FEDEX CORP
Form 10-K
July 18, 2016
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended May 31, 2016.

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 1-15829

FEDEX CORPORATION

(Exact Name of Registrant as Specified in its Charter)

Delaware	**62-1721435**
(State or Other Jurisdiction of	*(I.R.S. Employer*
Incorporation or Organization)	*Identification No.)*
942 South Shady Grove Road, Memphis, Tennessee	**38120**
(Address of Principal Executive Offices)	*(ZIP Code)*

Registrant s telephone number, including area code: **(901) 818-7500**

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

Title of each class	Name of each exchange on which registered
Common Stock, par value $0.10 per share	**New York Stock Exchange**

Floating Rate Notes due 2019	**New York Stock Exchange**
0.500% Notes due 2020	**New York Stock Exchange**
1.000% Notes due 2023	**New York Stock Exchange**
1.625% Notes due 2027	**New York Stock Exchange**

Securities registered pursuant to Section 12(g) of the Act: **None**

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

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

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 website, if any, every Interactive Date 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) 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. þ

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

The aggregate market value of the common stock held by non-affiliates of the Registrant, computed by reference to the closing price as of the last business day of the Registrant s most recently completed second fiscal quarter, November 30, 2015, was approximately $40.6 billion. The Registrant has no non-voting stock.

As of July 14, 2016, 265,524,323 shares of the Registrant s common stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant s definitive proxy statement to be delivered to stockholders in connection with the 2016 annual meeting of stockholders to be held on September 26, 2016 are incorporated by reference in response to Part III of this Report.

TABLE OF CONTENTS

Table of Contents

EXHIBITS

Table of Contents

PART I

ITEM 1. BUSINESS

Overview

FedEx Corporation (FedEx) provides a broad portfolio of transportation, e-commerce and business services through companies competing collectively, operating independently and managed collaboratively, under the respected FedEx brand. These companies are included in the following business segments:

- ***FedEx Express***: Federal Express Corporation (FedEx Express) is the world s largest express transportation company, offering time-definite delivery to more than 220 countries and territories, connecting markets that comprise more than 90% of the world s gross domestic product. The FedEx Express segment also includes FedEx Trade Networks, Inc. (FedEx Trade Networks), which provides international trade services, specializing in customs brokerage and global ocean and air freight forwarding, FedEx SupplyChain Systems, Inc. (FedEx SupplyChain), which offers a range of supply chain solutions, and FedEx CrossBorder, LLC, formerly Bongo International, LLC (FedEx CrossBorder), which is a leader in cross-border enablement technology and solutions.

- ***TNT Express***: Acquired near the end of our 2016 fourth quarter, TNT Express B.V., formerly TNT Express N.V. (TNT Express), is an international express transportation, small-package ground delivery and freight transportation company. TNT Express services are primarily classified by the speed, distance, weight and size of consignments. While a majority of its shipments are between businesses, TNT Express also offers business-to-consumer services to select key customers. TNT Express operates road transportation networks and delivers to over 200 countries.

- ***FedEx Ground***: FedEx Ground Package System, Inc. (FedEx Ground) is a leading North American provider of small-package ground delivery services. FedEx Ground provides low-cost, day-certain service to any business address in the U.S. and Canada, as well as residential delivery to 100% of U.S. residences through its FedEx Home Delivery service. On August 31, 2015, our FedEx SmartPost business was merged into FedEx Ground. The FedEx SmartPost service specializes in the consolidation and delivery of high volumes of low-weight, less time-sensitive business-to-consumer packages using the U.S. Postal Service (USPS) for final delivery to any residential address or PO Box in the U.S. and remains an important component of our FedEx Ground service offerings. The FedEx Ground segment also includes GENCO Distribution System, Inc. (GENCO), which is a leading North American third-party logistics provider.

- ***FedEx Freight***: FedEx Freight, Inc. (FedEx Freight) is a leading U.S. provider of less-than-truckload (LTL) freight services across all lengths of haul, offering: FedEx Freight Priority, when speed is critical to meet supply chain needs; and FedEx Freight Economy, when time can be traded for cost savings. The FedEx Freight segment also offers freight delivery service to most points in Canada, Mexico, Puerto Rico and the U.S. Virgin Islands, and includes FedEx Custom Critical, Inc. (FedEx Custom Critical), a leading North American provider of time-specific, critical shipment services.

- ***FedEx Services***: FedEx Corporate Services, Inc. (FedEx Services) provides sales, marketing, information technology, communications and back-office functions that support our other companies. The FedEx Services segment includes FedEx Office and Print Services, Inc. (FedEx Office), which provides document and business services and retail access to our package transportation businesses. On May 31, 2016, FedEx TechConnect, Inc. (FedEx TechConnect) was merged into FedEx Services. Following the merger, the services previously provided by FedEx TechConnect, including customer service and billing and collection services for our U.S. customers and technical support services, are now performed by FedEx Services.

Table of Contents

In 2017, TNT Express s results will be disclosed as a reportable segment and combined with the FedEx Express reportable segment in a new reporting structure referred to as the FedEx Express Group. For more information about the FedEx Express Group and our reportable segments, please see Business Segments beginning on page 9 of this Annual Report on Form 10-K. For financial information concerning our reportable business segments, refer to the accompanying financial section, which includes management s discussion and analysis of results of operations and financial condition and our consolidated financial statements.

Our website is located at *fedex.com*. Detailed information about our services, e-commerce tools and solutions, and citizenship efforts can be found on our website. In addition, we make our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and all amendments to such reports available, free of charge, through our website, as soon as reasonably practicable after they are filed with or furnished to the Securities & Exchange Commission (SEC). The Investor Relations page of our website, *http://investors.fedex.com,* contains a significant amount of information about FedEx, including our SEC filings and financial and other information for investors. The information that we post on our Investor Relations website could be deemed to be material information. We encourage investors, the media and others interested in FedEx to visit this website from time to time, as information is updated and new information is posted. The information on our website, however, is not incorporated by reference in, and does not form part of, this Annual Report on Form 10-K.

Except as otherwise specified, any reference to a year indicates our fiscal year ended May 31 of the year referenced.

Strategy

FedEx was incorporated in Delaware on October 2, 1997 to serve as the parent holding company and provide strategic direction to the FedEx portfolio of companies. We intend to continue leveraging and extending the FedEx brand and providing our customers with convenient, seamless access to our entire portfolio of integrated services.

We believe that sales and marketing activities, as well as the information systems that support the extensive automation of our delivery services, are functions that are best coordinated across operating companies. Through the use of advanced information systems that connect the FedEx companies, we make it convenient for customers to use the full range of FedEx services. We believe that seamless information integration is critical to obtain business synergies from multiple operating units. For example, our website, *fedex.com*, provides a single point of contact for our customers to access FedEx Express, FedEx Ground and FedEx Freight shipping, pickup, shipment tracking, customer service and invoicing information, as well as FedEx Office services. Similarly, by making one call to FedEx Expedited Freight Services, our customers can quickly and easily evaluate surface and air freight shipping options available from FedEx Express, FedEx Freight and FedEx Custom Critical in order to select the service best meeting their needs. Through this one point of contact, customers can select from a broad range of freight services based on their pickup-and-delivery requirements, time sensitivity and the characteristics of the products being shipped. Also, we have integrated our U.S. LTL and parcel sales teams to enhance the effectiveness of our sales efforts and provide additional simplicity for our customers.

We manage our business as a portfolio in the long-term best interest of the enterprise, not a particular operating company. As a result, we base decisions on capital investment, expansion of delivery, information technology and retail networks, and service additions or enhancements upon achieving the highest overall long-term return on capital for our business as a whole. For each FedEx company, we focus on making appropriate investments in the technology and assets necessary to optimize our long-term earnings

Table of Contents

performance and cash flow. We are also focused on increasing returns to our stockholders, as evidenced by the recent increase in our quarterly dividend.

While we have increased our emphasis on competing collectively and managing collaboratively, we continue to believe that operating independent networks, each focused on its own respective markets, results in optimal service quality, reliability and profitability from each business unit. Each FedEx company focuses exclusively on the market sectors in which it has the most expertise and can be independently enhanced and managed to provide outstanding service to our customers. Each company s operations, cost structure and culture are designed to serve the unique customer demands of a particular market segment and as a result, we are able to adapt our networks in response to changing needs.

Our compete collectively, operate independently, manage collaboratively strategy also provides flexibility in sizing our various operating companies to align with varying macro-economic conditions and customer demand for the market segments in which they operate, allowing us to leverage and manage change. Volatility and uncertainty have become the norms in the global transportation market, and we are able to use our flexibility to accommodate changing conditions in the global economy. In 2014, we began replacing some of our retired aircraft with the more efficient, lower-emission Boeing 767-300 Freighter (B767F) aircraft. The B767F aircraft is approximately 30% more fuel efficient and has unit operating costs that are more than 20% lower than the MD10 aircraft it is replacing. In 2015, to continue rationalizing capacity and modernizing our aircraft fleet to more effectively serve customers, we retired an additional 15 aircraft and 21 related engines and adjusted the retirement schedule of 23 aircraft and 57 engines.

At the same time, we continue to expand network capacity at our growing and highly successful FedEx Ground segment where we continue to boost package volumes.

TNT Express is the largest acquisition in FedEx history. The addition of TNT Express expands our global portfolio, particularly in Europe, and will lower our cost to serve European markets by increasing density in our pickup-and-delivery operations and accelerate our global growth. We will enhance our capabilities globally by leveraging TNT Express s low-cost road networks in different regions around the world. We have begun the process of integrating the TNT Express operations with the FedEx Express network. Although the integration will take several years to fully execute, TNT Express and FedEx Express have the benefit of similar and complementary corporate cultures and a common mission of providing superior service and value to customers around the world.

The following four trends have driven world commerce and shaped the global marketplace, and we believe they will continue to do so over the long term:

Growth of E-Commerce: E-commerce continues to be a catalyst for the other trends below and is a vital growth engine for businesses, as the internet is increasingly being used to purchase goods and services. Through our global transportation and technology networks, we contribute to and benefit from the growth of e-commerce.

Globalization: As the world s economy has become more fully integrated, companies are sourcing and selling globally. With customers in more than 220 countries and territories, we facilitate this supply chain through our global reach, delivery services and information capabilities. Despite the recent slow-down in global trade growth, we continue to believe that globalization will drive international volume growth over the long term.

Supply Chain Acceleration: While the growth of global trade has slowed, companies of all sizes continue to depend on the delivery of just-in-time inventory to help them compete. We have taken advantage of the move toward more efficient supply chains by helping customers obtain more visibility into their supply chains and near real-time information to manage inventory in motion, thereby reducing overhead and obsolescence and speeding time-to-market.

Increase in High-Tech and High-Value-Added Businesses: High-tech and high-value-added goods have increased as a percentage of total economic output, and our various operating companies offer a unique menu of services to fit virtually all shipping needs of high-tech and high-value-added industries.

- 5 -

Table of Contents

The growth of e-commerce over the last several years has been significant. According to third-party reports, total e-commerce activity now accounts for one in six discretionary dollars spent by consumers. If this trend continues, calendar year 2016 will be the seventh consecutive year that online sales grew near or above 15% year-over-year. We believe that FedEx is well positioned to provide innovative solutions to meet the growing demand of e-commerce. FedEx continues to invest in growth at FedEx Ground in order to take advantage of opportunities in the business-to-consumer market in the U.S. GENCO has a broad portfolio of returns services to meet the needs of e-commerce merchants and customers.

These trends have produced an unprecedented expansion of customer access to goods, services and information. Through our global transportation, information technology and retail networks, we help to make this access possible. We continue to position our companies to facilitate and capitalize on this access and to achieve stronger long-term growth, productivity and profitability. To this end, we are investing in long-term strategic projects focused on expanding and modernizing our global networks to accommodate future volume growth and increase customer convenience, such as investments in Boeing 777 Freighter (B777F) and B767F aircraft. We also continue to broaden and more effectively bundle our portfolio of services in response to the needs and desires of our customers. For example, during 2016, we:

- Made the strategic acquisition of TNT Express, which will allow us to more quickly broaden our portfolio of international transportation solutions to take advantage of market trends, especially the continuing growth in e-commerce.

- Continued the integration of GENCO, a leading North American third-party logistics provider, allowing us to expand our service offerings in the growing e-commerce marketplace.

- Continued to reduce transit times and provide a better pickup experience within FedEx Ground s growing and highly profitable network.

- Successfully integrated Bongo International, LLC (Bongo) and rebranded it as FedEx CrossBorder, a leader in cross-border enablement technologies and solutions, which has capabilities that complement and expand the FedEx portfolio of offerings important to the rapidly growing global e-commerce market.

- Enhanced service offerings at FedEx Office through the eBay Valet Drop-Off program, a collaboration with eBay, Inc. (eBay) that allows customers to bring items to a FedEx Office location to be packed and shipped to an eBay processing center to be sold. FedEx Office also introduced a faster, cost-effective and streamlined system of delivering professional print services to large, commercial customers.

Profit Improvement Initiatives

During 2013, we saw challenging global economic conditions particularly for FedEx Express as ongoing shifts from priority to deferred shipping services significantly impacted profitability. In response to these trends, in 2013 we announced programs targeting annual profitability improvement of $1.6 billion at FedEx Express. Our profit improvement programs included multiple initiatives, primarily across FedEx Express and FedEx Services, to reduce our overall cost structure and enhancing the quality of our revenue.

We exited 2016 having achieved our profit improvement goals with a run rate of $1.6 billion of additional operating profit from the then 2013 base business. FedEx Express has improved operating income by approximately 170% from 2013, despite lower fuel surcharges and unfavorable exchange rates driving flat to declining revenue during the four-year period. FedEx Services has reduced its total expenses while investing in major information technology transformation projects. In addition, our incentive compensation programs have been gradually reinstated so that 2017 business plan objectives will represent more fully funded compensation targets. While this program is completed, assuming continued modest growth in the U.S. and global economies, our profitability and productivity are expected to continue to increase for years to come as we further leverage the benefits of these initiatives and fully integrate our recent business acquisitions.

Reputation and Responsibility

By competing collectively under the FedEx brand, our operating companies benefit from one of the world s most recognized brands. FedEx is one of the most trusted and respected companies in the world, and the FedEx brand name is a powerful sales and marketing tool. Among the many reputation awards we received during 2016, FedEx ranked 8th in *FORTUNE* magazine s World s Most Admired Companies list the 15th consecutive year we have been ranked in the top 20 on the list. Additionally, FedEx ranked in the top 50 on the Reputation Institute s 2016 Most Reputable Companies in the U.S. list, which measures the corporate reputations of the largest U.S. companies based on consumers trust, esteem, admiration and good feeling towards a company. Lastly, in 2016 FedEx was again listed on *Corporate Responsibility Magazine s* 100 Best Corporate Citizens list.

FedEx is well recognized as a leader, not only in the transportation industry and for technological innovation, but also in global citizenship. We understand that a sustainable global business is tied to our global citizenship, and we are committed to connecting the world responsibly and resourcefully. Our latest published update to our global citizenship report is available at *http://csr.fedex.com*. These reports describe how we think about our responsibilities in the area of global citizenship and include important goals and metrics that demonstrate our commitment to fulfilling these responsibilities.

Our People

Along with a strong reputation among customers and the general public, FedEx is widely acknowledged as a great place to work. For example, FedEx was once again named to *Black Enterprise* magazine s 2015 list of 40 Best Companies for Diversity. It is our people our greatest asset that give us our strong reputation. In addition to superior physical and information networks, FedEx has an exemplary human network, with more than 400,000 team members who are absolutely, positively focused on safety, the highest ethical and professional standards, and the needs of their customers and communities. Through our internal Purple Promise and Humanitarian Award programs, we recognize and reward employees who enhance customer service and promote human welfare. For additional information on our people-first philosophy and workplace initiatives, see *http://csr.fedex.com*.

Our Community

FedEx is committed to actively supporting the communities we serve worldwide through the strategic investment of our people, resources and network. We provide financial contributions, in-kind charitable shipping services and volunteer efforts by our team members to help a variety of non-profit organizations achieve their goals and make a measurable impact on the world. We have the following five core giving pillars:

- ***Delivering for Good***: Using our global network to deliver resources where they are needed most in times of disaster and for special shipments.

Sustainable Transportation: Developing solutions that connect the world responsibly and resourcefully, especially in urban areas.

Employment Pathways: Giving a pathway to meaningful employment for underserved populations.

Road Safety: Protecting pedestrians and making roads safer worldwide.

Global Entrepreneurship: Advancing women and minority-owned small businesses and entrepreneurs around the world.

In the midst of the European migrant crisis, FedEx worked with disaster relief agencies and committed approximately $1 million in cash and transportation support to deliver critical medical aid and supplies to refugees in Europe and Turkey. For additional information on our community involvement and disaster relief efforts, see *http://csr.fedex.com*.

In 2016, FedEx announced that it will invest $200 million in more than 200 communities by 2020 through its global giving platform, FedEx Cares. FedEx also supports communities throughout the U.S. with an annual United Way employee giving campaign. Additionally, more than 17,000 FedEx team members volunteered nearly 55,000 hours of service during FedEx Cares Week, a period dedicated to service projects in 500 communities in the U.S. and other regions FedEx serves around the globe.

Like our customers, many of our vendors are diverse businesses. For more than two decades, FedEx has supported small, women-owned and minority-owned businesses in our supply chain. Our Sourcing organization manages the enterprise-wide Supplier Diversity program, aligning efforts to increase our direct spend with diverse suppliers within our broader sourcing strategy. We work with regional and national diversity organizations to promote the growth of small and diverse businesses and to increase opportunities for FedEx to work with these enterprises. The Women s Business Enterprise National Council named FedEx as a 2015 Top Corporation Award winner.

The Environment

In furtherance of our commitment to protecting the environment, we initiated an effort to increase FedEx Express vehicle fuel efficiency 30% from a 2005 baseline by 2020, and in 2016, we announced that we had surpassed that goal**.** We also continue with our goal to reduce aircraft emissions intensity by 30% by 2020 on an emissions per available-ton-mile basis, a goal that we increased from 20% in 2012. We have also established a goal of obtaining 30% of our jet fuel from alternative fuels by the year 2030. These efforts help us continue to reduce our environmental footprint as evidenced in 2015 when we saved more than 100 million gallons of jet fuel at FedEx Express and avoided more than one million metric tons of carbon emissions all while our shipment volumes were up.

We will continue to expand on-site renewable energy generation in our facilities where feasible. To meet our future operational needs, as discussed above, we are adding more fuel-efficient aircraft to our fleet. The use of newer and more fuel-efficient aircraft is reducing our greenhouse gas emissions and airport noise and increasing our jet fuel efficiency. We have an impressive global alternative fuel fleet with approximately 1,900 alternative fuel vehicles, including hybrid, electric and hydrogen fueled vehicles, among others. We operate 15 solar facilities around the world, which collectively avoided more than 4,600 metric tons of CO_2e emissions in 2015. In addition, ten FedEx Express facilities in the U.S. have received certification in Leadership in Energy and Environmental Design (LEED®), the U.S. Green Building Council s system for rating the environmental performance of buildings, and more are being reviewed for certification. FedEx Express has made LEED certification the standard for newly built U.S. facilities. In addition, the FedEx India headquarters and the FedEx Office headquarters each received LEED certification in 2015 and 2016, respectively.

Table of Contents

We also continue to evaluate the environmental impacts of our packaging and copy and print services, and minimize waste generation through efforts that include recycling and the use of copy paper with recycled content, among other environmentally-responsible available choices. In 2015, 96% of paper purchased for use by FedEx Office was third-party-certified as responsibly sourced. We also use FedEx-branded cardboard packaging at FedEx Express and FedEx Ground, which is made from approximately 60% recycled content. One example of our environmentally-responsible activities is the Sustainable Purchasing Leadership Council, a U.S. nonprofit organization that supports and recognizes sustainable procurement of which we are a founding member. We continue to support the Council, contributing to discussions on how to improve sustainable purchasing in the areas of transportation and fuels, fiber- and timber-based products and more. For additional information on the ways we are minimizing our impact on the environment, see *http://csr.fedex.com*.

Governance

FedEx has an independent Board of Directors committed to the highest quality corporate governance. The Board has taken significant steps to enhance its accountability to stockholders in recent years. For example, in March 2016, our Board of Directors adopted a proxy access bylaw that permits up to 20 stockholders owning 3% or more of FedEx s outstanding voting stock continuously for at least three years to nominate and include in FedEx s proxy materials directors constituting up to two individuals or 20% of the Board, whichever is greater, provided that the stockholder(s) and the nominee(s) satisfy the requirements specified in our Bylaws.

Our Board of Directors periodically reviews all aspects of our governance policies and practices, including our Corporate Governance Guidelines and our Code of Business Conduct and Ethics, in light of best practices and makes whatever changes are necessary to further our longstanding commitment to the highest standards of corporate governance. The Guidelines and the Code, which apply to all of our directors, officers and employees, including our principal executive officer and senior financial officers, are available in the corporate governance section of the Investor Relations page of our website at *http://investors.fedex.com*. We will post in the Governance & Citizenship section of the Investor Relations page of our website information regarding any amendment to, or waiver from, the provisions of the Code to the extent such disclosure is required.

Business Segments

The following describes in more detail the operations of each of our reportable segments:

FedEx Express Group

On May 25, 2016, we acquired TNT Express, a leading international express transportation, small-package ground delivery and freight transportation company. In 2017, TNT Express s results will be disclosed as reportable segment and combined with the FedEx Express reportable segment in a new reporting structure referred to as the FedEx Express Group. During the integration process, we anticipate these segments will each continue to have discrete financial information that will be regularly reviewed when evaluating performance and making resource allocation decisions. However, they are being combined for financial reporting discussion purposes into a collective business as a result of their management reporting structure. Furthermore, over time their operations will be integrated, therefore presenting a group view provides a basis for future year-over-year comparison purposes.

Table of Contents

FedEx Express Segment

FedEx Express

Overview

FedEx Express invented express distribution over 40 years ago in 1973 and remains the industry leader, providing rapid, reliable, time-definite delivery of packages and freight to more than 220 countries and territories through an integrated global network. FedEx Express offers a wide range of U.S. domestic and international shipping services for delivery of package and freight, connecting markets that generate more than 90% of the world s gross domestic product through door-to-door, customs-cleared service, with a money-back guarantee. FedEx Express s unmatched air route authorities and extensive transportation infrastructure, combined with leading-edge information technologies, make it the world s largest express transportation company. FedEx Express employs approximately 168,000 employees and has approximately 60,000 drop-off locations (including FedEx Office centers), 643 aircraft and approximately 57,000 vehicles and trailers in its integrated global network.

Services

FedEx Express offers a wide range of U.S. domestic and international shipping services for delivery of packages and freight. Overnight and deferred package services are backed by money-back guarantees and extend to nearly the entire U.S. population. FedEx Express offers three U.S. overnight package delivery services: FedEx First Overnight, FedEx Priority Overnight and FedEx Standard Overnight. FedEx SameDay service is available for urgent shipments up to 150 pounds to virtually any U.S. destination. FedEx Express also offers U.S. express overnight and deferred freight services backed by money-back guarantees to handle the needs of the time-definite freight market. Additionally, FedEx One Rate gives U.S. customers a simple, predictable flat rate shipping option that is calculated based on the packaging type, service selected and destination.

International express and deferred package delivery with a money-back guarantee is available to more than 220 countries and territories, with a variety of time-definite services to meet distinct customer needs. FedEx International Priority package services provide time-definite delivery within one, two or three business days worldwide. FedEx International Economy package services provide time-definite delivery within five business days worldwide. FedEx International First package services provide time-definite delivery to select postal codes in 20 key global markets, with delivery to select U.S. ZIP Codes as early as 8:00 a.m. from more than 90 countries in one or two business days, delivery by 10 a.m. in one business day to Canada and by 11:00 a.m. in one business day to Mexico. FedEx Express also offers domestic pickup-and-delivery services within certain non-U.S. countries, including the United Kingdom, Canada, China, India, Mexico, Brazil, France, Poland and South Africa. In addition, FedEx Express offers comprehensive international express and deferred freight services, backed by a money-back guarantee, real-time tracking and advanced customs clearance.

We also provide FedEx Delivery Manager, which allows our U.S. residential customers to customize home deliveries to fit their schedule by providing a range of options to schedule dates, locations and times of delivery. By signing up at *fedex.com*, customers can receive notification of FedEx Express and FedEx Ground packages en route to their homes, and can choose various delivery options.

For information regarding FedEx Express e-shipping tools and solutions, see FedEx Services Customer-Driven Technology.

International Expansion

In May 2016, we acquired TNT Express, which has express delivery operations in Europe, the Middle East and Africa, Asia-Pacific and South America. This acquisition expands our global portfolio, particularly in Europe, and will lower our costs to serve European markets by increasing density in our pickup-and-delivery operations and accelerate our global growth. We have begun the process of integrating TNT Express operations with the FedEx Express network, which will take several years to fully execute.

In 2014 we made a strategic move in Southern Africa by acquiring the businesses operated by our service provider in the following seven countries: South Africa, Botswana, Malawi, Mozambique, Namibia, Swaziland and Zambia. These acquisitions, along with our 2013 acquisitions of transportation companies in Poland, France and Brazil and our 2012 acquisition of a Mexican domestic express package delivery company, gives us more robust global transportation networks and added capabilities in important international markets.

Since we began serving mainland China in 1984, we have expanded our service to cover more than 400 cities across the country and, in 2009, we began operations at our Asia-Pacific hub at the Guangzhou Baiyun International Airport in southern China. Our North Pacific regional hub at the Kansai International Airport in Osaka, Japan, which opened in April 2014, serves as a consolidation point for shipments from northern Asia to the U.S., and operates as an international gateway for customers in western Japan. Additionally, in October 2012, we announced plans to establish a new International Express and Cargo Hub in Shanghai. This new facility, with designated onsite customs clearance, will be located at Shanghai s Pudong International Airport and is slated for completion in early 2017. These hubs will allow us to continue to better serve our global customers doing business in the Asia-Pacific markets.

To facilitate the use of our growing international network, we offer a full range of international trade consulting services and a variety of online tools that enable customers to more easily determine and comply with international shipping requirements.

U.S. Postal Service Agreement

In 2013, FedEx Express entered into a new seven-year agreement with the USPS for the provision of domestic air transportation services to the USPS for its First Class, Priority and Express Mail that runs through September 2020. FedEx Express also provides transportation and delivery for the USPS s international delivery service called Global Express Guaranteed under a separate agreement. For more information about our relationship with the USPS, see Item 1A of this Annual Report on Form 10-K (Risk Factors).

Pricing

FedEx Express periodically publishes list prices in its Service Guides for the majority of its services. In general, shipping rates are based on the service selected, destination zone, weight, size, any ancillary service charge and whether the customer charged the shipment to a FedEx account. On January 4, 2016, FedEx Express implemented a 4.9% average list price increase for FedEx Express U.S. domestic, U.S. export and U.S. import services.

FedEx Express has an indexed fuel surcharge for U.S. domestic and U.S. outbound shipments and for shipments originating internationally, where legally and contractually possible. The surcharge percentage is subject to monthly adjustment based on a rounded average of a certain spot price for jet fuel. For example, the fuel surcharge for May 2016 was based on the average spot price for jet fuel published for March 2016. Changes to the FedEx Express fuel surcharge, when calculated according to the average spot price for jet fuel and FedEx Express trigger points, are applied effective from the first Monday of the month. These trigger points

Table of Contents

may change from time to time, but information on the fuel surcharge for each month is available at *fedex.com* approximately two weeks before the surcharge is applicable. We routinely review our fuel surcharges and our fuel surcharge methodology. Effective November 2, 2015, we updated the tables used to determine our fuel surcharges at FedEx Express. The weighted average U.S. domestic and U.S. outbound fuel surcharge as a percentage of the base rates for the past three years was: 2016 2%; 2015 6%; and 2014 9%. See the Fuel section of Item 7 of this Annual Report on Form 10-K (Management s Discussion and Analysis of Results of Operations and Financial Condition) for a description and discussion of the net impact of fuel on our operating results.

Operations

FedEx Express s primary sorting facility, located in Memphis, serves as the center of the company s multiple hub-and-spoke system. A second national hub facility is located in Indianapolis. In addition to these national hubs, FedEx Express operates regional hubs in Newark, Oakland, Fort Worth and Greensboro and major metropolitan sorting facilities in Los Angeles and Chicago.

Facilities in Anchorage, Paris, Guangzhou, Cologne/Bonn and Osaka serve as sorting facilities for express package and freight traffic moving to and from Asia, Europe and North America. Additional major sorting and freight handling facilities are located at Narita Airport in Tokyo, Stansted Airport outside London and Pearson Airport in Toronto. The facilities in Guangzhou, Paris, Cologne/Bonn and Osaka are also designed to serve as regional hubs for their respective market areas. A facility in Miami the Miami Gateway Hub serves our South Florida, Latin American and Caribbean markets.

Throughout its worldwide network, FedEx Express operates city stations and employs a staff of customer service agents, cargo handlers and couriers who pick up and deliver shipments in the station s service area. In some international areas, independent agents (Global Service Participants) have been selected to complete deliveries and to pick up packages. For more information about our sorting and handling facilities, see Part I, Item 2 of this Annual Report on Form 10-K under the caption FedEx Express Segment.

FedEx Office offers retail access to FedEx Express shipping services at all of its U.S. and Canadian retail locations. FedEx Express also has alliances with certain other retailers to provide in-store drop-off sites. Our unmanned FedEx Drop Boxes provide customers the opportunity to drop off packages in office buildings, shopping centers and corporate or industrial parks.

Fuel Supplies and Costs

During 2016, FedEx Express purchased jet fuel from various suppliers under contracts that vary in length and which provide for estimated amounts of fuel to be delivered. The fuel represented by these contracts is purchased at market prices. Because of our indexed fuel surcharge, we do not have any jet fuel hedging contracts. See FedEx Express Pricing.

The following table sets forth FedEx Express s costs for jet fuel and its percentage of consolidated revenues for the last five fiscal years:

Fiscal Year	**Total Jet Fuel Cost (in millions)**	**Percentage of Consolidated Revenues**
2016	$ 1,726	3.4%
2015	2,816	5.9
2014	3,506	7.7
2013	3,683	8.3
2012	3,867	9.1

Table of Contents

Most of FedEx Express s vehicle fuel needs are satisfied by retail purchases with various discounts.

Competition

As described in Item 1A of this Annual Report on Form 10-K (Risk Factors), the express package and freight markets are both highly competitive and sensitive to price and service, especially in periods of little or no macro-economic growth. The ability to compete effectively depends upon price, frequency, capacity and speed of scheduled service, ability to track packages, extent of geographic coverage, reliability and innovative service offerings.

Competitors within the U.S. include other package delivery concerns, principally United Parcel Service, Inc. (UPS), passenger airlines offering express package services, regional delivery companies, air freight forwarders and the USPS. FedEx Express s principal international competitors are DHL, UPS, foreign postal authorities, freight forwarders, passenger airlines and all-cargo airlines. We also compete with startup companies that combine technology with crowdsourcing to focus on local market needs. Many of FedEx Express s international competitors are government-owned, -controlled or -subsidized carriers, which may have greater resources, lower costs, less profit sensitivity and more favorable operating conditions than FedEx Express.

Employees

David J. Bronczek is the President and Chief Executive Officer of FedEx Express, which is headquartered in Memphis, Tennessee. As of May 31, 2016, FedEx Express employed approximately 115,000 permanent full-time and approximately 53,000 permanent part-time employees, of which 13% are employed in the Memphis area. FedEx Express s international employees represent 37% of all employees.

The pilots at FedEx Express, who represent a small number of our total employees, are represented by the Air Line Pilots Association, International (ALPA) and are employed under a collective bargaining agreement that took effect on November 2, 2015. The collective bargaining agreement is scheduled to become amendable in November 2021, after a six-year term. In addition to our pilots at FedEx Express, certain of FedEx Express s non-U.S. employees are unionized.

Attempts by other labor organizations to organize certain other groups of FedEx Express employees occur from time to time. Although these organizing attempts have not resulted in any certification of a U.S. domestic collective bargaining representative of FedEx Express employees (other than ALPA), we cannot predict the outcome of these labor activities or their effect, if any, on FedEx Express or its employees. FedEx Express believes its employee relations are excellent.

FedEx Trade Networks

FedEx Trade Networks provides international trade services, specializing in customs brokerage and global ocean and air freight forwarding. FedEx Trade Networks also provides international trade advisory services, including assistance with the Customs-Trade Partnership Against Terrorism program, and through its WorldTariff subsidiary, publishes customs duty and tax information for over 180 customs areas worldwide. Additionally, FedEx Trade Networks provides customs clearance services for FedEx Express at its major U.S. hub facilities.

As trade throughout the world grows, so does the FedEx Trade Networks solutions portfolio. Value-added services of FedEx Trade Networks include 120 freight forwarding offices in 26 countries and Global Trade Data, an information tool that allows customers to track and manage imports. FedEx Trade Networks has approximately 5,100 employees and 136 offices in 120 service locations throughout North America and in Africa, Asia-Pacific, Europe, India, Latin America and the Middle East. FedEx Trade Networks maintains a network of air and ocean freight-forwarding service providers and has entered into strategic alliances to provide services in certain countries in which it does not have owned offices.

In 2016, we completed the integration of Bongo and rebranded it as FedEx CrossBorder. FedEx CrossBorder, a subsidiary of FedEx Trade Networks, is a leader in cross-border enablement technologies and solutions. FedEx CrossBorder s capabilities complement and expand the FedEx portfolio of offerings important to international e-commerce. FedEx CrossBorder s technology and processes provide a comprehensive and integrated end-to-end solution that helps retailers and e-tailers grow by reaching international e-commerce consumers. FedEx CrossBorder s capabilities include export compliance management, Harmonized System classification, currency conversions, international payment options inclusive of language translation, shopping cart management, duty and tax calculations and credit card fraud protection. FedEx CrossBorder is headquartered in St. Petersburg, Florida.

FedEx SupplyChain

FedEx SupplyChain is an integrated logistics provider offering a range of supply chain solutions that leverage FedEx information technology and transportation networks around the world. The company offers services that include critical inventory logistics, transportation management and temperature-controlled transportation through a network of owned and managed resources all tightly integrated via advanced information technology systems. FedEx SupplyChain also offers expanded visibility and control features, as well as forward stocking locations to support worldwide FedEx Critical Inventory Logistics customers with high-value, critical orders.

