TIME WARNER CABLE INC.
Form 10-Q
April 24, 2014
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended March 31, 2014 or

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

For the transition period from __________________________to ___________________________

Commission File Number: 001-33335

TIME WARNER CABLE INC.

(Exact name of registrant as specified in its charter)

Delaware	**84-1496755**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*

60 Columbus Circle

New York, New York 10023

(Address of principal executive offices) (Zip Code)

(212) 364-8200

(Registrant s telephone number, including area code)

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

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

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

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

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

Description of Class	Shares Outstanding as of April 22, 2014
Common Stock $0.01 par value	278,611,548

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MANAGEMENT S DISCUSSION AND ANALYSIS OF RESULTS

OF OPERATIONS AND FINANCIAL CONDITION

INTRODUCTION

Management s discussion and analysis of results of operations and financial condition (MD&A) is a supplement to the accompanying consolidated financial statements and provides additional information on Time Warner Cable Inc. s (together with its subsidiaries, TWC or the Company) business, any recent developments, financial condition, cash flows and results of operations. MD&A is organized as follows:

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

Results of operations. This section provides an analysis of the Company s results of operations for the three months ended March 31, 2014. This analysis is presented on both a consolidated and reportable segment basis.

Financial condition and liquidity. This section provides an analysis of the Company s financial condition as of March 31, 2014 and cash flows for the three months ended March 31, 2014.

Caution concerning forward-looking statements. This section provides a description of the use of forward-looking information appearing in this report, including in MD&A and the consolidated financial statements. Such information is based on management s current expectations about future events, which are subject to uncertainty and changes in circumstances. Refer to the Company s Annual Report on Form 10-K for the year ended December 31, 2013 (the 2013 Form 10-K) for a discussion of the risk factors applicable to the Company.

OVERVIEW

TWC is among the largest providers of video, high-speed data and voice services in the U.S., with technologically advanced, well-clustered cable systems located mainly in five geographic areas New York State (including New York City), the Carolinas, the Midwest (including Ohio, Kentucky and Wisconsin), Southern California (including Los Angeles) and Texas. TWC s mission is to connect its customers to the world simply, reliably and with superior service. As of March 31, 2014, TWC served approximately 15.2 million customers who subscribed to one or more of its video, high-speed data and voice services. During the three months ended March 31, 2014, TWC s revenue increased 2.0% to approximately $5.6 billion.

Comcast Merger

On February 12, 2014, the Company entered into an Agreement and Plan of Merger with Comcast Corporation (Comcast) whereby the Company agreed to merge with and into a 100% owned subsidiary of Comcast (the Comcast merger). Upon completion of the Comcast merger, all of the outstanding shares of the Company will be cancelled and each issued and outstanding share will be converted into the right to receive 2.875 shares of Class A common stock of Comcast. The Comcast merger, which is expected to close by the end of 2014, is subject to the approval of the Company s and Comcast s stockholders, regulatory approvals and certain other closing conditions. Charter Communications, Inc. (Charter), which in January 2014 disclosed an unsolicited bid to acquire the Company, has indicated that it intends to solicit proxies from the Company s stockholders in opposition to the Comcast merger.

Reportable Segments

Effective in the first quarter of 2014, the Company determined it has three reportable segments: Residential Services, Business Services and Other Operations. The Company s reportable segments have been determined based on how management evaluates and manages the business. The Company has recast its financial information and disclosures for the prior period to reflect the segment disclosures as if the current presentation had been in effect throughout all periods presented. For additional information about the components of each of the Company s reportable segments, as well as shared functions, refer to Financial Statement Presentation Reportable Segments, below.

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Residential Services Segment

TWC offers video, high-speed data and voice services, as well as security and home management services, to residential customers. As of March 31, 2014, the Company served 14.5 million residential services customers and, during the three months ended March 31, 2014, TWC generated approximately $4.6 billion of revenue from the provision of residential services, which represented 81.8% of TWC s total revenue.

TWC s video service provides over 300 channels (including, on average, over 180 high-definition (HD) channels) and 19,000 hours of video-on-demand programming, which, increasingly, consumers can watch on the device of their choosing, both inside and outside the home. TWC s high-speed data service is available in a range of speed (from up to 2 to 300 megabits per second (Mbps) downstream), price and consumption (unlimited, 30 gigabyte (GB) and 5 GB) levels and, for most high-speed data customers, includes access to a nationwide network of more than 200,000 Cable WiFi hotspots along with communications and Internet security features. TWC s voice service provides unlimited calling and access to popular features in one simple package. TWC s IntelligentHome service provides state-of-the-art security and home management technology, taking advantage of TWC s always-on broadband network and around-the-clock security monitoring centers.

