it is possible that some of TWC's franchises may not be renewed, and TWC may be required to make significant additional investments in its cable systems in response to requirements imposed in the course of the franchise renewal process.

Local telephone companies may provide service as traditional cable operators with local franchises or they may opt to provide their programming over unfranchised open video systems. Open video systems are subject to specified requirements, including, but not limited to, a requirement that they set aside a portion of their channel capacity for use by unaffiliated program distributors on a non-discriminatory basis. A federal appellate court overturned various parts of the FCC's open video rules, including the FCC's preemption of local franchising requirements for open video operators. The FCC has modified its open video rules to comply with the federal court's decision.

Regulation of Telephony

As of February 1, 2007, it was unclear whether and to what extent regulators will subject services like TWC's Digital Phone service (Non-traditional Voice Services) to the regulations that apply to traditional, circuit-switched telephone service provided by incumbent telephone companies. In February 2004, the FCC opened a broad-based rulemaking proceeding to consider these and other issues. That rulemaking remains pending. In November 2004, the FCC issued an order preempting state certification and tariffing requirements for certain kinds of Non-traditional Voice Services. The validity of this order has been appealed to a federal appellate court where, as of February 20, 2007, a decision was still pending. The FCC has, however, issued a series of orders resolving discrete issues. For example, in May 2005, the FCC adopted rules requiring Non-traditional Voice Service providers to supply E911 capabilities as a standard feature to their subscribers and to obtain affirmative acknowledgement from all subscribers that they have been advised of the circumstances under which E911 service may not be available. In August 2005, the FCC adopted an order requiring certain types of Non-traditional Voice Services, as well as facilities-based broadband Internet access service providers, to assist law enforcement investigations through compliance with the Communications Assistance For Law Enforcement Act. In June 2006, the FCC adopted an order making clear that Non-traditional Voice Service providers must make contributions to the federal universal service fund. Certain other issues remain unclear, however, including whether the state and federal rules that apply to traditional, circuit-switched telephone service also apply to Non-traditional Voice Service providers and whether utility pole owners may charge cable operators offering Non-traditional Voice Services higher rates for pole rental than for traditional cable service and cable-modem service. One state public utility commission, for example, has determined that TWC's Digital Phone service is subject to traditional, circuit-switched telephone regulations.

The Transactions

The following provides a more detailed description of the Transactions and contains summaries of the terms of the material agreements that were entered into in connection with the Transactions. This description does not purport to be complete and is subject to, and is qualified in its entirety by reference to, the applicable agreements.

Agreements with ACC

As described in more detail below, under separate agreements (as amended, the TW NY Purchase Agreement and Comcast Purchase Agreement, respectively, and, collectively, the Purchase Agreements), TW NY and Comcast purchased substantially all of the cable assets of Adelphia. The Purchase Agreements were entered

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into after Adelphia filed voluntary petitions for relief under chapter 11 of title 11 of the United States Code (the Bankruptcy Code). This section provides additional details regarding the Purchase Agreements and TW NY s and Comcast s underlying acquisition of Adelphia s assets (the TW NY Adelphia Acquisition and the Comcast Adelphia Acquisition, respectively), along with certain other agreements TWC entered into with Comcast.

The TW NY Purchase Agreement. On April 20, 2005, TW NY, one of TWC s subsidiaries, entered into the TW NY Purchase Agreement with ACC. The TW NY Purchase Agreement provided that TW NY would purchase certain assets and assume certain liabilities from Adelphia. On June 21, 2006, ACC and TW NY entered into Amendment No. 2 to the TW NY Purchase Agreement (the TW NY Amendment). Under the terms of the TW NY Amendment, the assets TW NY acquired from Adelphia and the consideration to be paid to Adelphia remained unchanged. However, the TW NY Amendment provided that the TW NY Adelphia Acquisition would be effected in accordance with the provisions of sections 105, 363 and 365 of the Bankruptcy Code and, as a result, Adelphia s creditors were not required to approve a plan of reorganization under chapter 11 of the Bankruptcy Code prior to the consummation of the TW NY Adelphia Acquisition. The TW NY Adelphia Acquisition closed on July 31, 2006, immediately after the Redemptions. The TW NY Adelphia Acquisition included cable systems located in the following areas: West Palm Beach, Florida; Cleveland and Akron, Ohio; Los Angeles, California; and suburbs of the District of Columbia. As consideration for the assets purchased from Adelphia, TW NY assumed certain liabilities as specified in the TW NY Purchase Agreement and paid to ACC approximately \$8.9 billion in cash (including approximately \$360 million paid into escrow), after giving effect to certain purchase price adjustments discussed below, and delivered 149,765,147 shares of TWC Class A common stock to ACC and 6,148,283 shares of TWC Class A common stock into escrow. This represents approximately 17.3% of the TWC Class A common stock outstanding (including shares issued into escrow), and approximately 16% of TWC s total outstanding common stock as of the closing of the TW NY Adelphia Acquisition.

The purchase price is subject to customary adjustments to reflect changes in Adelphia s net liabilities and subscribers as well as any shortfall in Adelphia s capital expenditure spending relative to its budget during the interim period (the Interim Period) between the execution of the TW NY Purchase Agreement and the closing of the transactions contemplated by the TW NY Purchase Agreement (the Adelphia Closing). The approximately \$360 million in cash and 6 million shares of TWC Class A common stock that were deposited into escrow are securing Adelphia s obligations in respect of any post-closing adjustments to the purchase price and its indemnification obligations for, among other things, breaches of its representations, warranties and covenants contained in the TW NY Purchase Agreement. One-third of the escrow, beginning with the cash amounts, was to be released on January 31, 2007 (six months after the Adelphia Closing) with the remaining amounts to be released on July 31, 2007 (12 months after the Adelphia Closing), in each case except to the extent of amounts paid prior to such date or that would be expected to be necessary to satisfy claims asserted on or prior to such date. On January 31, 2007, the escrow agent released to Adelphia approximately \$172 million in cash, representing one-third of the aggregate value of the escrow.

The parties to the TW NY Purchase Agreement made customary representations and warranties. ACC s representations and warranties survive for twelve months after the Adelphia Closing and, to the extent any claims are made prior to such date, until such claims are resolved. The debtors in Adelphia s bankruptcy proceedings (excluding, except to the extent provided in the TW NY Purchase Agreement, the joint ventures described in The Comcast Purchase Agreement below), are jointly and severally liable for breaches or violations by ACC of its representations, warranties and covenants. The representations and warranties of TW NY contained in the TW NY Purchase Agreement expired at the Adelphia Closing.

The TW NY Purchase Agreement included customary and certain other covenants made by Adelphia and TW NY, including covenants that require Adelphia to deliver financial statements for the systems purchased sufficient to fulfill TWC s obligations to provide such financial statements in connection with the distribution of TWC Class A common stock by ACC to certain of Adelphia s creditors.

The TW NY Purchase Agreement requires ACC to indemnify TW NY and each of its affiliates (including TWC), their respective directors, officers, shareholders, agents and other individuals (the TW Indemnified Parties) for losses and expenses stemming from the breach of any representation or warranty, covenant and certain other items. Subject to very limited exceptions, the TW Indemnified Parties are only able to seek reimbursement for

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losses from the escrowed cash and shares. In addition, subject to specified exceptions, losses associated with breaches of representations and warranties generally must exceed certain dollar amounts before a TW Indemnified Party may make a claim for indemnification. Even after the applicable threshold has been reached, a claim for indemnification for losses associated with breaches of representations and warranties is subject to specified aggregate deductibles and cap amounts. With respect to assets acquired from Adelphia by TW NY that were subsequently transferred to Comcast in the Exchange, ACC's indemnification obligation is subject to a threshold of \$74 million, a deductible of \$42 million and is capped at \$296.7 million, subject to certain adjustments, and with respect to assets acquired by TW NY that were not transferred to Comcast pursuant to the Exchange, ACC's indemnification obligation is subject to a threshold of \$67 million, a deductible of \$38 million and is capped at \$267.9 million, subject to certain adjustments.

The TW NY Purchase Agreement required TWC, at the Adelphia Closing, to amend and restate its by-laws to restrict TWC and its subsidiaries from entering into transactions with or for the benefit of Time Warner and its affiliates other than TWC and its subsidiaries (the Time Warner Group), subject to specified exceptions. Additionally, prior to August 1, 2011 (five years following the Adelphia Closing), TWC's restated certificate of incorporation and by-laws (as required to be amended by the TW NY Purchase Agreement) do not allow for an amendment to the provisions of TWC's by-laws restricting these transactions without the consent of a majority of the holders of TWC Class A common stock, other than any member of the Time Warner Group. Additionally, under the TW NY Purchase Agreement, TWC agreed that it will not enter into any short-form merger prior to August 1, 2008 (two years after the Adelphia Closing) and that it will not issue equity securities to any person (other than, subject to satisfying certain requirements, TWC and its affiliates) that have a higher vote per share than TWC Class A common stock prior to February 1, 2008 (18 months after the Adelphia Closing).

At the closing of the Adelphia Acquisition, TWC and Adelphia entered into a registration rights and sale agreement (the Adelphia Registration Rights and Sale Agreement), which governed the disposition of the shares of TWC Class A common stock received by Adelphia in the TW NY Adelphia Acquisition. Upon the effectiveness of Adelphia's plan of reorganization, the parties' obligations under the Adelphia Registration Rights and Sale Agreement terminated.

Parent Agreement. Pursuant to the Parent Agreement among ACC, TW NY and TWC, dated as of April 20, 2005, TWC, among other things, guaranteed the obligations of TW NY to Adelphia under the TW NY Purchase Agreement.