TNT Express Segment

Overview

Recently acquired TNT Express is a leading international express transportation, small-package ground delivery and freight transportation company. TNT Express collects, transports and delivers documents, parcels and freight on a day-definite or time-definite basis. TNT Express services are primarily classified by the speed, distance, weight and size of consignments. Whereas the majority of its shipments are between businesses, TNT Express also offers business-to-consumer services to select key customers. TNT Express operates road transportation networks and delivers to over 200 countries.

Services

TNT Express provides two types of express services Express and Economy Express. The Express services are day-definite and delivered next-day or fastest-by-air for distances for which next-day is not possible. The Economy Express services are also day-definite and are delivered fastest-by-road, except for intercontinental deliveries which depend on air. For both Express and Economy Express services, TNT has time-definite options for customers requiring delivery before a certain time. TNT also provides specialized or extremely urgent deliveries which include products such as same-day, value-added and non-standard freight services.

Pricing

TNT Express periodically updates list prices for the majority of its services. In general, shipping rates are based on the selected service, destination zone, (volumetric) weight, and any ancillary service charge. TNT Express offers its customers discounted prices generally based on actual or potential volumes and/or revenue.

TNT Express has an indexed fuel surcharge that varies by region or country and by product. The fuel surcharge percentage is subject to monthly adjustment based upon the price of a designated fuel type. Updated information on the fuel surcharge is available at *tnt.com*.

If a customer has requirements that fall outside of TNT Express s standard service levels, but are acceptable under its standard operating procedures, TNT Express will provide the service with an additional charge to cover the additional costs incurred. For instance, collections and deliveries in certain remote and less accessible locations will incur an out-of-area charge.

Table of Contents

Operations

TNT Express has a worldwide presence with domestic, regional and intercontinental delivery. TNT Express s customers are primarily large companies and multinationals, as well as small and medium-sized enterprises. The main industries served by TNT Express are industrial, automotive, high-tech and healthcare.

Services are delivered through a combination of physical infrastructures such as hubs, depots and vehicles, and electronic infrastructures such as track-and-trace systems. TNT Express operates road networks in Europe, the Middle East, Asia, Australia and South America. TNT Express s unique European road network connects more than 40 countries through 19 road hubs and over 540 depots. TNT Express conducts its operations through a fleet of approximately 42,000 road pickup-and-delivery and linehaul vehicles. Principal competitors of TNT Express include DHL, UPS, DPD (a subsidiary of France s La Poste s GeoPost), General Logistics Systems (a Royal Mail-owned parcel delivery group), foreign postal authorities and freight forwarders.

As a condition precedent to its acquisition by FedEx, TNT Express sold its two airlines, TNT Airways and Pan Air Líneas Aéreas, to ASL Aviation Group, as European regulations prohibit foreign ownership of European-based airlines. TNT Express and ASL Aviation Group entered into a multi-year service agreement to operate flights for the FedEx-TNT Express combination. Per the terms of the service agreement, ASL Aviation Group intends to operate the airlines in a manner that will maintain contracts with former TNT Express partner airlines, contractors and suppliers. The airlines operate primarily out of TNT s central air hub in Liege, Belgium.

As of May 31, 2016, TNT Express had approximately 55,000 employees, of which 99% are employed outside the U.S. TNT Express also relies upon subcontractors and agents to conduct its pickup-and-delivery and linehaul operations. David Binks is the President and Chief Executive Officer of TNT Express (he reports to the FedEx Express Executive Vice President and Chief Operating Officer). TNT Express s headquarters are located in Hoofddorp, The Netherlands.

FedEx Ground Segment

FedEx Ground

Overview

By leveraging the FedEx brand, maintaining a low cost structure and efficiently using information technology and advanced automation systems, FedEx Ground continues to enhance its competitive position as a leading provider of business and residential money-back guaranteed ground package delivery services. FedEx Ground serves customers in the North American small-package market, focusing on business and residential delivery of packages weighing up to 150 pounds. Ground service is provided to 100% of the continental U.S. population and overnight service of up to 400 miles to nearly 100% of the continental U.S. population. Service is also provided to nearly 100% of the Canadian population. In addition, FedEx Ground offers service to Alaska and Hawaii through a ground and air network operation coordinated with other transportation providers.

FedEx Ground continues to improve the speed, reach and service capabilities of its network, by reducing transit time for many of its lanes and introducing or expanding overnight ground service in many metropolitan areas. FedEx Ground s ongoing network expansion program is substantially increasing the company s daily pickup capacity through the addition of new hubs featuring the latest automated sorting technology, the expansion of existing hubs and the expansion or relocation of other existing facilities.

The company offers our FedEx Home Delivery service, which reaches 100% of U.S. residences. FedEx Home Delivery is dedicated to meeting the delivery needs of residential customers and provides routine Saturday and evening delivery and premium options such as day-specific, appointment and signature delivery. FedEx Home Delivery brings unmatched services to residential

Table of Contents

shippers and their customers and is the first residential ground package delivery service to have offered a money-back guarantee. On August 31, 2015, our FedEx SmartPost business was merged into FedEx Ground. The FedEx SmartPost service specializes in the consolidation and delivery of high volumes of low-weight, less time-sensitive business-to-consumer packages using the USPS for final delivery to any residential address or PO Box in the U.S. and remains an important component of our FedEx Ground service offerings.

Additionally, FedEx Delivery Manager allows our U.S. residential customers to customize home deliveries to fit their schedule by providing a range of options to schedule dates, locations and times of delivery. By signing up at *fedex.com*, customers can receive notification of FedEx Ground packages en route to their homes and can choose various delivery options.

Pricing

FedEx Ground periodically publishes list prices for the majority of its services in its Service Guide. In general, U.S. shipping rates are based on the service selected, destination zone, weight, size, any ancillary service charge and whether the customer charged the shipment to a FedEx account. As previously announced, on January 4, 2016, FedEx Ground and FedEx Home Delivery average list prices increased 4.9%. In addition, on November 2, 2015, FedEx Ground increased surcharges for shipments that exceed the published maximum weight or dimensional limits.

FedEx Ground has an indexed fuel surcharge, which is subject to a monthly adjustment. The surcharge percentage is based on a rounded average of the national U.S. on-highway average price for a gallon of diesel fuel as published monthly by the U.S. Department of Energy. For example, the fuel surcharge for May 2016 was based on the average diesel fuel price published for March 2016. Changes to the FedEx Ground fuel surcharge, when calculated according to the rounded index average and FedEx Ground trigger points, are applied effective from the first Monday of the month. These trigger points may change from time to time, but information on the fuel surcharge for each month is available at *fedex.com* approximately two weeks before the surcharge is applicable. On November 2, 2015, we updated the tables used to determine the fuel surcharges at FedEx Ground. See the Fuel section of Item 7 of this Annual Report on Form 10-K (Management s Discussion and Analysis of Results of Operations and Financial Condition) for a description and discussion of the net impact of fuel on our operating results.

Operations

FedEx Ground operates a multiple hub-and-spoke sorting and distribution system consisting of 575 facilities, including 33 hubs, in the U.S. and Canada. FedEx Ground conducts its operations primarily with approximately 52,000 owner-operated vehicles and approximately 51,000 company-owned trailers. To provide FedEx Home Delivery service and FedEx SmartPost Service, FedEx Ground leverages its pickup operation and hub and linehaul network. FedEx Home Delivery s operations are often co-located with existing FedEx Ground facilities to achieve further cost efficiencies.

Advanced automated sorting technology is used to streamline the handling of millions of packages daily. Using overhead laser and six-sided camera-based bar code scan technology, hub conveyors electronically guide packages to their appropriate destination chute, where they are loaded for transport to their respective destination terminals for local delivery. Software systems and internet-based applications are also deployed to offer customers new ways to connect internal package data with external delivery information. FedEx Ground provides shipment tracing and proof-of-delivery signature functionality through the FedEx website, *fedex.com*. For additional information regarding FedEx Ground e-shipping tools and solutions, see FedEx Services Customer-Driven Technology.

FedEx Office offers retail access to FedEx Ground shipping services at all of its U.S. and Canadian retail locations. FedEx Ground is also available as a service option at all FedEx Authorized ShipCenters in the U.S.

As of May 31, 2016, FedEx Ground had approximately 81,000 employees. In addition, FedEx Ground relies on independent small businesses to conduct its linehaul and pickup-and-delivery operations, as the use of independent contractors is well suited to the needs of the ground delivery business and its customers. Henry J. Maier is the President and Chief Executive Officer of FedEx Ground. FedEx Ground is headquartered in Pittsburgh, Pennsylvania, and its primary competitors are UPS, the USPS and regional delivery carriers.

Independent Contractor Model

FedEx Ground is involved in numerous lawsuits and other proceedings (such as state tax or other administrative challenges) where the classification of its independent contractors is at issue. During the third quarter of 2016, we reached agreements in principle to settle all of the 19 cases on appeal in the multidistrict litigation. These cases involve a contractor model which FedEx Ground has not operated since 2011. In addition, we are defending contractor-model cases that are not or are no longer part of the multidistrict litigation. These cases are in varying stages of litigation. We will continue to vigorously defend ourselves in these proceedings and continue to believe that FedEx Ground s owner-operators are properly classified as independent contractors and that FedEx Ground is not an employer of the drivers of the company s independent contractors. For a description of these proceedings, see Item 1A of this Annual Report on Form 10-K (Risk Factors) and Note 18 of the accompanying consolidated financial statements.

In the third quarter of 2016, FedEx Ground announced plans to implement the Independent Service Provider (ISP) agreement throughout its entire U.S. pickup and delivery network. To date, service providers in 24 states are operating under, or transitioning to, the ISP agreement. The transition to the ISP agreement in the remaining 26 states is expected to be completed by 2020. The costs associated with these transitions will be recognized in the periods incurred and are not expected to be material to any future quarter.

GENCO

On January 30, 2015, we acquired GENCO, a leading North American third-party logistics provider. With a comprehensive portfolio of supply chain services, GENCO s expertise will expand existing FedEx service offerings in the evolving retail and e-commerce markets. GENCO s infrastructure and supply chain capabilities include reverse logistics, providing triage, test and repair, remarketing and product liquidation solutions. Additionally, GENCO s breadth of expertise in targeted vertical markets such as technology, healthcare and retail aligns with our strategic priorities in these areas. With more than 11,000 employees at approximately 119 facilities, GENCO offers a complete range of product lifecycle logistics® services to customers in the technology, consumer, industrial, retail, and healthcare markets. GENCO is headquartered in Pittsburgh, Pennsylvania. The financial results of this business are included in the FedEx Ground segment from the date of acquisition. GENCO has a small number of employees that are members of unions.

FedEx Freight Segment

FedEx Freight

FedEx Freight is a leading U.S. provider of LTL freight services, offering choice, simplicity and reliability to meet the needs of LTL shippers FedEx Freight Priority, when speed is critical to meet supply chain needs, and FedEx Freight Economy, when time can be

Table of Contents

traded for cost savings. Through one comprehensive network of service centers and advanced information systems, FedEx Freight provides service to virtually every U.S. ZIP Code (including Alaska and Hawaii) with industry-leading transit times. FedEx Freight Priority, which has the fastest published transit times of any nationwide LTL service, offers a no-fee money-back guarantee on eligible shipments. Internationally, FedEx Freight Canada offers FedEx Freight Priority service, serving most points in Canada, as well as FedEx Freight Priority and FedEx Freight Economy service between Canada and the U.S. In addition, FedEx Freight serves Mexico, Puerto Rico and the U.S. Virgin Islands via alliances.

Through its many service offerings, FedEx Freight can match customers time-critical needs with industry leading transit times. With the expansion of FedEx electronic solutions, LTL shippers have the convenience of a single shipping and tracking solution for FedEx Freight, FedEx Express and FedEx Ground. These solutions make freight shipping easier and provide customers easy access to their account information. The FedEx Freight Advance Notice feature available on FedEx Freight Priority shipments uses the company s innovative technology systems to proactively notify FedEx Freight customers via the internet, e-mail or fax when a shipment may be delayed beyond its estimated delivery date, providing customers with greater visibility and control of their LTL freight shipments. Customers can also process cross-border LTL shipments to and from Canada and Mexico, as well as intra-Canada and -Mexico shipments, through FedEx Ship Manager at *fedex.com*, FedEx Ship Manager Software, FedEx Ship Manager Server and FedEx Web Services. Additionally, FedEx Freight A.M. Delivery offers freight delivery by 10:30 a.m. within and between the U.S. and Canada, backed by a money-back guarantee.

In 2016, FedEx Freight introduced the new FedEx Freight box, which makes transporting LTL shipments simple with improved flexibility, increased security, better shipment integrity and no freight classification. The FedEx Freight box comes in two sizes: a standard freight box that requires a pallet to ship and a smaller freight box with an integrated pallet. The ability to choose between freight boxes makes freight shipping accessible to any business. With a distance-based pricing structure, the FedEx Freight box allows customers to ship LTL with flat rates. The FedEx Freight box was initially introduced into selected markets during the second half of 2016, and was subsequently rolled out to customers nationwide in June 2016.

FedEx Freight has an indexed fuel surcharge that applies to certain LTL shipments, which is subject to weekly adjustment based on a rounded average of the national U.S. on-highway average price for a gallon of diesel fuel. On February 2, 2015, we updated the tables used to determine FedEx Freight fuel surcharges. On January 4, 2016, FedEx Freight implemented zone-based pricing on U.S. and other LTL shipping rates. Also, on January 4, 2016, FedEx Freight implemented a 4.9% average increase in certain U.S. and other shipping rates.

As of May 31, 2016, the FedEx Freight segment was operating approximately 65,000 vehicles and trailers from a network of approximately 370 service centers and had approximately 40,000 employees. Michael L. Ducker is the President and Chief Executive Officer of FedEx Freight, which is based in Memphis, Tennessee. FedEx Freight s primary competitors are YRC Worldwide Inc. (which includes YRC Regional Transportation and YRC Freight), XPO Logistics, Inc., UPS Freight, Old Dominion Freight Line, Inc. and ABF Freight (a subsidiary of ArcBest Corporation).

In 2014 and 2015, the International Brotherhood of Teamsters (Teamsters) petitioned for National Labor Relations Board elections at sixteen FedEx Freight facilities. The Teamsters lost the vote or withdrew the petition prior to the election at twelve facilities and won the vote at four facilities. With respect to the elections that the Teamsters won, FedEx Freight appealed all four elections to federal appellate courts. Two of those appeals are still pending. The Eighth Circuit Court of Appeals upheld the election results in two of the locations, Charlotte, North Carolina and Croydon, Pennsylvania. We have begun bargaining with the unions in Charlotte and Croydon, but no substantive proposals have been exchanged between the parties. No new petitions for elections were filed in 2016.

FedEx Custom Critical

FedEx Custom Critical provides a range of expedited, time-specific freight-shipping services throughout the U.S., Canada and Mexico. Among its services are Surface Expedite, for exclusive-use and network-based transport of critical shipments and expedited shipments; Air Expedite, which offers an array of air solutions to meet customers critical delivery times; White Glove Services, for shipments that require extra care in handling, temperature control or specialized security; and ShipmentWatch, an offering through which FedEx Custom Critical manages SenseAware® devices to track customers shipments by programming the device to the customer s requirements prior to the shipment, sending the device to the shipper and then proactively monitoring the shipment from pickup to delivery. Service from FedEx Custom Critical is available 24 hours a day, 365 days a year. In addition, its subsidiary FedEx Truckload Brokerage provides freight brokerage solutions within the U.S. and into and out of Canada and Mexico. FedEx Custom Critical continuously monitors shipments through an integrated proprietary shipment-control system, including two-way satellite communications on exclusive-use shipments.

FedEx Services Segment

FedEx Services

FedEx Services provides our other companies with sales, marketing, information technology, communications, customer service, technical support, billing and collection services, and certain other back-office support. We merged FedEx TechConnect into FedEx Services, effective May 31, 2016. Through FedEx Services, we provide a convenient single point of access for many customer support functions, enabling us to more effectively sell the entire portfolio of transportation services and to help ensure a consistent and outstanding experience for our customers.

T. Michael Glenn is the President and Chief Executive Officer of FedEx Services, which is based in Memphis, Tennessee. As of May 31, 2016, the FedEx Services segment had approximately 30,000 employees (including approximately 15,000 at FedEx Office).

Customer Driven Technology

FedEx is a world leader in technology, and FedEx founder Frederick W. Smith s vision that the information about a package is as important as the delivery of the package itself remains at the core of our comprehensive technology strategy. In fact, FedEx ranked No. 1 in the first-ever InformationWeek Elite 100 Decade Award category, recognizing the 10 companies that have ranked the highest on average in the InformationWeek Elite 100, a compilation of the top business technology innovators in the U.S., over the past 10 years. FedEx ranked No. 5 overall on the 2016 InformationWeek Elite 100 list. Additionally, FedEx was named a recipient of the 2015 CIO 100 Award from International Data Group s *CIO* magazine. The annual award program recognizes organizations around the world that exemplify the highest level of operational and strategic excellence in information technology.

Our technology strategy is driven by our desire for customer satisfaction. We strive to build technology solutions that will solve our customers business problems with simplicity, convenience, speed and reliability. The focal point of our strategy is our award-winning website, together with our customer integrated solutions.

The *fedex.com* website was launched over 20 years ago, and during that time, customers have shipped and tracked billions of packages at *fedex.com*. The *fedex.com* website is widely recognized for its speed, ease of use and customer-focused features. At *fedex.com*, our customers ship packages, determine international documentation requirements, track package status, pay invoices and

Table of Contents

access FedEx Office services. The advanced tracking capability within FedEx Tracking provides customers with a consolidated view of inbound and outbound shipments.

FedEx Mobile is a suite of solutions including the FedEx mobile application, FedEx mobile website and SMS text messaging. The FedEx Mobile app provides convenience for recipients to track packages, get quick rates and estimated delivery times, quickly find the nearest FedEx location and easily access FedEx Delivery Manager to customize home deliveries. It is available on Android and Apple devices, such as iPhone®, iPod touch® and iPad®. The FedEx mobile website has expanded to more than 206 countries and territories and 25 languages. FedEx Mobile allows customers to track packages, create shipping labels, view account-specific rate quotes and access drop-off location information. SMS Notifications allows customers to track or follow a package via text messaging, and it is currently available in five countries.

FedEx Office has its own iPhone®, iPad® and Android apps that allow customers to print directly from their devices to any FedEx Office location in the U.S. or have the order delivered right to their door, while also allowing customers to get account-specific pricing, track print orders or packages, or find the nearest FedEx Office location. FedEx Office self-serve printers give customers even more flexibility by allowing direct USB access to print documents, as well as the ability to retrieve and print documents from customers cloud accounts. FedEx also uses wireless data collection devices to scan bar codes on shipments, thereby enhancing and accelerating the package information available to our customers.

FedEx continues to provide customers with innovative solutions. For example, in May 2014 FedEx TechConnect (now FedEx Services) opened a package laboratory providing FedEx Express, FedEx Ground and FedEx Freight customers with free package testing and design services.

We design our e-commerce tools and solutions to be easily integrated into our customers applications, as well as into third-party software developed by leading e-procurement, systems integration and enterprise resource planning companies. Our FedEx Ship Manager suite of solutions offers a wide range of options to help our customers manage their parcel and LTL shipping and associated processes.

Marketing

The FedEx brand name is symbolic of outstanding service, reliability and speed. Emphasis is placed on promoting and protecting the FedEx brand, one of our most important assets. As a result, FedEx is one of the most widely recognized brands in the world. In addition to television, print and digital advertising, we promote the FedEx brand through corporate sponsorships and special events. For example, FedEx sponsors:

- PGA TOUR and the Champions Tour golf organizations, as the Official Shipping Company, and FedExCup, a season-long points competition for PGA TOUR players

- The Title sponsor of the FedEx St. Jude Classic, a PGA TOUR event that raises millions of dollars for St. Jude Children s Research Hospital

- The National Football League (NFL), as its Official Delivery Service Sponsor and Official Office Services Provider of the NFL

- FedExField in Washington, DC

- The #11 Joe Gibbs Racing Toyota Camry driven by Denny Hamlin in the NASCAR Sprint Cup Series

- The UEFA Europa League, a major European soccer cup competition that spans 192 teams across 54 European nations

Table of Contents

ATP World Tour men s professional tennis circuit and French Open tennis tournament

FedExForum in Memphis, TN

Information Security

FedEx Services has a team of highly qualified professionals dedicated to securing information about our customers shipments and protecting our customers , vendors and employees privacy, and we strive to provide a safe, secure online environment for our customers. We are committed to compliance with applicable information security laws, regulations and industry standards including, for example, the Payment Card Industry Data Security Standard, a set of comprehensive requirements for enhancing payment account data security developed by the Payment Card Industry Security Standards Council. For a description of risks related to information security, see Item 1A of this Annual Report on Form 10-K (Risk Factors).

Global ISO 9001 Certification

FedEx Services provides our customers with a high level of service quality, as evidenced by our ISO 9001 certification for our global express and ground operations. ISO 9001 registration is required by thousands of customers around the world. FedEx s global certification, encompassing the processes of FedEx Express, FedEx Ground and FedEx Services, enhances our single-point-of-access strategy and solidifies our reputation as the quality leader in the transportation industry. ISO 9001 is currently the most rigorous international standard for Quality Management and Assurance. ISO standards were developed by the International Organization for Standardization in Geneva, Switzerland to promote and facilitate international trade. More than 150 countries, including European Union members, the U.S. and Japan, recognize ISO standards.

FedEx Office

FedEx Office s network of digitally-connected locations offers access to copying and digital printing through retail and web-based platforms, signs and graphics, professional finishing, computer rentals, and the full range of FedEx day-definite ground shipping and time-definite global express shipping services. FedEx Office s network of locations provides convenient access points to FedEx Express and FedEx Ground services for higher margin retail customers. Customers may also have their FedEx Express, FedEx Ground and FedEx Home Delivery packages delivered to any FedEx Office location nationwide by choosing the Hold at FedEx Location option when initiating a shipment or even when a shipment is on its way free of charge. Additionally, FedEx SameDay City has expanded to include 24 markets across the U.S., which allows customers to get their packages across town in the same day with local delivery by FedEx Office uniformed team members in branded FedEx Office delivery vehicles.

FedEx Office also offers packing services, and packing supplies and boxes are included in its retail offerings. By allowing customers to have items professionally packed by specially trained FedEx Office team members and then shipped using FedEx Ground day-definite shipping and time-definite global FedEx Express shipping services, FedEx Office offers a complete pack-and-ship solution. In November 2014, FedEx Office rolled out a new packing feature, Pack Plus, which expanded FedEx Office s packing and shipping capabilities. FedEx Pack Plus offerings include new custom box building capabilities and techniques, a more robust assortment of specialty boxes and additional packing supplies, equipment and tools to serve our customers needs. In May 2016, eBay and FedEx Office announced the eBay Valet Drop-Off Program to make it easier for consumers to sell items online. The eBay Valet Drop-Off Program will allow customers to bring in items to a FedEx Office location, where, backed by the FedEx Office Packing Pledge, a FedEx Office team member will pack and ship the item(s) to an eBay Valet processing center to be listed, sold and shipped to the buyer. Once the item(s) sells, the customer will receive payment via PayPal, and customers will receive updates and notifications throughout the selling process.

Table of Contents

Almost all FedEx Office locations provide local pickup and delivery service for print jobs completed by FedEx Office. A FedEx courier picks up a customer s print job at the customer s location and then returns the finished product to the customer. Options and services vary by location. Additionally, through cloud printing with FedEx Office Print Online, customers can access files from some of the most popular cloud providers including Box, Dropbox, Google Drive and Microsoft OneDrive® and then select from a variety of printing options. Customers can choose to pick up their completed order at FedEx Office locations nationwide or have the order delivered right to their door. Customers also have the ability to access these same cloud files through a USB drive or mobile device at self-serve copiers in FedEx Office locations, giving them seamless access to their files across our online and retail channels.

In July 2015, FedEx Office launched a faster, cost-effective and streamlined way to deliver professional print services to large, commercial customers. Using an industry-leading software system, large or complex print jobs are directed to one of the FedEx Office centralized production centers. FedEx Office team members at the network fulfillment center then quickly view and assess the print production volume within the network, and direct print jobs to more than 100 color and monochrome digital presses across the country. The enhanced system then allows the FedEx Office network fulfillment center to manage the distribution of print jobs originating in one location to be sent for completion at production locations closer to the customer s point of need, leveraging the vast FedEx Office national network for centralized, regionalized and localized printing, based on distribution requirements.

As of May 31, 2016, FedEx Office operated approximately 1,800 customer facing centers, including 25 locations in Canada, and also operated 33 centralized production centers. During 2016, FedEx Office relocated to its new corporate headquarters in Plano, Texas.

Trademarks

The FedEx trademark, service mark and trade name is essential to our worldwide business. FedEx, FedEx Express, FedEx Ground, FedEx Freight, FedEx Office, FedEx Services, FedEx SupplyChain, FedEx Trade Networks, FedEx Custom Critical, FedEx CrossBorder, GENCO and TNT Express, among others, are trademarks, service marks and trade names of Federal Express Corporation, or the respective companies, for which registrations, or applications for registration, are on file, as applicable. We have authorized, through licensing arrangements, the use of certain of our trademarks, service marks and trade names by our contractors and Global Service Participants to support our business. In addition, we license the use of certain of our trademarks, service marks and trade names on promotional items for the primary purpose of enhancing brand awareness.

Regulation

Air. Under the Federal Aviation Act of 1958, as amended, both the U.S. Department of Transportation (DOT) and the Federal Aviation Administration (FAA) exercise regulatory authority over FedEx Express.

The FAA s regulatory authority relates primarily to operational aspects of air transportation, including aircraft standards and maintenance, as well as personnel and ground facilities, which may from time to time affect the ability of FedEx Express to operate its aircraft in the most efficient manner. FedEx Express holds an air carrier certificate granted by the FAA pursuant to Part 119 of the federal aviation regulations. This certificate is of unlimited duration and remains in effect so long as FedEx Express maintains its standards of safety and meets the operational requirements of the regulations.

In September 2010, the FAA proposed rules that would significantly reduce the maximum number of hours on duty and increase the minimum amount of rest time for our pilots, and thus require us to hire additional pilots and modify certain of our aircraft. When the FAA issued final regulations in December 2011, all-cargo carriers, including FedEx Express, were exempt from these new pilot fatigue requirements, and instead required to continue complying with previously enacted flight and duty time rules. In December 2012, the FAA reaffirmed the exclusion of us from the new rule. It is reasonably possible, however, that future security or flight safety requirements could impose material costs on us.

The DOT s authority relates primarily to economic aspects of air transportation. The DOT s jurisdiction extends to aviation route authority and to other regulatory matters, including the transfer of route authority between carriers. FedEx Express holds various certificates issued by the DOT, authorizing FedEx Express to engage in U.S. and international air transportation of property and mail on a worldwide basis.

Under the Aviation and Transportation Security Act of 2001, as amended, the Transportation Security Administration (TSA), an agency within the Department of Homeland Security, has responsibility for aviation security. The TSA requires FedEx Express to comply with a Full All-Cargo Aircraft Operator Standard Security Plan, which contains evolving and strict security requirements. These requirements are not static, but change periodically as the result of regulatory and legislative requirements, imposing additional security costs and creating a level of uncertainty for our operations. It is reasonably possible that these rules or other future security requirements could impose material costs on us.

FedEx Express participates in the Civil Reserve Air Fleet (CRAF) program. Under this program, the U.S. Department of Defense may requisition for military use certain of FedEx Express s wide-bodied aircraft in the event of a declared need, including a national emergency. FedEx Express is compensated for the operation of any aircraft requisitioned under the CRAF program at standard contract rates established each year in the normal course of awarding contracts. Through its participation in the CRAF program, FedEx Express is entitled to bid on peacetime military cargo charter business. FedEx Express, together with a consortium of other carriers, currently contracts with the U.S. government for such charter flights.

Ground. The ground transportation performed by FedEx Express is integral to its air transportation services. The enactment of the Federal Aviation Administration Authorization Act of 1994 abrogated the authority of states to regulate the rates, routes or services of intermodal all-cargo air carriers and most motor carriers. States may now only exercise jurisdiction over safety and insurance. FedEx Express is registered in those states that require registration.

The operations of FedEx Ground, FedEx Freight and FedEx Custom Critical in interstate commerce are currently regulated by the DOT and the Federal Motor Carrier Safety Administration, which retain limited oversight authority over motor carriers. Federal legislation preempts regulation by the states of rates and service in intrastate freight transportation.

Like other interstate motor carriers, our operations, including those at FedEx Express, are subject to certain DOT safety requirements governing interstate operations. In addition, vehicle weight and dimensions remain subject to both federal and state regulations.

International. FedEx Express s international authority permits it to carry cargo and mail from points in its U.S. route system to numerous points throughout the world. The DOT regulates international routes and practices and is authorized to investigate and take action against discriminatory treatment of U.S. air carriers abroad. The right of a U.S. carrier to serve foreign points is subject to the DOT s approval and generally requires a bilateral agreement between the U.S. and the foreign government. In addition, the carrier must then be granted the permission of such foreign government to provide specific flights and services. The regulatory environment for global aviation rights may from time to time impair the ability of FedEx Express to operate its air network in the most efficient

Table of Contents

manner. Additionally, global air cargo carriers, such as FedEx Express, are subject to current and potential additional aviation security regulation by foreign governments.

Our operations outside of the U.S., such as FedEx Express s growing international domestic operations, are also subject to current and potential regulations, including certain postal regulations and licensing requirements, that restrict, make difficult and sometimes prohibit, the ability of foreign-owned companies such as FedEx Express to compete effectively in parts of the international domestic transportation and logistics market.

Communication. Because of the extensive use of radio and other communication facilities in its aircraft and ground transportation operations, FedEx Express is subject to the Federal Communications Commission Act of 1934, as amended. Additionally, the Federal Communications Commission regulates and licenses FedEx Express s activities pertaining to satellite communications.

Environmental. Pursuant to the Federal Aviation Act, the FAA, with the assistance of the U.S. Environmental Protection Agency (EPA), is authorized to establish standards governing aircraft noise. FedEx Express s aircraft fleet is in compliance with current noise standards of the federal aviation regulations. In addition to federal regulation of aircraft noise, certain airport operators have local noise regulations, which limit aircraft operations by type of aircraft and time of day. These regulations have had a restrictive effect on FedEx Express s aircraft operations in some of the localities where they apply but do not have a material effect on any of FedEx Express s significant markets. Congress s passage of the Airport Noise and Capacity Act of 1990 established a National Noise Policy, which enabled FedEx Express to plan for noise reduction and better respond to local noise constraints. FedEx Express s international operations are also subject to noise regulations in certain of the countries in which it operates.

Concern over climate change, including the impact of global warming, has led to significant U.S. and international legislative and regulatory efforts to limit greenhouse gas (GHG) emissions, including our aircraft and diesel engine emissions. For example, in 2015, the EPA issued a proposed finding on GHG emissions from aircraft and its relationships to air pollution. The final finding is a regulatory prerequisite to the EPA s adoption of a new certification standard for aircraft emissions. Additionally, in 2009, the European Commission approved the extension of the European Union Emissions Trading Scheme (ETS) for GHG emissions, to the airline industry. Under this decision, all FedEx Express flights that are wholly within the European Union are now covered by the ETS requirements, and each year we are required to submit emission allowances in an amount equal to the carbon dioxide emissions from such flights. For a description of such efforts and their potential effect on our cost structure and operating results, see Item 1A of this Annual Report on Form 10-K (Risk Factors).

We are subject to federal, state and local environmental laws and regulations relating to, among other things, the shipment of dangerous goods, contingency planning for spills of petroleum products, the disposal of waste oil and the disposal of toners and other products used in FedEx Office s copy machines. Additionally, we are subject to numerous regulations dealing with underground fuel storage tanks, hazardous waste handling, vehicle and equipment emissions and noise and the discharge of effluents from our properties and equipment. We have environmental management programs to ensure compliance with these regulations.

Customs. Our activities, including customs brokerage and freight forwarding, are subject to regulation by the Bureau of Customs and Border Protection and the TSA within the Department of Homeland Security (customs brokerage and security issues), the U.S. Federal Maritime Commission (ocean freight forwarding) and the DOT (air freight forwarding). Our offshore operations are subject to similar regulation by the regulatory authorities of foreign jurisdictions.

Table of Contents

Labor. All U.S. employees at FedEx Express are covered by the Railway Labor Act of 1926, as amended (the RLA), while labor relations within the U.S. at our other companies are governed by the National Labor Relations Act of 1935, as amended (the NLRA). Under the RLA, groups that wish to unionize must do so across nationwide classes of employees. The RLA also requires mandatory government-led mediation of contract disputes supervised by the National Mediation Board before a union can strike or an employer can replace employees or impose contract terms. This part of the RLA helps minimize the risk of strikes that would shut down large portions of the economy. Under the NLRA, employees can unionize in small localized groups, and government-led mediation is not a required step in the negotiation process.

The RLA was originally passed to govern railroad and express carrier labor negotiations. As transportation systems evolved, the law expanded to cover airlines, which are the dominant national transportation systems of today. As an air express carrier with an integrated air/ground network, FedEx Express and its employees have been covered by the RLA since the founding of the company in 1971. The purpose of the RLA is to offer employees a process by which to unionize (if they choose) and engage in collective bargaining while also protecting global commerce from damaging work stoppages and delays. Specifically, the RLA ensures that an entire transportation system, such as at FedEx Express, cannot be shut down by the actions of a local segment of the network.

The U.S. Congress has, in the past, considered adopting changes in labor laws that would make it easier for unions to organize units of our employees. For example, there is always a possibility that Congress could remove most FedEx Express employees from the jurisdiction of the RLA, thereby exposing the FedEx Express network to sporadic labor disputes and the risk that small groups of employees could disrupt the entire air/ground network. In addition, federal and state governmental agencies have and may continue to take actions that could make it easier for our employees to organize under the RLA or NLRA. For a description of these potential labor law changes, see Item 1A of this Annual Report on Form 10-K (Risk Factors).

ITEM 1A. RISK FACTORS

We present information about our risk factors on pages 81 through 87 of this Annual Report on Form 10-K.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES
FedEx Express Group

FedEx Express Segment

FedEx Express s principal owned and leased properties include its aircraft, vehicles, national, regional and metropolitan sorting facilities, administration buildings, FedEx Drop Boxes and data processing and telecommunications equipment.

