TIME WARNER CABLE INC.
Form 10-Q
July 30, 2015

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 June 30, 2015 or

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

For the transition period from ________________________to _________________________

Commission File Number: 001-33335

TIME WARNER CABLE INC.

(Exact name of registrant as specified in its charter)

Delaware	**84-1496755**
(State or other jurisdiction of	*(I.R.S. Employer*

incorporation or organization) *Identification No.)*

60 Columbus Circle

New York, New York 10023

(Address of principal executive offices) (Zip Code)

(212) 364-8200

(Registrant s telephone number, including area code)

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

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

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

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

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

Description of Class	Shares Outstanding as of July 28, 2015
Common Stock $0.01 par value	282,974,273

Table of Contents

TIME WARNER CABLE INC.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

AND OTHER FINANCIAL INFORMATION

Table of Contents

TIME WARNER CABLE INC.

MANAGEMENT S DISCUSSION AND ANALYSIS OF RESULTS

OF OPERATIONS AND FINANCIAL CONDITION

INTRODUCTION

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

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

Results of operations. This section provides an analysis of the Company s results of operations for the three and six months ended June 30, 2015. This analysis is presented on both a consolidated and reportable segment basis.

Financial condition and liquidity. This section provides an analysis of the Company s financial condition as of June 30, 2015 and cash flows for the six months ended June 30, 2015.

Caution concerning forward-looking statements. This section provides a description of the use of forward-looking information appearing in this report, including in MD&A and the consolidated financial statements. Such information is based on management s current expectations about future events, which are subject to uncertainty and changes in circumstances. Refer to the Company s Annual Report on Form 10-K for the year ended December 31, 2014 (the 2014 Form 10-K), as well as Item 1A, Risk Factors, in Part II of this report, 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 June 30, 2015, TWC served approximately 15.5 million residential and business services customers who subscribed to one or more of its video, high-speed data and voice services. During the six months ended June 30, 2015, TWC s revenue increased 3.5% to approximately $11.7 billion.

Recent Developments

Charter Merger

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

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

Table of Contents

TIME WARNER CABLE INC.

MANAGEMENT S DISCUSSION AND ANALYSIS OF RESULTS

OF OPERATIONS AND FINANCIAL CONDITION (Continued)

The Charter merger is subject to the approval of the Company s and Charter s stockholders, regulatory approvals and certain other closing conditions.

Bright House Networks Transaction

On May 23, 2015, Charter and Advance/Newhouse Partnership (A/N) and certain of their affiliates amended an agreement the parties had signed on March 31, 2015 (the Bright House Networks Agreement). Under the amended Bright House Networks Agreement, Charter will acquire Bright House Networks, LLC (Bright House Networks), subject to, among other conditions, the closing of the Charter merger. Bright House Networks is a 100% owned subsidiary of a partnership (TWE-A/N) between A/N and Time Warner Cable Enterprises LLC (TWCE), a subsidiary of TWC. The closing of Charter s acquisition of Bright House Networks is expected to occur concurrently with the closing of the Charter merger. However, the closing of the Charter merger is not conditioned on the closing of the Bright House Networks transaction.

In the Charter Merger Agreement, the Company and TWCE agreed to irrevocably and unconditionally waive their right of first offer to acquire the assets of Bright House Networks during the pendency of the Charter merger. This waiver will expire if the Charter Merger Agreement is terminated in accordance with its terms, provided that the Company or any of its Affiliates (as defined in the Charter Merger Agreement) does not, within nine months following such a termination, enter into an agreement or understanding in respect of, or consummate, an alternative acquisition transaction. As discussed further in Financial Statement Presentation Reportable Segments Other Operations Segment, TWC receives a fee from A/N for providing Bright House Networks with high-speed data services and certain management functions, which is included in Other Operations revenue.

Termination of Comcast Merger and Divestiture Transactions

On April 24, 2015, Comcast Corporation (Comcast) and the Company terminated their February 12, 2014 Agreement and Plan of Merger (the Comcast Merger Agreement), under which the Company had agreed, on the terms and subject to the conditions set forth therein, to merge with and into a 100% owned subsidiary of Comcast. In a related transaction, on April 25, 2014, Comcast had entered into a binding agreement with Charter, which contemplated three transactions to be completed following the closing of the Comcast Merger Agreement (the divestiture transactions): (1) a contribution, spin-off and merger transaction, (2) an asset exchange and (3) a sale of assets. The completion of the divestiture transactions would have resulted in Charter acquiring certain TWC cable systems primarily in the Midwest. Also, on March 31, 2015, Charter and A/N had entered into the Bright House Networks Agreement, which was subject to, among other things, the closing of the divestiture transactions. Upon termination of the Comcast Merger Agreement, Comcast delivered a notice of termination to Charter with respect to the divestiture transactions.

Reportable Segments

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

Residential Services Segment

TWC offers video, high-speed data and voice services, as well as security and home management services, to residential customers. As of June 30, 2015, the Company served 14.8 million residential services customers and, during the six months ended June 30, 2015, TWC generated approximately $9.4 billion of revenue from the provision of residential services, which represented 80.5% of TWC s total revenue.