Residential Services revenue has benefited from increases in the number of high-speed data subscribers and growth in revenue per subscriber (the latter due to an increasing percentage of subscribers purchasing faster, higher-priced tiers of service and increases in prices and equipment rental charges), offset by losses in residential video and, to a lesser extent, voice subscribers.

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

Business Services Segment

TWC offers a wide range of business high-speed data, networking, voice, video, hosting and cloud computing services. As of March 31, 2014, TWC served 637,000 business customers, including small and medium businesses; large enterprises; government, education and non-profit institutions; and telecommunications carriers. TWC offers business services at retail and wholesale using its own network infrastructure and third-party infrastructure as required to meet customer needs.

During the three months ended March 31, 2014, revenue from the provision of business services increased 24.4% to $668 million, which represented 12.0% of TWC s total revenue. The Company expects continued strong growth in Business Services revenue driven by an increase in the number of customers (the result of continued penetration of buildings currently on its network and investment to connect new buildings to its network) and revenue per customer (due to growing product penetration, demand for higher-priced tiers of service and price increases). Given the large opportunity and TWC s still modest share in business services, the Company has established a target of growing Business Services to exceed $5 billion in annual revenue by 2018.

On December 31, 2013, TWC completed its acquisition of DukeNet Communications, LLC (DukeNet), a regional fiber optic network company that provides data and high-capacity bandwidth services to wireless carrier, data center, government and enterprise customers in North Carolina and South Carolina, as well as five other states in the Southeast. Beginning in 2014, the results of DukeNet, which generated revenue of $29 million for the three months ended March 31, 2014, are included in the Business Services segment.

Other Operations Segment

TWC s Other Operations segment principally consists of (i) Time Warner Cable Media (TWC Media), the advertising arm of TWC; (ii) the Company s regional sports networks that carry Los Angeles Lakers basketball games and other sports programming (Time Warner Cable SportsNet and Time Warner Cable Deportes and, collectively, the Lakers RSNs); (iii) the Company s local sports, news and lifestyle channels (e.g., Time Warner Cable News NY1); (iv) other operating revenue and costs, including those derived from the Advance/Newhouse Partnership and home shopping network-related services;

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and (v) beginning in 2014, operating revenue and costs associated with SportsNet LA, discussed below. During the three months ended March 31, 2014, TWC generated revenue from Other Operations of $400 million.

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

On February 25, 2014, American Media Productions, LLC (American Media Productions), an unaffiliated third party, launched SportsNet LA, a regional sports network carrying the Los Angeles Dodgers baseball games and other sports programming. In accordance with long-term agreements with American Media Productions, TWC acts as the network s exclusive advertising and affiliate sales agent and has certain branding and programming rights with respect to the network. In addition, TWC provides certain production and technical services to American Media Productions. As a result of the launch of SportsNet LA, related revenue, including intersegment revenue, and expenses are included in the Company s Other Operations segment.

Competition

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

Residential Services Segment

TWC faces intense competition for residential customers from a variety of alternative communications, information and entertainment delivery sources. TWC competes with incumbent local telephone companies and overbuilders across each of its residential services. Some of these competitors offer a broad range of services with features and functions comparable to those provided by TWC and in bundles similar to those offered by TWC, sometimes including wireless service. Each of TWC s residential services also faces competition from other companies that provide services on a stand-alone basis. TWC s residential video service faces competition from direct broadcast satellite services, and increasingly from companies that deliver content to consumers over the Internet. TWC s residential high-speed data and voice services face competition from wireless Internet and voice providers. TWC s residential voice service also faces competition from over-the-top phone services and other alternatives.

Business Services Segment

TWC faces significant competition as to each of its business services offerings. Its business high-speed data, networking and voice services face competition from a variety of telecommunication carriers, including incumbent local telephone companies. TWC s cell tower backhaul service also faces competition from traditional telephone companies as well as other telecommunications carriers, such as metro and regional fiber-based carriers. TWC s business video service faces competition from direct broadcast satellite providers. TWC also competes with cloud, hosting and related service providers and application-service providers.