Table of Contents

Aircraft and Vehicles

As of May 31, 2016, FedEx Express s aircraft fleet consisted of the following:

Description	Owned	Leased	Total	Maximum Gross Structural Payload (Pounds per Aircraft)[1]
Boeing B777F	27	0	27	233,300
Boeing MD11	32	24	56	192,600
Boeing MD10-30	12	1	13	175,900
Boeing MD10-10	30	0	30	137,500
Boeing 747-400	2	0	2	261,400
Boeing 767F	29	3	32	127,100
Airbus A300-600	32	36	68	106,600
Airbus A310-300	10	0	10	83,170
Boeing B757-200	119	0	119[2]	63,000
ATR 72-202/212	21	0	21	17,970
ATR 42-300/320	26	0	26	12,070
Cessna 208B	239	0	239	2,830
Total	579	64	643	

(1) Maximum gross structural payload includes revenue payload and container weight.
(2) Includes seven aircraft not currently in operation and awaiting completion of modification.

The B777Fs are two-engine, wide-bodied cargo aircraft that have a longer range and larger capacity than any other aircraft we operate.

The MD11s are three-engine, wide-bodied aircraft that have a longer range and larger capacity than MD10s.

The MD10s are three-engine, wide-bodied aircraft that have received an Advanced Common Flightdeck modification, which includes a conversion to a two-pilot cockpit, as well as upgrades of electrical and other systems.

The B747s are four-engine, long-range, wide-bodied cargo aircraft. These aircraft are leased to and operated by a third party.

The B767Fs are two-engine, long-range, wide-bodied cargo aircraft.

The A300s and A310s are two-engine, wide-bodied aircraft that have a longer range and more capacity than B757s.

The B757s are two-engine, narrow-bodied aircraft configured for cargo service.

The ATR and Cessna 208 turbo-prop aircraft are leased to independent operators to support FedEx Express operations in areas where demand does not justify use of a larger aircraft. These operators use the aircraft to move FedEx packages to and from airports served by FedEx Express s larger jet aircraft. The lease agreements generally call for the lessee to provide the flight crews, maintenance, fuel and other supplies required to operate the aircraft, and FedEx Express reimburses the lessee for these items. The lease agreements are for terms not exceeding one year and are generally cancelable upon 30 days notice.

An inventory of spare engines and parts is maintained for each aircraft type.

At May 31, 2016, FedEx Express operated approximately 57,000 ground transport vehicles, including pickup-and-delivery vans, larger trucks called container transport vehicles and over-the-road tractors and trailers.

Table of Contents

Aircraft Purchase Commitments

The following table is a summary of the number and type of aircraft we were committed to purchase as of May 31, 2016, with the year of expected delivery:

	B767F[(1)]	B777F[(2)]	Total
2017	12		12
2018	16	2	18
2019	13	2	15
2020	12	3	15
2021	10	3	13
Thereafter	16	6	22
Total	79	16	95

(1) As of May 31, 2016, our obligation to purchase four of these aircraft was conditioned upon there being no event that causes FedEx Express or its employees to not be covered by the RLA.

(2) As of May 31, 2016, our obligation to purchase seven of these aircraft was conditioned upon there being no event that causes FedEx Express or its employees to not be covered by the RLA.

As of May 31, 2016, deposits and progress payments of $413 million had been made toward aircraft purchases and other planned aircraft-related transactions. Also see Note 17 of the accompanying consolidated financial statements for more information about our purchase commitments.

Sorting and Handling Facilities

At May 31, 2016, FedEx Express operated the following major sorting and handling facilities:

Location	Acres	Square Feet	Sorting Capacity (per hour) (1)	Lessor	Lease Expiration Year
National					
Memphis, Tennessee	784	3,768,345	475,000	Memphis-Shelby County Airport Authority	2036
Indianapolis, Indiana	316	2,509,000	214,000	Indianapolis Airport Authority	2028
Regional					
Fort Worth, Texas	168	948,000	76,000	Fort Worth Alliance Airport Authority	2021
Newark, New Jersey	70	595,000	156,000	Port Authority of New York and New Jersey	2030
Oakland, California	75	448,935	63,000	City of Oakland	2036
Greensboro, N. Carolina	165	593,000	29,000	Piedmont Triad Airport Authority	2031
Metropolitan					

Chicago, Illinois	66	597,000	23,000	City of Chicago	2018/2028(5)
Los Angeles, California	34	305,300	57,000	City of Los Angeles	2021/2025(6)
International					
Anchorage, Alaska(2)	64	332,000	25,000	State of Alaska, Department of Transportation and Public Facilities	2023
Paris, France(3)	111	1,238,000	63,000	Aeroports de Paris	2029
Cologne, Germany(3)	11	325,000	20,000	Cologne Bonn Airport	2040
Guangzhou, China(4)	155	873,006	64,000	Guangdong Airport Management Corp.	2029
Osaka, Japan(4)	17	425,206	9,000	Kansai Airports	2024

Table of Contents

(1) Documents and packages.

(2) Handles international express package and freight shipments to and from Asia, Europe and North America.

(3) Handles intra-Europe express package and freight shipments, as well as international express package and freight shipments to and from Europe.

(4) Handles intra-Asia express package and freight shipments, as well as international express package and freight shipments to and from Asia.

(5) Property is held under two separate leases lease for original hub expires in 2018, and lease for new facility expires in 2028.

(6) Property is held under two separate leases lease for sorting and handling facility expires in 2021, and lease for ramp expansion expires in 2025.

FedEx Express s primary sorting facility, which serves as the center of its multiple hub-and-spoke system, is located at the Memphis International Airport. FedEx Express s facilities at the Memphis International Airport also include aircraft hangars, aircraft ramp areas, vehicle parking areas, flight training and fuel facilities, administrative offices and warehouse space. In May 2016, FedEx Express opened the FedEx Cold Chain Center at its Memphis hub. Designed to protect the integrity of temperature-sensitive healthcare and perishable shipments, the facility added approximately 83,000 square feet to FedEx Express s facilities at Memphis International Airport and forms an integral part of the FedEx global cold chain network.

FedEx Express leases these facilities from the Memphis-Shelby County Airport Authority (the Authority). The lease obligates FedEx Express to maintain and insure the leased property and to pay all related taxes, assessments and other charges. The lease is subordinate to, and FedEx Express s rights thereunder could be affected by, any future lease or agreement between the Authority and the U.S. government.

FedEx Express has additional international sorting-and-handling facilities located at Narita Airport in Tokyo, Stansted Airport outside London and Pearson Airport in Toronto. FedEx Express also has a substantial presence at airports in Hong Kong, Taiwan, Dubai and Miami.

Administrative and Other Properties and Facilities

The World Headquarters of FedEx Express is located in southeastern Shelby County, Tennessee. FedEx Express owns or leases 636 facilities for city station operations in the United States. In addition, 588 city stations are owned or leased throughout FedEx Express s international network. The majority of these leases are for terms of five to ten years. City stations serve as a sorting and distribution center for a particular city or region. We believe that suitable alternative facilities are available in each locale on satisfactory terms, if necessary.

Table of Contents

As of May 31, 2016, FedEx Express had approximately 41,000 Drop Boxes. FedEx Express customers can also ship from approximately 22,000 staffed drop-off locations, including FedEx Office centers and FedEx Authorized ShipCenters. Internationally, FedEx Express had approximately 13,000 drop-off locations.

TNT Express Segment

TNT Express corporate offices are located in Hoofddorp, The Netherlands. As of May 31, 2016, TNT Express had over 900 facilities worldwide, including road hubs, air hubs, depots and office facilities. These facilities are strategically located to cover the geographic areas served by TNT Express. TNT Express operates a central air hub near Liege, Belgium and a central European road hub in Duiven, The Netherlands. Approximately 42,000 vehicles, including 1,000 trailers, support TNT Express s business.

FedEx Ground Segment

FedEx Ground s corporate offices are located in the Pittsburgh, Pennsylvania area. As of May 31, 2016, FedEx Ground had approximately 51,000 company-owned trailers and owned or leased 575 facilities, including 33 hubs. In addition, approximately 52,000 owner-operated vehicles support FedEx Ground s business. Of the 373 facilities that support FedEx Home Delivery, 303 are co-located with existing FedEx Ground facilities. Leased facilities generally have terms of five years or less. The 33 hub facilities are strategically located to cover the geographic area served by FedEx Ground. The hub facilities average approximately 388,000 square feet and range in size from approximately 107,000 to 825,500 square feet.

FedEx Freight Segment

FedEx Freight s corporate headquarters are located in Memphis, Tennessee, with some administrative offices for the FedEx Freight business in Harrison, Arkansas. As of May 31, 2016, the FedEx Freight segment operated approximately 65,000 vehicles and trailers and approximately 370 service centers, which are strategically located to provide service throughout North America. These facilities range in size from approximately 860 to 220,000 square feet of office and dock space. FedEx Custom Critical s headquarters are located in Green, Ohio.

FedEx Services Segment

FedEx Services corporate headquarters are located in Memphis, Tennessee. FedEx Services leases state-of-the-art technology centers in Collierville, Tennessee and Colorado Springs, Colorado. These facilities house personnel responsible for strategic software development and other functions that support FedEx s technology and e-commerce solutions.

FedEx Office s corporate headquarters are located in Plano, Texas in leased facilities. As of May 31, 2016, FedEx Office operated approximately 1,800 customer facing centers, including 25 locations in Canada, and also operated 33 centralized production centers. Substantially all FedEx Office centers are leased, generally for terms of five to ten years with varying renewal options. FedEx Office centers are generally located in strip malls, office buildings or stand-alone structures and customer facing centers average 3,900 square feet in size.

FedEx Services has an agreement with OfficeMax North America, Inc. to offer FedEx Express and FedEx Ground shipping services at OfficeMax retail locations (approximately 640 locations). Additionally, the FedEx Authorized Ship Center program offers U.S. domestic and international FedEx Express and FedEx Ground shipping and drop-off services through a network of approximately 5,500 franchised and independent pack and ship retail locations.

Table of Contents

ITEM 3. LEGAL PROCEEDINGS

FedEx and its subsidiaries are subject to legal proceedings and claims that arise in the ordinary course of their business. For a description of material pending legal proceedings, see Note 18 of the accompanying consolidated financial statements.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

EXECUTIVE OFFICERS OF THE REGISTRANT

Information regarding executive officers of FedEx is as follows (included herein pursuant to Instruction 3 to Item 401(b) of Regulation S-K and General Instruction G(3) of Form 10-K):

Name and Office	Age	Positions and Offices Held and Business Experience
Frederick W. Smith Chairman, President and Chief Executive Officer	71	Chairman, President and Chief Executive Officer of FedEx since January 1998; Chairman of FedEx Express since 1975; Chairman, President and Chief Executive Officer of FedEx Express from April 1983 to January 1998; Chief Executive Officer of FedEx Express from 1977 to January 1998; and President of FedEx Express from June 1971 to February 1975.
David J. Bronczek President and Chief Executive Officer, FedEx Express	62	President and Chief Executive Officer of FedEx Express since January 2000; Executive Vice President and Chief Operating Officer of FedEx Express from January 1998 to January 2000; Senior Vice President Europe, Middle East and Africa of FedEx Express from June 1995 to January 1998; Senior Vice President Europe, Africa and Mediterranean of FedEx Express from June 1993 to June 1995; Vice President Canadian Operations of FedEx Express from February 1987 to March 1993; and several sales and operations managerial positions at FedEx Express from 1976 to 1987. Mr. Bronczek serves as a director of International Paper Company, an uncoated paper and packaging company.

Name and Office	Age	Positions and Offices Held and Business Experience
Robert B. Carter Executive Vice President FedEx Information Services and Chief Information Officer	57	Executive Vice President FedEx Information Services and Chief Information Officer of FedEx since January 2007; Executive Vice President and Chief Information Officer of FedEx from June 2000 to January 2007; Corporate Vice President and Chief Technology Officer of FedEx from February 1998 to June 2000; Vice President Corporate Systems Development of FedEx Express from September 1993 to February 1998; Managing Director Systems Development of FedEx Express from April 1993 to September 1993. Mr. Carter serves as a director of New York Life Insurance Company, a mutual life insurance company.
Michael L. Ducker President and Chief Executive Officer, FedEx Freight Corporation	62	President and Chief Executive Officer of FedEx Freight Corporation since January 2015; Executive Vice President and Chief Operating Officer and President of International for FedEx Express from December 2009 to January 2015; Executive Vice President and President of International of FedEx Express from December 1999 to December 2009; Senior Vice President of Asia/Pacific of FedEx Express from September 1995 to December 1999; and various management positions in operations at FedEx Express from 1978 to 1995. Mr. Ducker serves as a director of International Flavors & Fragrances Inc., a global creator of flavors and fragrances used in consumer products.
T. Michael Glenn Executive Vice President Market Development and Corporate Communications	60	Executive Vice President Market Development and Corporate Communications of FedEx since January 1998; Senior Vice President Marketing, Customer Service and Corporate Communications of FedEx Express from June 1994 to January 1998; Senior Vice President Marketing and Corporate Communications of FedEx Express from December 1993 to June 1994; Senior Vice President Worldwide Marketing Catalog Services and Corporate Communications of FedEx Express from June 1993 to December 1993; Senior Vice President Catalog and Remail Services of FedEx Express from September 1992 to June 1993; Vice President Marketing of FedEx Express from August 1985 to September 1992; and various management positions in sales and marketing and senior sales specialist of FedEx Express from 1981 to 1985. Mr. Glenn serves as a director of Pentair plc, a diversified industrial manufacturing company operating in water and technical products business segments, and as a director of Level 3 Communications, Inc., a global communications services company.

Table of Contents

Name and Office	Age	Positions and Offices Held and Business Experience
Alan B. Graf, Jr. Executive Vice President and Chief Financial Officer	62	Executive Vice President and Chief Financial Officer of FedEx since January 1998; Executive Vice President and Chief Financial Officer of FedEx Express from February 1996 to January 1998; Senior Vice President and Chief Financial Officer of FedEx Express from December 1991 to February 1996; Vice President and Treasurer of FedEx Express from August 1987 to December 1991; and various management positions in finance and a senior financial analyst of FedEx Express from 1980 to 1987. Mr. Graf serves as a director of Mid-America Apartment Communities, Inc., a real estate investment trust that focuses on acquiring, constructing, developing, owning and operating apartment communities, and as a director of NIKE, Inc., a designer and marketer of athletic footwear, apparel, equipment and accessories for sports and fitness activities.
Henry J. Maier President and Chief Executive Officer, FedEx Ground	62	President and Chief Executive Officer of FedEx Ground since June 2013; Executive Vice President Strategic Planning and Communications of FedEx Ground from September 2009 to June 2013; Senior Vice President Strategic Planning and Communications of FedEx Ground from December 2006 to September 2009; Vice President Marketing of FedEx Services from March 2000 to December 2006; Vice President Marketing and Communications of FedEx Ground from June 1999 to March 2000; and various management positions in logistics, sales, marketing and communications with RPS, Inc. and Caliber Logistics, Inc. from 1986 to 1999.
Christine P. Richards Executive Vice President, General Counsel and Secretary	61	Executive Vice President, General Counsel and Secretary of FedEx since June 2005; Corporate Vice President Customer and Business Transactions of FedEx from March 2001 to June 2005; Senior Vice President and General Counsel of FedEx Services from March 2000 to June 2005; Staff Vice President Customer and Business Transactions of FedEx from November 1999 to March 2001; Vice President Customer and Business Transactions of FedEx Express from 1998 to November 1999; and various legal positions with FedEx Express from 1984 to 1998.

Executive officers are elected by, and serve at the discretion of, the Board of Directors. There is no arrangement or understanding between any executive officer and any person, other than a director or executive officer of FedEx or of any of its subsidiaries acting in his or her official capacity, pursuant to which any executive officer was selected. There are no family relationships between any executive officer and any other executive officer or director of FedEx.

Table of Contents

PART II

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

FedEx s common stock is listed on the New York Stock Exchange under the symbol FDX. As of July 14, 2016, there were 12,453 holders of record of our common stock. The following table sets forth, for the periods indicated, the high and low sale prices, as reported on the NYSE, and the cash dividends paid per share of common stock.

	Sale Prices		
	High	Low	Dividend
Fiscal Year Ended May 31, 2016			
Fourth Quarter	$ 169.30	$ 137.30	$ 0.25
Third Quarter	160.67	119.71	0.25
Second Quarter	164.94	140.01	0.25
First Quarter	185.19	130.13	0.25
Fiscal Year Ended May 31, 2015			
Fourth Quarter	$ 178.79	$ 163.60	$ 0.20
Third Quarter	183.51	163.57	0.20
Second Quarter	179.79	148.37	0.20
First Quarter	155.31	138.30	0.20

FedEx also paid a cash dividend on July 1, 2016 ($0.40 per share). We expect to continue to pay regular quarterly cash dividends, though each subsequent quarterly dividend is subject to review and approval by our Board of Directors. We evaluate the dividend payment amount on an annual basis at the end of each fiscal year. There are no material restrictions on our ability to declare dividends, nor are there any material restrictions on the ability of our subsidiaries to transfer funds to us in the form of cash dividends, loans or advances.

The following table provides information on FedEx s repurchases of our common stock during the fourth quarter of 2016.

ISSUER PURCHASES OF EQUITY SECURITIES

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Programs	Maximum Number of Shares That May Yet Be Purchased Under the Programs
Mar. 1-31, 2016	1,570,000	$ 146.02	1,570,000	21,180,000
Apr. 1-30, 2016	1,043,000	164.68	1,043,000	20,137,000
May 1-31, 2016	1,162,000	162.36	1,162,000	18,975,000
Total	3,775,000	$ 156.21	3,775,000	

The repurchases were made under the stock repurchase program approved by our Board of Directors and announced on January 26, 2016 and through which we are authorized to purchase, in the open market or in the privately negotiated transactions, up to an aggregate of 25 million shares of our common stock. As of July 14, 2016, 17.6 million shares remained authorized for purchase under the January 2016 stock repurchase program, which is the only such program that currently exists. The program does not have an expiration date.

Table of Contents

ITEM 6. SELECTED FINANCIAL DATA

Selected financial data as of and for the five years ended May 31, 2016 is presented on page 148 of this Annual Report on Form 10-K.

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Management s discussion and analysis of results of operations and financial condition is presented on pages 41 through 88 of this Annual Report on Form 10-K.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Quantitative and qualitative information about market risk is presented on page 147 of this Annual Report on Form 10-K.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

FedEx s consolidated financial statements, together with the notes thereto and the report of Ernst & Young LLP dated July 18, 2016 thereon, are presented on pages 91 through 146 of this Annual Report on Form 10-K.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Management s Evaluation of Disclosure Controls and Procedures

The management of FedEx, with the participation of our principal executive and financial officers, has evaluated the effectiveness of our disclosure controls and procedures in ensuring that the information required to be disclosed in our filings under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission s rules and forms, including ensuring that such information is accumulated and communicated to FedEx management as appropriate to allow timely decisions regarding required disclosure. Based on such evaluation, our principal executive and financial officers have concluded that such disclosure controls and procedures were effective as of May 31, 2016 (the end of the period covered by this Annual Report on Form 10-K).

Assessment of Internal Control Over Financial Reporting

Management s report on our internal control over financial reporting is presented on page 89 of this Annual Report on Form 10-K. The report of Ernst & Young LLP with respect to our internal control over financial reporting is presented on page 90 of this Annual Report on Form 10-K.

Changes in Internal Control Over Financial Reporting

Other than as explained below, no change occurred in our internal control over financial reporting during the fiscal year ended May 31, 2016, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

On May 25, 2016, we acquired TNT Express. As permitted by Securities and Exchange Commission rules, we elected to exclude TNT Express from our assessment of internal control over financial reporting as of May 31, 2016. Our integration of TNT Express s systems and processes could cause changes to our internal controls over financial reporting in future periods.

ITEM 9B. OTHER INFORMATION

None.

Table of Contents

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Information regarding members of the Board of Directors, compliance with Section 16(a) of the Securities Exchange Act of 1934, as amended, FedEx s Code of Business Conduct and Ethics and certain other aspects of FedEx s corporate governance (such as the procedures by which FedEx s stockholders may recommend nominees to the Board of Directors and information about the Audit Committee, including its members and our audit committee financial expert) will be presented in FedEx s definitive proxy statement for its 2016 annual meeting of stockholders, which will be held on September 26, 2016, and is incorporated herein by reference. Information regarding executive officers of FedEx is included above in Part I of this Annual Report on Form 10-K under the caption Executive Officers of the Registrant pursuant to Instruction 3 to Item 401(b) of Regulation S-K and General Instruction G(3) of Form 10-K. Information regarding FedEx s Code of Business Conduct and Ethics is included above in Part I, Item 1 of this Annual Report on Form 10-K under the caption Reputation and Responsibility Governance.

ITEM 11. EXECUTIVE COMPENSATION

Information regarding director and executive compensation will be presented in FedEx s definitive proxy statement for its 2016 annual meeting of stockholders, which will be held on September 26, 2016, and is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Information regarding security ownership of certain beneficial owners and management and related stockholder matters, as well as equity compensation plan information, will be presented in FedEx s definitive proxy statement for its 2016 annual meeting of stockholders, which will be held on September 26, 2016, and is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Information regarding certain relationships and transactions with related persons (including FedEx s policies and procedures for the review and preapproval of related person transactions) and director independence will be presented in FedEx s definitive proxy statement for its 2016 annual meeting of stockholders, which will be held on September 26, 2016, and is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Information regarding the fees for services provided by Ernst & Young LLP during 2016 and 2015 and the Audit Committee s administration of the engagement of Ernst & Young LLP, including the Committee s preapproval policies and procedures (such as FedEx s Policy on Engagement of Independent Auditor), will be presented in FedEx s definitive proxy statement for its 2016 annual meeting of stockholders, which will be held on September 26, 2016, and is incorporated herein by reference.

Table of Contents

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a)(1) and (2) Financial Statements; Financial Statement Schedules

FedEx s consolidated financial statements, together with the notes thereto and the report of Ernst & Young LLP dated July 18, 2016 thereon, are listed on pages 39 through 40 and presented on pages 91 through 146 of this Annual Report on Form 10-K. FedEx s Schedule II Valuation and Qualifying Accounts, together with the report of Ernst & Young LLP dated July 18, 2016 thereon, is presented on pages 150 through 151 of this Annual Report on Form 10-K. All other financial statement schedules have been omitted because they are not applicable or the required information is included in FedEx s consolidated financial statements or the notes thereto.

(a)(3) Exhibits

See the Exhibit Index on pages E-1 through E-15 for a list of the exhibits being filed or furnished with or incorporated by reference into this Annual Report on Form 10-K.

ITEM 16. FORM 10-K SUMMARY

None.

Table of Contents

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

FEDEX CORPORATION

Dated: July 18, 2016

By: /s/ FREDERICK W. SMITH
Frederick W. Smith
Chairman, President and
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this Report has been signed below by the following persons on behalf of the Registrant in the capacities and on the dates indicated.

Signature	Capacity	Date
/s/ FREDERICK W. SMITH Frederick W. Smith	Chairman, President and Chief Executive Officer and Director *(Principal Executive Officer)*	July 18, 2016
/s/ ALAN B. GRAF, JR. Alan B. Graf, Jr.	Executive Vice President and Chief Financial Officer *(Principal Financial Officer)*	July 18, 2016
/s/ JOHN L. MERINO John L. Merino	Corporate Vice President and Principal Accounting Officer *(Principal Accounting Officer)*	July 18, 2016
/s/ JAMES L. BARKSDALE * James L. Barksdale	Director	July 18, 2016
/s/ JOHN A. EDWARDSON * John A. Edwardson	Director	July 18, 2016
/s/ MARVIN R. ELLISON * Marvin R. Ellison	Director	July 18, 2016
/s/ JOHN C. INGLIS * John C. Inglis	Director	July 18, 2016
/s/ KIMBERLY A. JABAL * Kimberly A. Jabal	Director	July 18, 2016

Table of Contents

Signature	Capacity	Date
/s/ SHIRLEY ANN JACKSON * Shirley Ann Jackson	Director	July 18, 2016
/s/ GARY W. LOVEMAN * Gary W. Loveman	Director	July 18, 2016
/s/ R. BRAD MARTIN * R. Brad Martin	Director	July 18, 2016
/s/ JOSHUA COOPER RAMO * Joshua Cooper Ramo	Director	July 18, 2016
/s/ SUSAN C. SCHWAB * Susan C. Schwab	Director	July 18, 2016
/s/ DAVID P. STEINER * David P. Steiner	Director	July 18, 2016
/s/ PAUL S. WALSH * Paul S. Walsh	Director	July 18, 2016
*By: /s/ JOHN L. MERINO John L. Merino Attorney-in-Fact		July 18, 2016

Table of Contents

FINANCIAL SECTION TABLE OF CONTENTS

Table of Contents

Table of Contents

MANAGEMENT S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND

FINANCIAL CONDITION

OVERVIEW OF FINANCIAL SECTION

The financial section of the FedEx Corporation (FedEx) Annual Report on Form 10-K (Annual Report) consists of the following Management s Discussion and Analysis of Results of Operations and Financial Condition (MD&A), the Consolidated Financial Statements and the notes to the Consolidated Financial Statements, and Other Financial Information, all of which include information about our significant accounting policies and practices and the transactions that underlie our financial results. The following MD&A describes the principal factors affecting the results of operations, liquidity, capital resources, contractual cash obligations and critical accounting estimates of FedEx. The discussion in the financial section should be read in conjunction with the other sections of this Annual Report, particularly Item 1: Business and our detailed discussion of risk factors included in this MD&A.

ORGANIZATION OF INFORMATION

Our MD&A is composed of three major sections: Results of Operations, Financial Condition and Critical Accounting Estimates. These sections include the following information:

- Results of operations includes an overview of our consolidated 2016 results compared to 2015 results, and 2015 results compared to 2014 results. This section also includes a discussion of key actions and events that impacted our results, as well as our outlook for 2017.

- The overview is followed by a financial summary and analysis (including a discussion of both historical operating results and our outlook for 2017) for each of our transportation segments.

- Our financial condition is reviewed through an analysis of key elements of our liquidity, capital resources and contractual cash obligations, including a discussion of our cash flows and our financial commitments.

- Critical accounting estimates discusses those financial statement elements that we believe are most important to understanding the material judgments and assumptions incorporated in our financial results.

- We conclude with a discussion of risks and uncertainties that may impact our financial condition and operating results.

DESCRIPTION OF BUSINESS

We provide a broad portfolio of transportation, e-commerce and business services through companies competing collectively, operating independently and managed collaboratively, under the respected FedEx brand. Our primary operating companies are Federal Express Corporation (FedEx Express), the world s largest express transportation company; TNT Express B.V., formerly TNT Express N.V. (TNT Express), an international express, small-package ground delivery and freight transportation company that was acquired near the end of our 2016 fourth quarter; FedEx Ground Package System, Inc. (FedEx Ground), a leading North American provider of small-package ground delivery services; and FedEx Freight, Inc. (FedEx Freight), a leading U.S. provider of less-than-truckload (LTL) freight services. These companies represent our major service lines and, along with FedEx Corporate Services, Inc. (FedEx Services), form the core of our reportable segments.

Our FedEx Services segment provides sales, marketing, information technology, communications, customer service, technical support, billing and collection services, and certain back-office functions that support our transportation segments. In addition, the FedEx Services segment provides customers with retail access to FedEx Express and FedEx Ground shipping services through FedEx Office and Print Services, Inc. (FedEx Office). See Reportable Segments for further discussion and refer to Item 1: Business for a more detailed description of each of our operating companies.

Table of Contents

The key indicators necessary to understand our operating results include:

- the overall customer demand for our various services based on macro-economic factors and the global economy;
- the volumes of transportation services provided through our networks, primarily measured by our average daily volume and shipment weight and size;
- the mix of services purchased by our customers;
- the prices we obtain for our services, primarily measured by yield (revenue per package or pound or revenue per hundredweight and shipment for LTL freight shipments);
- our ability to manage our cost structure (capital expenditures and operating expenses) to match shifting volume levels; and
- the timing and amount of fluctuations in fuel prices and our ability to recover incremental fuel costs through our fuel surcharges.

Many of our operating expenses are directly impacted by revenue and volume levels. Accordingly, we expect these operating expenses to fluctuate on a year-over-year basis consistent with changes in revenues and volumes. Therefore, the discussion of operating expense captions focuses on the key drivers and trends impacting expenses other than changes in revenues and volumes. The line item Other operating expenses predominanlign="bottom">

Year Ended December 31,	**2010**	**2009**	**% Change**
Subscription:			
Video	$ 10,995	$ 10,760	2.2%
High-speed data	4,960	4,520	9.7%
Voice	2,032	1,886	7.7%
Total Subscription	17,987	17,166	4.8%
Advertising	881	702	25.5%
Total	$ 18,868	$ 17,868	5.6%

42

TIME WARNER CABLE INC.
MANAGEMENT S DISCUSSION AND ANALYSIS OF RESULTS
OF OPERATIONS AND FINANCIAL CONDITION (Continued)

Selected subscriber-related statistics were as follows (in thousands):

	December 31,		
	2010	2009	% Change
Residential video[(a)(b)]	12,257	12,699	(3.5%)
Commercial video[(b)]	165	160	3.1%
Residential high-speed data[(c)(d)]	9,469	8,994	5.3%
Commercial high-speed data[(a)(c)(d)]	334	295	13.2%
Residential Digital Phone[(d)(e)]	4,385	4,153	5.6%
Commercial Digital Phone[(a)(d)(e)]	111	67	65.7%
Primary service units[(a)(f)]	26,721	26,368	1.3%
Customer relationships[(a)(g)]	14,496	14,572	(0.5%)
Double play[(a)(h)]	4,866	4,900	(0.7%)
Triple play[(a)(i)]	3,680	3,448	6.7%

(a) During the second and fourth quarters of 2010, the Company recorded adjustments that, in total, (a) increased certain subscriber numbers, as follows: residential video subscribers, 12,000; primary service units, 9,000; customer relationships, 60,000; and triple play subscribers, 5,000; and (b) decreased certain subscriber numbers, as follows: commercial high-speed data subscribers, 1,000; commercial Digital Phone subscribers, 2,000; and double play subscribers, 63,000. These net adjustments are reflected in the Company s subscriber numbers as of December 31, 2010; however, they are not reflected in net additions (declines) for the year ended December 31, 2010.

(b) Video subscriber numbers reflect billable subscribers who receive at least the BST video programming tier. The determination of whether a video subscriber is categorized as residential or commercial is based on the type of subscriber receiving the service.

(c) High-speed data subscriber numbers reflect billable subscribers who receive TWC s Road Runner high-speed data service or any of the other high-speed data services offered by TWC.

(d) The determination of whether a high-speed data or Digital Phone subscriber is categorized as commercial or residential is generally based upon the type of service provided to that subscriber. For example, if TWC provides a commercial service, the subscriber is classified as commercial.

(e) Digital Phone subscriber numbers reflect billable subscribers who receive an IP-based telephony service.

(f) Primary service unit numbers represent the total of all video, high-speed data and voice subscribers.

(g) Customer relationships represent the number of subscribers who receive at least one of the Company s primary 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.

(h) Double play subscriber numbers reflect customers who subscribe to two of the Company s primary services.

(i) Triple play subscriber numbers reflect customers who subscribe to all three of the Company s primary services.

Total Subscription revenues increased 4.8% as a result of increases in residential and commercial video, high-speed data and voice revenues. Residential and commercial subscription revenues were as follows (in millions):

	Residential Year Ended December 31, 2010	Residential Year Ended December 31, 2009	% Change	Commercial Year Ended December 31, 2010	Commercial Year Ended December 31, 2009	% Change
Subscription:						
Video	$ 10,727	$ 10,508	2.1%	$ 268	$ 252	6.3%
High-speed data	4,247	3,927	8.1%	713	593	20.2%
Voice	1,905	1,816	4.9%	127	70	81.4%
Total Subscription	$ 16,879	$ 16,251	3.9%	$ 1,108	$ 915	21.1%

TIME WARNER CABLE INC.
MANAGEMENT S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION (Continued)

The increase in video revenues was primarily due to increases in average revenues per subscriber (due to price increases, improved subscriber mix and increased DVR service revenues), partially offset by a decrease in residential video subscribers. The major components of video revenues were as follows (in millions):

	Year Ended December 31, 2010	Year Ended December 31, 2009	% Change
Programming tiers[a]	$ 7,227	$ 7,188	0.5%
Premium channels	865	875	(1.1%)
Transactional video-on-demand	366	367	(0.3%)
Video equipment rental and installation charges	1,308	1,195	9.5%
DVR service	582	510	14.1%
Franchise and other fees[b]	493	476	3.6%
Other	154	149	3.4%
Total	$ 10,995	$ 10,760	2.2%

(a) Programming tier revenues include subscriber fees for the BST, CPST and DBT video programming tiers, as well as genre-based programming tiers, such as movie, sports and Spanish-language tiers.
(b) Franchise and other fees include fees collected on behalf of franchising authorities and the FCC.

High-speed data revenues increased primarily due to growth in residential and commercial high-speed data subscribers and, to a lesser extent, increases in average revenues per subscriber (due to both price increases and improved subscriber mix) and other commercial service revenues (e.g., cell tower backhaul and Metro Ethernet revenues).

The increase in voice revenues was due to growth in residential and commercial Digital Phone subscribers, partially offset by a decrease in average revenues per subscriber.

Average monthly subscription revenues (which includes residential and commercial video, high-speed data and voice revenues) per unit were as follows:

	Year Ended December 31, 2010	Year Ended December 31, 2009	% Change
Average monthly subscription revenues per:			
Customer relationship[a]	$ 103.22	$ 97.83	5.5%
Primary service unit[a]	56.29	54.85	2.6%

(a) As discussed above, during the second and fourth quarters of 2010, the Company recorded adjustments that impacted the average customer relationship and primary service unit subscriber numbers used to calculate average monthly subscription revenues per customer relationship and primary service unit for the year ended December 31, 2010.

Advertising revenues increased primarily due to higher revenues from regional, local and, to a lesser extent, national businesses. Advertising revenues also increased as a result of growth in political advertising revenues, which totaled $74 million and $20 million in 2010 and 2009, respectively. The Company expects that advertising revenues will increase in 2011 compared to 2010 as a result of higher revenues from regional, local and national businesses and growth in revenues from advertising inventory sold on behalf of other video service providers, partially offset by a significant decrease in political advertising revenues.

TIME WARNER CABLE INC.
MANAGEMENT S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION (Continued)

Costs of revenues. The major components of costs of revenues were as follows (in millions, except per subscriber data):

	Year Ended December 31, 2010	Year Ended December 31, 2009	% Change
Video programming	$ 4,213	$ 3,998	5.4%
Employee[(a)]	2,600	2,594	0.2%
High-speed data	136	132	3.0%
Voice	669	633	5.7%
Video franchise and other fees[(b)]	493	476	3.6%
Other direct operating costs[(a)]	830	722	15.0%
Total	$ 8,941	$ 8,555	4.5%
Costs of revenues as a percentage of revenues	47.4%	47.9%	
Average monthly video programming costs per video subscriber	$ 27.70	$ 25.60	8.2%

(a) Employee and other direct operating costs include costs directly associated with the delivery of the Company s video, high-speed data and voice services to subscribers and the maintenance of the Company s delivery systems.
(b) Video franchise and other fees include fees collected on behalf of franchising authorities and the FCC.