TWC s video service provides over 300 channels (including, on average, over 200 high-definition (HD) channels) and over 20,000 video-on-demand choices, which, increasingly, consumers can watch on the device of their choosing, both inside and outside the home. TWC s high-speed data service is available in a range of speed (from up to 2 to up to 300 megabits per second (Mbps) downstream), price and consumption (unlimited, 30 gigabyte (GB) and 5 GB) levels and, for most high-speed data customers, includes access to a nationwide network of more than 400,000 Cable WiFi hotspots along with

2

Table of Contents

TIME WARNER CABLE INC.

MANAGEMENT S DISCUSSION AND ANALYSIS OF RESULTS

OF OPERATIONS AND FINANCIAL CONDITION (Continued)

communications and Internet security features. TWC s voice service provides unlimited calling throughout the U.S. and to Canada, Puerto Rico, Mexico, China, Hong Kong and India, among others, and access to popular features in one simple package. TWC s IntelligentHome service provides state-of-the-art security and home management technology, taking advantage of TWC s always-on broadband network and around-the-clock security monitoring centers.

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

Business Services Segment

TWC offers a wide range of business high-speed data, networking, voice, video, hosting and cloud computing services. As of June 30, 2015, TWC served 718,000 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 six months ended June 30, 2015, revenue from the provision of business services increased 16.6% to $1.6 billion, which represented 13.5% of TWC s total revenue. The Company expects continued strong growth in Business Services revenue driven by an increase in the number of customers (the result of continued penetration of buildings currently on its network and investment to connect new buildings to its network) and revenue per customer (due to growing product penetration, demand for higher-priced tiers of service and price increases). Given the large opportunity and TWC s still modest share in business services, the Company has established a target of growing Business Services to exceed $5 billion in annual revenue by 2018.

Other Operations Segment

TWC s Other Operations segment principally consists of (i) Time Warner Cable Media (TWC Media), the advertising sales arm of TWC; (ii) the Company s regional sports networks that carry Los Angeles Lakers basketball games and other sports programming (Time Warner Cable SportsNet and Time Warner Cable Deportes and, collectively, the Lakers RSNs); (iii) the Company s local sports, news and lifestyle channels (e.g., Time Warner Cable News NY1); (iv) other operating revenue and costs, including those derived from A/N and home shopping network-related services; and (v) operating revenue and costs associated with SportsNet LA, a regional sports network carrying the Los Angeles Dodgers baseball games and other sports programming. During the six months ended June 30, 2015, TWC generated revenue from Other Operations of $829 million.

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

Competition

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

Residential Services Segment

TWC faces intense competition for residential customers from a variety of alternative communications, information and entertainment delivery sources. TWC competes with 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

Table of Contents

TIME WARNER CABLE INC.

MANAGEMENT S DISCUSSION AND ANALYSIS OF RESULTS

OF OPERATIONS AND FINANCIAL CONDITION (Continued)

deliver content to consumers over the Internet. TWC s residential high-speed data service faces competition from wireless Internet providers and direct broadcast satellite services. TWC s residential voice service faces competition from wireless voice providers, over-the-top phone services and other alternatives.

Business Services Segment

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

Other Operations Segment

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

Financial Statement Presentation

Basis of Presentation

Reclassifications

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

Consolidated

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

Operating costs and expenses

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

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

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

Table of Contents

TIME WARNER CABLE INC.

MANAGEMENT S DISCUSSION AND ANALYSIS OF RESULTS

OF OPERATIONS AND FINANCIAL CONDITION (Continued)

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

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

Reportable Segments

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

Residential Services Segment

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

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

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

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

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

Operating costs and expenses. Residential Services segment operating costs and expenses include the operating costs and expenses that management believes are necessary to assess the performance of and allocate resources to the Residential Services segment. Such costs include programming costs, sales and marketing costs, technical operations costs, customer care costs, video franchise and other fees and other operating costs (e.g., high-speed data connectivity costs, voice network

Table of Contents

TIME WARNER CABLE INC.

MANAGEMENT S DISCUSSION AND ANALYSIS OF RESULTS

OF OPERATIONS AND FINANCIAL CONDITION (Continued)

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 obtained through contractual agreements to sell advertising inventory on behalf of other video distributors (including, among others, Verizon s FiOS, AT&T s U-verse and Charter). The Company also generates advertising revenue from the sale of inventory on the Lakers RSNs, SportsNet LA and the Company s local sports, news and lifestyle channels (e.g., Time Warner Cable News NY1).

Other. Other revenue primarily includes (i) fees received from distributors of the Lakers RSNs and SportsNet LA; (ii) fees paid to TWC by A/N for (a) the ability to distribute the Company s high-speed data service and (b) TWC s management of certain functions, including, among others, the acquisition of programming rights, as well as the provision of certain functions, including engineering; and (iii) home shopping network-related revenue (including commissions earned on the sale of merchandise and carriage fees). Other revenue also includes intercompany revenue from the Residential Services and Business Services segments for programming provided by the Lakers RSNs, SportsNet LA and the Company s local sports, news and lifestyle channels.