The Comcast Purchase Agreement. The Comcast Purchase Agreement has similar terms to the TW NY Purchase Agreement and the transactions contemplated by the Comcast Purchase Agreement also closed on July 31, 2006. The Comcast Adelphia Acquisition was effected in accordance with the provisions of sections 105, 363 and 365 of the Bankruptcy Code and a plan of reorganization for the joint ventures referred to in the following sentence. The Comcast Adelphia Acquisition included cable systems and Adelphia's interest in two joint ventures in which Comcast also held interests: Century-TCI California Communications, L.P. (the Century-TCI joint venture), which owned cable systems in the Los Angeles, California area, and Parnassos Communications, L.P. (the Parnassos joint venture), which owned cable systems in Ohio and Western New York. The purchase price under the Comcast Purchase Agreement was approximately \$3.6 billion in cash.

TWC/Comcast Agreements

As described in more detail below, on the same day as the parties consummated the transactions governed by the Purchase Agreements, TWC and some of its affiliates (collectively, the TWC Group) and Comcast consummated the TWC Redemption, the TWE Redemption and the Exchange (collectively, the TWC/Comcast Transactions). Under the terms of the agreement which governed the TWC Redemption (the TWC Redemption Agreement), TWC redeemed Comcast's investment in TWC in exchange for one of TWC's subsidiaries that held both cable systems and cash. In accordance with the terms of the agreement which governed the TWE Redemption (the TWE Redemption Agreement), TWE redeemed Comcast's interest in TWE in exchange for one of TWE's subsidiaries that

held both cable systems and cash. In accordance with the terms of the agreement which governed the Exchange (as amended, the Exchange Agreement), TW NY and Comcast transferred to one another subsidiaries that held certain cable systems, including cable systems acquired by each from Adelphia. The TWC

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Redemption Agreement, the TWE Redemption Agreement and the Exchange Agreement, are collectively referred to as the TWC/Comcast Agreements.

The TWC Redemption Agreement. Pursuant to the TWC Redemption Agreement, dated as of April 20, 2005, as amended, among TWC and certain other members of the TWC Group and Comcast, the TWC Redemption was effected and Comcast's interest in TWC was redeemed on July 31, 2006, immediately prior to the Adelphia Acquisition. The TWC Redemption Agreement required that TWC redeem all of the TWC Class A common stock held by TWE Holdings II Trust (Comcast Trust II), a trust that was established for the benefit of Comcast, in exchange for 100% of the common stock of Cable Holdco II Inc. (Cable Holdco II), then a subsidiary of TWC. At the time of the TWC Redemption, Cable Holdco II held both certain cable systems previously owned directly or indirectly by TWC (TWC Redemption Systems) serving approximately 589,000 basic subscribers and approximately \$1.9 billion in cash, subject generally to the liabilities associated with the TWC Redemption Systems. Certain specified assets and liabilities of the TWC Redemption Systems were retained by TWC.

The TWC Redemption Agreement contains closing adjustments to be paid in cash based on (1) the relative growth or decline in the number of basic video subscribers served by the TWC Redemption Systems as compared to the relative growth or decline in the number of basic video subscribers served by the other cable systems operated by TWC and (2) the excess, if any, of the net liabilities of the TWC Redemption Systems over an agreed upon threshold amount.

The TWC Redemption Agreement contains various customary representations and warranties of the parties thereto including representations by TWC as to the absence of certain changes or events concerning the TWC Redemption Systems, compliance with law, litigation, employee benefit plans, property, intellectual property, environmental matters, financial statements, regulatory matters, taxes, material contracts, insurance and brokers. The representations and warranties of the parties to the TWC Redemption Agreement generally survive the closing of the TWC Redemption for a period of one year and certain representations and warranties either did not survive the closing of the TWC Redemption, survive indefinitely or survive until the expiration of the applicable statute of limitations (giving effect to any waiver, mitigation or extension thereof).

The TWC Redemption Agreement contains customary indemnification obligations on the part of the parties thereto with respect to breaches of representations, warranties and covenants and certain other matters, generally subject to a \$20 million threshold and \$200 million cap, with respect to certain of TWC's representations and warranties regarding the TWC Redemption Systems and related matters, and with respect to certain representations and warranties of the Comcast parties relating to litigation, financial statements, finder's fees and certain regulatory matters.

TWC/Comcast Tax Matters Agreement. In connection with the closing of the TWC Redemption, TWC, Cable Holdco II and Comcast entered into the Holdco Tax Matters Agreement (the TWC/Comcast Tax Matters Agreement). The TWC/Comcast Tax Matters Agreement allocates responsibility for income taxes of Cable Holdco II and deals with matters relating to the income tax consequences of the TWC Redemption. This agreement contains representations, warranties and covenants relevant to such income tax treatment. The TWC/Comcast Tax Matters Agreement also contains indemnification obligations relating to the foregoing.

The TWE Redemption Agreement. Pursuant to the TWE Redemption Agreement, dated as of April 20, 2005, as amended, among TWC and Comcast, Comcast's interest in TWE was redeemed on July 31, 2006, immediately prior to the Adelphia Acquisition. Prior to the TWE Redemption, TWE Holdings I Trust (Comcast Trust I), a trust established for the benefit of Comcast, owned a 4.7% residual equity interest in TWE. Pursuant to the TWE Redemption Agreement, TWE redeemed all of the TWE residual equity interest held by Comcast Trust I in exchange for 100% of the limited liability company interests of Cable Holdco III LLC (Cable Holdco III), then a subsidiary of TWE. At the time of the TWE Redemption, Cable Holdco III held both certain cable systems previously owned or operated directly or indirectly by TWE (the TWE Redemption Systems) serving approximately 162,000 subscribers

and approximately \$147 million in cash, subject generally to the liabilities associated with the TWE Redemption Systems. Certain specified assets and liabilities of the TWE Redemption Systems were retained by TWE.

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The TWE Redemption Agreement contains closing adjustments to be paid in cash based on (1) the relative growth or decline in the number of basic video subscribers served by the TWE Redemption Systems as compared to the relative growth or decline in the number of basic video subscribers served by the other cable systems owned by TWE and (2) the excess, if any, of the net liabilities of the TWE Redemption Systems over an agreed upon threshold amount.

The TWE Redemption Agreement contained various customary representations and warranties of the parties thereto including representations by TWE as to the absence of certain changes or events concerning the TWE Redemption Systems, compliance with law, litigation, employee benefit plans, property, intellectual property, environmental matters, financial statements, regulatory matters, taxes, material contracts, insurance and brokers. The representations and warranties of the parties to the TWE Redemption Agreement generally survive the closing of the TWE Redemption Agreement for a period of one year and certain representations and warranties either survive indefinitely or survive until the expiration of the applicable statute of limitations (giving effect to any waiver, mitigation or extension thereof).

The TWE Redemption Agreement contained customary indemnification obligations on the part of the parties thereto with respect to breaches of representations and warranties and covenants and certain other matters, generally subject to a \$6 million threshold and \$60 million cap, with respect to certain representations and warranties of TWE regarding the TWE Redemption Systems and related matters, and with respect to certain representations and warranties of the Comcast parties relating to litigation, financial statements, finder's fees and certain regulatory matters.

The Exchange Agreement. Pursuant to the Exchange Agreement, dated as of April 20, 2005, as amended, among TWC, TW NY and Comcast, the Exchange closed on July 31, 2006, immediately after the Adelphia Acquisition. Pursuant to the Exchange Agreement, TW NY transferred all outstanding limited liability company interests of certain newly formed limited liability companies (collectively, the TW Newcos) to Comcast in exchange for all limited liability company interests of certain newly formed limited liability companies or limited partnerships, respectively, owned by Comcast (collectively, the Comcast Newcos). In addition, TWC paid Comcast approximately \$67 million in cash for certain adjustments related to the Exchange. Included in the systems TWC acquired in the Exchange were cable systems (i) that were owned by the Century-TCI joint venture in the Los Angeles, California area and the Parnassos joint venture in Ohio and Western New York and (ii) then owned by Comcast located in the Dallas, Texas, Los Angeles, California, and Cleveland, Ohio areas.

The Exchange Agreement contains various customary representations and warranties of the parties thereto (which generally survive for a period of 12 months after the closing of the Exchange), including representations concerning the cable systems subject to the Exchange Agreement originally owned by TWC or Comcast as to the absence of certain changes or events, compliance with law, litigation, employee benefit plans, property, intellectual property, environmental matters, financial statements, regulatory matters, taxes, material contracts, insurance and brokers. The Exchange Agreement also contained representations regarding the accuracy of certain of the representations of Adelphia set forth in the Purchase Agreements for events, circumstances and conditions occurring after the closing of the TW NY Adelphia Acquisition.

The Exchange Agreement contains customary indemnification obligations on the part of the parties thereto with respect to breaches of representations, warranties, covenants and certain other matters. Each party's indemnification obligations with respect to breaches of representations and warranties (other than certain specified representations and warranties) are subject to (1) with respect to cable systems originally owned by TWC that were acquired by Comcast, a \$5.7 million threshold and \$19.1 million cap, (2) with respect to cable systems originally owned by Adelphia that were initially acquired by TWC pursuant to the TW NY Purchase Agreement and then transferred to Comcast pursuant to the Exchange Agreement, a \$74.6 million threshold and \$746 million cap, (3) with respect to cable systems originally owned by Comcast that were acquired by TWC, a \$41.5 million threshold and \$415 million cap,

and (4) with respect to cable systems originally owned by Adelphia that were initially acquired by Comcast pursuant to the Comcast Purchase Agreement and then transferred to TWC pursuant to the Exchange Agreement, a \$34.9 million threshold and \$349 million cap. In addition, no party is required to indemnify the other for breaches of representations, warranties or covenants relating to assets or liabilities initially acquired from Adelphia and then transferred to the other party, unless the breach is of a representation, warranty or

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covenant actually made by the party under the Exchange Agreement in relation to those Adelphia assets or liabilities.

Operating Partnerships and Joint Ventures

Time Warner Entertainment Company, L.P.

TWE is a Delaware limited partnership that was formed in 1992. At the time of the restructuring of TWE, which was completed on March 31, 2003, (the TWE Restructuring), subsidiaries of Time Warner owned general and limited partnership interests in TWE consisting of 72.36% of the pro-rata priority capital and residual equity capital and 100% of the junior priority capital, and Comcast Trust I owned limited partnership interests in TWE consisting of 27.64% of the pro rata priority capital and residual equity capital. Prior to the TWE Restructuring, TWE's business consisted of interests in cable systems, cable networks and filmed entertainment.