Other Operations Segment

TWC faces intense competition in its advertising business across many different platforms and from a wide range of local and national competitors. Competition has increased and will likely continue to increase as new formats for advertising seek to attract the same advertisers. TWC competes for advertising revenue against, among others, local broadcast stations, national cable and broadcast networks, radio, newspapers, magazines and outdoor advertisers, as well as online advertising companies.

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Recent Developments

Common Stock Repurchase Program

As a result of the Company s entry into the merger agreement with Comcast, the Company s common stock repurchase program (the Stock Repurchase Program) was suspended on February 13, 2014. From the inception of the Stock Repurchase Program in the fourth quarter of 2010 through February 12, 2014, the Company repurchased 92.9 million shares of TWC common stock for $7.744 billion. As of February 12, 2014, the Company had $2.723 billion remaining under the Stock Repurchase Program authorization.

Financial Statement Presentation

Basis of Presentation

Changes in Basis of Presentation

Effective in the first quarter of 2014, the Company determined it has three reportable segments. The Company has recast its financial information and disclosures for the prior period to reflect the segment disclosures as if the current presentation had been in effect throughout all periods presented. Refer to Note 10 to the accompanying consolidated financial statements for further information regarding the Company s segment information.

Additionally, during the first quarter of 2014, the Company revised its categorization of operating costs and expenses to be consistent with how such costs and expenses are presented to management and to provide a more meaningful presentation. The Company has recast the accompanying consolidated financial statements, financial information and disclosures of operating costs and expenses for the prior period to reflect the new categorization, which had no impact on total operating costs and expenses, Operating Income or net income attributable to TWC shareholders for any period presented. The Company s consolidated operating costs and expenses are presented in the following categories: (i) programming and content, (ii) sales and marketing, (iii) technical operations, (iv) customer care and (v) other operating costs.

Reclassifications

As discussed above, certain reclassifications have been made to the prior period financial information presented herein to conform to the current year presentation.

Consolidated

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

Operating costs and expenses

Programming and content. Programming and content costs include (i) video programming costs for the Residential Services and Business Services segments and (ii) content costs, which include (a) the content acquisition costs associated with the Lakers RSNs and (b) other content production costs for the Lakers RSNs and the Company s local sports, news and lifestyle channels. Beginning in 2014, programming and content costs also include the content acquisition and production costs associated with SportsNet LA. Content acquisition costs for the Los Angeles Lakers basketball games and Los Angeles Dodgers baseball games are recorded as games are exhibited over the applicable season.

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

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

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

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

Reportable Segments

The Company s segment results include intercompany transactions related to programming provided to the Residential Services and Business Services segments by the Lakers RSNs, the Company s local sports, news and lifestyle channels and, beginning in 2014, SportsNet LA. These services are reflected as programming expense for the Residential Services and Business Services segments and as revenue for the Other Operations segment and are eliminated in consolidation. Additionally, the operating costs described above that are associated with broad corporate functions or functions supporting more than one reportable segment are recorded as shared functions and are not allocated to the reportable segments. As such, the reportable segment results reflect how management views such segments in assessing financial performance and allocating resources and are not necessarily indicative of the results of operations that each segment would have achieved had they operated as stand-alone entities during the periods presented.

Residential Services Segment

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

Video. Video revenue includes subscriber fees for the Company s various tiers or packages of video programming services generally distinguished from one another by the number and type of programming networks they include. Video revenue also includes related equipment rental charges, installation charges and fees collected on behalf of local franchising authorities and the Federal Communications Commission (the FCC). Additionally, video revenue includes revenue from the sale of premium networks, transactional video-on-demand (e.g., events and movies) and digital video recorder (DVR) service.

High-speed data. High-speed data revenue primarily includes subscriber fees for the Company s high-speed data services and related equipment rental and installation charges. The Company offers multiple tiers of high-speed data services providing various service speeds, data usage levels and other attributes to meet the different needs of its subscribers. In addition, high-speed data revenue includes fees received from third-party Internet service providers (e.g., Earthlink) whose online services are provided to some of TWC s customers.

Voice. Voice revenue includes subscriber fees for the Company s voice services, along with related installation charges, as well as fees collected on behalf of governmental authorities.

Other. Other revenue includes revenue from security and home management services and other residential subscriber-related fees.

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OF OPERATIONS AND FINANCIAL CONDITION (Continued)

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

Business Services Segment

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

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

High-speed data. High-speed data revenue primarily includes subscriber fees for the Company s high-speed data services and related installation charges. High-speed data revenue also includes amounts generated by the sale of commercial networking and point-to-point transport services, such as Metro Ethernet services.