Costs of revenues increased 4.5% primarily related to increases in video programming, voice and other direct operating costs.

The increase in video programming costs was primarily due to contractual rate increases and incremental costs associated with retransmission of certain local broadcast stations, partially offset by a decline in video subscribers. Additionally, video programming costs in 2010 and 2009 were reduced by approximately $25 million and $5 million, respectively, due to changes in cost estimates for programming services carried without a contract, reversals of previously accrued programming audit reserves and certain contract settlements. The Company expects the rate of growth in total video programming costs in 2011 to be comparable to that of 2010.

Employee costs increased slightly primarily as a result of higher costs associated with commercial service-related employees, partially offset by a decline in residential service-related employee costs, primarily resulting from decreased activity, and a decrease in pension expense.

Voice costs consist of the direct costs associated with the delivery of voice services, including network connectivity costs. Voice costs for 2010 increased primarily due to growth in Digital Phone subscribers. In the fourth quarter of 2010, the Company began replacing Sprint Nextel Corporation (Sprint) as the provider of Digital Phone transport, switching and interconnection services, a process that is expected to continue through the first quarter of 2014. As a result, the Company expects average voice costs per voice subscriber to decrease in 2011 compared to 2010.

Other direct operating costs increased as a result of increases in a number of categories, including costs associated with advertising inventory sold on behalf of other video service providers, wireless mobile broadband service costs, computer software and maintenance costs and fuel expense.

Also, during the fourth quarter of 2010, the Company reclassified as other direct operating costs approximately $20 million that was previously recorded as depreciation expense. Approximately $15 million of this amount relates to prior quarters in 2010. The Company has not made the comparable reclassification to prior year amounts and management does not believe this reclassification is material to the current year or prior year results.

TIME WARNER CABLE INC.
MANAGEMENT S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION (Continued)

Selling, general and administrative expenses. The components of selling, general and administrative expenses were as follows (in millions):

	Year Ended December 31, 2010	2009	% Change
Employee	$ 1,262	$ 1,153	9.5%
Marketing	629	563	11.7%
Bad debt[a]	114	143	(20.3%)
Separation-related make-up equity award costs[b]	5	9	(44.4%)
Other	1,047	962	8.8%
Total	$ 3,057	$ 2,830	8.0%

(a) Bad debt expense includes amounts charged to expense associated with the Company s allowance for doubtful accounts and collection expenses, net of late fees billed to subscribers. Late fees billed to subscribers were $140 million and $118 million in 2010 and 2009, respectively.

(b) As a result of the Separation, pursuant to their terms, Time Warner equity awards held by TWC employees were forfeited and/or experienced a reduction in value as of the date of the Separation. Amounts represent the costs associated with TWC stock options and restricted stock units granted to TWC employees during the second quarter of 2009 to offset these forfeitures and/or reduced values (Separation-related make-up equity award costs).

Selling, general and administrative expenses increased primarily as a result of increases in employee costs (primarily due to higher headcount and compensation, as well as $12 million of executive severance costs in the fourth quarter of 2010), marketing expense and consulting and professional fees, partially offset by a decrease in bad debt expense primarily due to improvements in collection efforts during 2010. Bad debt expense for the fourth quarter of 2010 increased compared to 2009 as the fourth quarter of 2009 included a benefit from the reduction in the allowance for doubtful accounts to reflect the quality of residential receivables as of the end of 2009, which benefited both the fourth quarter and full year 2009. Additionally, casualty insurance expense in 2009 included a benefit of approximately $11 million due to changes in estimates of previously established casualty insurance accruals.

Restructuring costs. The results for 2010 and 2009 include restructuring costs of $52 million and $81 million, respectively, primarily related to headcount reductions of approximately 900 and 1,300 in 2010 and 2009, respectively, and other exit costs, including the termination of a facility lease that occurred during the second quarter of 2010. The Company expects to incur additional restructuring costs during 2011.

Reconciliation of OIBDA to Operating Income. The following table reconciles OIBDA to Operating Income. In addition, the table provides the components from Operating Income to net income attributable to TWC shareholders for purposes of the discussions that follow (in millions):

	Year Ended December 31, 2010	2009	% Change
OIBDA	$ 6,818	$ 6,402	6.5%
Depreciation	(2,961)	(2,836)	4.4%
Amortization	(168)	(249)	(32.5%)
Operating Income	3,689	3,317	11.2%
Interest expense, net	(1,394)	(1,319)	5.7%
Other expense, net	(99)	(86)	15.1%
Income before income taxes	2,196	1,912	14.9%
Income tax provision	(883)	(820)	7.7%
Net income	1,313	1,092	20.2%
Less: Net income attributable to noncontrolling interests	(5)	(22)	(77.3%)
Net income attributable to TWC shareholders	$ 1,308	$ 1,070	22.2%

Table of Contents

TIME WARNER CABLE INC.
MANAGEMENT S DISCUSSION AND ANALYSIS OF RESULTS
OF OPERATIONS AND FINANCIAL CONDITION (Continued)

OIBDA. OIBDA increased principally as a result of revenue growth, partially offset by higher costs of revenues and selling, general and administrative expenses, as discussed above.

Depreciation. The increase in depreciation expense was primarily associated with continued investments in customer premise equipment, scalable infrastructure and line extensions occurring during or subsequent to 2009. As discussed above, depreciation expense in 2010 benefited from a fourth-quarter 2010 reclassification of approximately $20 million.

Amortization. The decrease in amortization expense in 2010 was primarily due to approximately $880 million of customer relationships acquired in the July 31, 2006 transactions with Adelphia Communications Corporation and Comcast Corporation (the Adelphia/Comcast Transactions) that were fully amortized as of July 31, 2010. Amortization expense in 2009 included a benefit of approximately $13 million recorded to reduce excess amortization recorded in prior years.

As of December 31, 2010, approximately $70 million of customer relationships that the Company acquired as a result of the 2007 dissolution of Texas and Kansas City Cable Partners, L.P. (TKCCP) were fully amortized. Based on the remaining carrying value of intangible assets subject to amortization as of December 31, 2010, amortization expense is expected to be approximately $24 million in 2011.

Operating Income. Operating Income increased primarily due to the increase in OIBDA and the decrease in amortization expense, partially offset by the increase in depreciation expense, as discussed above.

Interest expense, net. Interest expense, net, increased primarily due to higher average debt outstanding during 2010 as compared to 2009. Interest expense, net, for 2009 included $13 million of debt issuance costs primarily related to upfront loan fees on a 364-day senior unsecured term loan facility entered into in 2008 in connection with the Separation (the 2008 Bridge Facility), which were recognized as expense when the facility was repaid and terminated following the Company s public debt issuance in March 2009.

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

	Year Ended December 31,	
	2010	**2009**
Direct transaction costs related to the Separation[a]	$	$ (28)
Loss from equity investments, net[b]	(110)	(49)
Investment in The Reserve Fund s Primary Fund	1	(5)
Other investment gains[c]		15
Gain (loss) on equity award reimbursement obligation to Time Warner[d]	5	(21)
Other	5	2
Other expense, net	$ (99)	$ (86)

(a) Amount primarily consists of legal and professional fees.

(b) The increase in loss from equity investments, net, in 2010 was primarily due to an increase in losses incurred by Clearwire Communications LLC.

(c) 2009 amount includes a $12 million gain due to a post-closing adjustment associated with the 2007 dissolution of TKCCP.

(d) See Note 11 to the accompanying consolidated financial statements for a discussion of the Company s accounting for its equity award reimbursement obligation to Time Warner.

Income tax provision. In 2010 and 2009, the Company recorded income tax provisions of $883 million and $820 million, respectively. The effective tax rates were 40.2% and 42.9% for 2010 and 2009, respectively.

The income tax provision and the effective tax rate for 2009 were impacted by the passage of the California state budget during the first quarter of 2009 that, in part, changed the methodology of income tax apportionment in California. This tax law change resulted in an increase in state deferred tax liabilities and a corresponding noncash tax provision of $38 million, which was recorded in the first quarter of 2009. On October 19, 2010, legislation was enacted in California that reversed the changes in methodology of California income tax apportionment included in the 2009 California state

TIME WARNER CABLE INC.
MANAGEMENT S DISCUSSION AND ANALYSIS OF RESULTS
OF OPERATIONS AND FINANCIAL CONDITION (Continued)

budget, which resulted in a decrease in the Company s state deferred tax liabilities and a corresponding noncash tax benefit of $40 million, which was recorded in the fourth quarter of 2010.

The income tax provision and the effective tax rates for 2010 also benefited from an adjustment of $29 million to the Company s valuation allowance for deferred tax assets associated with an equity-method investment.

The income tax provision and the effective tax rate for 2010 were also impacted by a net noncash charge of $68 million related to the reversal of previously recognized deferred income tax benefits primarily as a result of the expiration, on March 12, 2010, of vested Time Warner stock options held by TWC employees. As a result of the Separation on March 12, 2009, TWC employees who held stock options under Time Warner equity plans were treated as if their employment with Time Warner had been terminated without cause at the time of the Separation. In most cases, this treatment resulted in shortened exercise periods, generally one year from the date of Separation, for vested Time Warner stock options held by TWC employees.

Vested Time Warner stock options held primarily by certain retirement-eligible TWC employees (pursuant to the terms of the award agreements) have exercise periods of up to five years from the date of the Separation. As such, the Company estimates that it may incur additional noncash income tax expense of up to approximately $90 million through March 2014 upon the exercise or expiration of these stock options. Up to approximately $50 million of such expense is expected to be incurred in the first quarter of 2011 and may be partially reduced during 2011 as TWC equity awards vest and are exercised. These estimates and the timing of such charges are dependent on a number of variables related to TWC and Time Warner equity awards, including the respective stock prices and the timing of the exercise or expiration of stock options and restricted stock units.

Absent the impacts of the California tax law changes, valuation allowance adjustment and the reversal of previously recognized deferred income tax benefits primarily resulting from the expiration of vested Time Warner stock options, the effective tax rates would have been 40.3% and 40.9% for 2010 and 2009, respectively.

Net income attributable to noncontrolling interests. Net income attributable to noncontrolling interests decreased principally due to changes in the ownership structure of the Company that occurred during the first quarter of 2009 in connection with the Separation.

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 for 2010 and 2009 (in millions, except per share data):

	Year Ended December 31,		
	2010	**2009**	**% Change**
Net income attributable to TWC shareholders	$ 1,308	$ 1,070	22.2%
Net income per common share attributable to TWC common shareholders:			
Basic	$ 3.67	$ 3.07	19.5%

Diluted	$	3.64	$	3.05	19.3%

Net income attributable to TWC shareholders and net income per common share attributable to TWC common shareholders increased primarily due to an increase in Operating Income, which was partially offset by increases in income tax provision and interest expense, net, each as discussed above.

Table of Contents

TIME WARNER CABLE INC.
MANAGEMENT S DISCUSSION AND ANALYSIS OF RESULTS
OF OPERATIONS AND FINANCIAL CONDITION (Continued)

2009 vs. 2008

The following discussion provides an analysis of the Company s results of operations and should be read in conjunction with the accompanying consolidated financial statements and notes thereto.

Revenues. Revenues by major category were as follows (in millions):

	Year Ended December 31, 2009	Year Ended December 31, 2008	% Change
Subscription:			
Video	$ 10,760	$ 10,524	2.2%
High-speed data	4,520	4,159	8.7%
Voice	1,886	1,619	16.5%
Total Subscription	17,166	16,302	5.3%
Advertising	702	898	(21.8%)
Total	$ 17,868	$ 17,200	3.9%

Selected subscriber-related statistics were as follows (in thousands):

	December 31, 2009	December 31, 2008	% Change
Video[(a)]	12,859	13,069	(1.6%)
Residential high-speed data[(b)(c)]	8,994	8,444	6.5%
Commercial high-speed data[(b)(c)(d)]	295	283	4.2%
Residential Digital Phone[(c)(e)]	4,153	3,747	10.8%
Commercial Digital Phone[(c)(e)]	67	30	123.3%
Primary service units[(f)]	26,368	25,573	3.1%
Customer relationships[(g)]	14,572	14,582	(0.1%)
Double play[(h)]	4,900	4,794	2.2%
Triple play[(i)]	3,448	3,099	11.3%

(a) Video subscriber numbers reflect billable subscribers who receive at least the BST video programming tier.

(b) High-speed data subscriber numbers reflect billable subscribers who receive TWC s Road Runner high-speed data service or any of the other high-speed data services offered by TWC.

(c) The determination of whether a high-speed data or Digital Phone subscriber is categorized as commercial or residential is generally based upon the type of service provided to that subscriber. For example, if TWC provides a commercial service, the subscriber is classified as commercial.

(d) During 2009, the Company recorded an adjustment that reduced commercial high-speed data subscribers by 3,000 subscribers, which is reflected in the Company s subscriber numbers as of December 31, 2009.

(e) Digital Phone subscriber numbers reflect billable subscribers who receive an IP-based telephony service.

(f) Primary service unit numbers represent the total of all video, high-speed data and voice subscribers.

(g) Customer relationships represent the number of subscribers who receive at least one of the Company s primary 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.

(h) Double play subscriber numbers reflect customers who subscribe to two of the Company s primary services.

(i) Triple play subscriber numbers reflect customers who subscribe to all three of the Company s primary services.

TIME WARNER CABLE INC.
MANAGEMENT S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION (Continued)

Total Subscription revenues increased 5.3% as a result of increases in residential and commercial video, high-speed data and voice revenues. Residential and commercial subscription revenues were as follows (in millions):

	Residential			Commercial		
	Year Ended December 31,			Year Ended December 31,		
	2009	2008	% Change	2009	2008	% Change
Subscription:						
Video	$ 10,508	$ 10,285	2.2%	$ 252	$ 239	5.4%
High-speed data	3,927	3,633	8.1%	593	526	12.7%
Voice	1,816	1,591	14.1%	70	28	150.0%
Total Subscription	$ 16,251	$ 15,509	4.8%	$ 915	$ 793	15.4%

The increase in video revenues was primarily due to an increase in revenues from digital video recorder service, video price increases and the continued growth of video subscribers, which were partially offset by a decrease in video subscribers (resulting, in part, from the December 2008 sale of certain non-core cable systems serving 78,000 video subscribers) and a decline in premium channel subscribers and transactional video-on-demand revenues. Additional information regarding the major components of video revenues was as follows (in millions):

	Year Ended December 31,		
	2009	2008	% Change
Programming tiers[a]	$ 7,188	$ 7,095	1.3%
Premium channels	875	913	(4.2%)
Transactional video-on-demand	367	399	(8.0%)
Video equipment rental and installation charges	1,195	1,112	7.5%
DVR service	510	403	26.6%
Franchise and other fees[b]	476	459	3.7%
Other	149	143	4.2%
Total	$ 10,760	$ 10,524	2.2%

(a) Programming tier revenues include subscriber fees for the BST, CPST and DBT video programming tiers, as well as genre-based programming tiers, such as movie, sports and Spanish-language tiers.
(b) Franchise and other fees include fees collected on behalf of franchising authorities and the FCC.

High-speed data revenues increased primarily due to growth in high-speed data subscribers and an increase in cell tower backhaul and Metro Ethernet revenues.

The increase in voice revenues was due to growth in Digital Phone subscribers, partially offset by a decrease in average revenues per subscriber.

Average monthly subscription revenues (which includes video, high-speed data and voice revenues) per unit were as follows:

	Year Ended December 31,		
	2009	**2008**	**% Change**
Average monthly subscription revenues per:			
Customer relationship	$ 97.83	$ 92.44	5.8%
Primary service unit	54.85	54.27	1.1%

Advertising revenues decreased due to a decline in revenues from national, regional and local businesses and political advertising revenues.

TIME WARNER CABLE INC.
MANAGEMENT S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION (Continued)

Costs of revenues. The major components of costs of revenues were as follows (in millions, except per subscriber data):

	Year Ended December 31,		%
	2009	2008	Change
Video programming	$ 3,998	$ 3,753	6.5%
Employee[(a)]	2,594	2,511	3.3%
High-speed data	132	146	(9.6%)
Voice	633	552	14.7%
Video franchise and other fees[(b)]	476	459	3.7%
Other direct operating costs[(a)]	722	724	(0.3%)
Total	$ 8,555	$ 8,145	5.0%
Costs of revenues as a percentage of revenues	47.9%	47.4%	
Average monthly video programming costs per video subscriber	$ 25.60	$ 23.60	8.5%

(a) Employee and other direct operating costs include costs directly associated with the delivery of the Company s video, high-speed data and voice services to subscribers and the maintenance of the Company s delivery systems.
(b) Video franchise and other fees include fees collected on behalf of franchising authorities and the FCC.

Costs of revenues increased 5.0%, primarily related to increases in video programming, employee and voice costs.

The increase in video programming costs was primarily due to contractual rate increases, incremental costs associated with the continued retransmission of certain local broadcast stations and the expansion of service offerings, partially offset by a decline in video and premium channel subscriptions.

Employee costs increased primarily due to an increase in pension expense and employee medical and compensation expenses.

Voice costs consist of the direct costs associated with the delivery of voice services, including network connectivity costs. Voice costs increased primarily due to growth in Digital Phone subscribers.

Selling, general and administrative expenses. The components of selling, general and administrative expenses were as follows (in millions):

	Year Ended December 31, 2009	2008	% Change
Employee	$ 1,153	$ 1,146	0.6%
Marketing	563	569	(1.1%)
Bad debt[(a)]	143	181	(21.0%)
Separation-related make-up equity award costs[(b)]	9		NM
Other	962	958	0.4%
Total	$ 2,830	$ 2,854	(0.8%)

NM Not meaningful.

(a) Bad debt expense includes amounts charged to expense associated with the Company s allowance for doubtful accounts and collection expenses, net of late fees billed to subscribers. Late fees billed to subscribers were $118 million and $106 million in 2009 and 2008, respectively.

(b) As a result of the Separation, pursuant to their terms, Time Warner equity awards held by TWC employees were forfeited and/or experienced a reduction in value as of the date of the Separation. Amount represents the costs associated with TWC stock options and restricted stock units granted to TWC employees during the second quarter of 2009 to offset these forfeitures and/or reduced values.

Selling, general and administrative expenses decreased slightly primarily as a result of lower bad debt expense primarily due to improvement in collection efforts and a reduction in the allowance for doubtful accounts to reflect the quality of residential receivables as of the end of 2009. The decrease in bad debt expense benefited both the fourth quarter

**TIME WARNER CABLE INC.
MANAGEMENT S DISCUSSION AND ANALYSIS OF RESULTS
OF OPERATIONS AND FINANCIAL CONDITION (Continued)**

and full year 2009. Casualty insurance expense in 2009 and 2008 included benefits of approximately $11 million and $16 million, respectively, due to changes in estimates of previously established casualty insurance accruals. Employee costs in 2009 remained essentially flat as an increase in pension expense was primarily offset by a decrease in employee headcount.

Restructuring costs. The results for 2009 and 2008 included restructuring costs of $81 million and $15 million, respectively. The Company eliminated approximately 1,300 positions during 2009.

Impairment of cable franchise rights. During the fourth quarter of 2008, the Company recorded a noncash impairment charge of $14.822 billion to reduce the carrying value of its cable franchise rights as a result of its annual impairment testing of goodwill and indefinite-lived intangible assets. There was no such impairment charge in 2009.

Loss on sale of cable systems. During 2008, the Company recorded a loss of $58 million as a result of the sale of certain non-core cable systems, which closed in December 2008.

Reconciliation of OIBDA to Operating Income (Loss). The following table reconciles OIBDA to Operating Income (Loss). In addition, the table provides the components from Operating Income (Loss) to net income (loss) attributable to TWC shareholders for purposes of the discussions that follow (in millions):

	Year Ended December 31,		
	2009	**2008**	**% Change**
OIBDA	$ 6,402	$ (8,694)	NM
Depreciation	(2,836)	(2,826)	0.4%
Amortization	(249)	(262)	(5.0%)
Operating Income (Loss)	3,317	(11,782)	NM
Interest expense, net	(1,319)	(923)	42.9%
Other expense, net	(86)	(367)	(76.6%)
Income (loss) before income taxes	1,912	(13,072)	NM
Income tax benefit (provision)	(820)	5,109	NM
Net income (loss)	1,092	(7,963)	NM
Less: Net (income) loss attributable to noncontrolling interests	(22)	619	NM
Net income (loss) attributable to TWC shareholders	$ 1,070	$ (7,344)	NM

NM Not meaningful.

OIBDA. As discussed above, in 2008, OIBDA was impacted by the impairment of cable franchise rights and the loss on sale of cable systems. Excluding these items, OIBDA increased principally as a result of revenue growth, partially offset by higher costs of revenues and restructuring costs, each as discussed above. Additionally, OIBDA in 2008 was negatively impacted by $14 million of costs resulting from the impact of Hurricane Ike on certain of the Company s cable systems in southeast Texas and Ohio.

Depreciation expense. The slight increase in depreciation expense was primarily associated with continued purchases of customer premise equipment, scalable infrastructure and line extensions occurring during or subsequent to 2008, partially offset primarily by certain property, plant and equipment acquired in the Adelphia/Comcast Transactions that was fully depreciated as of July 31, 2008.

Amortization expense. Amortization expense in 2009 benefited from an approximate $13 million adjustment to reduce excess amortization recorded in prior years.

Operating Income (Loss). As discussed above, in 2008, Operating Loss was impacted by the impairment of cable franchise rights and the loss on sale of cable systems. Excluding these items, Operating Income increased primarily due to the increase in OIBDA, as discussed above.

Table of Contents

TIME WARNER CABLE INC.
MANAGEMENT S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION (Continued)

Interest expense, net. Interest expense, net, increased primarily due to higher average debt outstanding during 2009. Additionally, interest expense, net, for 2009 included $13 million of debt issuance costs primarily related to upfront loan fees on the 2008 Bridge Facility, which were recognized as expense when the facility was repaid and terminated following the Company s public debt issuance in March 2009. Interest expense, net, for 2008 included $45 million of debt issuance costs primarily related to the portion of the upfront loan fees for the 2008 Bridge Facility that was recognized as expense due to the reduction of commitments under such facility as a result of the Company s public debt issuances in June 2008 and November 2008 (the 2008 Bond Offerings).

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

	Year Ended December 31, 2009	2008
Direct transaction costs related to the Separation[a]	$ (28)	$ (17)
Income (loss) from equity investments, net[b]	(49)	16
Investment in The Reserve Fund s Primary Fund	(5)	
Other investment gains (losses)[c]	15	(366)
Loss on equity award reimbursement obligation to Time Warner[d]	(21)	
Other	2	
Other expense, net	$ (86)	$ (367)

(a) Amounts primarily consist of legal and professional fees.

(b) The change in income (loss) from equity investments, net, for 2009 was primarily due to the impact of losses incurred during 2009 by Clearwire Communications LLC.

(c) 2008 amount consists of a $367 million impairment charge on the Company s investment in Clearwire Communications LLC (an investment accounted for under the equity method of accounting) and an $8 million impairment charge on an investment, partially offset by a $9 million gain recorded on the sale of a cost-method investment. In 2009, the Company recovered a portion of the investment on which it recorded the $8 million impairment charge in 2008, resulting in a $3 million gain. Additionally, 2009 amount includes a $12 million gain due to a post-closing adjustment associated with the 2007 dissolution of TKCCP.

(d) See Note 11 to the accompanying consolidated financial statements for a discussion of the Company s accounting for its equity award reimbursement obligation to Time Warner.

Income tax benefit (provision). In 2009, the Company recorded an income tax provision of $820 million and, in 2008, the Company recorded an income tax benefit of $5.109 billion. The effective tax rate for 2009 was 42.9%, which included the impact of the passage of the California state budget during the first quarter of 2009 that, in part, changed the methodology of income tax apportionment in California. This tax law change resulted in an increase in state deferred tax liabilities and a corresponding noncash tax provision of $38 million. Absent this tax law change, the effective tax rate for 2009 would have been 40.9%. The effective tax rate for 2008 was 39.1%, which included the impacts of the impairment of cable franchise rights and the loss on sale of cable systems. Absent these items, the effective tax rate for 2008 would have been 44.2%. The decrease in the Company s effective tax rate for 2009 (excluding the California state tax law change in 2009 and the impairment of cable franchise rights and the loss on sale of cable systems in 2008) was primarily due to the tax impact of the 2008 impairment charge on the Company s investment in Clearwire Communications LLC, as discussed above.

Net (income) loss attributable to noncontrolling interests. Net loss attributable to noncontrolling interests in 2008 included the impacts of the impairment of cable franchise rights and the loss on sale of cable systems, as discussed above. Excluding these items, net income attributable to noncontrolling interests decreased principally due to the changes in the ownership structure of the Company that occurred during the first quarter of 2009 in connection with the Separation.

TIME WARNER CABLE INC.
MANAGEMENT S DISCUSSION AND ANALYSIS OF RESULTS
OF OPERATIONS AND FINANCIAL CONDITION (Continued)

Net income (loss) attributable to TWC shareholders and net income (loss) per common share attributable to TWC common shareholders. Net income (loss) attributable to TWC shareholders and net income (loss) per common share attributable to TWC common shareholders were as follows for 2009 and 2008 (in millions, except per share data):

	Year Ended December 31, 2009	Year Ended December 31, 2008	% Change
Net income (loss) attributable to TWC shareholders	$ 1,070	$ (7,344)	NM
Net income (loss) per common share attributable to TWC common shareholders:			
Basic	$ 3.07	$ (22.55)	NM
Diluted	$ 3.05	$ (22.55)	NM

NM Not meaningful.

As discussed above, in 2008, net loss attributable to TWC shareholders and net loss per common share attributable to TWC common shareholders were impacted by the impairment of cable franchise rights and the loss on sale of cable systems. Excluding these items, net income attributable to TWC shareholders and net income per common share attributable to TWC common shareholders increased primarily due to an increase in Operating Income and decreases in other expense, net, and net income attributable to noncontrolling interests, partially offset by increases in interest expense, net, and income tax provision, each as discussed above.

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 foreseeable future, including quarterly dividend payments and common stock repurchases. TWC s sources of cash include cash provided by operating activities, cash and equivalents on hand, borrowing capacity under its committed credit facility and commercial paper program, as well as access to capital markets.

The Company generally invests its cash and equivalents in a combination of money market, government and treasury funds, as well as other similar instruments, 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. As of December 31, 2010, nearly all of the Company s cash and equivalents was invested in money market funds and certificates of deposit (CD), with no more than 15% invested in any one fund or CD.

TWC s unused committed financial capacity was $6.891 billion as of December 31, 2010, reflecting $3.047 billion of cash and equivalents and $3.844 billion of available borrowing capacity under the Company s $4.0 billion Revolving Credit Facility.

Current Financial Condition

As of December 31, 2010, the Company had $23.121 billion of debt, $3.047 billion of cash and equivalents (net debt of $20.074 billion, defined as total debt less cash and equivalents), $300 million of mandatorily redeemable non-voting Series A Preferred Equity Membership Units (the TW NY Cable Preferred Membership Units) issued by a subsidiary of TWC, Time Warner NY Cable LLC (TW NY Cable), and $9.210 billion of total TWC shareholders equity. As of December 31, 2009, the Company had $22.331 billion of debt, $1.048 billion of cash and equivalents (net debt of $21.283 billion), $300 million of TW NY Cable Preferred Membership Units and $8.685 billion of total TWC shareholders equity.

Table of Contents

TIME WARNER CABLE INC.
MANAGEMENT S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION (Continued)

The following table shows the significant items contributing to the change in net debt from December 31, 2009 to December 31, 2010 (in millions):

Balance as of December 31, 2009	$ 21,283
Cash provided by operating activities	(5,218)
Capital expenditures	2,930
Dividends paid	576
Increase in the fair value of debt subject to interest rate swap contracts[a]	188
Repurchases of common stock	472
Proceeds from exercise of stock options	(113)
All other, net	(44)
Balance as of December 31, 2010	$ 20,074

[a] The increase in the fair value of debt subject to interest rate swap contracts is equal to the increase in the fair value of the underlying swaps, which are separately recorded as assets in the accompanying consolidated balance sheet. See Note 11 to the accompanying consolidated financial statements for a discussion of the Company s accounting for its interest rate swap contracts.

In 2008, TWC filed a shelf registration statement on Form S-3 with the Securities and Exchange Commission (the SEC) that allows TWC to offer and sell from time to time senior and subordinated debt securities and debt warrants.

On October 29, 2010, TWC s Board of Directors authorized the Stock Repurchase Program. From the program s inception through February 15, 2011, the Company repurchased 13.9 million shares of TWC common stock for $916 million.

On January 26, 2011, TWC s Board of Directors declared a quarterly cash dividend of $0.48 per share of TWC common stock, payable in cash on March 15, 2011 to stockholders of record at the close of business on February 28, 2011.

As discussed above, on February 1, 2011, TWC entered into an agreement to acquire NaviSite for $5.50 per share of NaviSite common stock in cash, or a total equity value of approximately $230 million. As of February 1, 2011, NaviSite had approximately $50 million of debt and approximately $35 million of preferred equity. The transaction, which is subject to NaviSite stockholder approval, certain regulatory approvals and customary closing conditions, is expected to close in the second quarter of 2011.

Cash Flows

Cash and equivalents increased $1.999 billion and $5.217 billion in 2010 and 2008, respectively, and decreased $4.401 billion in 2009. Components of these changes are discussed below in more detail.

TIME WARNER CABLE INC.
MANAGEMENT S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION (Continued)

Operating Activities

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

	Year Ended December 31, 2010	2009	2008
OIBDA	$ 6,818	$ 6,402	$ (8,694)
Noncash impairment of cable franchise rights			14,822
Noncash loss on sale of cable systems			58
Noncash equity-based compensation	109	97	78
Net interest payments[a]	(1,359)	(1,221)	(707)
Pension plan contributions	(104)	(170)	(402)
Net income tax payments[b]	(388)	(37)	(36)
Net restructuring accruals (payments)	(1)	14	(7)
All other, net, including working capital changes	143	94	188
Cash provided by operating activities	$ 5,218	$ 5,179	$ 5,300

(a) Amounts include interest income received (including amounts received under interest rate swap contracts) of $99 million, $13 million and $38 million in 2010, 2009 and 2008, respectively.

(b) Amounts include income tax refunds received of $93 million, $53 million and $4 million in 2010, 2009 and 2008, respectively.

Cash provided by operating activities increased from $5.179 billion in 2009 to $5.218 billion in 2010. This increase was primarily related to an increase in OIBDA (as previously discussed) and decreases in pension plan contributions and working capital requirements, largely offset by increases in net income tax and interest payments.

The Company contributed $104 million to its qualified and nonqualified noncontributory defined benefit pension plans during 2010 and may make discretionary cash contributions to its pension plans during 2011. As of December 31, 2010, the Company s qualified defined benefit pension plans were fully funded. See Note 15 to the accompanying consolidated financial statements for additional discussion of the Company s pension plans.

Net income taxes paid during 2009 benefited from the impact of the accelerated depreciation deductions provided by the American Recovery and Reinvestment Act of 2009, partially offset by the reversal of a portion of similar benefits received in 2008 from the Economic Stimulus Act of 2008. These Acts provided for a first year bonus depreciation deduction of 50% of the cost of the Company s qualified capital expenditures for the year.

Net income taxes paid during 2010 were impacted by the absence of bonus depreciation during the first nine months of 2010 (prior to the retroactive application of the Small Business Jobs Act, discussed below) and the reversal of a portion of the bonus depreciation benefits received in 2008 and 2009. On September 27, 2010, the Small Business Jobs Act was enacted, which provided for a bonus depreciation deduction of 50% of the cost of the Company s qualified capital expenditures retroactive to the beginning of 2010. Additionally, on December 17, 2010, the Tax

Relief, Unemployment Insurance Reauthorization and Job Creation Act of 2010 was enacted, which provides for a bonus depreciation deduction of 100% of the cost of the Company s qualified capital expenditures from September 8, 2010 through December 31, 2011. As a result of these Acts, no U.S. federal income tax payments were made during the fourth quarter of 2010 and the Company had prepaid income taxes of $287 million as of December 31, 2010, of which $270 million was refunded to the Company in January 2011. Due to this refund and the benefit of 100% bonus depreciation through December 31, 2011, the Company does not expect the net income taxes paid in 2011 to be significant.

Net interest payments increased primarily as a result of the timing of interest payments related to the public debt issuances in March, June and December 2009 (the 2009 Bond Offerings). The Company expects that its net interest payments will increase in 2011 primarily as a result of interest payments related to the public debt issuance in December 2009 and the 2010 Bond Offering.

Cash provided by operating activities decreased from $5.300 billion in 2008 to $5.179 billion in 2009. This decrease was primarily related to an increase in net interest payments and the change in working capital requirements, partially

Table of Contents

TIME WARNER CABLE INC.
MANAGEMENT S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION (Continued)

offset by an increase in OIBDA excluding the noncash items noted in the table above and a decrease in pension plan contributions.

Investing Activities

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

	Year Ended December 31, 2010	2009	2008
Acquisitions and investments, net of cash acquired and distributions received:			
Clearwire Communications LLC[a]	$ (4)	$ (97)	$ (536)
The Reserve Fund s Primary Fund[b]	35	64	(103)
Sterling Entertainment Enterprises, LLC[c]	65	3	3
Canoe Ventures LLC[d]	(21)	(8)	(13)
SpectrumCo[a]	(2)	(29)	(3)
All other	(25)	(21)	(33)
Capital expenditures	(2,930)	(3,231)	(3,522)
Proceeds from sale of cable systems			51
Other investing activities	10	12	16
Cash used by investing activities	$ (2,872)	$ (3,307)	$ (4,140)

(a) Refer to Note 7 to the accompanying consolidated financial statements for details on the Company s investments in Clearwire Communications LLC and SpectrumCo.

(b) 2008 amount reflects the classification of the Company s investment in The Reserve Fund s Primary Fund as other current assets on the Company s consolidated balance sheet as a result of the then current status of the Company s investment. 2010 and 2009 amounts reflect the receipt of the Company s pro rata share of partial distributions made by The Reserve Fund s Primary Fund.

(c) Amount represents distributions received from Sterling Entertainment Enterprises, LLC (d/b/a SportsNet New York), an equity-method investee.