Through a series of steps executed in connection with the TWE Restructuring, TWE transferred its non-cable businesses, including its filmed entertainment and cable network businesses, along with associated liabilities, to Warner Communications Inc. (WCI), a wholly owned subsidiary of Time Warner, and the ownership structure of TWE was reorganized so that (i) TWC owned 94.3% of the residual equity interests in TWE, (ii) Comcast Trust I owned 4.7% of the residual equity interests in TWE and (iii) American Television and Communications Corporation (ATC), a wholly owned subsidiary of Time Warner, owned 1.0% of the residual equity interests in TWE and \$2.4 billion in mandatorily redeemable preferred equity issued by TWE. In addition, following the TWE Restructuring, Time Warner indirectly held shares of TWC Class A common stock and Class B common stock representing, in the aggregate, 89.3% of TWC's voting power and 82.1% of TWC's outstanding equity.

On July 28, 2006, the partnership interests and preferred equity originally held by ATC, were contributed to TW NY Cable Holding Inc. (TW NY Holding), a wholly owned subsidiary of TWC, in exchange for a 12.4% non-voting common stock interest in TW NY Holding (the ATC Contribution) and upon the closing of the TWE Redemption, Comcast Trust I's ownership interest in TWE was redeemed. As a result, Time Warner has no direct interest in TWE and Comcast no longer has any interest in TWE. As of December 31, 2006, TWE had \$3.2 billion in principal amount of outstanding debt securities with maturities ranging from 2008 to 2033 and fixed interest rates ranging from 7.25% to 10.15%. See Management's Discussion and Analysis of Results of Operations and Financial Condition Financial Condition and Liquidity TWE Notes.

The TWE partnership agreement requires that transactions between TWC and its subsidiaries, on the one hand, and TWE and its subsidiaries on the other hand, be conducted on an arm's-length basis, with management, corporate or similar services being provided by TWC on a no mark-up basis with fair allocations of administrative costs and general overhead.

Description of Certain Provisions of the TWE-A/N Partnership Agreement

The following description summarizes certain provisions of the partnership agreement relating to the Time Warner Entertainment-Advance/Newhouse Partnership (TWE-A/N). Such description does not purport to be complete and is subject to, and is qualified in its entirety by reference to, the provisions of the TWE-A/N partnership agreement.

Partners of TWE-A/N. The general partnership interests in TWE-A/N are held by TW NY and an indirect subsidiary of TWE (such TWE subsidiary and TW NY are together, the TW Partners) and the Advance/Newhouse Partnership (A/N), a partnership owned by wholly owned subsidiaries of Advance Publications Inc. and Newhouse Broadcasting Corporation. The TW Partners also hold preferred partnership interests.

2002 Restructuring of TWE-A/N. The TWE-A/N cable television joint venture was formed by TWE and A/N in December 1995. A restructuring of the partnership was completed during 2002. As a result of this restructuring, cable systems and their related assets and liabilities serving approximately 2.1 million subscribers as of December 31, 2002 (which amount is not included in TWE-A/N's 4.0 million consolidated subscribers, as of December 31, 2006) located primarily in Florida (the A/N Systems), were transferred to a subsidiary of TWE-A/N (the A/N Subsidiary). As part of the restructuring, effective August 1, 2002, A/N's interest in TWE-A/N was converted into an interest that tracks the economic performance of the A/N Systems, while the TW Partners retain the economic

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interests and associated liabilities in the remaining TWE-A/N cable systems. Also, in connection with the restructuring, TWC effectively acquired A/N's interest in Road Runner. TWE-A/N's financial results, other than the results of the A/N Systems, are consolidated with TWC. Road Runner continues to provide high-speed data services to the A/N Subsidiary.

Management and Operations of TWE-A/N. Subject to certain limited exceptions, a subsidiary of TWE is the managing partner, with exclusive management rights of TWE-A/N, other than with respect to the A/N Systems. Also, subject to certain limited exceptions, A/N has authority for the supervision of the day-to-day operations of the A/N Subsidiary and the A/N Systems. In connection with the 2002 restructuring, TWE entered into a services agreement with A/N and the A/N Subsidiary under which TWE agreed to exercise various management functions, including oversight of programming and various engineering-related matters. TWE and A/N also agreed to periodically discuss cooperation with respect to new product development.

Restrictions on Transfer – TW Partners. Each TW Partner is generally permitted to directly or indirectly dispose of its entire partnership interest at any time to a wholly owned affiliate of TWE (in the case of transfers by TWE-A/N Holdco, L.P. (TWE-A/N Holdco)) or to TWE, Time Warner or a wholly owned affiliate of TWE or Time Warner (in the case of transfers by TWC). In addition, the TW Partners are also permitted to transfer their partnership interests through a pledge to secure a loan, or a liquidation of TWE in which Time Warner, or its affiliates, receives a majority of the interests of TWE-A/N held by the TW Partners. TWE-A/N Holdco is allowed to issue additional partnership interests in TWE-A/N Holdco so long as Time Warner continues to own, directly or indirectly, either 35% or 43.75% of the residual equity capital of TWE-A/N Holdco, depending on when the issuance occurs.

Restrictions on Transfer – A/N Partner. A/N is generally permitted to directly or indirectly transfer its entire partnership interest at any time to certain members of the Newhouse family or specified affiliates of A/N. A/N is also permitted to dispose of its partnership interest through a pledge to secure a loan and in connection with specified restructurings of A/N.

Restructuring Rights of the Partners. TWE-A/N Holdco and A/N each has the right to cause TWE-A/N to be restructured at any time. Upon a restructuring, TWE-A/N is required to distribute the A/N Subsidiary with all of the A/N Systems to A/N in complete redemption of A/N's interests in TWE-A/N, and A/N is required to assume all liabilities of the A/N Subsidiary and the A/N Systems. To date, neither TWE-A/N Holdco nor A/N has delivered notice of the intent to cause a restructuring of TWE-A/N.

TWE's Regular Right of First Offer. Subject to exceptions, A/N and its affiliates are obligated to grant TWE-A/N Holdco a right of first offer prior to any sale of assets of the A/N Systems to a third party.

TWE's Special Right of First Offer. Within a specified time period following the first, seventh, thirteenth and nineteenth anniversaries of the deaths of two specified members of the Newhouse family (those deaths have not yet occurred), A/N has the right to deliver notice to TWE-A/N Holdco stating that it wishes to transfer some or all of the assets of the A/N Systems, thereby granting TWE-A/N Holdco the right of first offer to purchase the specified assets. Following delivery of this notice, an appraiser will determine the value of the assets proposed to be transferred. Once the value of the assets has been determined, A/N has the right to terminate its offer to sell the specified assets. If A/N does not terminate its offer, TWE-A/N Holdco will have the right to purchase the specified assets at a price equal to the value of the specified assets determined by the appraiser. If TWE-A/N Holdco does not exercise its right to purchase the specified assets, A/N has the right to sell the specified assets to an unrelated third party within 180 days on substantially the same terms as were available to TWE.

TWC's Governing Documents

Management and Operation of TWC

The following description summarizes certain provisions of agreements related to, and constituent documents of, TWC that affect and govern the ongoing operations of TWC. Such description does not purport to be complete and is qualified in its entirety by reference to the provisions of such agreements and constituent documents.

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Stockholders of TWC. A subsidiary of Time Warner owns 746,000,000 shares of TWC Class A common stock, which generally has one vote per share, and 75,000,000 shares of TWC Class B common stock, which generally has ten votes per share, which together represent 90.6% of the voting power of TWC stock and approximately 84% of the equity of TWC. The TWC Class B common stock is not convertible into TWC Class A common stock. The TWC Class A common stock and the TWC Class B common stock vote together as a single class on all matters, except with respect to the election of directors and certain matters described below.

Board of Directors of TWC. The TWC Class A common stock votes as a separate class with respect to the election of the Class A directors of TWC (the Class A Directors), and the TWC Class B common stock votes as a separate class with respect to the election of the Class B directors of TWC (the Class B Directors). Pursuant to the amended and restated certificate of incorporation of TWC (the TWC Certificate of Incorporation), which was adopted upon the closing of the Adelphia Acquisition, the Class A Directors must represent not less than one-sixth and not more than one-fifth of the directors of TWC, and the Class B Directors must represent not less than four-fifths of the directors of TWC. As a result of its holdings, Time Warner has the ability to cause the election of all Class A Directors and Class B Directors, subject to certain restrictions on the identity of these directors discussed below.

The TWC Certificate of Incorporation requires that there be at least two independent directors on the board of directors of TWC. Pursuant to a shareholder agreement between TWC and Time Warner (the Shareholder Agreement), so long as Time Warner has the power to elect a majority of TWC's board of directors, TWC must obtain Time Warner's consent before entering into any agreement that binds or purports to bind Time Warner or its affiliates or that would subject TWC or its subsidiaries to significant penalties or restrictions as a result of any action or omission of Time Warner or its affiliates; or adopting a stockholder rights plan, becoming subject to section 203 of the Delaware General Corporation Law, adopting a fair price provision in its certificate of incorporation or taking any similar action.

Furthermore, pursuant to the Shareholder Agreement, Time Warner may purchase debt securities issued by TWE under the TWE Indenture only after giving notice to TWC of the approximate amount of debt securities it intends to purchase and the general time period for the purchase, which period may not be greater than 90 days, subject to TWC's right to give notice to Time Warner that it intends to purchase such amount of TWE debt securities itself.

Under the terms of the TWC Certificate of Incorporation, for three years following July 31, 2006, the date upon which shares of TWC common stock were issued in connection with the Adelphia Acquisition, at least 50% of the board of directors of TWC must be independent directors.