Voice. Voice revenue includes subscriber fees for the Company s voice services, along with related installation charges, as well as fees collected on behalf of governmental authorities.

Wholesale transport. Wholesale transport revenue primarily includes amounts generated by the sale of point-to-point transport services offered to wireless telephone providers (i.e., cell tower backhaul) and other telecommunications carriers.

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

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

Other Operations Segment

Revenue

Advertising. Advertising revenue is generated through TWC Media s sale of video and online advertising inventory to local, regional and national advertising customers. The Company derives most of its advertising revenue from the sale of advertising inventory on cable networks owned by third parties. The rights to such advertising inventory are acquired by the Company in connection with its agreements to carry such networks or through contractual agreements to sell advertising inventory on behalf of other video distributors (including, among others, Verizon s FiOS, AT&T s U-verse and Charter). The Company also generates advertising revenue from the sale of inventory on the Lakers RSNs, the Company s local sports, news and lifestyle channels (e.g., Time Warner Cable News NY1) and, beginning in 2014, SportsNet LA.

Other. Other revenue primarily includes (i) fees received from distributors of the Lakers RSNs; (ii) fees paid to TWC by the Advance/Newhouse Partnership for (a) the ability to distribute the Company s high-speed data service

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and (b) TWC s management of certain functions, including, among others, the acquisition of programming rights, as well as the provision of certain functions, including engineering; (iii) home shopping network-related revenue (including commissions earned on the sale of merchandise and carriage fees); and (iv) beginning in 2014, fees received from distributors of SportsNet LA.

Operating costs and expenses. Other operating costs and expenses primarily include operating costs associated with TWC Media, the Lakers RSNs and the Company s local sports, news and lifestyle channels and, beginning in 2014, SportsNet LA.

Shared Functions

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

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

Use of Operating Income before Depreciation and Amortization

In discussing its segment performance, the Company may use certain measures that are not calculated and presented in accordance with U.S. generally accepted accounting principles (GAAP). These measures include Operating Income before Depreciation and Amortization (OIBDA), which the Company defines as Operating Income before depreciation of tangible assets and amortization of intangible assets. For additional information regarding the use of segment OIBDA, see Note 10 to the accompanying consolidated financial statements.

RESULTS OF OPERATIONS

Three Months Ended March 31, 2014 Compared to Three Months Ended March 31, 2013

The following discussion provides an analysis of the Company s results of operations and should be read in conjunction with the accompanying consolidated statement of operations, as well as the consolidated financial statements and notes thereto and MD&A included in the 2013 Form 10-K.

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Consolidated Results

The consolidated financial results for the Company for the three months ended March 31, 2014 and 2013 were as follows (in millions):

	Three Months Ended March 31, 2014	Three Months Ended March 31, 2013 (recast)	% Change
Revenue:			
Residential services	$ 4,568	$ 4,611	(0.9%)
Business services	668	537	24.4%
Other	346	327	5.8%
Total revenue	5,582	5,475	2.0%
Costs and expenses:			
Programming and content	1,309	1,275	2.7%
Sales and marketing[(a)]	555	473	17.3%
Technical operations[(a)]	371	372	(0.3%)
Customer care[(a)]	205	197	4.1%
Other operating[(a)]	1,162	1,246	(6.7%)
Depreciation	775	789	(1.8%)
Amortization	33	32	3.1%
Merger-related and restructuring costs	80	31	158.1%
Total costs and expenses	4,490	4,415	1.7%
Operating Income	1,092	1,060	3.0%
Interest expense, net	(364)	(398)	(8.5%)
Other income (expense), net	15	(1)	NM
Income before income taxes	743	661	12.4%
Income tax provision	(264)	(260)	1.5%
Net income	479	401	19.5%
Less: Net income attributable to noncontrolling interests			NM
Net income attributable to TWC shareholders	$ 479	$ 401	19.5%

NM Not meaningful.

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

	Three Months Ended March 31,				
		2014		2013 (recast)	% Change
Employee costs	$	1,256	$	1,235	1.7%

Revenue. The increase in revenue for the three months ended March 31, 2014 was primarily due to increases in revenue at the Business Services and Other Operations segments, partially offset by a decrease in revenue at the Residential Services segment.

Revenue by segment is discussed in greater detail below in Segment Results.