Table of Contents

TIME WARNER CABLE INC.

MANAGEMENT S DISCUSSION AND ANALYSIS OF RESULTS

OF OPERATIONS AND FINANCIAL CONDITION (Continued)

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

Shared Functions

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

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

Use of Operating Income before Depreciation and Amortization

In discussing its segment performance, the Company may use certain measures that are not calculated and presented in accordance with U.S. generally accepted accounting principles (GAAP). These measures include Operating Income before Depreciation and Amortization (OIBDA), which the Company defines as Operating Income before depreciation of tangible assets and amortization of intangible assets. For additional information regarding the use of segment OIBDA, see Note 9 to the accompanying consolidated financial statements.

Recent Accounting Standards

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

RESULTS OF OPERATIONS

Three and Six Months Ended June 30, 2015 Compared to Three and Six Months Ended June 30, 2014

The following discussion provides an analysis of the Company s results of operations and should be read in conjunction with the accompanying consolidated statement of operations, as well as the consolidated financial statements and notes thereto and MD&A included in the 2014 Form 10-K.

Table of Contents

TIME WARNER CABLE INC.

MANAGEMENT S DISCUSSION AND ANALYSIS OF RESULTS

OF OPERATIONS AND FINANCIAL CONDITION (Continued)

Consolidated Results

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

	Three Months Ended June 30,			Six Months Ended June 30,		
	2015	**2014**	**% Change**	**2015**	**2014**	**% Change**
Revenue:						
Residential services	$ 4,758	$ 4,662	2.1%	$ 9,420	$ 9,230	2.1%
Business services	803	691	16.2%	1,584	1,359	16.6%
Other	365	373	(2.1%)	699	719	(2.8%)
Total revenue	5,926	5,726	3.5%	11,703	11,308	3.5%
Costs and expenses:						
Programming and content	1,489	1,341	11.0%	2,908	2,650	9.7%
Sales and marketing[(a)]	596	544	9.6%	1,155	1,099	5.1%
Technical operations[(a)]	406	371	9.4%	805	742	8.5%
Customer care[(a)]	224	207	8.2%	450	412	9.2%
Other operating[(a)]	1,181	1,209	(2.3%)	2,359	2,371	(0.5%)
Depreciation	885	795	11.3%	1,737	1,570	10.6%
Amortization	34	35	(2.9%)	68	68	
Merger-related and restructuring costs	82	61	34.4%	108	141	(23.4%)
Total costs and expenses	4,897	4,563	7.3%	9,590	9,053	5.9%
Operating Income	1,029	1,163	(11.5%)	2,113	2,255	(6.3%)
Interest expense	(350)	(349)	0.3%	(698)	(713)	(2.1%)
Other income, net	127	8	NM	137	23	NM
Income before income taxes	806	822	(1.9%)	1,552	1,565	(0.8%)
Income tax provision	(343)	(323)	6.2%	(631)	(587)	7.5%
Net income	463	499	(7.2%)	921	978	(5.8%)
Less: Net income attributable to noncontrolling interests			NM			NM

Net income attributable to TWC shareholders	$	463	$	499	(7.2%)	$	921	$	978	(5.8%)

NM Not meaningful.

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

	Three Months Ended June 30,			Six Months Ended June 30,		
	2015	**2014**	**% Change**	**2015**	**2014**	**% Change**
Employee costs	$ 1,330	$ 1,226	8.5%	$ 2,651	$ 2,482	6.8%

Revenue. The increase in revenue for the three and six months ended June 30, 2015 was due to increases in revenue at the Residential Services and Business Services segments. Revenue by segment is discussed in greater detail below in Segment Results.

Costs and expenses

Operating costs and expenses. The increase in operating costs and expenses for the three and six months ended June 30, 2015 was primarily due to increases in programming, employee, content (as a result of higher content costs associated with SportsNet LA) and maintenance costs, partially offset by a decline in bad debt expense and, for the six months ended June 30, 2015, lower marketing expense.

For both the three and six months ended June 30, 2015, the increase in employee costs reflects the Company s continued investments in sales and marketing, technical operations and customer care initiatives and an increase in pension expense of $27 million and $53 million, respectively, partially offset by a decrease in employee medical costs of $23 million for the six months ended June 30, 2015 (as a result of changes in estimates of previously established employee medical accruals and lower claims activity). The Company expects pension expense to increase to approximately $190 million in 2015 from $81 million in 2014.

Table of Contents

TIME WARNER CABLE INC.

MANAGEMENT S DISCUSSION AND ANALYSIS OF RESULTS

OF OPERATIONS AND FINANCIAL CONDITION (Continued)

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

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Comcast merger:				
Employee retention costs	$ 13	$ 40	$ 27	$ 69
Advisory and legal fees		9	10	42
Charter merger:				
Employee retention costs	14		14	
Advisory and legal fees	42		42	
DukeNet Communications, LLC acquisition		3		4
Merger-related costs	$ 69	$ 52	$ 93	$ 115