Protections of Minority Class A Common Stockholders. The approval of the holders of a majority of the voting power of the outstanding shares of TWC Class A common stock held by persons other than Time Warner is necessary in connection with:

any merger, consolidation or business combination of TWC in which the holders of TWC Class A common stock do not receive per share consideration identical to that received by the holders of the TWC Class B common stock (other than with respect to voting power) or which would adversely affect the specific rights and privileges of the TWC Class A common stock relative to the TWC Class B common stock;

any change to the TWC Certificate of Incorporation that would have a material adverse effect on the rights of the holders of the TWC Class A common stock in a manner different from the effect on the holders of the TWC Class B common stock;

through July 31, 2011, any change to provisions of TWC's amended and restated by-laws (the "TWC By-Laws") concerning restrictions on transactions between TWC and Time Warner and its affiliates and the adoption of provisions of the TWC Certificate of Incorporation or the TWC By-Laws inconsistent with such restrictions;

any change to the TWC Certificate of Incorporation that would alter the number of independent directors required on the TWC board of directors; and

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any change to the provisions of the TWC Certificate of Incorporation that would affect the right of the TWC Class A common stock to vote as a class in connection with any of the events discussed above.

Matters Affecting the Relationship between Time Warner and TWC

Indebtedness Approval Right. Under the Shareholder Agreement, until such time as the indebtedness of TWC is no longer attributable to Time Warner, in Time Warner's reasonable judgment, TWC, its subsidiaries and entities that it manages may not, without the consent of Time Warner, create, incur or guarantee any indebtedness (except for the issuance of commercial paper or borrowings under TWC's current revolving credit facility up to the limit of that credit facility, to which Time Warner has consented), including preferred equity, or rental obligations if its ratio of indebtedness plus six times its annual rental expense to EBITDA (as EBITDA is defined in the Shareholder Agreement) plus rental expense, or EBITDAR, then exceeds or would exceed 3:1.

Time Warner Standstill. Under the Shareholder Agreement, Time Warner has agreed that prior to August 1, 2009 (three years following the closing of the Adelphia Acquisition), Time Warner will not make or announce a tender offer or exchange offer for TWC Class A common stock without the approval of a majority of the independent directors of TWC; and prior to August 1, 2016 (10 years following the closing of the Adelphia Acquisition), Time Warner will not enter into any business combination with TWC, including a short-form merger, without the approval of a majority of the independent directors of TWC. Under the Adelphia Acquisition agreement, TWC has agreed that for a period of two years following the closing of the Adelphia Acquisition it will not enter into any short-form merger and that for a period of 18 months following the closing of the Adelphia Acquisition it will not issue equity securities to any person (other than, subject to satisfying certain requirements, Time Warner and its affiliates) that have a higher vote per share than the TWC Class A common stock.

Transactions between Time Warner and TWC. The TWC By-Laws provide that Time Warner may only enter into transactions with TWC and its subsidiaries, including TWE, that are on terms that, at the time of entering into such transaction, are substantially as favorable to TWC or its subsidiaries as they would be able to receive in a comparable arm's-length transaction with a third party. Any such transaction involving reasonably anticipated payments or other consideration of \$50 million or greater also requires the prior approval of a majority of the independent directors of TWC. The TWC By-Laws also prohibit TWC from entering into any transaction having the intended effect of benefiting Time Warner and any of its affiliates (other than TWC and its subsidiaries) at the expense of TWC or any of its subsidiaries in a manner that would deprive TWC or any of its subsidiaries of the benefit it would have otherwise obtained if the transaction were to have been effected on arm's-length terms.

Time Warner Registration Rights Agreement between TWC and Time Warner. At the closing of the TWE Restructuring, Time Warner and TWC entered into a registration rights agreement (the Registration Rights Agreement) relating to Time Warner's shares of TWC common stock. Subject to several exceptions, including TWC's right to defer a demand registration under some circumstances, Time Warner may, under that agreement, require that TWC take commercially reasonable steps to register for public resale under the Securities Act all shares of common stock that Time Warner requests to be registered. Time Warner may demand an unlimited number of registrations. In addition, Time Warner has been granted piggyback registration rights subject to customary restrictions and TWC is permitted to piggyback on Time Warner's registrations. TWC has also agreed that, in connection with a registration and sale by Time Warner under the Registration Rights Agreement, it will indemnify Time Warner and bear all fees, costs and expenses, except underwriting discounts and selling commissions.

Item 1A. Risk Factors.

Risks Related to Competition

TWC faces a wide range of competition, which could affect its future results of operations.

TWC's industry is and will continue to be highly competitive. Some of TWC's principal competitors—in particular, direct broadcast satellite operators and incumbent local telephone companies—either offer or are making significant capital investments that will allow them to offer services that provide directly comparable features and functions to those TWC offers, and they are aggressively seeking to offer them in bundles similar to TWC's.

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Incumbent local telephone companies have recently increased their efforts to provide video services. The two major incumbent local telephone companies AT&T and Verizon have both announced that they intend to make fiber upgrades of their networks, although each is using a different architecture. AT&T is expected to utilize one of a number of fiber architectures, including FTTN, and Verizon utilizes a fiber architecture known as FTTH. Some upgraded portions of these networks are or will be capable of carrying two-way video services that are technically comparable to TWC's, high-speed data services that operate at speeds as high or higher than those TWC makes available to customers in these areas and digital voice services that are similar to TWC's. In addition, these companies continue to offer their traditional phone services as well as bundles that include wireless voice services provided by affiliated companies. In areas where they have launched video services, these parties are aggressively marketing video, voice and data bundles at entry level prices similar to those TWC uses to market its bundles.

TWC's video business faces intense competition from direct broadcast satellite providers. These providers compete with TWC based on aggressive promotional pricing and exclusive programming (e.g., NFL Sunday Ticket, which is not available to cable operators). Direct broadcast satellite programming is comparable in many respects to TWC's analog and digital video services, including TWC's DVR service. In addition, the two largest direct broadcast satellite providers offer some interactive programming features. These providers are working to increase the number of HDTV channels they offer in order to differentiate their service from services offered by cable operators.

In some areas, incumbent local telephone companies and direct broadcast satellite operators have entered into co-marketing arrangements that allow both parties to offer synthetic bundles (i.e., video services provided principally by the direct broadcast satellite operator, and DSL and traditional phone service offered by the telephone companies). From a consumer standpoint, the synthetic bundles appear similar to TWC's bundles and result in a single bill. AT&T is offering a service in some areas that utilizes direct broadcast satellite video but in an integrated package with AT&T's DSL product, which enables an Internet-based return path that allows the user to order a VOD-like product and other services that TWC provides using its two-way network.

TWC operates its cable systems under non-exclusive franchises granted by state or local authorities. The existence of more than one cable system operating in the same territory is referred to as an overbuild. In some of TWC's operating areas, other operators have overbuilt TWC's systems and offer video, data and/or voice services in competition with TWC.

In addition to these competitors, TWC faces competition on individual services from a range of competitors. For instance, TWC's video service faces competition from providers of paid television services (such as satellite master antenna services) and from video delivered over the Internet. TWC's high-speed data service faces competition from, among others, incumbent local telephone companies utilizing their newly-upgraded fiber networks and/or DSL lines, Wi-Fi, Wi-Max and 3G wireless broadband services provided by mobile carriers such as Verizon Wireless, broadband over power line providers, and from providers of traditional dial-up Internet access. TWC's voice service faces competition for voice customers from incumbent local telephone companies, cellular telephone service providers, Internet phone providers, such as Vonage, and others.

Any inability to compete effectively or an increase in competition with respect to video, voice or high-speed data services could have an adverse effect on TWC's financial results and return on capital expenditures due to possible increases in the cost of gaining and retaining subscribers and lower per subscriber revenue, could slow or cause a decline in TWC's growth rates, reduce its revenues, reduce the number of its subscribers or reduce its ability to increase penetration rates for services. As TWC expands and introduces new and enhanced products and services, TWC may be subject to competition from other providers of those products and services, such as telecommunications providers, ISPs and consumer electronics companies, among others. TWC cannot predict the extent to which this competition will affect its future financial results or return on capital expenditures.

Future advances in technology, as well as changes in the marketplace and in the regulatory and legislative environments, may result in changes to the competitive landscape. For additional information regarding the regulatory and legal environment, see Risks Related to Government Regulation and Item 1, Business Regulatory Matters.

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TWC operates its cable systems under franchises that are non-exclusive. State and local franchising authorities can grant additional franchises and foster additional competition.

TWC's cable systems are constructed and operated under non-exclusive franchises granted by state or local governmental authorities. Federal law prohibits franchising authorities from unreasonably denying requests for additional franchises. Consequently, competing operators may build systems in areas in which TWC holds franchises. In the past, competing operators—most of them relatively small—have obtained such franchises and offered competing services in some areas in which TWC holds franchises. More recently, incumbent local telephone companies with significant resources, particularly Verizon and AT&T, have obtained or have sought to obtain such franchises in connection with or in preparation for offering of video, high speed data and digital voice services in some of TWC's service areas. See TWC faces a wide range of competition, which could affect its future results of operations above. The existence of more than one cable system operating in the same territory is referred to as an overbuild.

TWC faces competition from incumbent local telephone companies and other overbuilders in many of the areas it serves, including within each of its five major geographic operating areas. In New York City, TWC faces competition from Verizon and another overbuilder, RCN Corporation (RCN). In upstate New York, overbuild activity is focused primarily in the Binghamton and Rochester areas, where competitors include Delhi Telephone and Empire Video Corporation, respectively. In the Carolinas, a number of local telephone companies, including Horry Telephone Cooperative, Southern Coastal Cable and Knology, are offering competing services, principally in South Carolina. TWC's Ohio operations face competition from local telephone companies such as New Knoxville Telephone Company, Wide Open West, Telephone Service Company and Columbus Grove Telephone Company. Recently, AT&T was granted franchises in the Columbus area. There is also local telephone company and other overbuild competition in TWC's Texas region in the areas of Dallas, San Antonio, Waco, Austin and other areas in south and west Texas that TWC serves. Competing providers include FISION, Grande Communications, Wide Open West, and Western Integrated Networks. AT&T and Verizon have also been granted state-issued franchises in Texas. In southern California, TWC faces competition from RCN, AT&T and Verizon.