Costs and expenses

Operating costs and expenses. The increase in operating costs and expenses for the three months ended March 31, 2014 was primarily due to increases in the following, which are discussed further in Segment Results : programming costs at the Residential Services segment; sales and marketing costs at the Residential Services and Business Services segments; and costs associated with advertising inventory sold on behalf of other video distributors (ad rep agreements) at the Other Operations segment; partially offset by decreases in voice costs at the Residential Services and Business Services segments and costs associated with the Company s shared functions. The growth in operating costs and expenses for the three months ended March 31, 2014 also benefited from a $34 million decrease in pension expense.

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Average monthly programming costs per video subscriber grew 10.1% to $36.51 for the three months ended March 31, 2014 from $33.16 for the three months ended March 31, 2013.

Depreciation. Depreciation decreased as certain Insight Communications Company, Inc. (Insight) assets (acquired on February 29, 2012) were fully depreciated as of August 2013. This decrease was partially offset by depreciation of certain DukeNet assets (acquired on December 31, 2013).

Merger-related and restructuring costs. For the three months ended March 31, 2014, the Company incurred merger-related costs of $63 million. These costs included Comcast merger-related costs, which consisted of employee retention costs of $29 million and advisory and legal fees of $33 million, as well as $1 million incurred in connection with the DukeNet acquisition. During the three months ended March 31, 2013, the Company incurred merger-related costs of $2 million in connection with the Insight acquisition. The Company expects to incur additional merger-related costs during 2014 in connection with the Comcast merger.

The Company incurred restructuring costs of $17 million and $29 million for the three months ended March 31, 2014 and 2013, respectively, primarily related to employee terminations and other exit costs. The Company expects to incur additional restructuring costs during 2014 primarily related to employee terminations in connection with initiatives intended to improve operating efficiency.

Operating Income. Operating Income increased primarily due to growth in revenue and a decrease in depreciation expense, partially offset by higher operating cost and expenses, as well as merger-related and restructuring costs, as discussed above.

Interest expense, net. Interest expense, net, decreased primarily due to lower average debt outstanding during the three months ended March 31, 2014 compared to 2013.

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

	Three Months Ended March 31, 2014		2013	
Income from equity-method investments, net	$	14	$	5
Gain (loss) on equity award reimbursement obligation to Time Warner[a]		1		(5)
Other				(1)
Other income (expense), net	$	15	$	(1)

[(a)] See Note 5 to the accompanying consolidated financial statements for a discussion of the Company s accounting for its equity award reimbursement obligation to Time Warner Inc. (Time Warner).

Income tax provision. For the three months ended March 31, 2014 and 2013, the Company recorded income tax provisions of $264 million and $260 million, respectively. The effective tax rates were 35.5% and 39.3% for the three months ended March 31, 2014 and 2013, respectively.

The income tax provision and effective tax rate for the three months ended March 31, 2014 include a benefit of $24 million as a result of the passage of the New York State budget during the first quarter of 2014 that, in part, lowers the New York State business tax rate beginning in 2016. Absent the impact of this item, the effective tax rates would have been 38.8% and 39.3% for the three months ended March 31, 2014 and 2013, respectively.

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

	Three Months Ended March 31, 2014	2013	% Change
Net income attributable to TWC shareholders	$ 479	$ 401	19.5%
Net income per common share attributable to TWC common shareholders:			
Basic	$ 1.71	$ 1.35	26.7%
Diluted	$ 1.70	$ 1.34	26.9%

Net income attributable to TWC shareholders increased primarily due to an increase in Operating Income and a decrease in interest expense, net. Net income per common share attributable to TWC common shareholders for the three months ended March 31, 2014 benefited from lower average common shares outstanding as a result of share repurchases under the Stock Repurchase Program.

Segment Results

Residential Services. The financial results of the Residential Services segment for the three months ended March 31, 2014 and 2013 were as follows (in millions):

	Three Months Ended March 31, 2014	2013 (recast)	% Change
Revenue:			
Video	$ 2,495	$ 2,671	(6.6%)
High-speed data	1,558	1,406	10.8%
Voice	496	519	(4.4%)
Other	19	15	26.7%
Total revenue	4,568	4,611	(0.9%)
Operating costs and expenses:			

Programming	1,262	1,226	2.9%
Sales and marketing[a]	385	321	19.9%
Technical operations[a]	335	343	(2.3%)
Customer care[a]	172	169	1.8%
Video franchise and other fees[b]	115	125	(8.0%)
Other[a]	167	256	(34.8%)
Total operating costs and expenses	2,436	2,440	(0.2%)
OIBDA	$ 2,132	$ 2,171	(1.8%)

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

	Three Months Ended March 31, 2014	2013 (recast)	% Change
Employee costs	$ 672	$ 661	1.7%

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

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TIME WARNER CABLE INC.