(d) Amount represents investments in Canoe Ventures LLC, an equity-method investee. Canoe Ventures LLC is a joint venture formed by TWC and certain other cable operators and is focused on developing a common technology platform among cable operators for the delivery of advanced advertising products and services to be offered to programmers and advertisers.

Cash used by investing activities decreased from $3.307 billion in 2009 to $2.872 billion in 2010. This decrease was principally due to a decline in capital expenditures and the change in acquisitions and investments, net. The Company expects that capital expenditures will be less than $3.0 billion in 2011.

Cash used by investing activities decreased from $4.140 billion in 2008 to $3.307 billion in 2009. This decrease was principally due to the change in acquisitions and investments, net, and a decrease in capital expenditures.

TIME WARNER CABLE INC.
MANAGEMENT S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION (Continued)

TWC s capital expenditures included the following major categories (in millions):

	Year Ended December 31,		
	2010	2009	2008
Customer premise equipment[a]	$ 1,136	$ 1,251	$ 1,628
Scalable infrastructure[b]	713	787	600
Line extensions[c]	351	335	350
Upgrades/rebuilds[d]	150	174	315
Support capital[e]	580	684	629
Total capital expenditures	$ 2,930	$ 3,231	$ 3,522

(a) Amounts represent costs incurred in the purchase and installation of equipment that resides at a customer s home or business for the purpose of receiving/sending video, high-speed data and/or voice signals. Such equipment includes digital (including high-definition) set-top boxes, remote controls, high-speed data modems (including wireless), telephone modems and the costs of installing such new equipment. Customer premise equipment also includes materials and labor costs incurred to install the drop cable that connects a customer s dwelling or business to the closest point of the main distribution network.

(b) Amounts represent costs incurred in the purchase and installation of equipment that controls signal reception, processing and transmission throughout TWC s distribution network, as well as controls and communicates with the equipment residing at a customer s home or business. Also included in scalable infrastructure is certain equipment necessary for content aggregation and distribution (video-on-demand equipment) and equipment necessary to provide certain video, high-speed data and Digital Phone service features (voicemail, e-mail, etc.).

(c) Amounts represent costs incurred to extend TWC s distribution network into a geographic area previously not served. These costs typically include network design, the purchase and installation of fiber optic and coaxial cable and certain electronic equipment.

(d) Amounts primarily represent costs incurred to upgrade or replace certain existing components or an entire geographic area of TWC s distribution network. These costs typically include network design, the purchase and installation of fiber optic and coaxial cable and certain electronic equipment.

(e) Amounts represent all other capital purchases required to run day-to-day operations. These costs typically include vehicles, land and buildings, computer hardware/software, office equipment, furniture and fixtures, tools and test equipment. Amounts include capitalized software costs of $203 million, $202 million and $201 million in 2010, 2009 and 2008, respectively.

TWC incurs expenditures associated with the construction of its cable systems. Costs associated with the construction of transmission and distribution facilities are capitalized. TWC generally capitalizes expenditures for tangible fixed assets having a useful life of greater than one year. Capitalized costs include direct material, labor and overhead, as well as interest. Sales and marketing costs, as well as the costs of repairing or maintaining existing fixed assets, are expensed as incurred. With respect to customer premise equipment, which includes set-top boxes and high-speed data and telephone modems, TWC capitalizes installation costs only upon the initial deployment of these assets. All costs incurred in subsequent disconnects and reconnects of previously installed customer premise equipment are expensed as incurred. Depreciation on these assets is provided using the straight-line method over their estimated useful lives.

For set-top boxes and modems, the useful life is 3 to 5 years, and, for distribution plant, the useful life is up to 16 years.

Table of Contents

TIME WARNER CABLE INC.
MANAGEMENT S DISCUSSION AND ANALYSIS OF RESULTS
OF OPERATIONS AND FINANCIAL CONDITION (Continued)

Financing Activities

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

	Year Ended December 31, 2010	2009	2008
Borrowings (repayments), net[(a)]	$ (1,261)	$ 1,261	$ (206)
Borrowings	1,872	12,037	7,182
Repayments	(8)	(8,677)	(2,817)
Debt issuance costs	(25)	(34)	(97)
Proceeds from exercise of stock options	113	4	
Dividends paid	(576)		
Repurchases of common stock	(472)		
Payment of special cash dividend		(10,856)	
Other financing activities	10	(8)	(5)
Cash provided (used) by financing activities	$ (347)	$ (6,273)	$ 4,057

(a) Borrowings (repayments), net, reflects borrowings under the Company s commercial paper program with original maturities of three months or less, net of repayments of such borrowings.

Cash used by financing activities was $347 million in 2010 compared to $6.273 billion in 2009. Cash used by financing activities in 2010 primarily included net repayments under the Company s commercial paper program, the payment of quarterly cash dividends and repurchases of TWC common stock, partially offset by the net proceeds of the 2010 Bond Offering and the net proceeds from the exercise of stock options. Cash used by financing activities in 2009 primarily included the payment of the special cash dividend in connection with the Separation, partially offset by the net proceeds of the 2009 Bond Offerings (after repayment of other debt).

Cash used by financing activities was $6.273 billion in 2009 compared to cash provided by financing activities of $4.057 billion in 2008. Cash used by financing activities in 2009 primarily included the payment of the special cash dividend in connection with the Separation, partially offset by the net proceeds of the 2009 Bond Offerings (after repayment of other debt). Cash provided by financing activities in 2008 primarily included the net proceeds from the 2008 Bond Offerings, partially offset by repayments under the $5.875 billion Revolving Credit Facility and commercial paper program, the repayment of TWE s 7.25% debentures due September 1, 2008 (aggregate principal amount of $600 million) and debt issuance costs relating to the 2008 Bond Offerings and the 2008 Bridge Facility.

Free Cash Flow

Reconciliation of cash provided by operating activities to Free Cash Flow. The following table reconciles cash provided by operating activities to Free Cash Flow (in millions):

	Year Ended December 31, 2010	2009	2008
Cash provided by operating activities	$ 5,218	$ 5,179	$ 5,300
Add: Excess tax benefit from exercise of stock options	19		
Less:			
Capital expenditures	(2,930)	(3,231)	(3,522)
Cash paid for other intangible assets	(21)	(25)	(34)
Other	(2)	(6)	(5)
Free Cash Flow	$ 2,284	$ 1,917	$ 1,739

Free Cash Flow increased from $1.917 billion in 2009 to $2.284 billion in 2010, primarily as a result of a decrease in capital expenditures and an increase in cash provided by operating activities, as discussed above.

TIME WARNER CABLE INC.
MANAGEMENT S DISCUSSION AND ANALYSIS OF RESULTS
OF OPERATIONS AND FINANCIAL CONDITION (Continued)

Free Cash Flow increased from $1.739 billion in 2008 to $1.917 billion in 2009, primarily as a result of a decrease in capital expenditures, partially offset by a decrease in cash provided by operating activities, as discussed above.

Outstanding Debt and Mandatorily Redeemable Preferred Equity and Available Financial Capacity

Debt and mandatorily redeemable preferred equity as of December 31, 2010 and 2009 were as follows:

	Maturity	Interest Rate	Outstanding Balance as of December 31, 2010	2009
			(in millions)	
TWC notes and debentures	2012-2040	6.059%[a]	$ 20,418	$ 18,357
TWE notes and debentures[b]	2012-2033	7.530%[a]	2,700	2,702
Revolving credit facility[c]	2013			
Commercial paper program[d]	2013			1,261
Capital leases and other			3	11
Total debt			23,121	22,331
TW NY Cable Preferred Membership Units	2013	8.210%	300	300
Total debt and mandatorily redeemable preferred equity			$ 23,421	$ 22,631

(a) Rate represents a weighted-average effective interest rate as of December 31, 2010 and includes the effects of interest rate swap contracts.

(b) Outstanding balance of TWE notes and debentures as of December 31, 2010 and 2009 includes an unamortized fair value adjustment of $91 million and $102 million, respectively, which includes the fair value adjustment recognized as a result of the 2001 merger of America Online, Inc. (now known as AOL Inc.) and Time Warner Inc. (now known as Historic TW Inc.). TWE is a consolidated subsidiary of the Company.

(c) TWC s unused committed financial capacity was $6.891 billion as of December 31, 2010, reflecting $3.047 billion of cash and equivalents and $3.844 billion of available borrowing capacity under the $4.0 billion Revolving Credit Facility (which reflects a reduction of $156 million for outstanding letters of credit backed by the $4.0 billion Revolving Credit Facility).

(d) Outstanding balance as of December 31, 2009 excludes an unamortized discount on commercial paper of $1 million (none as of December 31, 2010).

See Overview Recent Developments 2010 Bond Offering and $4.0 Billion Revolving Credit Facility and Notes 9 and 10 to the accompanying consolidated financial statements for further details regarding the Company s outstanding debt and mandatorily redeemable preferred equity and other financing arrangements, including certain information about maturities, covenants and rating triggers related to such debt and financing arrangements. At December 31, 2010, TWC was in compliance with the leverage ratio covenant of the $4.0 billion Revolving Credit Facility, with a ratio of consolidated total debt as of December 31, 2010 to consolidated EBITDA for 2010 of approximately 2.9 times. In accordance with the $4.0 billion Revolving Credit Facility agreement, consolidated total debt as of December 31, 2010 was calculated as (a) total debt per the accompanying consolidated balance sheet less the TWE unamortized fair value adjustment (discussed above) and the fair value of debt subject to interest rate swap contracts, less (b) total cash per the accompanying consolidated balance sheet in excess of $25 million. In accordance with the $4.0 billion Revolving Credit Facility agreement, consolidated EBITDA for 2010 was calculated as OIBDA plus equity-based compensation expense.

Contractual and Other Obligations

Contractual Obligations

The Company has obligations to make future payments for goods and services under certain contractual arrangements. These contractual obligations secure the future rights to various assets and services to be used in the normal course of the Company s operations. For example, the Company is contractually committed to make certain minimum lease payments for the use of property under operating lease agreements. In accordance with applicable accounting rules, the future rights and obligations pertaining to firm commitments, such as operating lease obligations and certain purchase obligations under contracts, are not reflected as assets or liabilities in the accompanying consolidated balance sheet.

TIME WARNER CABLE INC.
MANAGEMENT S DISCUSSION AND ANALYSIS OF RESULTS
OF OPERATIONS AND FINANCIAL CONDITION (Continued)

The following table summarizes the Company s aggregate contractual obligations as of December 31, 2010, and the estimated timing and effect that such obligations are expected to have on the Company s liquidity and cash flows in future periods (in millions):

	2011	2012-2013	2014-2015	Thereafter	Total
Programming purchases[a]	$ 3,802	$ 7,608	$ 5,919	$ 6,941	$ 24,270
Outstanding debt obligations and TW NY Cable Preferred Membership Units[b]		3,902	2,250	17,151	23,303
Interest and dividends[c]	1,580	3,017	2,449	12,946	19,992
Facility leases[d]	117	206	172	348	843
Digital Phone connectivity[e]	321	343	1		665
Data processing services	68	77	15		160
High-speed data connectivity[f]	34	17	6	21	78
Other	114	173	70	65	422
Total	$ 6,036	$ 15,343	$ 10,882	$ 37,472	$ 69,733

(a) Programming purchases represent contracts that the Company has with cable television networks and broadcast stations to provide programming services to its subscribers. The amounts included above represent estimates of the future programming costs for these contract requirements and commitments based on subscriber numbers and tier placement as of December 31, 2010 applied to the per-subscriber rates contained in these contracts. Actual amounts due under such contracts may differ from the amounts above based on the actual subscriber numbers and tier placements.

(b) Outstanding debt obligations and TW NY Cable Preferred Membership Units represent principal amounts due on outstanding debt obligations and the TW NY Cable Preferred Membership Units as of December 31, 2010. Amounts do not include any fair value adjustments, bond premiums, discounts, interest rate derivatives, interest payments or dividends.

(c) Amounts are based on the outstanding debt or TW NY Cable Preferred Membership Units balances, respective interest or dividend rates (interest rates on variable-rate debt were held constant through maturity at the December 31, 2010 rates) and maturity schedule of the respective instruments as of December 31, 2010. Interest ultimately paid on these obligations may differ based on changes in interest rates for variable-rate debt, as well as any potential future refinancings entered into by the Company. See Notes 9 and 10 to the accompanying consolidated financial statements for further details.

(d) The Company has facility lease obligations under various operating leases including minimum lease obligations for real estate and operating equipment.

(e) Digital Phone connectivity obligations relate to transport, switching and interconnection services, primarily provided by Sprint, that allow for the origination and termination of local and long-distance telephony traffic. These expenses also include related technical support services. In the fourth quarter of 2010, the Company began replacing Sprint as the provider of these services. There is generally no obligation to purchase these services if the Company is not providing Digital Phone service. The amounts included above are estimated based on the number of Digital Phone subscribers as of December 31, 2010 and the per-subscriber contractual rates contained in the contracts that were in effect as of December 31, 2010 and also reflect the replacement of Sprint between the fourth quarter 2010 and the first quarter of 2014.

(f) High-speed data connectivity obligations are based on the contractual terms for bandwidth circuits that were in use as of December 31, 2010.

The Company s total rent expense amounted to $212 million, $212 million and $190 million in 2010, 2009 and 2008, respectively. Included within these amounts are pole attachment rental fees of $71 million, $72 million and $62 million in 2010, 2009 and 2008, respectively.

Minimum pension funding requirements have not been presented as such amounts have not been determined beyond 2010. The Company did not have a required minimum pension contribution obligation for its qualified defined benefit pension plans in 2010; however, the Company made cash contributions of $104 million to its qualified and nonqualified defined benefit pension plans during 2010 and may make discretionary cash contributions to these plans in 2011.

Contingent Commitments

TWC has cable franchise agreements containing provisions requiring the construction of cable plant and the provision of services to customers within the franchise areas. In connection with these obligations under existing franchise agreements, TWC obtains surety bonds or letters of credit guaranteeing performance to municipalities and public utilities and payment of insurance premiums. Such surety bonds and letters of credit as of December 31, 2010 and 2009 totaled $322 million and $313 million, respectively. Payments under these arrangements are required only in the

TIME WARNER CABLE INC.
MANAGEMENT S DISCUSSION AND ANALYSIS OF RESULTS
OF OPERATIONS AND FINANCIAL CONDITION (Continued)

event of nonperformance. TWC does not expect that these contingent commitments will result in any amounts being paid in the foreseeable future.

MARKET RISK MANAGEMENT

Market risk is the potential gain/loss arising from changes in market rates and prices, such as interest rates.

Interest Rate Risk

Fixed-rate Debt and TW NY Cable Preferred Membership Units

As of December 31, 2010, TWC had fixed-rate debt and TW NY Cable Preferred Membership Units with an outstanding balance of $23.242 billion (excluding the estimated fair value of the interest rate derivative transactions discussed below) and an estimated fair value of $26.236 billion. Based on TWC s fixed-rate debt obligations outstanding at December 31, 2010, a 25 basis point increase or decrease in the level of interest rates would, respectively, decrease or increase the fair value of the fixed-rate debt by approximately $471 million. Such potential increases or decreases are based on certain simplifying assumptions, including a constant level of fixed-rate debt and an immediate, across-the-board increase or decrease in the level of interest rates with no other subsequent changes for the remainder of the period.

Variable-rate Debt

As of December 31, 2010, TWC had no outstanding variable-rate debt.

Interest Rate Derivative Transactions

The Company is exposed to the market risk of adverse changes in interest rates. To manage the volatility relating to these exposures, the Company s policy is to maintain a mix of fixed-rate and variable-rate debt by entering into various interest rate derivative transactions as described below to help achieve that mix. Using interest rate swaps, the Company agrees to exchange, at specified intervals, the difference between fixed and variable interest amounts calculated by reference to an agreed-upon notional principal amount.

The following table summarizes the terms of the Company s existing fixed to variable interest rate swaps as of December 31, 2010:

Maturities		2012-2017
Notional amount (in millions)	$	6,250
Average pay rate (variable based on LIBOR plus variable margins)		4.33%
Average receive rate (fixed)		6.47%
Estimated fair value of asset, net (in millions)	$	176

The notional amounts of interest rate instruments, as presented in the above table, are used to measure interest to be paid or received and do not represent the amount of exposure to credit loss. Interest rate swaps represent an integral part of the Company s interest rate risk management program and resulted in a decrease in interest expense, net, of

$117 million in 2010.

Equity Risk

TWC is also exposed to market risk as it relates to changes in the market value of its investments. TWC invests in equity instruments of companies for operational and strategic business purposes. These investments are subject to significant fluctuations in fair market value. As of December 31, 2010, TWC had $866 million of investments, which included $692 million related to SpectrumCo and $94 million related to Clearwire Communications LLC. See Critical

62

Table of Contents

TIME WARNER CABLE INC.
MANAGEMENT S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION (Continued)

Accounting Policies and Estimates Asset Impairments Investments for additional information about Clearwire Communications LLC.

Prior to 2007, some of TWC s employees were granted options to purchase shares of Time Warner common stock in connection with their past employment with subsidiaries and affiliates of Time Warner, including TWC. Upon the exercise of Time Warner stock options held by TWC employees, TWC is obligated to reimburse Time Warner for the excess of the market price of Time Warner common stock on the day of exercise over the option exercise price (the intrinsic value of the award). Prior to the Separation, TWC recorded an equity award reimbursement obligation for the intrinsic value of vested and outstanding Time Warner stock options held by TWC employees. This liability was adjusted each reporting period to reflect changes in the market price of Time Warner common stock and the number of Time Warner stock options held by TWC employees with an offsetting adjustment to TWC shareholders equity. Beginning on March 12, 2009, the date of the Separation, TWC began accounting for the equity award reimbursement obligation as a derivative financial instrument because, as of such date, Time Warner was no longer a controlling shareholder of the Company. The Company records the equity award reimbursement obligation at fair value in the consolidated balance sheet, which is estimated using the Black-Scholes model, and, on March 12, 2009, TWC established a liability of $16 million for the fair value of the equity award reimbursement obligation in other liabilities with an offsetting adjustment to TWC shareholders equity. The change in the equity award reimbursement obligation fluctuates primarily with the fair value and expected volatility of Time Warner common stock and changes in fair value are recorded in earnings in the period of change. For the year ended December 31, 2010, TWC recognized a gain of $5 million in other expense, net, in the accompanying consolidated statement of operations for the change in the fair value of the equity award reimbursement obligation after the Separation.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The Company s consolidated financial statements are prepared in accordance with GAAP, which requires management to make estimates, judgments and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Management considers an accounting policy and estimate to be critical if it requires the use of assumptions that were uncertain at the time the estimate was made and if changes in the estimate or selection of a different estimate could have a material effect on the Company s consolidated results of operations or financial condition. The development and selection of the following critical accounting policies and estimates have been determined by the management of TWC and the related disclosures have been reviewed with the Audit Committee of the Board of Directors of TWC. Due to the significant judgment involved in selecting certain of the assumptions used in these areas, it is possible that different parties could choose different assumptions and reach different conclusions. For a summary of all of the Company s significant accounting policies, see Note 3 to the accompanying consolidated financial statements.

Asset Impairments

Indefinite-lived Intangible Assets and Goodwill

During the first quarter of 2010, the Company changed its annual impairment testing date to July 1 to coincide more closely with the Company s annual preparation of long range projections (LRPs), which are a significant component used in the impairment analysis. Prior to the Separation, the Company s LRPs were prepared during the fourth quarter of each year, consistent with Time Warner s other business units. After the Separation, the Company began preparing its LRPs in the middle of each year. Accordingly, the Company believes the change in the annual impairment testing date to be preferable in its circumstances. This change was applied on a prospective basis. The Company does not believe this change would have delayed, accelerated or avoided an impairment charge had the change been applied in prior periods.

Intangible assets not subject to amortization (i.e., cable franchise rights) are tested for impairment annually or upon the occurrence of a triggering event. The impairment test for intangible assets not subject to amortization involves a comparison of the estimated fair value of the intangible asset with its carrying value. If the carrying value of the intangible

**TIME WARNER CABLE INC.
MANAGEMENT S DISCUSSION AND ANALYSIS OF RESULTS
OF OPERATIONS AND FINANCIAL CONDITION (Continued)**

asset exceeds its fair value, an impairment charge is recognized in an amount equal to that excess. The estimates of fair value of intangible assets not subject to amortization are determined using a discounted cash flow (DCF) analysis. The DCF methodology used to value cable franchise rights entails identifying the projected discrete cash flows related to such cable franchise rights and discounting them back to the valuation date. Significant judgments inherent in this analysis include the selection of appropriate discount rates, estimating the amount and timing of future cash flows attributable to cable franchise rights and identification of appropriate terminal growth rate assumptions. The discount rates used in the DCF analyses are intended to reflect the risk inherent in the projected future cash flows generated by the respective intangible assets.

Goodwill is tested for impairment annually or upon the occurrence of a triggering event. Goodwill impairment is determined using a two-step process. The first step involves a comparison of the estimated fair value of each of the Company s six geographic reporting units to its carrying amount, including goodwill. In performing the first step, the Company determines the fair value of a reporting unit using a DCF analysis that is corroborated by a market-based approach. Determining fair value requires the exercise of significant judgment, including judgment about appropriate discount rates, perpetual growth rates and the amount and timing of expected future cash flows. The cash flows employed in the DCF analyses are based on the Company s most recent budget and LRPs and, for years beyond the LRPs, the Company s estimates, which are based on assumed growth rates. The discount rates used in the DCF analyses are intended to reflect the risks inherent in the future cash flows of the respective reporting units. If the estimated fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is not impaired and the second step of the impairment test is not necessary. If the carrying amount of a reporting unit exceeds its estimated fair value, then the second step of the goodwill impairment test must be performed. The second step of the goodwill impairment test compares the implied fair value of the reporting unit s goodwill with its goodwill carrying amount to measure the amount of impairment, if any. The implied fair value of goodwill is determined in the same manner as the amount of goodwill recognized in a business combination. In other words, the estimated fair value of the reporting unit is allocated to all of the assets and liabilities of that unit (including any unrecognized intangible assets) as if the reporting unit had been acquired in a business combination and the fair value of the reporting unit was the purchase price paid. If the carrying amount of the reporting unit s goodwill exceeds the implied fair value of that goodwill, an impairment charge is recognized in an amount equal to that excess.

As discussed further in Note 8 to the accompanying consolidated financial statements, the Company determined that cable franchise rights and goodwill were not impaired during its annual impairment analysis performed as of July 1, 2010. To illustrate the extent that the fair value of the cable franchise rights exceeded their carrying value as of July 1, 2010, had the fair values of each of the cable franchise rights been lower by 20%, the Company still would not have recorded an impairment charge. Similarly, a decline in the fair values of the reporting units by up to 30% would not have resulted in any goodwill impairment charges.

Investments

TWC s investments are primarily accounted for using the equity method of accounting. A subjective aspect of accounting for investments involves determining whether an other-than-temporary decline in value of the investment has been sustained. If it has been determined that an investment has sustained an other-than-temporary decline in its value, the investment is written down to its fair value by a charge to earnings. This evaluation is dependent on the specific facts and circumstances. TWC evaluates available information (e.g., budgets, business plans, financial statements, etc.) in addition to quoted market prices, if any, in determining whether an other-than-temporary decline in value exists. Factors indicative of an other-than-temporary decline include recurring operating losses, credit defaults and subsequent rounds of financing at an amount below the cost basis of the Company s investment. This list is not all-inclusive and the Company weighs all known quantitative and qualitative factors in determining if an other-than-temporary decline in the value of an investment has occurred. In 2010, there were no significant investment impairment charges.

TWC holds a 4.7% equity interest in Clearwire Communications LLC, the operating subsidiary of Clearwire Corporation (Clearwire). In its Quarterly Report on Form 10-Q for the quarter ended September 30, 2010, Clearwire

TIME WARNER CABLE INC.
MANAGEMENT S DISCUSSION AND ANALYSIS OF RESULTS
OF OPERATIONS AND FINANCIAL CONDITION (Continued)

disclosed that it may not be able to continue to operate as a going concern. Subsequently, in December 2010, Clearwire raised $1.404 billion in a private placement of debt securities. There can be no assurance that Clearwire will be able to obtain sufficient financing in the future to continue its business, and it is possible that the Company may record an impairment charge on its investment in Clearwire Communications LLC in the future.

Long-lived Assets

Long-lived assets (e.g., property, plant and equipment and intangible assets subject to amortization) do not require that an annual impairment test be performed; instead, long-lived assets are tested for impairment upon the occurrence of a triggering event. Triggering events include the more likely than not disposal of a portion of such assets or the occurrence of an adverse change in the market involving the business employing the related assets. Once a triggering event has occurred, the impairment test is based on whether the intent is to hold the asset for continued use or to hold the asset for sale. If the intent is to hold the asset for continued use, the impairment test first requires a comparison of estimated undiscounted future cash flows generated by the asset group against the carrying value of the asset group. If the carrying value of the asset group exceeds the estimated undiscounted future cash flows, the asset would be deemed to be impaired. The impairment charge would then be measured as the difference between the estimated fair value of the asset and its carrying value. Fair value is generally determined by discounting the future cash flows associated with that asset. If the intent is to hold the asset for sale and certain other criteria are met (e.g., the asset can be disposed of currently, appropriate levels of authority have approved the sale, and there is an active program to locate a buyer), the impairment test involves comparing the asset s carrying value to its estimated fair value. To the extent the carrying value is greater than the asset s estimated fair value, an impairment charge is recognized for the difference. Significant judgments in this area involve determining whether a triggering event has occurred, determining the future cash flows for the assets involved and selecting the appropriate discount rate to be applied in determining estimated fair value. In 2010, there were no significant long-lived asset impairment charges.

Income Taxes

From time to time, the Company engages in transactions in which the tax consequences may be subject to uncertainty. Examples of such transactions include business acquisitions and dispositions, including dispositions designed to be tax free, issues related to consideration paid or received, and certain financing transactions. Significant judgment is required in assessing and estimating the tax consequences of these transactions. The Company prepares and files tax returns based on interpretation of tax laws and regulations. In the normal course of business, the Company s tax returns are subject to examination by various taxing authorities. Such examinations may result in future tax and interest assessments by these taxing authorities. In determining the Company s tax provision for financial reporting purposes, the Company establishes a reserve for uncertain income tax positions unless such positions are determined to be more likely than not of being sustained upon examination, based on their technical merits. That is, for financial reporting purposes, the Company only recognizes tax benefits taken on the tax return that it believes are more likely than not of being sustained. There is considerable judgment involved in determining whether positions taken on the tax return are more likely than not of being sustained.

The Company adjusts its tax reserve estimates periodically because of ongoing examinations by, and settlements with, the various taxing authorities, as well as changes in tax laws, regulations and interpretations. The consolidated tax provision of any given year includes adjustments to prior year income tax accruals that are considered appropriate and any related estimated interest. The Company s policy is to recognize, when applicable, interest and penalties on uncertain income tax positions as part of income tax expense. Refer to Note 17 to the accompanying consolidated financial statements for further details.

Legal Contingencies

The Company is subject to legal, regulatory and other proceedings and claims that arise in the ordinary course of business. The Company records an estimated liability for those proceedings and claims arising in the ordinary course of

**TIME WARNER CABLE INC.
MANAGEMENT S DISCUSSION AND ANALYSIS OF RESULTS
OF OPERATIONS AND FINANCIAL CONDITION (Continued)**

business when the loss from such proceedings and claims becomes probable and reasonably estimable. The Company reviews outstanding claims with internal and external counsel to assess the probability and the estimates of loss. The Company reassesses the risk of loss as new information becomes available and adjusts liabilities as appropriate. The actual cost of resolving a claim may be substantially different from the amount of the liability recorded. Differences between the estimated and actual amounts determined upon ultimate resolution, individually or in the aggregate, are not expected to have a material adverse effect on the Company s consolidated financial position but could possibly be material to the Company s consolidated results of operations or cash flow for any one period.

Pension Plans

TWC sponsors qualified noncontributory defined benefit pension plans covering a majority of its employees. TWC also provides a nonqualified noncontributory defined benefit pension plan for certain employees. Pension benefits are based on formulas that reflect the employees years of service and compensation during their employment period. The Company recognized pension expense associated with these plans of $117 million, $162 million and $91 million in 2010, 2009 and 2008, respectively. The Company expects pension expense to be approximately $120 million in 2011. The pension expense recognized by the Company is determined using certain assumptions, including the expected long-term rate of return on plan assets, the interest factor implied by the discount rate and the expected rate of compensation increases. TWC uses a December 31 measurement date for its pension plans. See Notes 3 and 15 to the accompanying consolidated financial statements for additional discussion. The determination of these assumptions is discussed in more detail below.

The Company used a discount rate of 6.16% to compute 2010 pension expense, which was determined by the matching of plan liability cash flows to a pension yield curve constructed of a large population of high-quality corporate bonds. A decrease in the discount rate of 25 basis points, from 6.16% to 5.91% while holding all other assumptions constant, would have resulted in an increase in the Company s pension expense of approximately $15 million in 2010.

The Company s expected long-term rate of return on plan assets used to compute 2010 pension expense was 8.00%. In developing the expected long-term rate of return on assets, the Company considered the pension portfolio s composition, past average rate of earnings, discussions with portfolio managers and the Company s asset allocation targets. A decrease in the expected long-term rate of return of 25 basis points, from 8.00% to 7.75%, while holding all other assumptions constant, would have resulted in an increase in the Company s pension expense of approximately $3 million in 2010.

The Company used an estimated rate of future compensation increases of 4.25% to compute 2010 pension expense. An increase in the rate of 25 basis points, from 4.25% to 4.50%, while holding all other assumptions constant, would have resulted in an increase in the Company s pension expense of approximately $4 million in 2010.

Programming Agreements

The Company exercises significant judgment in estimating programming expense associated with certain video programming contracts. The Company s policy is to record video programming costs based on the Company s contractual agreements with its programming vendors, which are generally multi-year agreements that provide for the Company to make payments to the programming vendors at agreed upon market rates based on the number of subscribers to which the Company provides the programming service. If a programming contract expires prior to the parties entry into a new agreement and the Company continues to distribute the service, management estimates the programming costs during the period there is no contract in place. In doing so, management considers the previous contractual rates, inflation and the status of the negotiations in determining its estimates. When the programming contract terms are finalized, an adjustment to programming expense is recorded, if necessary, to reflect the terms of the new contract. Management also makes estimates in the recognition of programming expense related to other items, such as the accounting for free periods and credits from service interruptions, as well as the allocation of consideration exchanged between the parties in multiple-element transactions. Additionally, judgments are also required by management when the Company purchases multiple services from the same programming vendor. In these scenarios, the total consideration provided to the programming vendor is allocated to the various services received based upon their respective fair values. Because multiple services from the same

TIME WARNER CABLE INC.
MANAGEMENT S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION (Continued)

programming vendor may be received over different contractual periods and may have different contractual rates, the allocation of consideration to the individual services will have an impact on the timing of the Company s expense recognition.

Significant judgment is also involved when the Company enters into agreements that result in the Company receiving cash consideration from the programming vendor, usually in the form of advertising sales, channel positioning fees, launch support or marketing support. In these situations, management must determine based upon facts and circumstances if such cash consideration should be recorded as revenue, a reduction in programming expense or a reduction in another expense category (e.g., marketing).

Property, Plant and Equipment

TWC incurs expenditures associated with the construction of its cable systems. Costs associated with the construction of transmission and distribution facilities are capitalized. TWC uses standard capitalization rates to capitalize installation activities. Significant judgment is involved in the development of these capitalization standards, including the average time required to perform an installation and the determination of the nature and amount of indirect costs to be capitalized. The capitalization standards are reviewed at least annually and adjusted, if necessary, based on comparisons to actual costs incurred.

CAUTION CONCERNING FORWARD-LOOKING STATEMENTS

This document contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, particularly statements anticipating future growth in revenues, OIBDA, cash provided by operating activities and other financial measures. Words such as anticipates, estimates, expects, projects, intends, plans, and words and terms of similar substance used in connection with any discussion of future operating or financial performance identify forward-looking statements. These forward-looking statements are included throughout this report and are based on management s current expectations and beliefs about future events. As with any projection or forecast, they are susceptible to uncertainty and changes in circumstances.

The Company operates in a highly competitive, consumer and technology driven and rapidly changing business that is affected by government regulation and economic, strategic, political and social conditions. Various factors could adversely affect the operations, business or financial results of TWC in the future and cause TWC s actual results to differ materially from those contained in the forward-looking statements, including those factors discussed in detail in Item 1A, Risk Factors, in Part I of this report, as well as:

- increased competition from video, high-speed data and voice providers, particularly direct broadcast satellite operators, incumbent local telephone companies, companies that deliver programming over broadband Internet connections, and wireless broadband and phone providers;
- the Company s ability to deal effectively with the current challenging economic environment or further deterioration in the economy, which may negatively impact customers demand for the Company s services and also result in a reduction in the Company s advertising revenues;
- the Company s continued ability to exploit new and existing technologies that appeal to residential and commercial customers;
- changes in the regulatory and tax environments in which the Company operates, including, among others, regulation of broadband Internet services, net neutrality legislation or regulation and federal, state and local

- taxation;
- increased difficulty negotiating programming and retransmission agreements on favorable terms, resulting in increased costs to the Company and/or the loss of popular programming; and
- changes in the Company s plans, initiatives and strategies.

Any forward-looking statements made by the Company in this document speak only as of the date on which they are made. The Company is under no obligation to, and expressly disclaims any obligation to, update or alter its forward looking statements whether as a result of changes in circumstances, new information, subsequent events or otherwise.

Table of Contents

TIME WARNER CABLE INC.
CONSOLIDATED BALANCE SHEET

	December 31, 2010	December 31, 2009
	(in millions)	
ASSETS		
Current assets:		
Cash and equivalents	$ 3,047	$ 1,048
Receivables, less allowances of $74 million as of December 31, 2010 and 2009	718	663
Deferred income tax assets	150	139
Other current assets	425	252
Total current assets	4,340	2,102
Investments	866	975
Property, plant and equipment, net	13,873	13,919
Intangible assets subject to amortization, net	132	274
Intangible assets not subject to amortization	24,091	24,092
Goodwill	2,091	2,111
Other assets	429	221
Total assets	$ 45,822	$ 43,694
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	$ 529	$ 478
Deferred revenue and subscriber-related liabilities	163	170
Accrued programming expense	765	738
Other current liabilities	1,629	1,572
Total current liabilities	3,086	2,958
Long-term debt	23,121	22,331
Mandatorily redeemable preferred equity issued by a subsidiary	300	300
Deferred income tax liabilities, net	9,637	8,957
Other liabilities	461	459
Commitments and contingencies (Note 19)		
TWC shareholders equity:		
Common stock, $0.01 par value, 348.3 million and 352.5 million shares issued and outstanding as of December 31, 2010 and 2009, respectively	3	4
Additional paid-in capital	9,444	9,813
Retained earnings (accumulated deficit)	54	(813)
Accumulated other comprehensive loss, net	(291)	(319)
Total TWC shareholders equity	9,210	8,685
Noncontrolling interests	7	4

Total equity		9,217		8,689
Total liabilities and equity	$	45,822	$	43,694

See accompanying notes.