Additional overbuild situations may occur in these and TWC's other operating areas. In particular, Verizon and AT&T have both indicated that they will continue to upgrade their networks to enable the delivery of video and high-speed data services, in addition to their existing telephone services. In addition, companies that traditionally have not provided cable services and that have substantial financial resources may also decide to obtain franchises and seek to provide competing services.

Increased competition from any source, including overbuilders, could require TWC to charge lower prices for existing or future services than it otherwise might or require TWC to invest in or otherwise obtain additional services more quickly or at higher costs than it otherwise might. These actions, or the failure to take steps to allow TWC to compete effectively, could adversely affect TWC's growth, financial condition and results of operations.

TWC faces risks relating to competition for the leisure and entertainment time of audiences, which has intensified in part due to advances in technology.

In addition to the various competitive factors discussed above, TWC's business is subject to risks relating to increasing competition for the leisure and entertainment time of consumers. TWC's business competes with all other sources of entertainment and information delivery, including broadcast television, movies, live events, radio broadcasts, home video products, console games, print media and the Internet. Technological advancements, such as VOD, new video formats, and Internet streaming and downloading, have increased the number of entertainment and information delivery choices available to consumers and intensified the challenges posed by audience fragmentation. The increasing number of choices available to audiences could negatively impact not only consumer demand for TWC's

products and services, but also advertisers' willingness to purchase advertising from TWC. If TWC does not respond appropriately to further increases in the leisure and entertainment choices available to consumers, its competitive position could deteriorate, and its financial results could suffer.

Significant increases in the use of bandwidth-intensive Internet-based services could increase TWC's costs.

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The rising popularity of bandwidth-intensive Internet-based services poses special risks for TWC's high-speed data business. Examples of such services include peer-to-peer file sharing services, gaming services, the delivery of video via streaming technology and by download, as well as Internet phone services. If heavy usage of bandwidth-intensive services grows beyond TWC's current expectations, it may need to invest more capital than currently anticipated to expand the bandwidth capacity of its systems or its customers may have a suboptimal experience when using its high-speed data service. TWC's ability to manage its network efficiently could be restricted by legislative efforts to impose so-called "net neutrality" requirements on cable operators. See "Risks Related to Government Regulation" TWC's business is subject to extensive governmental regulation, which could adversely affect its business.

TWC's competitive position could suffer if TWC is unable to develop a compelling wireless offering.

TWC offers high-quality information, entertainment and communication services over sophisticated broadband cable networks. TWC believes these networks currently provide the most efficient means to provide such services to consumers' homes. However, consumers are increasingly interested in accessing information, entertainment and communication services outside the home as well.

TWC is exploring various means by which it can offer its customers mobile services but there can be no assurance that TWC will be successful in doing so or that any such services it offers will appeal to consumers. In November 2005, TWC and several other cable operators, together with Sprint, announced the formation of a joint venture that would develop integrated cable and wireless products that the venture's owners could offer to customers bundled with cable services. There can be no assurance that the joint venture will successfully develop any such products, that any products developed will be accepted by consumers or, even if accepted, that the offering will be profitable. A separate joint venture formed by the same parties participated in the recently completed FCC Auction 66 for Advanced Wireless Spectrum and was the winning bidder of 137 licenses. The FCC awarded these licenses to the venture on November 29, 2006. There can be no assurance that the venture will successfully develop mobile voice and related wireless services or otherwise benefit from the acquired spectrum.

Until recently, TWC's telephone competitors have only been able to include mobile services in their offerings through co-marketing relationships with affiliated wireless providers, which TWC does not believe have proven particularly compelling to consumers. However, TWC anticipates that, in the future, its competitors will either gain greater ownership of, or enter into more effective marketing arrangements with, these wireless providers. For instance, as a result of AT&T's recent acquisition of BellSouth Corp., it has acquired 100% ownership of Cingular Wireless, LLC, a wireless provider of which AT&T previously owned 60%. If TWC's competitors begin to expand their service bundles to include compelling mobile features before TWC has developed an equivalent or more compelling offering, TWC may not be in a position to provide a competitive product offering and its business and financial results could suffer.

If TWC pursues wireless strategies intended to provide it with a competitive response to offerings such as those described above, there can be no assurance that such strategies will succeed. For instance, TWC could, in pursuing such a strategy, select technologies, products and services that fail to appeal to consumers. In addition, TWC could incur significant costs in gaining access to, developing and marketing, such services. If TWC incurred such costs, and the resulting products and services were not competitive with other parties' products or appealing to TWC's customers, its business and financial results could suffer.

Additional Risks of TWC's Operations

TWC's business is characterized by rapid technological change, and if TWC does not respond appropriately to technological changes, its competitive position may be harmed.

TWC operates in a highly competitive, consumer-driven and rapidly changing environment and is, to a large extent, dependent on its ability to acquire, develop, adopt and exploit new and existing technologies to distinguish its services from those of its competitors. This may take long periods of time and require significant capital investments. In addition, TWC may be required to anticipate far in advance which technologies and equipment it should adopt for new products and services or for future enhancements of or upgrades to its existing products and services. If TWC chooses technologies or equipment that are less effective, cost-efficient or attractive to its

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customers than those chosen by its competitors, or if TWC offers products or services that fail to appeal to consumers, are not available at competitive prices or that do not function as expected, its competitive position could deteriorate, and its business and financial results could suffer.

TWC's competitive position also may be adversely affected by various timing factors, such as the ability of its competitors to acquire or develop and introduce new technologies, products and services more quickly than it does. Furthermore, advances in technology, decreases in the cost of existing technologies or changes in competitors' product and service offerings also may require TWC in the future to make additional research and development expenditures or to offer at no additional charge or at a lower price certain products and services it currently offers to customers separately or at a premium. In addition, the uncertainty of the costs for obtaining intellectual property rights from third parties could impact TWC's ability to respond to technological advances in a timely manner.

The combination of increased competition, more technologically advanced platforms, products and services, the increasing number of choices available to consumers and the overall rate of change in media and entertainment industries requires companies such as TWC to become more responsive to consumer needs and to adapt more quickly to market conditions than has been necessary in the past. TWC could have difficulty managing these changes while at the same time maintaining its rates of growth and profitability.

TWC faces certain challenges relating to the integration of the systems acquired in the Transactions into its existing systems and TWC may not realize the anticipated benefits of the Transactions.

The Transactions have combined cable systems that were previously owned and operated by three different companies. TWC expects that it will realize cost savings and other financial and operating benefits as a result of the Transactions. However, due to the complexity of and risks relating to the integration of these systems, among other factors, TWC cannot predict with certainty when these cost savings and benefits will occur or the extent to which they actually will be achieved, if at all.

The successful integration of the Acquired Systems will depend primarily on TWC's ability to manage the combined operations and integrate into its operations the Acquired Systems (including management information, marketing, purchasing, accounting and finance, sales, billing, customer support and product distribution infrastructure, personnel, payroll and benefits, regulatory compliance and technology systems). The integration of these systems, including the upgrade of certain portions of the Acquired Systems, requires significant capital expenditures and may require TWC to use financial resources it would otherwise devote to other business initiatives, including marketing, customer care, the development of new products and services and the expansion of its existing cable systems. While TWC has planned for certain capital expenditures for, among other things, improvements to plant and technical performance and upgrading system capacity of the Acquired Systems, TWC may be required to spend more than anticipated for those purposes. Furthermore, these integration efforts may require more attention from TWC's management and impose greater strains on its technical resources than anticipated. If TWC fails to successfully integrate the Acquired Systems, it could have a material adverse effect on TWC's business and financial results.

Additionally, to the extent TWC encounters significant difficulties in integrating systems or other operations, TWC's customer care efforts may be hampered. For instance, TWC may experience higher-than-normal call volumes under such circumstances, which might interfere with its ability to take orders, assist customers not impacted by the integration difficulties, and conduct other ordinary course activities. In addition, depending on the scope of the difficulties, TWC may be the subject of negative press reports or customer perception.

TWC has transitional services arrangements with Comcast under which Comcast has agreed to assist TWC by providing certain services to applicable Acquired Systems as TWC integrates those systems into its existing systems. Any failure by Comcast to perform under its agreements may cause the integration of the applicable Acquired

Systems to be delayed and may increase the amount of time and money TWC needs to devote to the integration of the applicable Acquired Systems.

TWC faces risks inherent to its voice services business.

TWC may encounter unforeseen difficulties as it introduces its voice services in new operating areas, including the Acquired Systems, and/or increases the scale of its voice service offerings in areas in which they have already

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been launched. First, TWC faces heightened customer expectations for the reliability of voice services as compared with its video and high-speed data services. TWC has undertaken significant training of customer service representatives and technicians, and it will continue to need a highly trained workforce. To ensure reliable service, TWC may need to increase its expenditures, including spending on technology, equipment and personnel. If the service is not sufficiently reliable or TWC otherwise fails to meet customer expectations, its voice services business could be adversely affected. Second, the competitive landscape for voice services is intense; TWC faces competition from providers of Internet phone services, as well as incumbent local telephone companies, cellular telephone service providers and others. See **Risks Related to Competition** TWC faces a wide range of competition, which could affect its future results of operations. Third, TWC's voice services depend on interconnection and related services provided by certain third parties. As a result, TWC's ability to implement changes as the service grows may be limited. Finally, TWC expects advances in communications technology, as well as changes in the marketplace and the regulatory and legislative environment. Consequently, TWC is unable to predict the effect that ongoing or future developments in these areas might have on its voice services business and operations.

In addition, TWC's launch of voice services in the Acquired Systems may pose certain risks. TWC will be unable to provide its voice services in some of the Acquired Systems without first upgrading the facilities. Additionally, TWC may need to obtain certain services from third parties prior to deploying voice services in the Acquired Systems. If TWC encounters difficulties or significant delays in launching voice services in the Acquired Systems, its business and financial results may be adversely affected.

TWC's ability to attract new basic video subscribers is dependent in part on growth in new housing in its service areas.