MANAGEMENT S DISCUSSION AND ANALYSIS OF RESULTS

OF OPERATIONS AND FINANCIAL CONDITION (Continued)

Selected residential subscriber-related statistics as of March 31, 2014 and 2013 were as follows (in thousands):

	March 31,		
	2014	**2013**	**% Change**
Video[a]	11,163	11,911	(6.3%)
High-speed data[b]	11,358	11,066	2.6%
Voice[c]	4,913	4,989	(1.5%)
Single play[d]	5,695	5,620	1.3%
Double play[e]	4,772	4,873	(2.1%)
Triple play[f]	4,065	4,200	(3.2%)
Customer relationships[g]	14,532	14,693	(1.1%)

(a) Video subscriber numbers reflect billable subscribers who purchase at least the basic service video programming tier. The determination of whether a video subscriber is categorized as residential or business is based on the type of subscriber purchasing the service.

(b) High-speed data subscriber numbers reflect billable subscribers who purchase any of the high-speed data services offered by TWC. The determination of whether a high-speed data subscriber is categorized as residential or business is generally based upon the type of service provided to that subscriber.

(c) Voice subscriber numbers reflect billable subscribers who purchase an IP-based telephony service. The determination of whether a voice subscriber is categorized as residential or business is generally based upon the type of service provided to that subscriber.

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

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

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

(g) Customer relationships represent the number of subscribers who purchase at least one of the Company s video, high-speed data and voice services. For example, a subscriber who purchases only high-speed data service and no video service will count as one customer relationship, and a subscriber who purchases both video and high-speed data services will also count as only one customer relationship.

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

Average monthly revenue per unit for the Residential Services segment for the three months ended March 31, 2014 and 2013 was as follows:

	Three Months Ended March 31, 2014	2013	% Change
Video[(a)]	$ 74.51	$ 74.50	
High-speed data[(b)]	46.32	42.60	8.7%
Voice[(c)]	34.04	34.56	(1.5%)
Customer relationship[(d)]	105.45	104.84	0.6%

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

(b) Average monthly residential high-speed data revenue per unit represents residential high-speed data revenue divided by the corresponding average residential high-speed data subscribers for the period.

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

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

TIME WARNER CABLE INC.

MANAGEMENT S DISCUSSION AND ANALYSIS OF RESULTS

OF OPERATIONS AND FINANCIAL CONDITION (Continued)

The major components of residential video revenue for the three months ended March 31, 2014 and 2013 were as follows (in millions):

	Three Months Ended March 31, 2014	2013	% Change
Programming tiers[a]	$ 1,624	$ 1,740	(6.7%)
Premium networks	201	195	3.1%
Transactional video-on-demand	58	66	(12.1%)
Video equipment rental and installation charges	332	373	(11.0%)
DVR service	165	172	(4.1%)
Franchise and other fees[b]	115	125	(8.0%)
Total	$ 2,495	$ 2,671	(6.6%)

(a) Programming tier revenue includes subscriber fees for the Company s various tiers or packages of video programming services generally distinguished from one another by the number and type of programming networks they include.

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

The decrease in residential video revenue was primarily due to a decline in video subscribers.

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

The decrease in residential voice revenue was due to a decrease in average revenue per subscriber and fewer voice subscribers.

Operating costs and expenses. Operating costs and expenses decreased slightly primarily due to a decline in other operating costs, partially offset by increases in sales and marketing costs and programming costs.

The increase in programming costs (which include intercompany expense from the Other Operations segment for programming costs associated with the Lakers RSNs, the Company s local sports, news and lifestyle channels and, beginning in 2014, SportsNet LA) was primarily due to contractual rate increases, partially offset by a decline in video subscribers. Average monthly Residential Services programming costs per video subscriber grew 10.2% to $37.69 for the three months ended March 31, 2014 from $34.19 for the three months ended March 31, 2013. The Company expects the rate of growth in average monthly Residential Services programming costs per video subscriber in 2014 to increase compared to that in 2013.

Sales and marketing costs increased primarily due to increased marketing activities as well as headcount growth and higher compensation costs per employee, particularly in customer retention.