Table of Contents

TIME WARNER CABLE INC.
CONSOLIDATED STATEMENT OF OPERATIONS

	Year Ended December 31, 2010	2009	2008
	(in millions, except per share data)		
Revenues:			
Subscription:			
Video	$ 10,995	$ 10,760	$ 10,524
High-speed data	4,960	4,520	4,159
Voice	2,032	1,886	1,619
Total Subscription	17,987	17,166	16,302
Advertising	881	702	898
Total revenues	18,868	17,868	17,200
Costs and expenses:			
Costs of revenues[a]	8,941	8,555	8,145
Selling, general and administrative[a]	3,057	2,830	2,854
Depreciation	2,961	2,836	2,826
Amortization	168	249	262
Restructuring costs	52	81	15
Impairment of cable franchise rights			14,822
Loss on sale of cable systems			58
Total costs and expenses	15,179	14,551	28,982
Operating Income (Loss)	3,689	3,317	(11,782)
Interest expense, net	(1,394)	(1,319)	(923)
Other expense, net	(99)	(86)	(367)
Income (loss) before income taxes	2,196	1,912	(13,072)
Income tax benefit (provision)	(883)	(820)	5,109
Net income (loss)	1,313	1,092	(7,963)
Less: Net (income) loss attributable to noncontrolling interests	(5)	(22)	619
Net income (loss) attributable to TWC shareholders	$ 1,308	$ 1,070	$ (7,344)
Net income (loss) per common share attributable to TWC common shareholders:			
Basic	$ 3.67	$ 3.07	$ (22.55)
Diluted	$ 3.64	$ 3.05	$ (22.55)
Average common shares outstanding:			
Basic	354.2	349.0	325.7

Diluted		359.5		350.9		325.7
Cash dividends declared per share	$	1.60	$		$	
Special cash dividend declared and paid per share	$		$	30.81	$	

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

See accompanying notes.

Table of Contents

TIME WARNER CABLE INC.
CONSOLIDATED STATEMENT OF CASH FLOWS

	Year Ended December 31,		
	2010	2009	2008
		(in millions)	
OPERATING ACTIVITIES			
Net income (loss)	$ 1,313	$ 1,092	$ (7,963)
Adjustments for noncash and nonoperating items:			
Depreciation	2,961	2,836	2,826
Amortization	168	249	262
Impairment of cable franchise rights			14,822
Pretax (gain) loss on asset sales		(12)	49
Loss from equity investments, net of cash distributions	132	64	378
Deferred income taxes	687	676	(4,960)
Equity-based compensation	109	97	78
Changes in operating assets and liabilities, net of acquisitions and dispositions:			
Receivables	(50)	2	20
Accounts payable and other liabilities	(177)	161	48
Other changes	75	14	(260)
Cash provided by operating activities	5,218	5,179	5,300
INVESTING ACTIVITIES			
Acquisitions and investments, net of cash acquired and distributions received	48	(88)	(685)
Capital expenditures	(2,930)	(3,231)	(3,522)
Other investing activities	10	12	67
Cash used by investing activities	(2,872)	(3,307)	(4,140)
FINANCING ACTIVITIES			
Borrowings (repayments), net[(a)]	(1,261)	1,261	(206)
Borrowings[(b)]	1,872	12,037	7,182
Repayments[(b)]	(8)	(8,677)	(2,817)
Debt issuance costs	(25)	(34)	(97)
Proceeds from exercise of stock options	113	4	
Dividends paid	(576)		
Repurchases of common stock	(472)		
Payment of special cash dividend		(10,856)	
Other financing activities	10	(8)	(5)
Cash provided (used) by financing activities	(347)	(6,273)	4,057
Increase (decrease) in cash and equivalents	1,999	(4,401)	5,217
Cash and equivalents at beginning of period	1,048	5,449	232

Cash and equivalents at end of period	$	3,047	$	1,048	$	5,449

(a) Borrowings (repayments), net, reflects borrowings under the Company s commercial paper program with original maturities of three months or less, net of repayments of such borrowings.

(b) Amounts represent borrowings and repayments related to debt instruments with original maturities greater than three months.

See accompanying notes.

Table of Contents

TIME WARNER CABLE INC.
CONSOLIDATED STATEMENT OF EQUITY

	Common Stock	Additional Paid-in Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interests	Total Equity
			(in millions)			
Balance as of December 31, 2007	$ 3	$ 19,418	$ 5,459	$ (174)	$ 1,724	$ 26,430
Net loss			(7,344)		(619)	(7,963)
Other comprehensive loss				(293)		(293)
Comprehensive loss			(7,344)	(293)	(619)	(8,256)
Equity-based compensation		73			5	78
Impact of adopting new accounting pronouncements[a]			(1)			(1)
Other changes[b]		23				23
Balance as of December 31, 2008	3	19,514	(1,886)	(467)	1,110	18,274
Net income			1,070		22	1,092
Other comprehensive income				148		148
Comprehensive income			1,070	148	22	1,240
Equity-based compensation		95			2	97
Redemption of Historic TW s interest in TW NY	1	1,127			(1,128)	
Special cash dividend ($30.81 per common share)		(10,856)				(10,856)
Retained distribution related to unvested restricted stock units		(46)				(46)
Other changes[b]		(21)	3		(2)	(20)
Balance as of December 31, 2009	4	9,813	(813)	(319)	4	8,689
Net income			1,308		5	1,313
Other comprehensive income				28		28
Comprehensive income			1,308	28	5	1,341
Equity-based compensation		109				109
Repurchase and retirement of common stock	(1)	(217)	(297)			(515)
		122				122

Shares issued upon the exercise of TWC stock options						
Cash dividends declared ($1.60 per common share)		(432)	(144)			(576)
Other changes[c]		49			(2)	47
Balance as of December 31, 2010	$ 3	$ 9,444	$ 54	$ (291)	$ 7	$ 9,217

[a] Amount reflects the impact of adopting authoritative guidance issued by the Financial Accounting Standards Board relating to the accounting for collateral assignment split-dollar life insurance arrangements.

[b] Amounts primarily represent allocations related to Time Warner Inc. equity-based compensation activity prior to TWC s separation from Time Warner Inc.

[c] Amount primarily represents the true-up of TWC s deferred tax assets associated with vested Time Warner Inc. stock options.

See accompanying notes.

Table of Contents

TIME WARNER CABLE INC.
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year Ended December 31, 2010	2009 (in millions)	2008
Net income (loss)	$ 1,313	$ 1,092	$ (7,963)
Change in pension benefit obligation, net of income tax (benefit) provision of $25 million in 2010, $95 million in 2009 and $(192) million in 2008	24	146	(290)
Change in gains (losses) on derivative financial instruments, net of income tax (benefit) provision of $2 million in 2010, $2 million in 2009 and $(2) million in 2008	4	2	(3)
Comprehensive income (loss)	1,341	1,240	(8,256)
Less: Net (income) loss attributable to noncontrolling interests	(5)	(22)	619
Comprehensive income (loss) attributable to TWC shareholders	$ 1,336	$ 1,218	$ (7,637)

See accompanying notes.

TIME WARNER CABLE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

Description of Business

Time Warner Cable Inc. (together with its subsidiaries, TWC or the Company) is the second-largest cable operator in the U.S., with technologically advanced, well-clustered systems located mainly in five geographic areas New York State (including New York City), the Carolinas, Ohio, Southern California (including Los Angeles) and Texas. TWC offers video, high-speed data and voice services over its broadband cable systems to residential and commercial customers. TWC markets its services separately and in bundled packages of multiple services and features. TWC also sells advertising to a variety of national, regional and local advertising customers.

Basis of Presentation

Separation from Time Warner

As discussed more fully in Note 5, on March 12, 2009, TWC completed its separation from Time Warner Inc. (Time Warner), which, prior to the Separation (as defined in Note 5), owned approximately 84% of the common stock of TWC (representing a 90.6% voting interest) and a 12.43% non-voting common stock interest in TW NY Cable Holding Inc. (TW NY), a subsidiary of TWC. As a result of the Separation, Time Warner no longer has an ownership interest in TWC or TW NY.

Basis of Consolidation

The consolidated financial statements include all of the assets, liabilities, revenues, expenses and cash flows of TWC and all entities in which TWC has a controlling voting interest. In accordance with authoritative guidance issued by the Financial Accounting Standards Board (FASB) related to the consolidation of variable interest entities, the consolidated financial statements include the results of the Time Warner Entertainment-Advance/Newhouse Partnership (TWE-A/N) only for the TWE-A/N cable systems that are controlled by TWC and for which TWC holds an economic interest. Intercompany accounts and transactions between consolidated companies have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and footnotes thereto. Actual results could differ from those estimates.

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

Reclassifications

Certain reclassifications have been made to the prior years financial information to conform to the current year presentation.

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

2. RECENT ACCOUNTING STANDARDS

Accounting Standards Adopted in 2010

Consolidation of Variable Interest Entities

In June 2009, the Financial Accounting Standards Board (FASB) issued authoritative guidance that requires an enterprise to perform an analysis to determine whether the enterprise s variable interest or interests give it a controlling financial interest in a variable interest entity. This analysis identifies the primary beneficiary of a variable interest entity as the enterprise that has both of the following characteristics, among others: (a) the power to direct the activities of a variable interest entity that most significantly impact the entity s economic performance and (b) the obligation to absorb losses of the entity, or the right to receive benefits from the entity, that could potentially be significant to the variable interest entity. Under this guidance, ongoing reassessments of whether an enterprise is the primary beneficiary of a variable interest entity are required. This guidance became effective for TWC on January 1, 2010 and did not have an impact on the Company s consolidated financial statements.

Fair Value Measurements and Disclosures

In January 2010, the FASB issued authoritative guidance that expands the required disclosures about fair value measurements. This guidance provides for new disclosures requiring the Company to (i) disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reasons for the transfers and (ii) present separately information about purchases, sales, issuances and settlements in the reconciliation of Level 3 fair value measurements. This guidance also provides clarification of existing disclosures requiring the Company to (i) determine each class of assets and liabilities based on the nature and risks of the investments rather than by major security type and (ii) for each class of assets and liabilities, disclose the valuation techniques and inputs used to measure fair value for both Level 2 and Level 3 fair value measurements. This guidance became effective for TWC on January 1, 2010, except for the presentation of purchases, sales, issuances and settlements in the reconciliation of Level 3 fair value measurements, which is effective for TWC on January 1, 2011, and did not have a material impact on the Company s consolidated financial statements. The guidance pertaining to the presentation of purchases, sales, issuances and settlements in the reconciliation of Level 3 fair value measurements is not expected to have a material impact on the Company s consolidated financial statements.

Accounting Standards Not Yet Adopted

Accounting for Revenue Arrangements with Multiple Deliverables

In September 2009, the FASB issued authoritative guidance that provides for a new methodology for establishing the fair value for a deliverable in a multiple-element arrangement. When vendor specific objective or third-party evidence for deliverables in a multiple-element arrangement cannot be determined, an enterprise is required to develop a best estimate of the selling price of separate deliverables and to allocate the arrangement consideration using the relative selling price method. This guidance will be effective for TWC on January 1, 2011 and is not expected to have a material impact on the Company s consolidated financial statements.

Accounting for Revenue Arrangements with Software Elements

In September 2009, the FASB issued authoritative guidance that provides for a new methodology for recognizing revenue for tangible products that are bundled with software products. Under the new guidance, tangible products that are bundled with software components that are essential to the functionality of the tangible product will no longer be accounted for under the software revenue recognition accounting guidance. Rather, such products will be accounted for under the new authoritative guidance surrounding multiple-element arrangements described above. This guidance will be effective for TWC on January 1, 2011 and is not expected to have a material impact on the Company s consolidated financial statements.

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

Business Combinations and Disclosures

In December 2010, the FASB issued authoritative guidance that updates existing disclosure requirements related to supplementary pro forma information for business combinations. Under the updated guidance, a public entity that presents comparative financial statements should disclose revenue and earnings of the combined entity as though the business combination that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. The guidance also expands the supplemental pro forma disclosures to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. This guidance will be effective for TWC on January 1, 2011 and will be applied prospectively to business combinations that have an acquisition date on or after January 1, 2011.

Impairment Testing for Goodwill and Other Intangible Assets

In December 2010, the FASB issued authoritative guidance that provides additional guidance on when to perform the second step of the goodwill impairment test for reporting units with zero or negative carrying amounts. Under this guidance, an entity is required to perform the second step of the goodwill impairment test for reporting units with zero or negative carrying amounts if qualitative factors indicate that it is more likely than not that a goodwill impairment exists. The qualitative factors are consistent with the existing guidance, which requires that goodwill of a reporting unit be tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. This guidance will be effective for TWC on January 1, 2011 and is not expected to have a material impact on the Company s consolidated financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash and Equivalents

Cash and equivalents include money market funds, overnight deposits and other investments that are readily convertible into cash and have original maturities of three months or less. Cash equivalents are carried at cost, which approximates fair value.

Accounts Receivable

Accounts receivable are recorded at net realizable value. The Company maintains an allowance for doubtful accounts, which is determined after considering past collection experience, aging of accounts receivable, general economic factors and other considerations.

Changes in the Company s allowance for doubtful accounts from January 1 through December 31 are presented below (in millions):

	2010	2009	2008
Balance at beginning of year	$ 74	$ 90	$ 87
Provision for bad debts[(a)]	237	244	262
Write-offs, net of recoveries	(237)	(260)	(259)

Balance at end of year	$	74	$	74	$	90

(a) Provision for bad debts primarily includes amounts charged to expense associated with the Company s allowance for doubtful accounts and excludes collection expenses and the benefit from late fees billed to subscribers.

Investments

Investments in companies in which TWC has significant influence, but less than a controlling interest, are accounted for using the equity method. Under the equity method of accounting, only TWC s investment in and amounts due to and from the equity investee are included in the consolidated balance sheet; only TWC s share of the investee s earnings

Table of Contents

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

(losses) is included in the consolidated statement of operations; and only the dividends, cash distributions, loans or other cash received from the investee, additional cash investments, loan repayments or other cash paid to the investee are included in the consolidated statement of cash flows. TWC s investments are primarily accounted for using the equity method of accounting.

Additionally, the carrying value of investments accounted for using the equity method of accounting is adjusted downward to reflect any other-than-temporary declines in value. A subjective aspect of accounting for investments involves determining whether an other-than-temporary decline in value of the investment has been sustained. If it has been determined that an investment has sustained an other-than-temporary decline in its value, the investment is written down to its fair value by a charge to earnings. This evaluation is dependent on the specific facts and circumstances. TWC evaluates available information (e.g., budgets, business plans, financial statements, etc.) in addition to quoted market prices, if any, in determining whether an other-than-temporary decline in value exists. Factors indicative of an other-than-temporary decline include recurring operating losses, credit defaults and subsequent rounds of financing at an amount below the cost basis of the Company s investment. This list is not all-inclusive and the Company weighs all known quantitative and qualitative factors in determining if an other-than-temporary decline in the value of an investment has occurred. Refer to Note 7 for further details related to the Company s investments.

Long-lived Assets

TWC s long-lived assets consist primarily of property, plant and equipment and finite-lived intangible assets (e.g., cable franchise renewals and access rights). Property, plant and equipment are stated at cost and depreciation on these assets is provided using the straight-line method over their estimated useful lives. Acquired customer relationships are capitalized and amortized over their estimated useful life and costs to negotiate and renew cable franchise rights are capitalized and amortized over the term of the new franchise agreement.

TWC incurs expenditures associated with the construction of its cable systems. Costs associated with the construction of transmission and distribution facilities are capitalized. With respect to customer premise equipment, which includes set-top boxes and high-speed data and telephone modems, TWC capitalizes installation costs only upon the initial deployment of these assets. All costs incurred in subsequent disconnects and reconnects of previously installed customer premise equipment are expensed as incurred. TWC uses standard capitalization rates to capitalize installation activities. Significant judgment is involved in the development of these capitalization standards, including the average time required to perform an installation and the determination of the nature and amount of indirect costs to be capitalized. The capitalization standards are reviewed at least annually and adjusted, if necessary, based on comparisons to actual costs incurred. TWC generally capitalizes expenditures for tangible fixed assets having a useful life of greater than one year.

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

As of December 31, 2010 and 2009, the Company s property, plant and equipment and related accumulated depreciation included the following (in millions):

	December 31, 2010	December 31, 2009	Estimated Useful Lives (in years)
	(in millions)		
Land, buildings and improvements[a]	$ 1,462	$ 1,384	10-20
Distribution systems[b]	17,515	16,060	3-25
Converters and modems	5,506	5,389	3-5
Capitalized software costs[c]	1,338	1,140	3-5
Vehicles and other equipment	1,977	1,851	3-10
Construction in progress	419	457	
Property, plant and equipment, gross	28,217	26,281	
Accumulated depreciation	(14,344)	(12,362)	
Property, plant and equipment, net	$ 13,873	$ 13,919	

(a) Land, buildings and improvements includes $152 million and $151 million related to land as of December 31, 2010 and 2009, respectively, which is not depreciated.
(b) The weighted-average useful lives for distribution systems are approximately 12 years.
(c) Capitalized software costs reflect certain costs incurred for the development of internal use software, including costs associated with coding, software configuration, upgrades and enhancements. These costs, net of accumulated depreciation, totaled $581 million and $514 million as of December 31, 2010 and 2009, respectively. Depreciation of capitalized software costs was $185 million in 2010, $174 million in 2009 and $157 million in 2008.

Long-lived assets do not require that an annual impairment test be performed; instead, long-lived assets are tested for impairment upon the occurrence of a triggering event. Triggering events include the more likely than not disposal of a portion of such assets or the occurrence of an adverse change in the market involving the business employing the related assets. Once a triggering event has occurred, the impairment test is based on whether the intent is to hold the asset for continued use or to hold the asset for sale. If the intent is to hold the asset for continued use, the impairment test first requires a comparison of estimated undiscounted future cash flows generated by the asset group against the carrying value of the asset group. If the carrying value of the asset group exceeds the estimated undiscounted future cash flows, the asset would be deemed to be impaired. The impairment charge would then be measured as the difference between the estimated fair value of the asset and its carrying value. Fair value is generally determined by discounting the future cash flows associated with that asset. If the intent is to hold the asset for sale and certain other criteria are met (e.g., the asset can be disposed of currently, appropriate levels of authority have approved the sale, and there is an active program to locate a buyer), the impairment test involves comparing the asset s carrying value to its estimated fair value. To the extent the carrying value is greater than the asset s estimated fair value, an impairment charge is recognized for the difference. Significant judgments in this area involve determining whether a triggering event has occurred, determining the future cash flows for the assets involved and selecting the appropriate discount rate to be applied in determining estimated fair value.

Indefinite-lived Intangible Assets and Goodwill

TWC s indefinite-lived intangible assets consist of cable franchise rights that are acquired in an acquisition of a business. Goodwill is recorded for the excess of the acquisition cost of an acquired entity over the estimated fair value of the identifiable net assets acquired. In accordance with GAAP, TWC does not amortize cable franchise rights or goodwill. Rather, such assets are tested for impairment annually or upon the occurrence of a triggering event.

During the first quarter of 2010, the Company changed its annual impairment testing date to July 1 to coincide more closely with the Company s annual preparation of long range projections (LRPs), which are a significant component used in the impairment analysis. Prior to the Separation (as defined in Note 5), the Company s LRPs were prepared during the fourth quarter of each year, consistent with Time Warner s other business units. After the Separation, the Company began preparing its LRPs in the middle of each year. Accordingly, the Company believes the change in the annual

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

impairment testing date to be preferable in its circumstances. This change was applied on a prospective basis. The Company does not believe this change would have delayed, accelerated or avoided an impairment charge had the change been applied in prior periods.

The impairment test for intangible assets not subject to amortization involves a comparison of the estimated fair value of the intangible asset with its carrying value. If the carrying value of the intangible asset exceeds its fair value, an impairment charge is recognized in an amount equal to that excess. The estimates of fair value of intangible assets not subject to amortization are determined using a discounted cash flow (DCF) analysis. The DCF methodology used to value cable franchise rights entails identifying the projected discrete cash flows related to such cable franchise rights and discounting them back to the valuation date. Significant judgments inherent in this analysis include the selection of appropriate discount rates, estimating the amount and timing of future cash flows attributable to cable franchise rights and identification of appropriate terminal growth rate assumptions. The discount rates used in the DCF analyses are intended to reflect the risk inherent in the projected future cash flows generated by the respective intangible assets. Refer to Note 8 for further details regarding the Company s indefinite-lived intangible assets and related impairment testing.

Goodwill impairment is determined using a two-step process. The first step involves a comparison of the estimated fair value of each of the Company s six geographic reporting units to its carrying amount, including goodwill. In performing the first step, the Company determines the fair value of a reporting unit using a DCF analysis that is corroborated by a market-based approach. Determining fair value requires the exercise of significant judgment, including judgment about appropriate discount rates, perpetual growth rates and the amount and timing of expected future cash flows. The cash flows employed in the DCF analyses are based on the Company s most recent budget and LRPs and, for years beyond the LRPs, the Company s estimates, which are based on assumed growth rates. The discount rates used in the DCF analyses are intended to reflect the risks inherent in the future cash flows of the respective reporting units. If the estimated fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is not impaired and the second step of the impairment test is not necessary. If the carrying amount of a reporting unit exceeds its estimated fair value, then the second step of the goodwill impairment test must be performed. The second step of the goodwill impairment test compares the implied fair value of the reporting unit s goodwill with its goodwill carrying amount to measure the amount of impairment, if any. The implied fair value of goodwill is determined in the same manner as the amount of goodwill recognized in a business combination. In other words, the estimated fair value of the reporting unit is allocated to all of the assets and liabilities of that unit (including any unrecognized intangible assets) as if the reporting unit had been acquired in a business combination and the fair value of the reporting unit was the purchase price paid. If the carrying amount of the reporting unit s goodwill exceeds the implied fair value of that goodwill, an impairment charge is recognized in an amount equal to that excess. Refer to Note 8 for further details regarding the Company s goodwill and related impairment testing.

Revenues and Costs

Revenues are principally derived from video, high-speed data and voice services and advertising. Subscriber fees are recorded as revenues in the period during which the service is provided. Subscription revenues received from subscribers who purchase bundled services at a discounted rate are allocated to each product in a pro-rata manner based on the individual product s determined fair value. Installation revenues obtained from subscriber service connections are recognized as a component of Subscription revenues when the connections are completed, as installation revenues recognized are less than the related direct selling costs. Advertising revenues are recognized in the period during which the advertisements are exhibited.

Video programming, high-speed data and voice costs are recorded as the services are provided. Video programming costs are recorded based on the Company s contractual agreements with its programming vendors. These contracts are generally multi-year agreements that provide for the Company to make payments to the programming vendors at agreed upon market rates based on the number of subscribers to which the Company provides the programming service. If a programming contract expires prior to the parties entry into a new agreement and the Company continues to distribute the service, management estimates the programming costs during the period there is no contract in place. In doing so, management considers the previous contractual rates, inflation and the status of the negotiations in determining its

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

estimates. When the programming contract terms are finalized, an adjustment to programming expense is recorded, if necessary, to reflect the terms of the new contract. Management also makes estimates in the recognition of programming expense related to other items, such as the accounting for free periods and credits from service interruptions, as well as the allocation of consideration exchanged between the parties in multiple-element transactions. Additionally, judgments are also required by management when the Company purchases multiple services from the same programming vendor. In these scenarios, the total consideration provided to the programming vendor is allocated to the various services received based upon their respective fair values. Because multiple services from the same programming vendor may be received over different contractual periods and may have different contractual rates, the allocation of consideration to the individual services will have an impact on the timing of the Company s expense recognition.

Launch fees received by the Company from programming vendors are recognized as a reduction of expense on a straight-line basis over the life of the related programming arrangement. Amounts received from programming vendors representing the reimbursement of marketing costs are recognized as a reduction of marketing expenses as the marketing services are provided.

Advertising costs are expensed upon the first exhibition of related advertisements. Marketing expense (including advertising), net of certain reimbursements from programmers, was $629 million in 2010, $563 million in 2009 and $569 million in 2008.

Multiple-element Transactions

Multiple-element transactions involve situations where judgment must be exercised in determining the fair value of the different elements in a bundled transaction. As the term is used here, multiple-element arrangements can involve:

- Contemporaneous purchases and sales (e.g., the Company sells advertising services to a customer and at the same time purchases programming services);

- Sales of multiple products and/or services (e.g., the Company sells video, high-speed data and voice services to a customer); and/or

- Purchases of multiple products and/or services, or the settlement of an outstanding item contemporaneous with the purchase of a product or service (e.g., the Company settles a dispute on an existing programming contract at the same time that it enters into a new programming contract with the same programming vendor).

Contemporaneous Purchases and Sales

In the normal course of business, TWC enters into multiple-element transactions where the Company is simultaneously both a customer and a vendor with the same counterparty. For example, when negotiating the terms of programming purchase contracts with cable networks, TWC may at the same time negotiate for the sale of advertising to the same cable network. Arrangements, although negotiated contemporaneously, may be documented in one or more contracts.

The Company s accounting policy for each transaction negotiated contemporaneously is to record each element of the transaction based on the respective estimated fair values of the products or services purchased and the products or services sold. The judgments made in determining fair value in such transactions impact the amount of revenues, expenses and net income recognized over the respective terms of the transactions, as well as the respective periods in which they are recognized.

In determining the fair value of the respective elements, TWC refers to quoted market prices (where available), historical transactions or comparable cash transactions. The most frequent transactions of this type that the Company encounters involve funds received from its vendors. The Company records cash consideration received from a vendor as a reduction in the price of the vendor s product unless (i) the consideration is for the reimbursement of a specific, incremental, identifiable cost incurred, in which case the Company would record the cash consideration received as a reduction in such cost or (ii) the Company is providing an identifiable benefit in exchange for the consideration, in which case the Company recognizes revenue for this element.

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

With respect to vendor advertising arrangements being negotiated simultaneously with the same cable network, TWC assesses whether each piece of the arrangements is at fair value. The factors that are considered in determining the individual fair value of the programming vary from arrangement to arrangement and include:

existence of a most-favored-nation clause or comparable assurances as to fair market value with respect to programming;

comparison to fees under a prior contract; and

comparison to fees paid for similar networks

In determining the fair value of the advertising arrangement, the Company considers advertising rates paid by other advertisers on the Company s systems with similar terms.

Sales of Multiple Products or Services

If the Company enters into sales contracts for the sale of multiple products or services, then the Company evaluates whether it has fair value evidence for each deliverable in the transaction. For example, the Company sells video, high-speed data and voice services to subscribers in a bundled package at a rate lower than if the subscriber purchases each product on an individual basis. Subscription revenues received from such subscribers are allocated to each product in a pro-rata manner based on the fair value of each of the respective services.

Purchases of Multiple Products or Services

The Company s policy for cost recognition in instances where multiple products or services are purchased contemporaneously from the same counterparty is consistent with the Company s policy for the sale of multiple deliverables to a customer. Specifically, if the Company enters into a contract for the purchase of multiple products or services, the Company evaluates whether it has fair value evidence for each product or service being purchased. If the Company has fair value evidence for each product or service being purchased, it accounts for each separately, based on the relevant cost recognition accounting policies.

Gross Versus Net Revenue Recognition

In the normal course of business, the Company acts as or uses an intermediary or agent in executing transactions with third parties. The accounting issue presented by these arrangements is whether the Company should report revenue based on the gross amount billed to the ultimate customer or on the net amount received from the customer after commissions and other payments to third parties. To the extent revenues are recorded on a gross basis, any commissions or other payments to third parties are recorded as expense so that the net amount (gross revenues less expense) is reflected in Operating Income (Loss). Accordingly, the impact on Operating Income (Loss) is the same whether the Company records revenue on a gross or net basis.

For example, TWC is assessed franchise fees by franchising authorities, which are passed on to the customer. The accounting issue presented by these arrangements is whether TWC should report revenues based on the gross amount billed to the ultimate customer or on the net amount received from the customer after payments to franchising authorities. The Company has determined that these amounts should be reported on a gross basis. TWC s policy is that, in instances where the fees are being assessed directly to the Company, amounts paid to the governmental authorities and amounts received from the customers are recorded on a gross basis. That is, amounts paid to the governmental authorities are recorded as costs of revenues and amounts received from the customer are recorded as Subscription revenues. The amount of such fees recorded on a gross basis related to video and voice services was $585 million in 2010, $544 million in 2009 and $524 million in 2008.

Derivative Financial Instruments

The Company recognizes all derivative financial instruments in the consolidated balance sheet as either assets or liabilities at fair value. Derivative financial instruments are specifically designated, if certain conditions are met, as (a) a

Table of Contents

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

hedge of the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment (a fair value hedge) or (b) a hedge of the exposure to variable cash flows of a forecasted transaction or a hedge of the foreign currency exposure of a forecasted transaction denominated in a foreign currency (a cash flow hedge). For a derivative financial instrument designated as a fair value hedge, the gain or loss on the derivative financial instrument is recognized in earnings in the period of change together with the offsetting loss or gain on the hedged item attributable to the risk being hedged. As a result, the consolidated statement of operations includes the impact of changes in the fair value of both the derivative financial instrument and the hedged item, which reflects in earnings the extent to which the hedge is ineffective in achieving offsetting changes in fair value. For a derivative financial instrument designated as a cash flow hedge, the effective portion of the gain or loss on the derivative financial instrument is initially reported in equity as a component of accumulated other comprehensive income (loss), net, and subsequently reclassified into earnings when the hedged item (e.g., a forecasted transaction denominated in a foreign currency) affects earnings. The ineffective portion of the gain or loss is reported in earnings immediately. For a derivative financial instrument not designated as a hedging instrument, the gain or loss is recognized in earnings in the period of change. The Company uses derivative financial instruments primarily to manage the risks associated with fluctuations in interest rates and foreign currency exchange rates and does not hold or issue derivative financial instruments for speculative or trading purposes.

Fair Value Measurements

The fair value of an asset or liability is based on the assumptions that market participants would use in pricing the asset or liability. Valuation techniques consistent with the market approach, income approach and/or cost approach are used to measure fair value. The Company follows a three-tiered fair value hierarchy when determining the inputs to valuation techniques. The fair value hierarchy prioritizes the inputs to valuation techniques into three broad levels in order to maximize the use of observable inputs and minimize the use of unobservable inputs. The levels of the fair value hierarchy are as follows:

> Level 1: consists of financial instruments whose values are based on quoted market prices for identical financial instruments in an active market.
>
> Level 2: consists of financial instruments whose values are determined using models or other valuation methodologies that utilize inputs that are observable either directly or indirectly, including (i) quoted prices for similar assets or liabilities in active markets, (ii) quoted prices for identical or similar assets or liabilities in markets that are not active, (iii) pricing models whose inputs are observable for substantially the full term of the financial instrument and (iv) pricing models whose inputs are derived principally from or corroborated by observable market data through correlation or other means for substantially the full term of the financial instrument.
>
> Level 3: consists of financial instruments whose values are determined using pricing models that utilize significant inputs that are primarily unobservable, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

Accounting for Pension Plans

TWC sponsors qualified noncontributory defined benefit pension plans covering a majority of its employees. TWC also provides a nonqualified noncontributory defined benefit pension plan for certain employees. Pension benefits are based on formulas that reflect the employees years of service and compensation during their employment period. The pension expense recognized by the Company is determined using certain assumptions, including the expected long-term rate of return on plan assets, the interest factor implied by the discount rate and the expected rate of compensation increases.

Income Taxes

Prior to the Separation, TWC was not a separate taxable entity for U.S. federal and various state income tax purposes and its results were included in the consolidated U.S. federal and certain state income tax returns of Time Warner. The

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

income tax benefits and provisions, related tax payments, and current and deferred tax balances have been prepared as if TWC operated as a stand-alone taxpayer for all periods presented including periods through the date of the Separation. Under the tax sharing arrangement between TWC and Time Warner, TWC is obligated to make tax sharing payments to Time Warner in amounts equal to the taxes it would have paid if it were a separate taxpayer and Time Warner is obligated to make payments to TWC for TWC tax attributes used by Time Warner, but only as and when TWC as a standalone taxpayer would have been able to use such attributes itself. The Company received net cash tax refunds from Time Warner of $87 million in 2010 and $44 million in 2009 and made net cash tax payments to Time Warner of $9 million in 2008.

Income taxes are provided using the asset and liability method. Under this method, income taxes (i.e., deferred tax assets, deferred tax liabilities, taxes currently payable/refunds receivable and tax expense) are recorded based on amounts refundable or payable in the current year and include the results of any difference between GAAP and tax reporting. Deferred income taxes reflect the tax effect of net operating losses, capital losses, general business credit carryforwards and the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial statement and income tax purposes, based upon enacted tax laws and rates. Valuation allowances are established when management determines that it is more likely than not that some portion or the entire deferred tax asset will not be realized. The financial effect of changes in tax laws or rates is accounted for in the period of enactment.

From time to time, the Company engages in transactions in which the tax consequences may be subject to uncertainty. Examples of such transactions include business acquisitions and dispositions, including dispositions designed to be tax free, issues related to consideration paid or received, and certain financing transactions. Significant judgment is required in assessing and estimating the tax consequences of these transactions. The Company prepares and files tax returns based on interpretation of tax laws and regulations. In the normal course of business, the Company s tax returns are subject to examination by various taxing authorities. Such examinations may result in future tax and interest assessments by these taxing authorities. In determining the Company s tax provision for financial reporting purposes, the Company establishes a reserve for uncertain income tax positions unless such positions are determined to be more likely than not of being sustained upon examination, based on their technical merits. That is, for financial reporting purposes, the Company only recognizes tax benefits taken on the tax return that it believes are more likely than not of being sustained. There is considerable judgment involved in determining whether positions taken on the tax return are more likely than not of being sustained.

The Company adjusts its tax reserve estimates periodically because of ongoing examinations by, and settlements with, the various taxing authorities, as well as changes in tax laws, regulations and interpretations. The consolidated tax provision of any given year includes adjustments to prior year income tax accruals that are considered appropriate and any related estimated interest. The Company s policy is to recognize, when applicable, interest and penalties on uncertain income tax positions as part of income tax expense.