Providing basic video services is an established and highly penetrated business. Approximately 85% of U.S. households are now receiving multi-channel video service. As a result, TWC's ability to achieve incremental growth in basic video subscribers is dependent in part on growth in new housing in its service areas, which is influenced by various factors outside of TWC's control, including both national and local economic conditions. If growth in new housing falls or if there are population declines in TWC's operating areas, opportunities to gain new basic subscribers will decrease, which may have a material adverse effect on TWC's growth, business and financial results or financial condition.

TWC relies on network and information systems and other technology, and a disruption or failure of such networks, systems or technology as a result of computer viruses, misappropriation of data or other malfeasance, as well as outages, natural disasters, accidental releases of information or similar events, may disrupt TWC's business.

Because network and information systems and other technologies are critical to TWC's operating activities, network or information system shutdowns caused by events such as computer hacking, dissemination of computer viruses, worms and other destructive or disruptive software, denial of service attacks and other malicious activity, as well as power outages, natural disasters, terrorist attacks and similar events, pose increasing risks. Such an event could have an adverse impact on TWC and its customers, including degradation of service, service disruption, excessive call volume to call centers and damage to equipment and data. Such an event also could result in large expenditures necessary to repair or replace such networks or information systems or to protect them from similar events in the future. Significant incidents could result in a disruption of TWC's operations, customer dissatisfaction, or a loss of customers and revenues.

Furthermore, TWC's operating activities could be subject to risks caused by misappropriation, misuse, leakage, falsification and accidental release or loss of information maintained in TWC's information technology systems and networks, including customer, personnel and vendor data. TWC could be exposed to significant costs if such risks

were to materialize, and such events could damage its reputation and credibility. TWC also could be required to expend significant capital and other resources to remedy any such security breach. As a result of the increasing awareness concerning the importance of safeguarding personal information, the potential misuse of such information and legislation that has been adopted or is being considered regarding the protection and security of

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personal information, information-related risks are increasing, particularly for businesses like TWC s that handle a large amount of personal customer data.

If TWC is unable to retain senior executives and attract and retain other qualified employees, its growth might be hindered, which could impede TWC s ability to run its business and potentially reduce its revenues and profitability.

TWC s success depends in part on its ability to attract, hire, train and retain qualified managerial, sales, customer service and marketing personnel. TWC faces significant competition for these types of personnel. TWC may be unsuccessful in attracting and retaining the required personnel to conduct and expand its operations successfully and, in such an event, its revenues and profitability could decline. TWC s success also depends to a significant extent on the continued service of its senior management team, including Messrs. Britt and Hobbs, with whom TWC has employment agreements. The loss of any member of TWC s senior management team or other qualified employees could impair TWC s ability to execute its business plan and growth strategy, cause TWC to lose subscribers and reduce its net sales, or lead to employee morale problems and/or the loss of key employees. In addition, key personnel may leave TWC and compete against it.

TWC s business may be adversely affected if it cannot continue to license or enforce the intellectual property rights on which its business depends.

TWC relies on patent, copyright, trademark and trade secret laws and licenses and other agreements with its employees, customers, suppliers, and other parties, to establish and maintain its intellectual property rights in technology and the products and services used in TWC s operations. However, any of TWC s intellectual property rights could be challenged or invalidated, or such intellectual property rights may not be sufficient to permit TWC to take advantage of current industry trends or otherwise to provide competitive advantages, which could result in costly redesign efforts, discontinuance of certain product or service offerings or other competitive harm. Additionally, from time to time TWC receives notices from others claiming that it infringes their intellectual property rights, and the number of these claims could increase in the future. 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, which could require TWC to change its business practices and limit its ability to compete effectively. Even if TWC believes that the claims are without merit, the claims can be time-consuming and costly to defend and divert management s attention and resources away from TWC s businesses. Also, because of the rapid pace of technological change, TWC relies on technologies developed or licensed by third parties, and TWC may not be able to obtain or continue to obtain licenses from these third parties on reasonable terms, if at all. See also Risks Related to TWC s Relationship with Time Warner TWC is party to agreements with Time Warner governing the use of TWC s brand names, including the Time Warner Cable brand name, that may be terminated by Time Warner if TWC fails to perform its obligations under those agreements or if it undergoes a change of control.

The accounting treatment of goodwill and other identified intangibles could result in future asset impairments, which would be recorded as operating losses.

As of December 31, 2006, TWC had approximately \$41.0 billion of unamortized intangible assets, including goodwill of \$2.1 billion and cable franchises of \$38.1 billion on its balance sheet. At December 31, 2006, these intangible assets represented approximately 74% of TWC s total assets.

Financial Accounting Standards Board (FASB) Statement No. 142, *Goodwill and Other Intangible Assets* (FAS 142) requires that goodwill, including the goodwill included in the carrying value of investments accounted for using the equity method of accounting, and other intangible assets deemed to have indefinite useful lives, such as franchise

agreements, cease to be amortized. FAS 142 requires that goodwill and certain intangible assets be tested at least annually for impairment. If TWC finds that the carrying value of goodwill or a certain intangible asset exceeds its fair value, it will reduce the carrying value of the goodwill or intangible asset to the fair value, and will recognize an impairment loss. Any such impairment losses are required to be recorded as noncash operating losses.

TWC's 2006 annual impairment analysis, which was performed during the fourth quarter, did not result in an impairment charge. For one reporting unit, the 2006 estimated fair value was within 10% of the respective book

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value. Applying a hypothetical 10% decrease to the fair value of this reporting unit would result in a greater book value than fair value for cable franchises in the amount of approximately \$20 million. Other intangible assets not subject to amortization are tested for impairment annually, or more frequently if events or circumstances indicate that the asset might be impaired. See Management's Discussion and Analysis of Results of Operations and Financial Condition Critical Accounting Policies Asset Impairments Goodwill and Indefinite-lived Intangible Assets and Finite-lived Intangible Assets.

The impairment tests require TWC to make an estimate of the fair value of intangible assets, which is primarily determined using discounted cash flow methodologies, research analyst estimates, market comparisons and a review of recent transactions. Since a number of factors may influence determinations of fair value of intangible assets, including those set forth in this discussion of Risk Factors, TWC is unable to predict whether impairments of goodwill or other indefinite-lived intangibles will occur in the future. Any such impairment would result in TWC recognizing a corresponding operating loss, which could have a material adverse effect on the market price of its Class A common stock.

The IRS and state and local tax authorities may challenge the tax characterizations of the Adelpia Acquisition, the Redemptions and the Exchange, or TWC's related valuations, and any successful challenge by the IRS or state or local tax authorities could materially adversely affect TWC's tax profile, significantly increase TWC's future cash tax payments and significantly reduce its future earnings and cash flow.

The Adelpia Acquisition was designed to be a fully taxable asset sale, 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), the TWE Redemption was designed as a redemption of Comcast's partnership interest in TWE, and the Exchange was designed as an exchange of designated cable systems. There can be no assurance, however, that the Internal Revenue Service (the IRS) or state or local tax authorities (collectively with the IRS, the Tax Authorities) will not challenge one or more of such characterizations or TWC's related valuations. Such a successful challenge by the Tax Authorities could materially adversely affect TWC's tax profile (including its ability to recognize the intended tax benefits from the Transactions), significantly increase TWC's future cash tax payments and significantly reduce its future earnings and cash flow. The tax consequences of the Adelpia Acquisition, the Redemptions and the Exchange are complex and, in many cases, subject to significant uncertainties, including, but not limited to, uncertainties regarding the application of federal, state and local income tax laws to various transactions and events contemplated therein and regarding matters relating to valuation.

A significant portion of TWC's indebtedness will mature over the next three to five years. If TWC is unable to refinance this indebtedness on favorable terms its financial condition and results of operations may suffer.

As of December 31, 2006, TWC had \$14.4 billion in long-term debt. In particular, TWC is the borrower under two \$4.0 billion term loan facilities and a \$6.0 billion revolving credit facility, which become due in February 2009, February 2011 and February 2011, respectively, as well as an issuer of commercial paper. In addition, TWE's 7.25% senior debentures with a principal amount of \$600 million will mature in 2008. No assurance can be given that TWC will be able to refinance its or its subsidiaries' existing indebtedness on favorable terms, if at all. TWC's ability to refinance its indebtedness could be affected by many factors, including adverse developments in the lending markets and other external factors which are beyond TWC's control. If TWC is unable to refinance its indebtedness on favorable terms, its cost of financing could increase significantly and have a material adverse effect on its business, financial results and financial condition. See Management's Discussion and Analysis of Results of Operations and Financial Condition Financial Condition and Liquidity.

As a result of the indebtedness incurred in connection with the Transactions, TWC will be required to use an increased amount of the cash provided by its operating activities to service its debt obligations, which could limit its

flexibility to grow its business and take advantage of new business opportunities.

Borrowings under TWC's bank credit agreements and commercial paper program increased from \$1.1 billion at December 31, 2005 to \$11.1 billion at December 31, 2006, primarily in order to fund a large portion of the cash payments made in connection with the Transactions. As a result, TWC's obligations to make principal and interest payments related to TWC's indebtedness have increased. TWC's increased amount of indebtedness and debt servicing obligations will require TWC to dedicate a larger amount of its cash flow from operations to making

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payments on its indebtedness than it has in the past. This reduces the availability of TWC's cash flow to fund working capital and capital expenditures and for other general corporate purposes, may increase TWC's vulnerability to general adverse economic and industry conditions, may limit TWC's flexibility in planning for, or reacting to, changes in its business and the industry in which it operates, may limit TWC's ability to make strategic acquisitions or pursue other business opportunities and may limit its ability to borrow additional funds and may increase the cost of any such borrowings.

Risks Related to Dependence on Third Parties

Increases in programming costs could adversely affect TWC's operations, business or financial results.

Programming has been, and is expected to continue to be, one of TWC's largest operating expense items for the foreseeable future. In recent years, TWC has experienced significant increases in the cost of programming, particularly sports programming. The increases are expected to continue due to a variety of factors, including inflationary and negotiated annual increases, additional programming being provided to subscribers, and increased costs to purchase new programming.