Other operating costs decreased due to declines in voice costs and bad debt expense. Voice costs decreased $61 million primarily due to a decrease in delivery costs per subscriber and a decline in voice subscribers. Average monthly Residential Services voice costs per voice subscriber declined 43.9% to $4.97 for the three months ended March 31, 2014 from $8.86 for the three months ended March 31, 2013 as a result of the ongoing replacement of Sprint Corporation as the provider of voice transport, switching and interconnection services, which was completed during the first quarter of 2014. As a result, the Company expects average monthly Residential Services voice costs per voice subscriber to decrease in 2014 compared to 2013.

OIBDA. OIBDA decreased primarily due to a decrease in revenue, partially offset by a slight decrease in operating costs and expenses, as discussed above.

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TIME WARNER CABLE INC.

MANAGEMENT S DISCUSSION AND ANALYSIS OF RESULTS

OF OPERATIONS AND FINANCIAL CONDITION (Continued)

Business Services. The financial results of the Business Services segment for the three months ended March 31, 2014 and 2013 were as follows (in millions):

	Three Months Ended March 31, 2014	2013 (recast)	% Change
Revenue:			
Video	$ 89	$ 84	6.0%
High-speed data	306	256	19.5%
Voice	118	96	22.9%
Wholesale transport	101	55	83.6%
Other	54	46	17.4%
Total revenue	668	537	24.4%
Operating costs and expenses:			
Programming	36	32	12.5%
Sales and marketing[(a)]	119	102	16.7%
Technical operations[(a)]	23	17	35.3%
Customer care[(a)]	33	28	17.9%
Video franchise and other fees[(b)]	5	4	25.0%
Other[(a)]	50	42	19.0%
Total operating costs and expenses	266	225	18.2%
OIBDA	$ 402	$ 312	28.8%

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

	Three Months Ended March 31, 2014	2013 (recast)	% Change
Employee costs	$ 151	$ 126	19.8%

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

Selected business subscriber-related statistics as of March 31, 2014 and 2013 were as follows (in thousands):

	March 31,		
	2014	**2013**	**% Change**
Video[(a)]	196	189	3.7%
High-speed data[(b)]	531	472	12.5%
Voice[(c)]	289	237	21.9%
Single play[(d)]	328	319	2.8%
Double play[(e)]	239	201	18.9%
Triple play[(f)]	70	59	18.6%
Customer relationships[(g)]	637	579	10.0%

(a) Video subscriber numbers reflect billable subscribers who purchase at least the basic service video programming tier. The determination of whether a video subscriber is categorized as residential or business is based on the type of subscriber purchasing the service.

(b) High-speed data subscriber numbers reflect billable subscribers who purchase any of the high-speed data services offered by TWC. The determination of whether a high-speed data subscriber is categorized as residential or business is generally based upon the type of service provided to that subscriber.

(c) Voice subscriber numbers reflect billable subscribers who purchase an IP-based telephony service. The determination of whether a voice subscriber is categorized as residential or business is generally based upon the type of service provided to that subscriber.

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

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

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

(g) Customer relationships represent the number of subscribers who purchase at least one of the Company s video, high-speed data and voice services. For example, a subscriber who purchases only high-speed data service and no video service will count as one customer relationship, and a subscriber who purchases both video and high-speed data services will also count as only one customer relationship. Customers who purchase wholesale transport or cloud services but do not purchase one of the Company s video, high-speed data or voice services are not included in the Company s subscriber results.

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TIME WARNER CABLE INC.

MANAGEMENT S DISCUSSION AND ANALYSIS OF RESULTS

OF OPERATIONS AND FINANCIAL CONDITION (Continued)

Revenue. Business services revenue increased primarily due to growth in high-speed data and voice subscribers, an organic increase in cell tower backhaul revenue of $11 million and $29 million of DukeNet revenue (nearly all wholesale transport).

Operating costs and expenses. Operating costs and expenses increased primarily as a result of an increase in sales and marketing costs, primarily due to increased headcount and higher compensation costs per employee, including increased commissions. This increase was partially offset by lower voice costs due to the in-sourcing of voice transport, switching and interconnection services.