Equity-based Compensation

The Company measures the cost of employee services received in exchange for an award of equity instruments based on the grant date fair value of the award. That cost is recognized in the consolidated statement of operations over the period during which an employee is required to provide service in exchange for the award (generally four years subject to graded vesting conditions). The Company s policy is to recognize the cost on a straight-line basis over the requisite service period. The Company uses the Black-Scholes model to estimate the grant date fair value of a stock option. Because the option-pricing model requires the use of subjective assumptions, changes in these assumptions can materially affect the fair value of stock options granted. The volatility assumption is calculated using a 75%-25% weighted average of implied volatility of TWC traded options and the historical stock price volatility of a comparable peer group of publicly traded companies. The expected term, which represents the period of time that options are expected to be outstanding, is estimated based on the historical exercise experience of TWC employees. The risk-free rate assumed in valuing the stock options is based on the U.S. Treasury yield curve in effect at the time of grant for the expected term of the option. The Company determines the expected dividend yield percentage by dividing the expected annual dividend by the market price of TWC common stock at the date of grant.

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

Legal Contingencies

The Company is subject to legal, regulatory and other proceedings and claims that arise in the ordinary course of business. The Company records an estimated liability for those proceedings and claims arising in the ordinary course of business when the loss from such proceedings and claims becomes probable and reasonably estimable. The Company reviews outstanding claims with internal and external counsel to assess the probability and the estimates of loss. The Company reassesses the risk of loss as new information becomes available and adjusts liabilities as appropriate. The actual cost of resolving a claim may be substantially different from the amount of the liability recorded. Differences between the estimated and actual amounts determined upon ultimate resolution, individually or in the aggregate, are not expected to have a material adverse effect on the Company s consolidated financial position but could possibly be material to the Company s consolidated results of operations or cash flow for any one period.

Segments

Public companies are required to disclose certain information about their reportable operating segments. Operating segments are defined as significant components of an enterprise for which separate financial information is available and is evaluated on a regular basis by the chief operating decision makers in deciding how to allocate resources to an individual segment and in assessing performance of the segment. The Company has determined that it has only one reportable segment.

4. EARNINGS PER SHARE

Basic net income (loss) attributable to TWC common shareholders is determined using the two-class method and is computed by dividing net income (loss) attributable to TWC common shareholders by the weighted average of common shares outstanding during the period. The two-class method is an earnings allocation formula that determines income (loss) per share for each class of common stock and participating security according to dividends declared and participation rights in undistributed earnings. Diluted net income (loss) attributable to TWC common shareholders reflects the more dilutive earnings per share amount calculated using the treasury stock method or the two-class method.

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

	Year Ended December 31,		
	2010	2009	2008
Net income (loss) attributable to TWC shareholders	$ 1,308	$ 1,070	$ (7,344)
Less: Net income allocated to participating securities[(a)]	(9)		
Net income (loss) attributable to TWC common shareholders	$ 1,299	$ 1,070	$ (7,344)
Average common shares outstanding:			
Basic	354.2	349.0	325.7
Dilutive effect of non-participating equity awards	2.3	0.6	

Diluted (two-class method)		356.5		349.6		325.7
Dilutive effect of participating equity awards[(a)]		3.0		1.3		
Diluted (treasury stock method)		359.5		350.9		325.7
Net income (loss) per common share attributable to TWC common shareholders:						
Basic	$	3.67	$	3.07	$	(22.55)
Diluted	$	3.64	$	3.05	$	(22.55)

(a) The Company s restricted stock units granted to employees and non-employee directors are considered participating securities with respect to regular quarterly cash dividends.

83

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

Diluted net loss per common share attributable to TWC common shareholders for 2008 excludes 0.2 million common shares issuable under the Company s stock compensation plans because they did not have a dilutive effect due to the Company s loss from continuing operations.

5. SEPARATION FROM TIME WARNER, RECAPITALIZATION AND TWC REVERSE STOCK SPLIT

On March 12, 2009, TWC s separation from Time Warner was completed pursuant to a Separation Agreement dated as of May 20, 2008 (the Separation Agreement) between TWC and its subsidiaries, Time Warner Entertainment Company, L.P. (TWE) and TW NY, and Time Warner and its subsidiaries, Warner Communications Inc. (WCI), Historic TW Inc. (Historic TW) and American Television and Communications Corporation (ATC). In accordance with the Separation Agreement, on February 25, 2009, Historic TW transferred its 12.43% non-voting common stock interest in TW NY to TWC in exchange for 26.7 million newly issued shares (after giving effect to the TWC Reverse Stock Split discussed below) of TWC s Class A common stock (the TW NY Exchange). On March 12, 2009, TWC paid a special cash dividend of $30.81 per share (after giving effect to the TWC Reverse Stock Split), aggregating $10.856 billion, to holders of record on March 11, 2009 of TWC s outstanding Class A common stock and Class B common stock (the Special Dividend). Following the payment of the Special Dividend, each outstanding share of TWC Class A common stock and TWC Class B common stock was automatically converted (the Recapitalization) into one share of common stock, par value $0.01 per share (the TWC Common Stock). TWC s separation from Time Warner (the Separation) was effected as a pro rata dividend of all shares of TWC Common Stock held by Time Warner to holders of record of Time Warner s common stock (the Spin-Off Dividend or the Distribution). The TW NY Exchange, the Special Dividend, the Recapitalization, the Separation and the Distribution collectively are referred to as the Separation Transactions.

In connection with the Separation Transactions, on March 12, 2009, the Company implemented a reverse stock split at a 1-for-3 ratio (the TWC Reverse Stock Split), effective immediately after the Recapitalization. The shares of TWC Common Stock distributed in the Spin-Off Dividend reflected both the Recapitalization and the TWC Reverse Stock Split.

6. NAVISITE ACQUISITION

On February 1, 2011, TWC entered into an agreement to acquire NaviSite, Inc. (NaviSite) for $5.50 per share of NaviSite common stock in cash, or a total equity value of approximately $230 million. As of February 1, 2011, NaviSite had approximately $50 million of debt and approximately $35 million of preferred equity. NaviSite provides enterprise-class hosting, managed application, messaging and cloud services. NaviSite common stock is listed on the NASDAQ Capital Market. The transaction, which is subject to NaviSite stockholder approval, certain regulatory approvals and customary closing conditions, is expected to close in the second quarter of 2011. On February 8, 2011, a lawsuit was filed on behalf of a purported class of NaviSite stockholders against NaviSite, certain of its officers and directors and TWC alleging breaches of fiduciary duty and that the consideration to be paid in connection with the transaction is inadequate. The lawsuit seeks to enjoin the transaction and monetary damages. The Company intends to defend against this lawsuit vigorously.

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

7. INVESTMENTS

The components of the Company s investments as of December 31, 2010 and 2009 and related ownership percentages as of December 31, 2010 are presented in the table below (in millions):

	Ownership Percentage	Investment Balance as of December 31, 2010	2009
Equity-method investments:			
SpectrumCo	31.2%	$ 692	$ 691
Clearwire Communications	4.7%	94	207
Other		59	53
Total equity-method investments		845	951
Other investments		21	24
Total investments		$ 866	$ 975

For the years ended December 31, 2010 and 2009, the Company recognized losses from equity-method investments of $110 million and $49 million, respectively, and, for the year ended December 31, 2008, recognized income from equity-method investments of $16 million, which is included in other expense, net, in the consolidated statement of operations.

SpectrumCo

TWC is a participant in a joint venture with certain other cable companies (SpectrumCo) that holds advanced wireless spectrum (AWS) licenses. TWC made net cash investments in SpectrumCo of $2 million in 2010, $29 million in 2009 and $3 million in 2008.

Clearwire Communications

TWC holds an equity interest in Clearwire Communications LLC (Clearwire Communications), the operating subsidiary of Clearwire Corporation (Clearwire), a publicly traded company that was formed by the combination of the respective wireless broadband businesses of Sprint Nextel Corporation (Sprint) and Clearwire Communications. Clearwire is focused on deploying a nationwide fourth-generation (4G) wireless network to provide mobile broadband services to wholesale and retail customers. In connection with TWC s initial investment in Clearwire Communications, TWC entered into wholesale agreements with Clearwire and Sprint that allow TWC to offer wireless services utilizing Clearwire s 4G WiMax network and Sprint s third-generation code division multiple access (CDMA) network. TWC made net cash investments in Clearwire Communications of $4 million in 2010, $97 million in 2009 and $536 million in 2008.

During 2008, the Company recorded a noncash pretax impairment charge of $367 million on its investment in Clearwire Communications as a result of a significant decline in the estimated fair value of the investment, which is included in other expense, net, in the consolidated statement of operations. The primary input in estimating the fair value of TWC s investment in Clearwire Communications was the quoted market value of Clearwire s publicly traded shares of Class A common stock at December 31, 2008, which declined significantly from May 2008, the date TWC agreed to make its initial investment.

As of December 31, 2010, the Company s equity interest in the underlying net assets of Clearwire Communications exceeded the carrying value of the Company s investment by approximately $200 million. Such difference relates to intangible assets not subject to amortization and, therefore, is not being amortized.

In its Quarterly Report on Form 10-Q for the quarter ended September 30, 2010, Clearwire disclosed that it may not be able to continue to operate as a going concern. Subsequently, in December 2010, Clearwire raised $1.404 billion in a private placement of debt securities. There can be no assurance that Clearwire will be able to obtain sufficient financing in

Table of Contents

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

the future to continue its business, and it is possible that the Company may record an impairment charge on its investment in Clearwire Communications in the future.

8. INTANGIBLE ASSETS AND GOODWILL

As of December 31, 2010 and 2009, the Company s intangible assets and related accumulated amortization consisted of the following (in millions):

	December 31, 2010			December 31, 2009		
	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
Intangible assets subject to amortization:						
Customer relationships[a]	$ 6	$ (5)	$ 1	$ 952	$ (803)	$ 149
Cable franchise renewals and access rights	220	(94)	126	202	(83)	119
Other	42	(37)	5	42	(36)	6
Total[a]	$ 268	$ (136)	$ 132	$ 1,196	$ (922)	$ 274
Intangible assets not subject to amortization:						
Cable franchise rights	$ 25,013	$ (922)	$ 24,091	$ 25,014	$ (922)	$ 24,092

[a] The decrease in the gross and accumulated amortization balances for intangible assets subject to amortization was primarily due to customer relationships acquired in the July 31, 2006 transactions with Adelphia Communications Corporation and Comcast Corporation and the 2007 dissolution of Texas and Kansas City Cable Partners, L.P. that became fully amortized during 2010 and were subsequently written off.

The Company recorded amortization expense of $168 million in 2010, $249 million in 2009 and $262 million in 2008. Based on the remaining carrying value of intangible assets subject to amortization as of December 31, 2010, amortization expense is expected to be $24 million in 2011, $22 million in 2012, $18 million in 2013, $15 million in 2014 and $12 million in 2015. These amounts may vary as acquisitions and dispositions occur in the future.

Changes in the carrying value of the Company s goodwill from January 1 through December 31 are presented below (in millions):

	December 31,	
	2010	2009
Balance at beginning of year	$ 2,111	$ 2,101
Adjustments and other changes	(20)	10

Balance at end of year[a]	$ 2,091	$ 2,111

[a] There are no accumulated goodwill impairment charges as of December 31, 2010 and 2009.

Annual Impairment Analysis

Indefinite-lived intangible assets, primarily the Company s cable franchise rights, and goodwill are tested for impairment annually or upon the occurrence of a triggering event. The impairment test for intangible assets not subject to amortization involves a comparison of the estimated fair value of the intangible asset with its carrying value. The Company determines the fair value of the intangible asset using a DCF analysis, which utilizes significant unobservable inputs (Level 3) within the fair value hierarchy. The impairment test for goodwill involves a comparison of the estimated fair value of each of the Company s six geographic reporting units to its carrying amount, including goodwill. The Company determines the fair value of a reporting unit using a DCF analysis that is corroborated by a market-based approach, which utilizes significant unobservable inputs (Level 3) within the fair value hierarchy. Determining fair value requires the exercise of significant judgment, including judgment about appropriate discount rates, perpetual growth rates and the amount and timing of future cash flows.

The Company determined that cable franchise rights and goodwill were not impaired during its annual impairment analyses as of July 1, 2010 and December 31, 2009 respectively. The Company s 2008 impairment analysis, which was

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

performed as of December 31, 2008, did not result in any goodwill impairments, but did result in a noncash pretax impairment charge on cable franchise rights of $14.822 billion.

The carrying value of cable franchise rights and goodwill by unit of accounting as of December 31, 2010 and 2009 was as follows (in millions):

	Carrying Value as of			
	December 31, 2010		December 31, 2009	
	Cable Franchise Rights	Goodwill	Cable Franchise Rights	Goodwill
Midwest	$ 5,934	$ 562	$ 5,028	$ 505
Northeast	5,645	466	5,645	466
Carolinas	3,969	231	3,908	224
West	3,498	484	3,350	489
New York City	3,345	204	3,345	204
Texas	1,700	144	1,700	143
National[a]			722	80
Kansas City[a]			394	
Total	$ 24,091	$ 2,091	$ 24,092	$ 2,111

(a) In connection with certain operational reorganizations during 2010, the Company combined its Kansas City and Midwest reporting units. In addition, the Company dissolved its National reporting unit and allocated the systems contained therein to its West, Midwest and Carolinas reporting units. The Company tested the cable franchise rights and goodwill held by the aforementioned units of accounting for impairment immediately prior to the reorganizations and determined that no impairments existed.

The 2008 cable franchise rights impairment charge by unit of accounting was as follows (in millions):

West	$ 3,558
New York City	2,156
Texas	3,270
Midwest	2,835
Carolinas	1,659
Northeast	962
National	382
Kansas City	
Total	$ 14,822

As a result of the cable franchise rights impairment charge taken in 2008, the carrying values of the Company s impaired cable franchise rights (which represented the cable franchise rights in all of the Company s eight units of accounting except for Kansas City) were adjusted to their estimated fair values as of December 31, 2008.

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

9. DEBT

TWC s debt as of December 31, 2010 and 2009 was as follows:

	Maturity	Outstanding Balance as of December 31, 2010	2009
		(in millions)	
Revolving credit facility	2013	$	$
Commercial paper program[a]	2013		1,261
Senior notes and debentures[b]	2012-2040	23,118	21,059
Capital leases and other		3	11
Total		$ 23,121	$ 22,331

(a) Outstanding balance amount as of December 31, 2009 excludes an unamortized discount on commercial paper of $1 million.

(b) The weighted-average effective interest rate for senior notes and debentures as of December 31, 2010 is 6.231% and includes the effects of interest rate swap contracts.

Revolving Credit Facility and Commercial Paper Program

On November 3, 2010, the Company entered into a credit agreement for a $4.0 billion senior unsecured three-year revolving credit facility maturing in November 2013 (the $4.0 billion Revolving Credit Facility), and the Company s $5.875 billion senior unsecured five-year revolving credit facility (the $5.875 billion Revolving Credit Facility), scheduled to mature in February 2011, was terminated.

The Company s obligations under the $4.0 billion Revolving Credit Facility are guaranteed by its subsidiaries, TWE and TW NY. Borrowings under the $4.0 billion Revolving Credit Facility bear interest at a rate based on the credit rating of TWC, which rate was LIBOR plus 1.25% per annum at December 31, 2010. In addition, TWC is required to pay a facility fee on the aggregate commitments under the $4.0 billion Revolving Credit Facility at a rate determined by the credit rating of TWC, which rate was 0.25% per annum at December 31, 2010. TWC may also incur an additional usage fee of 0.25% per annum on the outstanding loans and other extensions of credit under the $4.0 billion Revolving Credit Facility if and when such amounts exceed 25% of the aggregate commitments thereunder. The $4.0 billion Revolving Credit Facility provides same-day funding capability, and a portion of the aggregate commitments, not to exceed $500 million at any time, may be used for the issuance of letters of credit.

The $4.0 billion Revolving Credit Facility contains conditions, covenants, representations and warranties and events of default (with customary grace periods, as applicable) substantially similar to the conditions, covenants, representations and warranties and events of default that were contained in the Company s $5.875 billion Revolving Credit Facility, including a maximum leverage ratio covenant of 5.0 times TWC s consolidated EBITDA. The terms and related financial metrics associated with the leverage ratio are defined in the agreement. At December 31, 2010, TWC was in compliance with the leverage ratio covenant, calculated in accordance with the agreement, with a ratio of approximately 2.9 times. The $4.0 billion Revolving Credit Facility does not contain any: credit ratings-based defaults or covenants; ongoing covenants or representations specifically relating to a material adverse change in TWC s financial condition or results of operations; or borrowing restrictions due to material adverse changes in the Company s business or market disruption. Borrowings under the $4.0 billion Revolving Credit Facility may be used for general corporate purposes, and unused credit is available to support borrowings under the CP Program (as defined below).

In connection with the entry into the $4.0 billion Revolving Credit Facility, the Company s unsecured commercial paper program (the CP Program) was reduced from $6.0 billion to $4.0 billion. The CP Program is also guaranteed by TW NY and TWE. Commercial paper issued under the CP Program is supported by unused committed capacity under the $4.0 billion Revolving Credit Facility and ranks pari passu with other unsecured senior indebtedness of TWC, TWE and TW NY.

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

As of December 31, 2010, TWC s unused committed financial capacity was $6.891 billion, reflecting $3.047 billion of cash and equivalents and $3.844 billion of available borrowing capacity under the $4.0 billion Revolving Credit Facility (which reflects a reduction of $156 million for outstanding letters of credit backed by the $4.0 billion Revolving Credit Facility).

Senior Notes and Debentures

TWC Notes and Debentures

Notes and debentures issued by TWC as of December 31, 2010 and 2009 were as follows:

	Date of					Outstanding Balance as of December 31,	
	Issuance	Maturity	Semi-annual Interest Payments	Principal Amount (in millions)	Interest Rate	2010[(a)]	2009[(a)]
						(in millions)	
5-year notes	Apr 2007	July 2012	Jan/July	$ 1,500	5.400%	$ 1,529	$ 1,502
5-year notes	June 2008	July 2013	Jan/July	1,500	6.200%	1,550	1,500
5-year notes	Nov 2008	Feb 2014	Feb/Aug	750	8.250%	771	738
5-year notes	Mar 2009	Apr 2014	Apr/Oct	1,000	7.500%	1,042	1,001
5-year notes	Dec 2009	Feb 2015	Feb/Aug	500	3.500%	512	485
10-year notes	Apr 2007	May 2017	May/Nov	2,000	5.850%	2,000	1,997
10-year notes	June 2008	July 2018	Jan/July	2,000	6.750%	1,999	1,999
10-year notes	Nov 2008	Feb 2019	Feb/Aug	1,250	8.750%	1,235	1,233
10-year notes	Mar 2009	Apr 2019	Apr/Oct	2,000	8.250%	1,989	1,988
10-year notes	Dec 2009	Feb 2020	Feb/Aug	1,500	5.000%	1,472	1,469
10-year notes	Nov 2010	Feb 2021	Feb/Aug	700	4.125%	696	
30-year debentures	Apr 2007	May 2037	May/Nov	1,500	6.550%	1,492	1,491
30-year debentures	June 2008	July 2038	Jan/July	1,500	7.300%	1,496	1,496
30-year debentures	June 2009	June 2039	June/Dec	1,500	6.750%	1,459	1,458
30-year debentures	Nov 2010	Nov 2040	May/Nov	1,200	5.875%	1,176	
Total				$ 20,400		$ 20,418	$ 18,357

[(a)] Outstanding balance amounts as of December 31, 2010 and 2009 exclude an unamortized discount of $149 million and $131 million, respectively, and include the estimated fair value of interest rate swap assets (liabilities), net, of $167 million and $(12) million, respectively.

TWC has a shelf registration statement on file with the Securities and Exchange Commission (SEC) that allows TWC to offer and sell from time to time senior and subordinated debt securities and debt warrants. During 2007 through

2010, TWC issued notes and debentures (the TWC Debt Securities) publicly in a number of offerings. TWC s obligations under the TWC Debt Securities are guaranteed by TWE and TW NY (the TWC Debt Guarantors).

The TWC Debt Securities were issued pursuant to an indenture, dated as of April 9, 2007, as it may be amended from time to time (the TWC Indenture), by and among the Company, the TWC Debt Guarantors and The Bank of New York Mellon, as trustee. The TWC Indenture contains customary covenants relating to restrictions on the ability of the Company or any material subsidiary to create liens and on the ability of the Company and the TWC Debt Guarantors to consolidate, merge or convey or transfer substantially all of their assets. The TWC Indenture also contains customary events of default. The TWC Debt Securities are unsecured senior obligations of the Company and rank equally with its other unsecured and unsubordinated obligations. Interest on each series of TWC Debt Securities is payable semi-annually in arrears. The guarantees of the TWC Debt Securities are unsecured senior obligations of the TWC Debt Guarantors and rank equally in right of payment with all other unsecured and unsubordinated obligations of the TWC Debt Guarantors.

The TWC Debt Securities may be redeemed in whole or in part at any time at the Company s option at a redemption price equal to the greater of (i) all of the principal amount of the TWC Debt Securities being redeemed and (ii) the sum of the present values of the remaining scheduled payments on such TWC Debt Securities discounted to the redemption date on a semi-annual basis at a government treasury rate plus a designated number of basis points for each of the securities as

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

further described in the TWC Indenture and the applicable TWC Debt Security, plus, in each case, accrued but unpaid interest to the redemption date.

TWE Notes and Debentures

Notes and debentures issued by TWE as of December 31, 2010 and 2009 were as follows:

	Date of					Outstanding Balance as of December 31,	
	Issuance	**Maturity**	**Semi-annual Interest Payments**	**Principal Amount (in millions)**	**Interest Rate**	**2010[(a)]**	**2009[(a)]**
						(in millions)	
20-year notes	Apr 1992	May 2012	May/Nov	$ 250	10.150%	$ 258	$ 259
20-year notes	Oct 1992	Oct 2012	Apr/Oct	350	8.875%	362	359
30-year debentures	Mar 1993	Mar 2023	Mar/Sept	1,000	8.375%	1,033	1,035
40-year debentures	July 1993	July 2033	Jan/July	1,000	8.375%	1,047	1,049
Total				$ 2,600		$ 2,700	$ 2,702

(a) Outstanding balance amounts as of December 31, 2010 and 2009, include an unamortized fair value adjustment of $91 million and $102 million, respectively, which includes the fair value adjustment recognized as a result of the 2001 merger of America Online, Inc. (now known as AOL Inc.) and Time Warner Inc. (now known as Historic TW) and, as of December 31, 2010, the outstanding balance amount includes the estimated fair value of interest rate swap assets, net, of $9 million. The fair value adjustment is amortized over the term of the related debt instrument as a reduction to interest expense.

During 1992 and 1993, TWE issued notes and debentures (the TWE Debt Securities) publicly in a number of offerings. TWE s obligations under the TWE Debt Securities are guaranteed by TWC and TW NY (the TWE Debt Guarantors). TWE has no obligation to file reports with the SEC under the Exchange Act.

The TWE Debt Securities were issued pursuant to an indenture, dated as of April 30, 1992, as it has been and may be amended from time to time (the TWE Indenture) by and among TWE, the TWE Debt Guarantors and The Bank of New York Mellon, as trustee. The TWE Indenture contains customary covenants relating to restrictions on the ability of TWE or any material subsidiary to create liens and on the ability of TWE and the TWE Debt Guarantors to consolidate, merge or convey or transfer substantially all of their assets. The TWE Indenture also contains customary events of default. The TWE Debt Securities are unsecured senior obligations of TWE and rank equally with its other unsecured and unsubordinated obligations. Interest on each series of TWE Debt Securities is payable semi-annually in arrears. The guarantees of the TWE Debt Securities are unsecured senior obligations of the TWE Debt Guarantors and rank equally in right of payment with all other unsecured and unsubordinated obligations of the TWE Debt Guarantors. The TWE Debt Securities are not redeemable before maturity.

Debt Issuance Costs

For the years ended December 31, 2010 and 2009, the Company capitalized debt issuance costs of $25 million and $34 million, respectively, in connection with the Company s 2010 and 2009 public debt issuances. For the year ended December 31, 2008, the Company capitalized debt issuance costs of $97 million in connection with the 364-day senior unsecured term loan facility entered into in 2008 in connection with the Separation (the 2008 Bridge Facility) and the Company s 2008 public debt issuances. These capitalized costs are amortized over the term of the related debt instrument and are included as a component of interest expense, net, in the consolidated statement of operations.

For the years ended December 31, 2009 and 2008, the Company recognized as expense Separation-related debt issuance costs of $13 million and $45 million, respectively, which are included as a component of interest expense, net, in the consolidated statement of operations. The Separation-related debt issuance costs recognized as expense in 2009 primarily related to upfront loan fees for the 2008 Bridge Facility, which were recognized as expense when the facility was repaid and terminated following the Company s public debt issuance in March 2009. The Separation-related debt issuance costs recognized as expense in 2008 primarily related to the portion of the upfront loan fees for the 2008 Bridge Facility

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

that was recognized as expense due to the reduction of commitments under such facility as a result of the Company s public debt issuances in June 2008 and November 2008.

Maturities

Annual maturities of debt total $0 in 2011, $2.101 billion in 2012, $1.501 billion in 2013, $1.750 billion in 2014, $500 million in 2015 and $17.151 billion thereafter.

Interest Rate Risk

The Company is exposed to the market risk of adverse changes in interest rates. To manage the volatility relating to these exposures, the Company s policy is to maintain a mix of fixed-rate and variable-rate debt by entering into various interest rate derivative transactions as described in Note 11. Using interest rate swaps, the Company agrees to exchange, at specified intervals, the difference between fixed and variable interest amounts calculated by reference to an agreed-upon notional principal amount.

The following table summarizes the terms of the Company s existing fixed to variable interest rate swaps as of December 31, 2010 and 2009:

		2010		2009
Maturities		2012-2017		2012-2015
Notional amount (in millions)	$	6,250	$	5,250
Average pay rate (variable based on LIBOR plus variable margins)		4.33%		4.03%
Average receive rate (fixed)		6.47%		6.24%
Estimated fair value of asset (liability), net (in millions)	$	176	$	(12)

The notional amounts of interest rate instruments, as presented in the above table, are used to measure interest to be paid or received and do not represent the amount of exposure to credit loss. Interest rate swaps represent an integral part of the Company s interest rate risk management program and resulted in a decrease in interest expense, net, of $117 million in 2010 and $30 million in 2009.

10. MANDATORILY REDEEMABLE PREFERRED EQUITY MEMBERSHIP UNITS

In connection with the financing of the acquisition of substantially all of the cable assets of Adelphia Communications Corporation in 2006, TW NY Cable LLC (TW NY Cable), a subsidiary of TWC, issued $300 million of its Series A Preferred Membership Units (the TW NY Cable Preferred Membership Units) to a limited number of third parties. The TW NY Cable Preferred Membership Units pay cash dividends at an annual rate equal to 8.210% of the sum of the liquidation preference thereof and any accrued but unpaid dividends thereon, on a quarterly basis. The TW NY Cable Preferred Membership Units are subject to mandatory redemption by TW NY Cable on August 1, 2013 and are not redeemable by TW NY Cable at any time prior to that date. The redemption price of the TW NY Cable Preferred Membership Units is equal to the respective holders liquidation preference plus any accrued and unpaid dividends through the redemption date. Except under limited circumstances, holders of TW NY Cable Preferred Membership Units have no voting rights.

The terms of the TW NY Cable Preferred Membership Units require that holders owning a majority of the TW NY Cable Preferred Membership Units must approve any agreement for a material sale or transfer by TW NY Cable and its subsidiaries of assets at any time during which TW NY Cable and its subsidiaries maintain, collectively, cable systems serving fewer than 500,000 cable subscribers, or that would (after giving effect to such asset sale) cause TW NY Cable to maintain, directly or indirectly, fewer than 500,000 cable subscribers, unless the net proceeds of the asset sale are applied to fund the redemption of the TW NY Cable Preferred Membership Units and the sale occurs on or immediately prior to the redemption date. Additionally, for so long as the TW NY Cable Preferred Membership Units remain outstanding, TW NY Cable may not merge or consolidate with another company, or convert from a limited liability company to a corporation, partnership or other entity, unless (i) such merger or consolidation is permitted by the asset sale covenant

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

described above, (ii) if TW NY Cable is not the surviving entity or is no longer a limited liability company, the then holders of the TW NY Cable Preferred Membership Units have the right to receive from the surviving entity securities with terms at least as favorable as the TW NY Cable Preferred Membership Units and (iii) if TW NY Cable is the surviving entity, the tax characterization of the TW NY Cable Preferred Membership Units would not be affected by the merger or consolidation. Any securities received from a surviving entity as a result of a merger or consolidation or the conversion into a corporation, partnership or other entity must rank senior to any other securities of the surviving entity with respect to dividends and distributions or rights upon a liquidation.

11. DERIVATIVE FINANCIAL INSTRUMENTS

The fair values of the assets and liabilities associated with the Company s derivative financial instruments recorded in the consolidated balance sheet as of December 31, 2010 and 2009 were as follows (in millions):

	Balance Sheet Location	December 31, 2010	December 31, 2009
Assets:			
Derivatives designated as hedging instruments:			
Interest rate swap contracts	Other assets	$ 176	$ 25
Foreign currency forward contracts	Other current assets	1	1
Total assets		$ 177	$ 26
Liabilities:			
Derivatives designated as hedging instruments:			
Interest rate swap contracts	Other liabilities	$	$ 37
Foreign currency forward contracts	Other current liabilities		1
Derivatives not designated as hedging instruments:			
Equity award reimbursement obligation	Other current liabilities	20	35
Total liabilities		$ 20	$ 73

Interest Rate Swap Contracts

Interest rate swap contracts are used to change the nature of outstanding debt (e.g., convert fixed-rate debt into variable-rate debt or convert variable-rate debt into fixed-rate debt). As of December 31, 2010, the Company had interest rate swap contracts outstanding that effectively convert $6.250 billion of fixed-rate debt instruments, with maturities extending through May 2017, to variable-rate debt. Such contracts are designated as fair value hedges. Under its interest rate swap contracts, the Company is entitled to receive semi-annual fixed rates of interest ranging from 3.500% to 10.150% and is required to make semi-annual interest payments at variable rates based on LIBOR plus margins ranging from 0.755% to 8.442%. During the years ended December 31, 2010 and 2009, the Company recognized no gain or loss related to its interest rate swap contracts because the changes in the fair values of such instruments were completely offset by the changes in the fair values of the hedged fixed-rate debt.

Foreign Currency Forward Contracts

Foreign currency forward contracts are used to mitigate the risk to the Company from changes in foreign currency exchange rates. As of December 31, 2010, the Company had outstanding foreign currency forward contracts to buy Philipine pesos for $11 million. Such contracts, which extend through May 2011, are designated as cash flow hedges and specifically relate to forecasted payments denominated in the Philippine peso made to vendors who provide customer care support services. For the years ended December 31, 2010 and 2009, the effects of foreign currency forward contracts on earnings were immaterial. The Company expects insignificant net gains (losses) to be reclassified out of accumulated other comprehensive loss, net, and into earnings within the next 12 months.

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

Equity Award Reimbursement Obligation

Upon the exercise of Time Warner stock options held by TWC employees, TWC is obligated to reimburse Time Warner for the excess of the market price of Time Warner common stock on the day of exercise over the option exercise price (the intrinsic value of the award). Prior to the Separation, TWC recorded an equity award reimbursement obligation for the intrinsic value of vested and outstanding Time Warner stock options held by TWC employees. This liability was adjusted each reporting period to reflect changes in the market price of Time Warner common stock and the number of Time Warner stock options held by TWC employees with an offsetting adjustment to TWC shareholders equity. Beginning on March 12, 2009, the date of the Separation, TWC began accounting for the equity award reimbursement obligation as a derivative financial instrument because, as of such date, Time Warner was no longer a controlling shareholder of the Company. The Company records the equity award reimbursement obligation at fair value in the consolidated balance sheet, which is estimated using the Black-Scholes model, and, on March 12, 2009, TWC established a liability for the fair value of the equity award reimbursement obligation in other liabilities with an offsetting adjustment to TWC shareholders equity. The change in the equity award reimbursement obligation fluctuates primarily with the fair value and expected volatility of Time Warner common stock and changes in fair value are recorded in earnings in the period of change. Refer to Note 12 for the changes in the fair value of the equity award reimbursement obligation which are recognized in net income.

12. FAIR VALUE MEASUREMENTS

Derivative Financial Instruments

The fair values of derivative financial instruments classified as assets and liabilities as of December 31, 2010 and 2009 were as follows (in millions):

	December 31, 2010			December 31, 2009		
		Fair Value Measurements			Fair Value Measurements	
	Fair Value	Level 2	Level 3	Fair Value	Level 2	Level 3
Assets:						
Interest rate swap contracts	$ 176	$ 176	$	$ 25	$ 25	$
Foreign currency forward contracts	1	1		1	1	
Total	$ 177	$ 177	$	$ 26	$ 26	$
Liabilities:						
Interest rate swap contracts	$	$	$	$ 37	$ 37	$
Foreign currency forward contracts				1	1	
Equity award reimbursement obligation	20		20	35		35
Total	$ 20	$	$ 20	$ 73	$ 38	$ 35

The fair value of interest rate swap contracts, classified as Level 2, utilized a discounted cash flow analysis based on the terms of the contract and the interest rate curve. The fair value of foreign currency forward contracts, classified as Level 2, utilized an income approach model based on forward rates less the contract rate multiplied by the notional amount. The fair value of the equity award reimbursement obligation, classified as Level 3, utilized a market approach model using the fair value and expected volatility of Time Warner common stock.

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

Changes in the fair value of the equity award reimbursement obligation, valued using significant unobservable inputs (Level 3), from January 1 through December 31 are presented below (in millions):

	2010	2009
Balance at beginning of year	$ 35	$
Establishment of equity award reimbursement obligation		16
(Gains) losses recognized in net income	(5)	21
Payments to Time Warner for awards exercised	(10)	(2)
Balance at end of year	$ 20	$ 35

Other Financial Instruments

The Company s other financial instruments, excluding debt subject to interest rate swap contracts, are not required to be carried at fair value. Based on the level of interest rates prevailing at December 31, 2010 and 2009, the fair value of TWC s fixed-rate debt and mandatorily redeemable preferred equity exceeded the carrying value by approximately $2.818 billion and $2.280 billion as of December 31, 2010 and 2009, respectively. Unrealized gains or losses on debt do not result in the realization or expenditure of cash and are not recognized for financial reporting purposes unless the debt is retired prior to its maturity. The carrying value for the majority of the Company s other financial instruments approximates fair value due to the short-term nature of such instruments. For the remainder of the Company s other financial instruments, differences between the carrying value and fair value are not significant as of December 31, 2010. The fair value of financial instruments is generally determined by reference to the market value of the instrument as quoted on a national securities exchange or in an over-the-counter market. In cases where a quoted market value is not available, fair value is based on an estimate using present value or other valuation techniques.