Programming cost increases that are not passed on fully to TWC's subscribers have had, and will continue to have, an adverse impact on cash flow and operating margins. In addition, such increases could have an adverse impact on cash flow and operating margins from new video products and services. Current and future programming providers that provide content that is desirable to TWC's subscribers may enter into exclusive affiliation agreements with TWC's cable and non-cable competitors and may be unwilling to enter into affiliation agreements with TWC on acceptable terms, if at all.

In addition, increased demands by owners of some broadcast stations for carriage of other services or payments to those broadcasters for retransmission consent could further increase TWC's programming costs. Federal law allows commercial television broadcast stations to make an election between must-carry rights and an alternative retransmission-consent regime. When a station opts for the latter, cable operators are not allowed to carry the station's signal without the station's permission. TWC currently has multi-year agreements with most of the retransmission consent stations that it carries. In some cases, TWC carries stations under short-term arrangements while it attempts to negotiate new long-term retransmission agreements. If negotiations with these programmers prove unsuccessful, they could require TWC to cease carrying their signals, possibly for an indefinite period. Any loss of stations could make TWC's video service less attractive to subscribers, which could result in less subscription and advertising revenue. In retransmission-consent negotiations, broadcasters often condition consent with respect to one station on carriage of one or more other stations or programming services in which they or their affiliates have an interest. Carriage of these other services may increase TWC's programming expenses and diminish the amount of capacity it has available to introduce new services, which could have an adverse effect on TWC's business and financial results.

TWC may not be able to obtain necessary hardware, software and operational support.

TWC depends on third party suppliers and licensors to supply some of the hardware, software and operational support necessary to provide some of its services. TWC obtains these items from a limited number of vendors, some of which do not have a long operating history. Some of TWC's hardware, software and operational support vendors represent TWC's sole source of supply or have, either through contract or as a result of intellectual property rights, a position of some exclusivity. If demand exceeds these vendors' capacity or if these vendors experience operating or financial difficulties, TWC's ability to provide some services might be materially adversely affected, or the need to procure or develop alternative sources of the affected materials might delay the provision of services. These events could materially and adversely affect TWC's ability to retain and attract subscribers, and have a material negative impact on TWC's operations, business, financial results and financial condition. Since late 2006, TWC has noted increased

demand for HDTV-capable set-top boxes. This increased demand comes at a time when TWC's set-top box suppliers need to begin making changes in their production processes to enable them to supply cable operators with set-top boxes that use separate security. See Risks Related to Government Regulation. The FCC's set-top box rules could impose significant additional costs on TWC below. As of February 20, 2007, TWC was experiencing, and may continue to experience during the near term, difficulty in obtaining sufficient quantities of HDTV-capable set-top boxes to satisfy all consumer requests for such boxes.

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A limited number of vendors of key technologies can lead to less product innovation and higher costs. For these reasons, TWC generally endeavors to establish alternative vendors for materials it consider critical, but may not be able to establish these relationships or be able to obtain required materials on favorable terms. For example, each of TWC's systems currently purchases set-top boxes from a limited number of vendors. This is due to the fact that each of TWC's cable systems uses one of two proprietary conditional access security schemes, which allow TWC to regulate subscriber access to some services, such as premium channels. TWC believes that the proprietary nature of these conditional access schemes makes other manufacturers reluctant to produce set-top boxes. Future innovation in set-top boxes may be restricted until these issues are resolved. In addition, TWC believes that the general lack of compatibility among set-top box operating systems has slowed the industry's development and deployment of digital set-top box applications. TWC has developed a proprietary user interface and interactive programming guide that it expects to introduce in most of its operating areas during 2007. No assurance can be given that TWC's proprietary interface and guide will operate correctly, will be popular with consumers or will be compatible with other products and services that TWC's customers value.

In addition, TWC has agreements with Verizon and Sprint under which these companies assist TWC in providing Digital Phone service to customers by routing voice traffic to the public switched network, delivering enhanced 911 service and assisting in local number portability and long distance traffic carriage. In July 2006, TWC agreed to expand its multi-year relationship with Sprint, selecting Sprint as its primary provider of these services, including in the Acquired Systems. TWC's transition to and reliance on a single provider for the bulk of these services may render it vulnerable to service disruptions.

In addition, in some limited areas, as a result of rulings of the applicable state public utility commissions, Verizon and Sprint cannot provide TWC with certain of their services, including those that use interconnection obtained from certain local telephone companies. While TWC has filed a petition with the FCC requesting clarification that Verizon and Sprint are entitled to provide these services to TWC and, in the interim, plans to provide its Digital Phone service in these limited areas, where possible, by obtaining interconnection directly from the local telephone companies and providing TWC's own 911 connectivity and number portability, TWC's inability to use Sprint and Verizon for these services could negatively impact its ability to offer Digital Phone in certain areas as well as the cost of providing its service.

TWC may encounter substantially increased pole attachment costs.

Under federal law, TWC has the right to attach cables carrying video services to the telephone and similar poles of investor-owned utilities at regulated rates. However, because these cables carry services other than video services, such as high-speed data services or new forms of voice services, some utility pole owners have sought to impose additional fees for pole attachment. The U.S. Supreme Court has rejected the efforts of some utility pole owners to make cable attachments carrying Internet traffic ineligible for regulatory protection. Pole owners have, however, made arguments in other areas of pole regulation that, if successful, could significantly increase TWC's costs. In addition, TWC's pole attachment rates may increase insofar as TWC's systems are providing voice services.

Some of the poles TWC uses are exempt from federal regulation because they are owned by utility cooperatives and municipal entities. These entities may not renew TWC's existing agreements when they expire, and they may require TWC to pay substantially increased fees. A number of these entities are currently seeking to impose substantial rate increases. Any inability to secure continued pole attachment agreements with these cooperatives or municipal utilities on commercially reasonable terms could cause TWC's business, financial results or financial condition to suffer.

The adoption of, or the failure to adopt, certain consumer electronics devices or computers may negatively impact TWC's offerings of new and enhanced services.

Customer acceptance and use of new and enhanced services depend, to some extent, on customers having ready access and exposure to these services. One of the ways this access is facilitated is through the user interface included in TWC's digital set-top boxes. As of December 31, 2006, approximately 54% of TWC's basic video subscribers leased one or more digital set-top boxes from it. The consumer electronics industry's provision of cable

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ready and digital cable ready televisions and other devices, as well as the IT industry's provision of computing devices capable of tuning, storing and displaying cable video signals, means customers owning these devices may use a different user interface from the one TWC provides and/or may not be able to access services requiring two-way transmission capabilities unless they also have a set-top box. Accordingly, customers using these devices without set-top boxes may have limited exposure and access to TWC's advanced video services, including its interactive program guide and VOD and SVOD. If such devices attain wide consumer acceptance, TWC's revenue from equipment rental and two-way transmission-based services could decrease, and there could be a negative impact on TWC's ability to sell advanced services to customers. TWC cannot predict the extent to which different interfaces will affect TWC's future business and operations. See Item 1, Business Regulatory Matters Communications Act and FCC Regulation.

TWC and other cable operators are involved in various efforts to ensure that consumer electronics and IT industry devices are capable of utilizing TWC's two-way services, including: direct arrangements with a handful of consumer electronics companies that have led to the imminent deployment of a limited number of two-way capable televisions and other devices; continuing efforts (unsuccessful to date) to negotiate two-way interoperability standards with the broad consumer electronics industry; the development of an open software architecture layer that such devices could use to accept two-way applications; and an effort to develop a downloadable security system for consumer electronics devices. No assurances can be given that these or other efforts will be successful or that, if successful, consumers will widely adopt devices utilizing these technologies.

Risks Related to Government Regulation

TWC's business is subject to extensive governmental regulation, which could adversely affect TWC's business.

TWC's video and voice services are subject to extensive regulation at the federal, state, and local levels. In addition, the federal government also has been exploring possible regulation of high-speed data services. Additional regulation, including regulation relating to rates, equipment, programming, levels and types of services, taxes and other charges, could have an adverse impact on TWC's services. TWC expects that legislative enactments, court actions, and regulatory proceedings will continue to clarify and in some cases change the rights of cable companies and other entities providing video, data and voice services under the Communications Act and other laws, possibly in ways that TWC has not foreseen. The results of these legislative, judicial, and administrative actions may materially affect TWC's business operations in areas such as:

Cable Franchising. At the federal level, various provisions have been introduced in connection with broader Communications Act reform that would streamline the video franchising process to facilitate entry by new competitors. To date, no such measures have been adopted by Congress. In December 2006, the FCC adopted an order in which the agency concluded that the current franchise approval process constitutes an unreasonable barrier to entry that impedes the development of cable competition and broadband deployment. As a result, the agency adopted new rules intended to limit the ability of county- and municipal-level franchising authorities to delay or refuse the grant of competitive franchises. Among other things, the new rules: establish deadlines for franchising authorities to act on applications; prohibit franchising authorities from placing unreasonable build-out demands on applicants; specify that certain fees, costs, and other compensation to franchising authorities will count towards the statutory five-percent cap on franchise fees; prohibit franchising authorities from requiring applicants to undertake certain obligations concerning the provision of public, educational, and governmental access programming and institutional networks; and preempt local level-playing-field regulations, and similar provisions, to the extent they impose restrictions on applicants greater than those in the FCC's new rules.

At the state level, several states, including California, New Jersey, North Carolina, South Carolina and Texas have enacted statutes intended to streamline entry by additional video competitors. Some of these statutes provide more favorable treatment to new entrants than to existing providers. Similar bills are pending or may be enacted in additional states. To the extent federal or state laws or regulations facilitate additional competitive entry or create more favorable regulatory treatment for new entrants, TWC's operations could be materially and adversely affected.