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

Other Operations. The financial results of the Other Operations segment for the three months ended March 31, 2014 and 2013 were as follows (in millions):

	Three Months Ended March 31, 2014	2013 (recast)	% Change
Revenue:			
Advertising	$ 247	$ 228	8.3%
Other	153	149	2.7%
Total revenue	400	377	6.1%
Operating costs and expenses[a]	227	212	7.1%
OIBDA	$ 173	$ 165	4.8%

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

	Three Months Ended March 31, 2014	2013 (recast)	% Change
Employee costs	$ 83	$ 83	

Revenue. Advertising revenue increased primarily due to growth in political advertising revenue as well as non-political revenue from ad rep agreements. The Company expects advertising revenue in 2014 to increase compared to 2013 due to an increase in political advertising revenue.

Other revenue increased primarily due to affiliate fees from the Residential Services segment as well as other distributors of the Lakers RSNs.

Operating costs and expenses. Operating costs and expenses increased primarily related to growth in costs associated with ad rep agreements.

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

TIME WARNER CABLE INC.

MANAGEMENT S DISCUSSION AND ANALYSIS OF RESULTS

OF OPERATIONS AND FINANCIAL CONDITION (Continued)

Shared Functions. Costs and expenses associated with the Company s shared functions, which consist of operating costs associated with broad corporate functions (e.g., accounting and finance, information technology, executive management, legal and human resources) or functions supporting more than one reportable segment that are centrally managed (e.g., facilities, network operations, vehicles and procurement) as well as other activities not directly attributable to a reportable segment, for the three months ended March 31, 2014 and 2013 were as follows (in millions):

	Three Months Ended March 31, 2014	2013 (recast)	% Change
Operating costs and expenses[a]	$ 727	$ 736	(1.2%)
Merger-related and restructuring costs	80	31	158.1%
Total costs and expenses	$ 807	$ 767	5.2%

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

	Three Months Ended March 31, 2014	2013 (recast)	% Change
Employee costs	$ 350	$ 365	(4.1%)

Operating costs and expenses. The decrease in operating costs and expenses was driven by operating efficiencies, including decreased headcount, particularly in information technology.

Merger-related and restructuring costs. Merger-related costs of $63 million were incurred for the three months ended March 31, 2014. These costs included Comcast merger-related costs, which consisted of employee retention costs of $29 million and advisory and legal fees of $33 million, as well as $1 million incurred in connection with the DukeNet acquisition. Merger-related costs of $2 million for the three months ended March 31, 2013 were incurred in connection with the Insight acquisition. The Company expects to incur additional merger-related costs during 2014 in connection with the Comcast merger.

Restructuring costs were $17 million and $29 million for the three months ended March 31, 2014 and 2013, respectively, primarily related to employee terminations and other exit costs. The Company expects to incur additional restructuring costs during 2014 primarily related to employee terminations in connection with initiatives intended to improve operating efficiency.

FINANCIAL CONDITION AND LIQUIDITY

Management believes that cash generated by or available to TWC should be sufficient to fund its capital and liquidity needs for the next twelve months and for the foreseeable future thereafter, including quarterly dividend payments and maturities of long-term debt. TWC s sources of cash include cash and equivalents on hand, cash provided by operating activities and borrowing capacity under the Company s $3.5 billion senior unsecured five-year revolving credit facility (the Revolving Credit Facility) and the Company s $2.5 billion unsecured commercial paper program (which is supported by unused committed capacity under the Revolving Credit Facility), as well as access to capital markets.

In accordance with the Company s investment policy of diversifying its investments and limiting the amount of its investments in a single entity or fund, the Company may invest its cash and equivalents in a combination of money market and government funds and U.S. Treasury securities, as well as other similar instruments. As of March 31, 2014, the majority of the Company s cash and equivalents was invested in money market funds and income earning bank deposits, including certificates of deposit.

TWC s unused committed financial capacity was $3.452 billion as of March 31, 2014, reflecting $1.557 billion of cash and equivalents and $1.895 billion of available borrowing capacity under the Revolving Credit Facility.

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TIME WARNER CABLE INC.

MANAGEMENT S DISCUSSION AND ANALYSIS OF RESULTS

OF OPERATIONS AND FINANCIAL CONDITION (Continued)

Current Financial Condition

As of March 31, 2014, the Company had $25.854 billion of debt, $1.557 billion of cash and equivalents (net debt of $24.297 billion, defined as total debt less cash and equivalents) and $7.094 billion of total TWC shareholders equity. As of December 31, 2013, the Company had $25.052 billion of debt, $525 million of cash and equivalents, (net debt of $24.527 billion) and $6.943 billion of total TWC shareholders equity.

The following table shows the significant items contributing to the change in net debt from December 31, 2013 to March 31, 2014 (in millions):