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A la carte Video Services. There has from time to time been federal legislative interest in requiring cable operators to offer historically bundled programming services on an à la carte basis. Currently, no such legislation is pending. In November 2004, the FCC released a study concluding that à la carte would raise costs for consumers and reduce programming choices. In February 2006, the FCC's Media Bureau issued a revised report that concluded, contrary to the findings of the earlier study, that à la carte could be beneficial in some instances. There are no pending proceedings related to à la carte at the FCC.

Carriage Regulations. In 2005, the FCC reaffirmed its earlier decisions rejecting multicasting (i.e., carriage of more than one program stream per broadcaster) and dual carriage (i.e., carriage of both digital and analog broadcast signals) requirements with respect to carriage of broadcast signals pursuant to must-carry rules. Certain parties filed petitions for reconsideration. To date, no action has been taken on these reconsideration petitions, and TWC is unable to predict what requirements, if any, the FCC might adopt. In addition, the FCC is expected to launch proceedings related to leased access and program carriage. With respect to leased access, the FCC is expected to seek comment on how leased access is being used in the marketplace, and whether any rule changes are necessary to better effectuate statutory objectives. With respect to program carriage, the FCC is expected to examine its procedural rules, and assess whether modifications are needed to achieve more timely decisions in response to program carriage complaints. TWC is unable to predict whether these expected proceedings will lead to any changes in existing regulations.

Voice Communications. Traditional providers of voice services generally are subject to significant regulations. It is unclear to what extent those regulations (or other regulations) apply to providers of nontraditional voice services, including TWC's. In 2004, the FCC broadly inquired how Voice-over Internet Protocol (VoIP) should be classified for purposes of the Communications Act, and how it should be regulated. To date, however, the FCC has not issued an order comprehensively resolving that inquiry. Instead, the FCC has addressed certain individual issues on a piecemeal basis. In particular, the FCC declared in 2004 that certain nontraditional voice services are not subject to state certification or tariffing obligations. The full extent of this preemption is unclear and the validity of the preemption order has been appealed to a federal appellate court where a decision is pending. In orders in 2005 and 2006, the FCC subjected nontraditional voice service providers to obligations to provide 911 emergency service, to accommodate law enforcement requests for information and wiretapping and to contribute to the federal universal service fund. TWC was already operating in accordance with these requirements at that time. To the extent that the FCC (or Congress) imposes additional burdens, TWC's operations could be adversely affected.

Net neutrality legislation or regulation could limit TWC's ability to operate its high-speed data business profitably, to manage its broadband facilities efficiently and to make upgrades to those facilities sufficient to respond to growing bandwidth usage by its high-speed data customers.

Several disparate groups have adopted the term "net neutrality" in connection with their efforts to persuade Congress and regulators to adopt rules that could limit the ability of broadband providers to manage their networks efficiently and profitably. Although the positions taken by these groups are not well defined and are sometimes inconsistent with one another, most would directly or indirectly limit the ability of broadband providers to apply differential pricing or network management policies to different uses of the Internet. Proponents of such regulation also seek to prohibit broadband providers from recovering the costs of rising bandwidth usage from any parties other than retail customers. The average bandwidth usage of TWC's high-speed data customers has been increasing significantly in recent years as the amount of high-bandwidth content and the number of applications available on the Internet continues to grow. In order to continue to provide quality service at attractive prices, TWC needs the continued flexibility to develop and refine business models that respond to changing consumer uses and demands, to manage bandwidth usage efficiently and to make upgrades to its broadband facilities. As a result, depending on the form it might take, "net neutrality

legislation or regulation could impact TWC's ability to operate its high-speed data network profitably and to undertake the upgrades that may be needed to continue to provide high quality high-speed data services. TWC is unable to predict the likelihood that such regulatory proposals will be adopted. For a

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description of current regulatory proposals, see Item 1, Business Regulatory Matters Communications Act and FCC Regulation.

Rate regulation could materially adversely impact TWC's operations, business, financial results or financial condition.

Under current FCC regulations, rates for basic video service and associated equipment are permitted to be regulated. In many localities, TWC is not subject to basic video rate regulation, either because the local franchising authority has not asked the FCC for permission to regulate rates or because the FCC has found that there is effective competition. Also, there is currently no rate regulation for TWC's other services, including high-speed data services. It is possible, however, that the FCC or Congress will adopt more extensive rate regulation for TWC's video services or regulate other services, such as high-speed data and voice services, which could impede TWC's ability to raise rates, or require rate reductions, and therefore could cause TWC's business, financial results or financial condition to suffer.

Changes in carriage regulations could impose significant additional costs on TWC.

Although TWC would likely choose to carry almost all local full power analog broadcast signals voluntarily, so called must carry rules require TWC to carry video programming that it might not otherwise carry, including some local broadcast television signals on some of its cable systems. In addition, TWC is required to carry local public, educational and government access video programming and unaffiliated commercial leased access video programming. These regulations require TWC to use a substantial part of its capacity for this video programming and, for the most part, TWC must carry this programming without payment or compensation from the programmer.

TWC's carriage burden might increase due to changes in regulation in connection with the transition to digital broadcasting. FCC regulations require most television broadcast stations to broadcast in digital format as well as in analog format until digital broadcasting becomes widely accepted by television viewers. After this transition period, digital broadcasters must cease broadcasting in analog format. The FCC has concluded that, during the transition period, cable operators will not be required to carry the digital signals of broadcasters that are broadcasting in both analog and digital format. Only the few stations that broadcast solely in digital format will be entitled to carriage of their digital signals during the transition period. Some broadcast parties have asked that the FCC reconsider that determination. If the FCC does so and changes the decision, TWC's carriage burden could increase significantly.

TWC expects that, once the digital transition is complete, cable operators will be required to carry most local broadcasters' digital signals. TWC is uncertain whether that requirement will be more onerous than the carriage requirement concerning analog signals. Under the current regulations, each broadcaster is allowed to use the digital spectrum allocated to it to transmit either one high definition program stream or multiple separate standard definition program streams. The FCC has determined that cable operators will have to carry only one program stream per broadcaster. Some broadcast parties have asked the FCC to reconsider that determination. If the FCC does so and changes the decision, TWC could be compelled to carry more programming over which it is not able to assert editorial control. Consequently, TWC's mix of programming could become less attractive to subscribers. Moreover, if the FCC adopts rules that are not competitively neutral, cable operators could be placed at a disadvantage versus other multi-channel video providers.

It is not clear whether cable operators may down convert must-carry digital signals after the transition to digital broadcasts is complete to ensure they can be viewed by households that do not have digital equipment. If the FCC interprets the relevant statute, or if Congress clarifies the statute, with the result that such down conversion is not permitted, TWC could be required to incur additional costs to deliver the signals to non-digital homes.

TWC may have to pay fees in connection with its cable modem service.

Local franchising authorities generally require cable operators to pay a franchise fee of five percent of revenue, which cable operators collect in turn from their subscribers. TWC has taken the position that under the Communications Act, local franchising authorities are allowed to impose a franchise fee only on revenue from cable services. Following the FCC's March 2002 determination that cable modem service does not constitute a cable

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service, TWC and most other multiple system operators stopped collecting and paying franchise fees on cable modem revenue.

The FCC has initiated a rulemaking proceeding to explore the consequences of its March 2002 order. If either the FCC or a court were to determine that, despite the March 2002 order, TWC is required to pay franchise fees on cable modem revenue, TWC's franchise fee burden could increase going forward. TWC would be permitted to collect those increased fees from its subscribers, but doing so could impair its competitive position as compared to high-speed data service providers who are not required to collect and pay franchise fees. TWC could also become liable for franchise fees back to the time it stopped paying them. TWC may not be able to recover those fees from subscribers.

The FCC's set-top box rules could impose significant additional costs on TWC.

Currently, many cable subscribers rent set-top boxes from TWC that perform both signal-reception functions and conditional-access security functions, as well as enable delivery of advanced services. In 1996, Congress enacted a statute seeking to allow cable subscribers to use set-top boxes obtained from certain third parties, including third-party retailers. The most important of the FCC's implementing regulations requires cable operators to offer separate equipment that provides only the security functions and not the signal-reception functions (so that cable subscribers can purchase set-top boxes or other navigational devices from third parties) and to cease placing into service new set-top boxes that have integrated security and signal-reception functions. The regulations requiring cable operators to cease distributing new set-top boxes with integrated security and signal-reception functions are currently scheduled to go into effect on July 1, 2007. On August 16, 2006, the NCTA filed with the FCC a request that these rules be waived for all cable operators, including TWC, until a downloadable security solution is available or December 31, 2009, whichever is earlier. No assurance can be given that the FCC will grant this or any other waiver request.

TWC's vendors have not yet manufactured, on a commercial scale, set-top boxes that can support all the services that TWC offers while relying on separate security devices. It is possible that TWC's vendors will be unable to deliver the necessary set-top boxes in time for TWC to comply with the FCC regulations. It is also possible that the FCC will determine that the set-top boxes that TWC eventually obtains are not compliant with applicable rules. In either case, the FCC may penalize TWC. In addition, design and manufacture of the new set-top boxes will come at a significant expense, which TWC's vendors will seek to pass on to TWC, but which TWC in turn may not be able to pass on to its customers, thereby increasing its costs. TWC expects to incur approximately \$50 million in incremental set-top box costs during 2007 as a result of these regulations. The FCC has indicated that direct broadcast satellite operators are not required to comply with the FCC's set-top box rules, and one telephone company has asked for a waiver of the rules. If TWC has to comply with the rule prohibiting set-top boxes with integrated security while its competitors are not required to comply with that rule, TWC may be at a competitive disadvantage.

Applicable law is subject to change.

The exact requirements of applicable law are not always clear, and the rules affecting TWC's businesses are always subject to change. For example, the FCC may interpret its rules and regulations in enforcement proceedings in a manner that is inconsistent with the judgments TWC has made. Likewise, regulators and legislators at all levels of government may sometimes change existing rules or establish new rules. Congress, for example, considers new legislative requirements for cable operators virtually every year, and there is always a risk that such proposals will ultimately be enacted. See Item 1, Business Regulatory Matters.

Risks Related to TWC's Relationship with Time Warner