Non-Financial Instruments

The majority of the Company s non-financial instruments, which include investments, property, plant and equipment, intangible assets and goodwill, are not required to be carried at fair value on a recurring basis. However, if certain triggering events occur such that a non-financial instrument is required to be evaluated for impairment, any resulting asset impairment would require that the non-financial instrument be recorded at its fair value.

13. TWC SHAREHOLDERS EQUITY

Shares Authorized and Outstanding

As of December 31, 2010, TWC is authorized to issue up to approximately 8.333 billion shares of TWC Common Stock, par value $0.01 per share, of which 348.3 million and 352.5 million shares were issued and outstanding as of December 31, 2010 and 2009, respectively. TWC is also authorized to issue up to approximately 333 million shares of preferred stock, par value $0.01 per share. As of December 31, 2010 and 2009, no preferred shares have been issued, nor does the Company have current plans to issue preferred shares.

Common Stock Repurchase Program

On October 29, 2010, TWC s Board of Directors authorized a $4.0 billion common stock repurchase program (the Stock Repurchase Program). Purchases under the Stock Repurchase Program may be made from time to time on the open market and in privately negotiated transactions. The size and timing of the Company s purchases under the Stock Repurchase Program are based on a number of factors, including price and business and market conditions. From the program s inception through December 31, 2010, the Company repurchased 8.0 million shares of TWC Common Stock for $515 million, including 0.6 million shares repurchased for $43 million that settled in January 2011. As of December 31, 2010, the Company had $3.485 billion remaining under the Stock Repurchase Program.

Table of Contents

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

Changes in Common Stock

Changes in the Company s common stock by share class from January 1 through December 31 are presented below (in millions):

	TWC Class A Common Stock	TWC Class B Common Stock	TWC Common Stock
Balance as of December 31, 2007 and 2008	300.7	25.0	
Shares issued in the TW NY Exchange[a]	26.7		
Shares converted in the Recapitalization[a]	(327.4)	(25.0)	352.4
Equity-based compensation plans			0.1
Balance as of December 31, 2009			352.5
Equity-based compensation plans			3.8
Repurchase and retirement of common stock			(8.0)
Balance as of December 31, 2010			348.3

(a) Refer to Note 5 for further details regarding the TW NY Exchange and the Recapitalization.

Common Stock Dividends

The Company s Board of Directors declared quarterly cash dividends per share of TWC Common Stock in 2010 as follows (in millions, except per share data):

	Per Share	Amount
January	$ 0.40	$ 144
April	0.40	144
July	0.40	144
November	0.40	144
Total	$ 1.60	$ 576

On January 26, 2011, TWC s Board of Directors declared a quarterly cash dividend of $0.48 per share of TWC Common Stock, payable in cash on March 15, 2011 to stockholders of record at the close of business on February 28, 2011.

Accumulated Other Comprehensive Loss, Net

The following summary sets forth the components of other comprehensive loss, net of tax, accumulated in TWC shareholders equity (in millions):

	December 31, 2010	December 31, 2009
Unrealized losses on pension benefit obligations	$ (293)	$ (317)
Deferred gains (losses) on cash flow hedges	2	(2)
Accumulated other comprehensive loss, net	$ (291)	$ (319)

14. EQUITY-BASED COMPENSATION

TWC Equity Plan

The Company has granted options to purchase shares of TWC Common Stock and restricted stock units (RSUs) to its employees and non-employee directors under the Time Warner Cable Inc. 2006 Stock Incentive Plan (the 2006 Plan). As of December 31, 2010, the 2006 Plan provides for the issuance of up to 51.3 million shares of TWC Common

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

Stock of which 17.7 million shares are available for grant. Upon the exercise of a TWC stock option or the vesting of a TWC RSU, shares of TWC Common Stock may be issued from authorized but unissued shares or from treasury stock, if any.

Stock options granted under the 2006 Plan have exercise prices equal to the fair market value of TWC Common Stock at the date of grant. Generally, TWC stock options vest ratably over a four-year vesting period and expire ten years from the date of grant. TWC stock option awards provide for accelerated vesting upon the grantee s termination of employment after reaching a specified age and years of service. In connection with the payment of the Special Dividend and the TWC Reverse Stock Split, adjustments were made to the number of shares covered by and exercise prices of outstanding TWC stock options to maintain the fair value of those awards. These adjustments were made pursuant to existing antidilution provisions in the 2006 Plan and related award agreements and, therefore, did not result in the recognition of incremental compensation expense. Refer to Separation-related Equity Awards below for further details.

RSUs granted under the 2006 Plan generally vest equally on each of the third and fourth anniversary of the grant date. TWC RSUs provide for accelerated vesting upon the grantee s termination of employment after reaching a specified age and years of service. Shares of TWC Common Stock will generally be issued at the end of the vesting period of a TWC RSU. TWC RSUs awarded to non-employee directors are not subject to vesting or forfeiture restrictions and the shares underlying the TWC RSUs will generally be issued in connection with a director s termination of service as a director. Pursuant to the directors compensation program, certain directors with more than three years of service on the Board of Directors have elected an in-service vesting period for their RSU awards. Holders of TWC RSUs are generally entitled to receive cash dividend equivalents or retained distributions related to regular cash dividends or other distributions, respectively, paid by TWC. Retained distributions are subject to the vesting requirements of the underlying TWC RSUs. Refer to Separation-related Equity Awards below for further details.

Separation-related Equity Awards

In connection with the Special Dividend, holders of TWC RSUs could elect to receive the retained distribution on their TWC RSUs related to the Special Dividend (the Special Dividend retained distribution) in the form of cash (payable, without interest, upon vesting of the underlying RSUs) or in the form of additional TWC RSUs (with the same vesting dates as the underlying RSUs). In connection with these elections and in conjunction with the payment of the Special Dividend, during the first quarter of 2009, the Company (a) granted 1,305,000 TWC RSUs and (b) established a liability of $46 million in other liabilities and TWC shareholders equity in the consolidated balance sheet for the Special Dividend retained distribution to be paid in cash, taking into account estimated forfeitures. In addition, in connection with the TWC Reverse Stock Split, pursuant to the 2006 Plan and related award agreements, adjustments were made to reduce the number of outstanding TWC RSUs. Neither the payment of the Special Dividend retained distribution (in cash or additional TWC RSUs) nor the adjustment to reflect the TWC Reverse Stock Split results in the recognition of incremental compensation expense. During the years ended December 31, 2010 and 2009, the Company made cash payments of $6 million and $1 million, respectively, against the Special Dividend retained distribution liability, which are included in other financing activities in the consolidated statement of cash flows. Of the remaining $39 million liability, $12 million is classified as a current liability in other current liabilities in the consolidated balance sheet.

As discussed below, as a result of the Separation, pursuant to their terms, Time Warner equity awards held by TWC employees were forfeited and/or experienced a reduction in value. During the second quarter of 2009, TWC granted TWC stock options and TWC RSUs to its employees to offset these forfeitures and/or reduced values (the

Separation-related make-up equity awards). The vesting and expiration dates of such awards were based on the terms of the related Time Warner award and were expensed over a period of approximately one year beginning in the second quarter of 2009. During the years ended December 31, 2010 and 2009, TWC recognized compensation expense for Separation-related make-up equity awards of $5 million and $9 million, respectively.

Other information pertaining to TWC stock options and TWC RSUs is discussed below.

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

TWC Stock Options

The table below presents the assumptions used to value TWC stock options at their grant date for the years ended December 31, 2010, 2009 and 2008 and reflects the weighted average of all awards granted within each year:

	Year Ended December 31, 2010	2009	2008
Expected volatility	31.4%	34.3%	30.0%
Expected term to exercise from grant date (in years)	6.73	6.04	6.51
Risk-free rate	3.1%	2.6%	3.2%
Expected dividend yield	3.5%	0.0%	0.0%

The following table summarizes information about TWC stock options that were outstanding as of December 31, 2010:

	Number of Options (in thousands)	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value (in millions)
Outstanding as of December 31, 2009	11,520	$ 32.45		
Granted	3,803	45.18		
Exercised	(3,553)	34.38		
Forfeited or expired	(285)	34.24		
Outstanding as of December 31, 2010	11,485	36.03	7.92	$ 345
Exercisable as of December 31, 2010	1,984	38.27	6.23	55
Expected to vest as of December 31, 2010	9,213	35.50	8.26	281

The number and weighted-average grant date fair value of TWC stock options granted during the year was 3,803,000 at $10.95 per option in 2010, 6,345,000 at $9.69 per option in 2009 and 3,804,000 at $13.22 per option in 2008. Of the total TWC stock options granted in 2009, 5,140,000 were granted at a weighted-average grant date fair value of $9.46 per option and 1,205,000 were granted as Separation-related make-up equity awards at a weighted-average grant date fair value of $10.64 per option.

The total intrinsic value of TWC stock options exercised during the year ended December 31, 2010 and 2009 was $69 million and $1 million, respectively. Cash received from TWC stock options exercised during the year ended

December 31, 2010 and 2009 was $122 million and $4 million, respectively, and tax benefits realized from these exercises of TWC stock options was $28 million and $1 million, respectively. No TWC stock options were exercised during the year ended December 31, 2008. Total unrecognized compensation cost related to unvested TWC stock options as of December 31, 2010, without taking into account expected forfeitures, is $53 million and is expected to be recognized over a weighted-average period of 2.41 years.

During February 2011, TWC granted options to purchase approximately 2.2 million shares of TWC Common Stock under the 2006 Plan.

Table of Contents

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

TWC Restricted Stock Units

The following table summarizes information about unvested TWC RSUs for the year ended December 31, 2010:

	Number of Units (in thousands)	Weighted-Average Grant Date Fair Value
Unvested as of December 31, 2009	4,009	$ 58.55
Granted	1,941	45.19
Vested	(481)	79.95
Forfeited	(156)	55.09
Unvested as of December 31, 2010	5,313	51.82

The number and weighted-average grant date fair value of TWC RSUs granted during the year was 1,941,000 at $45.19 per RSU in 2010, 2,645,000 at $38.80 per RSU in 2009 and 993,000 at $82.35 per RSU in 2008. Of the total TWC RSUs granted in 2009, 1,285,000 were granted at a weighted-average grant date fair value of $53.01 per RSU, 1,305,000 were granted as Special Dividend retained distributions at a weighted-average grant date fair value of $24.99 per RSU and 55,000 were granted as Separation-related make-up equity awards at a weighted-average grant date fair value of $33.80 per RSU.

As of December 31, 2010, the intrinsic value of unvested TWC RSUs was $351 million. Total unrecognized compensation cost related to unvested TWC RSUs as of December 31, 2010, without taking into account expected forfeitures, is $107 million and is expected to be recognized over a weighted-average period of 2.49 years. The fair value of TWC RSUs that vested during the year was $49 million in 2010, $6 million in 2009 and $4 million in 2008.

During February 2011, TWC granted approximately 1.4 million RSUs under the 2006 Plan.

Time Warner Equity Plans

Prior to 2007, Time Warner granted options to purchase Time Warner common stock and shares of Time Warner common stock (restricted stock) or RSUs under its equity plans (collectively, the Time Warner Equity Awards) to employees of TWC. Time Warner did not grant Time Warner Equity Awards to employees of TWC after TWC Common Stock began to trade publicly in March 2007. In addition, employees of Time Warner who became employed by TWC prior to the Separation retained their Time Warner Equity Awards pursuant to their terms and TWC recorded equity-based compensation expense from the date of transfer through the end of the applicable vesting period.

In connection with the Spin-Off Dividend and the 1-for-3 reverse stock split implemented by Time Warner on March 27, 2009 (the Time Warner Reverse Stock Split), and as provided for in Time Warner s equity plans, the number of outstanding Time Warner Equity Awards and the exercise prices of stock options were adjusted to maintain the fair value of those awards. In addition, in connection with Time Warner s distribution to its shareholders of all of the shares of AOL Inc. stock that it owned on December 9, 2009, the number of outstanding Time Warner Equity Awards and the exercise prices of stock options were further adjusted to maintain the fair value of those awards. These adjustments were made pursuant to existing antidilution provisions in Time Warner s equity plans and, therefore, did not result in the recognition of incremental compensation expense for the Company.

Under the terms of Time Warner s equity plans and related award agreements, as a result of the Separation, TWC employees who held Time Warner Equity Awards were treated as if their employment with Time Warner had been terminated without cause at the time of the Separation. This treatment resulted in the forfeiture of unvested stock options and shortened exercise periods for vested stock options and pro rata vesting of the next installment of (and forfeiture of the remainder of) the RSUs for those TWC employees who did not satisfy retirement-treatment eligibility provisions in the Time Warner equity plans and related award agreements. During the second quarter of 2009, TWC granted the Separation-related make-up equity awards or cash payment awards to TWC employees to offset the forfeiture and

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

reduction in value of Time Warner Equity Awards held by TWC employees as a result of the Separation. Refer to Separation-related Equity Awards above for further details.

Equity-based Compensation Expense

Equity-based compensation expense and the related tax benefit recognized for the years ended December 31, 2010, 2009 and 2008 was as follows (in millions):

	Year Ended December 31,		
	2010	2009	2008
Equity-based compensation expense recognized:			
Stock options	$ 45	$ 45	$ 36
Restricted stock units	64	52	42
Total equity-based compensation expense[a]	$ 109	$ 97	$ 78
Tax benefit recognized[a]	$ 43	$ 38	$ 31

(a) Equity-based compensation expense and the related tax benefit recognized in 2008 include $10 million and $4 million, respectively, for Time Warner Equity Awards. No additional compensation expense will be recognized under Time Warner equity plans after March 12, 2009, the date of TWC s separation from Time Warner. However, TWC will continue to reimburse Time Warner for the intrinsic value of Time Warner stock options held by TWC employees upon exercise until all such awards have been exercised or have expired. Refer to Equity Award Reimbursement Obligation in Note 11 for further details.

15. EMPLOYEE BENEFIT PLANS

Pension Plans

TWC sponsors qualified noncontributory defined benefit pension plans covering a majority of its employees (the qualified pension plans). TWC also provides a nonqualified noncontributory defined benefit pension plan for certain employees (the nonqualified pension plan and, together with the qualified pension plans, the pension plans). Pension benefits are based on formulas that reflect the employees years of service and compensation during their employment period. TWC uses a December 31 measurement date for its pension plans.

Changes in the Company s projected benefit obligation, fair value of plan assets and funded status from January 1 through December 31 are presented below (in millions):

	2010	2009
Projected benefit obligation at beginning of year	$ 1,552	$ 1,318

Service cost		115		100
Interest cost		100		88
Actuarial loss		62		83
Benefits paid		(26)		(28)
Settlements				(9)
Projected benefit obligation at end of year	$	1,803	$	1,552
Accumulated benefit obligation at end of year	$	1,477	$	1,228
Fair value of plan assets at beginning of year	$	1,595	$	1,113
Actual return on plan assets		209		349
Employer contributions		104		170
Benefits paid		(26)		(28)
Settlements				(9)
Fair value of plan assets at end of year	$	1,882	$	1,595
Funded status	$	79	$	43

Table of Contents

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

The projected benefit obligation, accumulated benefit obligation and fair value of plan assets for the qualified pension plans and nonqualified pension plan as of December 31, 2010 and 2009 were as follows (in millions):

	Qualified Pension Plans December 31,		Nonqualified Pension Plan December 31,	
	2010	2009	2010	2009
Projected benefit obligation	$ 1,769	$ 1,520	$ 34	$ 32
Accumulated benefit obligation	1,444	1,196	33	32
Fair value of plan assets	1,882	1,595		

Amounts recognized in the consolidated balance sheet as of December 31, 2010 and 2009 consisted of (in millions):

	December 31,	
	2010	2009
Noncurrent asset	$ 113	$ 75
Current liability	(4)	(3)
Noncurrent liability	(30)	(29)
Total amounts recognized in assets and liabilities	$ 79	$ 43
Accumulated other comprehensive loss:		
Net actuarial loss	$ 479	$ 528
Prior service cost	1	1
Total amounts recognized in TWC shareholders equity	$ 480	$ 529

The components of net periodic benefit costs for the years ended December 31, 2010, 2009 and 2008 were as follows (in millions):

	Year Ended December 31,		
	2010	2009	2008
Service cost	$ 115	$ 100	$ 96
Interest cost	100	88	79
Expected return on plan assets	(127)	(93)	(102)
Amounts amortized	29	66	18
Settlement loss		1	
Net periodic benefit costs	$ 117	$ 162	$ 91

The estimated amounts that will be amortized from accumulated other comprehensive loss, net, into net periodic benefit costs in 2011 include an actuarial loss of $24 million.

In addition, certain employees of TWC participate in multi-employer pension plans, not included in the net periodic benefit costs above, for which the expense was $36 million in 2010, $33 million in 2009 and $31 million in 2008.

Weighted-average assumptions used to determine benefit obligations as of December 31, 2010, 2009 and 2008 were as follows:

	2010	**2009**	**2008**
Discount rate	5.90%	6.16%	6.17%
Rate of compensation increase	4.25%	4.25%	4.00%

In 2010, the discount rate used to determine benefit obligations was determined by the matching of plan liability cash flows to a portfolio of bonds individually selected from a large population of high-quality corporate bonds. In 2009 and 2008, the discount rate used to determine benefit obligations was determined by the matching of plan liability cash flows to a pension yield curve constructed of a large population of high-quality corporate bonds.

100

Table of Contents

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

Weighted-average assumptions used to determine net periodic benefit cost for the years ended December 31, 2010, 2009 and 2008 were as follows:

	2010	2009	2008
Discount rate	6.16%	6.17%	6.00%
Expected long-term return on plan assets	8.00%	8.00%	8.00%
Rate of compensation increase	4.25%	4.00%	4.50%

In 2010, 2009 and 2008, the discount rate was determined by the matching of plan liability cash flows to a pension yield curve constructed of a large population of high-quality corporate bonds. In developing the expected long-term rate of return on assets, the Company considered the pension portfolio s composition, past average rate of earnings, discussions with portfolio managers and the Company s asset allocation targets.

Pension Assets

Effective October 31, 2008, the assets of the qualified pension plans held in a master trust with the plan assets of other Time Warner defined benefit pension plans (the Time Warner Master Trust) were transferred to a new master trust established to hold the assets of the qualified pension plans (the TWC Master Trust). In March 2009, the TWC Master Trust received 142,000 shares of TWC Common Stock in connection with the Distribution. During December 2009, the TWC Common Stock and Time Warner common stock held in the TWC Master Trust were sold. As of December 31, 2010 and 2009, there were no shares of TWC Common Stock or Time Warner common stock held directly in the TWC Master Trust.

The investment policy for the qualified pension plans is to maximize the long-term rate of return on plan assets within a prudent level of risk and diversification while maintaining adequate funding levels. The investment portfolio is a mix of equity and fixed-income securities with the objective of preserving asset values, diversifying risk and achieving a target investment return. The pension plans Investment Committee periodically monitors investment performance, investment allocation policies and the performance of individual investment managers and makes adjustments and changes when necessary. On a periodic basis, the Investment Committee conducts a broad strategic review of its portfolio construction and investment allocation policies. Neither the Company nor the Investment Committee manages any assets internally or directly utilizes derivative instruments or hedging; however, the investment mandate of some investment managers allows the use of derivatives as components of their standard portfolio management strategies.

Pension assets are managed in a balanced portfolio comprised of two major components: an equity portion and a fixed-income portion. The expected role of the equity investments is to maximize the long-term growth of pension assets, while the role of fixed-income investments is to provide for more stable periodic returns and potentially provide some protection against a prolonged decline in the market value of equity investments. The objective within equity investments is to achieve asset diversity in order to increase return and reduce volatility.

The actual investment allocation of the qualified pension plans by asset category as of December 31, 2010 and 2009 is as follows:

	Target Allocation	Actual Allocation as of December 31, 2010	2009
Equity securities	65.0%	67.7%	64.2%
Fixed-income securities	35.0%	30.8%	34.0%
Other investments	0.0%	1.5%	1.8%

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

The following tables set forth the investment assets of the qualified pension plans, which exclude accrued investment income and accrued liabilities, by level within the fair value hierarchy as of December 31, 2010 and 2009 (in millions):

	December 31, 2010			
		Fair Value Measurements		
	Fair Value	Level 1	Level 2	Level 3
Common stocks:				
Domestic[a]	$ 702	$ 702	$	$
International[a]	209	209		
Commingled equity funds[b]	355		355	
Other equity securities[c]	7	7		
Corporate debt securities[d]	146		146	
Collective trust funds[e]	107		107	
Commingled bond funds[b]	133		133	
U.S. Treasury debt securities[a]	144	144		
Corporate asset-backed debt securities[f]	7		7	
U.S. government asset-backed debt securities[g]	18		18	
Other fixed-income securities[h]	23		23	
Other investments[i]	28			28
Total investments assets	1,879	$ 1,062	$ 789	$ 28
Accrued investment income	5			
Accrued liabilities	(2)			
Fair value of plan assets	$ 1,882			

	December 31, 2009			
		Fair Value Measurements		
	Fair Value	Level 1	Level 2	Level 3
Common stocks:				
Domestic[a]	$ 689	$ 689	$	$
International[a]	232	232		
Commingled equity funds[b]	100		100	
Other equity securities[c]	2	2		
Corporate debt securities[d]	158		158	
Collective trust funds[e]	143		143	
Commingled bond funds[b]	89		89	
U.S. Treasury debt securities[a]	87	87		
Corporate asset-backed debt securities[f]	40		40	

U.S. government asset-backed debt securities[(g)]		19				19		
Other fixed-income securities[(h)]		4				4		
Other investments[(i)]		29						29
Total investments assets		1,592	$	1,010	$	553	$	29
Accrued investment income		5						
Accrued liabilities		(2)						
Fair value of plan assets	$	1,595						

(a) Common stocks and U.S. Treasury debt securities are valued at the closing price reported on the active market on which the individual securities are traded.

(b) Commingled equity funds and commingled bond funds are valued using the net asset value provided by the administrator of the fund. The net asset value is based on the value of the underlying assets owned by the fund, less liabilities, and then divided by the number of units outstanding.

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

(c) Other equity securities consist of real estate investment trusts and preferred stocks, which are valued at the closing price reported on the active market on which the individual securities are traded.

(d) Corporate debt securities are valued based on observable prices from the new issue market, benchmark quotes, secondary trading and dealer quotes. An option adjusted spread model is incorporated to adjust spreads of issues that have early redemption features and final spreads are added to the U.S. Treasury curve.

(e) Collective trust funds primarily consist of short-term investment strategies comprised of instruments issued or fully guaranteed by the U.S. government and/or its agencies and are valued using the net asset value provided by the administrator of the fund. The net asset value is based on the value of the underlying assets owned by the fund, less liabilities, and then divided by the number of units outstanding.

(f) Corporate asset-backed debt securities primarily consist of pass-through mortgage-backed securities issued by U.S. and foreign corporations valued using available trade information, dealer quotes, market color (including indices and market research reports), spreads, bids and offers.

(g) U.S. government asset-backed debt securities consist of pass-through mortgage-backed securities issued by the Federal Home Loan Mortgage Corporation and the Federal National Mortgage Association valued using available trade information, dealer quotes, market color (including indices and market research reports), spreads, bids and offers.

(h) Other fixed-income securities consist of foreign government debt securities and U.S. government agency debt securities, which are valued based on observable prices from the new issue market, benchmark quotes, secondary trading and dealer quotes. An option adjusted spread model is incorporated to adjust spreads of issues that have early redemption features and final spreads are added to the U.S. Treasury curve.

(i) Other investments primarily consist of private equity investments, such as those in limited partnerships that invest in operating companies that are not publicly traded on a stock exchange, and hedge funds. Private equity investments are valued using inputs such as trading multiples of comparable public securities, merger and acquisition activity and pricing data from the most recent equity financing taking into consideration illiquidity. Hedge funds are valued using the net asset value provided by the administrator of the fund, which is based on the value of the underlying assets owned by the fund, less liabilities, and then divided by the number of units outstanding.

Changes in the fair value of investment assets valued using significant unobservable inputs (Level 3) from January 1 through December 31 are presented below (in millions):

	2010	2009
Balance at beginning of year	$ 29	$ 25
Purchases and sales:		
Purchases	3	6
Sales	(5)	(4)
Purchases (sales), net	(2)	2
Actual return on plan assets still held at end of year	1	2
Balance at end of year	$ 28	$ 29

Expected Cash Flows

After considering the funded status of the qualified pension plans, movements in the discount rate, investment performance and related tax consequences, the Company may choose to make contributions to the qualified pension plans in any given year. As of December 31, 2010, there were no minimum required contributions for the Company s qualified pension plans. For the Company s nonqualified pension plan, contributions will continue to be made to the extent benefits are paid. The Company contributed $104 million to the pension plans during 2010, and may make discretionary cash contributions to the qualified pension plans in 2011.

Benefit payments for the pension plans are expected to be $26 million in 2011, $31 million in 2012, $35 million in 2013, $41 million in 2014, $48 million in 2015 and $389 million in 2016 to 2020.

Defined Contribution Plan

TWC employees also participate in a defined contribution plan, the TWC Savings Plan, for which the expense for employer matching contributions totaled $64 million in 2010, $61 million in 2009 and $63 million in 2008. The Company s contributions to the TWC Savings Plan are primarily based on a percentage of the employees elected contributions and are subject to plan provisions.

Table of Contents

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

16. RESTRUCTURING COSTS

Beginning in the first quarter of 2009, the Company began a restructuring to improve operating efficiency, primarily related to headcount reductions of approximately 900 and 1,300 in 2010 and 2009, respectively, and other exit costs, including the termination of a facility lease that occurred during the second quarter of 2010. Through December 31, 2010, the Company incurred costs of $133 million and made payments of $111 million related to this restructuring. The Company expects to incur additional restructuring costs during 2011. Information relating to this restructuring is as follows (in millions):

	Employee Terminations	Other Exit Costs	Total
Accruals	$ 68	$ 13	$ 81
Cash paid	(48)	(12)	(60)
Remaining liability as of December 31, 2009	20	1	21
Accruals	33	19	52
Cash paid	(39)	(12)	(51)
Remaining liability as of December 31, 2010[a]	$ 14	$ 8	$ 22

[a] Of the remaining liability as of December 31, 2010, $19 million is classified as a current liability, with the remaining amount classified as a noncurrent liability in the consolidated balance sheet. Amounts are expected to be paid through 2014.

Between January 1, 2005 and December 31, 2008, the Company underwent a restructuring plan to simplify its organizational structure and enhance its customer focus, and incurred costs of $80 million related to this restructuring, of which $15 million was incurred during 2008, and through December 31, 2010, the Company made payments of $80 million related to this restructuring. As of December 31, 2010, all amounts accrued under this restructuring plan have been paid.

17. INCOME TAXES

Prior to the Separation, TWC was not a separate taxable entity for U.S. federal and various state income tax purposes and its results were included in the consolidated U.S. federal and certain consolidated or combined state income tax returns of Time Warner. For taxable periods after the Separation, TWC files separate U.S. federal and consolidated or combined state income tax returns. The following income tax information has been prepared assuming TWC was a stand-alone taxpayer for all periods presented.

The current and deferred income tax (benefit) provision for the years ended December 31, 2010, 2009 and 2008 is as follows (in millions):

	Year Ended December 31, 2010	2009	2008
Federal:			
Current	$ 127	$ 83	$ (188)
Deferred	654	543	(3,967)
State:			
Current	69	61	39
Deferred	33	133	(993)
Total	$ 883	$ 820	$ (5,109)

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

The differences between income tax (benefit) provision expected at the U.S. federal statutory income tax rate of 35% and income tax (benefit) provision provided for the years ended December 31, 2010, 2009 and 2008 are as follows (in millions):

	Year Ended December 31,		
	2010	2009	2008
Tax (benefit) provision on income at U.S. federal statutory rate	$ 769	$ 669	$ (4,575)
State and local taxes (tax benefits), net of federal tax effects	66	126	(620)
Equity-based compensation	61	1	
Other	(13)	24	86
Total	$ 883	$ 820	$ (5,109)

The income tax provision and the effective tax rate for the year ended December 31, 2010 were impacted by a net noncash charge of $68 million ($61 million and $7 million for federal and state taxes, respectively) related to the reversal of previously recognized deferred income tax benefits primarily as a result of the expiration, on March 12, 2010, of vested Time Warner stock options held by TWC employees. As a result of the Separation on March 12, 2009, TWC employees who held stock options under Time Warner equity plans were treated as if their employment with Time Warner had been terminated without cause at the time of the Separation. In most cases, this treatment resulted in shortened exercise periods, generally one year from the date of Separation, for vested Time Warner stock options held by TWC employees. Vested Time Warner stock options held primarily by certain retirement-eligible TWC employees (pursuant to the terms of the award agreements) have exercise periods of up to five years from the date of the Separation. As such, the Company estimates that it may incur additional noncash income tax expense of up to approximately $90 million through March 2014 upon the exercise or expiration of these stock options. Up to approximately $50 million of such expense is expected to be incurred in the first quarter of 2011 and may be partially reduced during 2011 as TWC equity awards vest and are exercised. These estimates and the timing of such charges are dependent on a number of variables related to TWC and Time Warner equity awards, including the respective stock prices and the timing of the exercise or expiration of stock options and RSUs.

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

Significant components of TWC s deferred income tax liabilities, net, as of December 31, 2010 and 2009 are as follows (in millions):

	December 31, 2010	December 31, 2009
Equity-based compensation	$ 175	$ 181
Investments	147	130
Other[(a)]	369	351
Valuation allowances[(b)]	(57)	(88)
Deferred income tax assets	634	574
Cable franchise rights and customer relationships[(c)]	(6,481)	(6,136)
Property, plant and equipment	(3,587)	(3,239)
Other	(53)	(17)
Deferred income tax liabilities	(10,121)	(9,392)
Deferred income tax liabilities, net[(d)]	$ (9,487)	$ (8,818)

(a) Other deferred income tax assets includes net operating loss carryforwards of $15 million as of December 31, 2010 and 2009 and tax credit carryforwards of $20 million and $29 million as of December 31, 2010 and 2009, respectively. These net operating loss and tax credit carryforwards expire in varying amounts through 2030.

(b) The Company has recorded a valuation allowance for deferred income tax assets associated with equity-method investments, as well as certain state net operating loss and credit carryforwards. The valuation allowance is based upon the Company s assessment that it is more likely than not that a portion of the deferred income tax asset will not be realized. The change in the valuation allowance during 2010 included a decrease of $29 million primarily related to equity-method investments.

(c) Cable franchise rights and customer relationships is comprised of deferred income tax assets (approximately $800 million) where the tax basis exceeds the book basis primarily as a result of the impairment recorded in 2008 that are expected to be realized as the Company receives tax deductions from the amortization, for tax purposes, of the intangible assets offset by deferred income tax liabilities (approximately $7.3 billion) that are associated with intangible assets for which the book basis is greater than the tax basis.

(d) Deferred income tax liabilities, net, includes current deferred income tax assets of $150 million and $139 million as of December 31, 2010 and 2009, respectively.

Changes in the Company s deferred income tax liabilities, net, from January 1 through December 31 are presented below (in millions):

	2010	2009

Balance at beginning of year	$	(8,818)	$	(8,037)
Deferred income tax provision		(687)		(676)
Recorded directly to TWC shareholders equity as a component of:				
Additional paid-in capital:				
Equity-based compensation		45		(6)
Retained earnings (accumulated deficit):				
Change in sabbatical leave benefit obligation				(2)
Accumulated other comprehensive loss, net:				
Change in pension benefit obligation		(25)		(95)
Change in gains on derivative financial instruments		(2)		(2)
Balance at end of year	$	(9,487)	$	(8,818)

Table of Contents

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

Uncertain Income Tax Positions

The Company recognizes income tax benefits for those income tax positions determined more likely than not to be sustained upon examination, based on the technical merits of the positions. The reserve for uncertain income tax positions is included in other liabilities in the consolidated balance sheet. Changes in the Company s reserve for uncertain income tax positions, excluding the related accrual for interest and penalties, from January 1 through December 31 are presented below (in millions):

	2010	2009	2008
Balance at beginning of year	$ 56	$ 22	$ 18
Additions for prior year tax positions	2	32	3
Additions for current year tax positions	6	3	5
Reductions for prior year tax positions			(2)
Lapses in statute of limitations	(13)	(1)	(2)
Balance at end of year	$ 51	$ 56	$ 22

If the Company were to recognize the benefits of these uncertain income tax positions, $29 million, $28 million and $19 million, net of the federal and state benefit for income taxes, would have impacted income tax (benefit) provision in the consolidated statement of operations and the effective tax rate for the years ended December 31, 2010, 2009 and 2008, respectively.

The impact of temporary differences and tax attributes are considered when calculating accruals for interest and penalties associated with the reserve for uncertain income tax positions. The amount accrued for interest and penalties as of December 31, 2010 and 2009 was $15 million and $17 million, respectively. The Company recognizes interest and penalties accrued on uncertain income tax positions as part of the income tax (benefit) provision. The income tax (benefit) provision for the years ended December 31, 2010, 2009 and 2008 includes interest and penalties of $2 million, $13 million and $2 million, respectively.

The Company does not currently anticipate that its existing reserves related to uncertain income tax positions as of December 31, 2010 will significantly increase or decrease during the twelve-month period ending December 31, 2011; however, various events could cause the Company s current expectations to change in the future.

In August 2009, the Internal Revenue Service (IRS) examination of the Company s income tax returns for the period 2002 to 2004 was settled, with the exception of an immaterial item subject to an ongoing examination. The resolution of these items did not have a material impact on the Company s consolidated financial position or results of operations. The IRS is currently examining the Company s 2005 to 2007 income tax returns. The Company does not anticipate that this examination will have a material impact on the Company s consolidated financial position or results of operations. In addition, the Company is also subject to ongoing examinations of the Company s tax returns by state and local tax authorities for various periods. Activity related to these state and local examinations did not have a material impact on the Company s consolidated financial position or results of operations in 2010, nor does the Company anticipate a material impact in the future.

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

18. RELATED PARTY TRANSACTIONS

In the normal course of conducting its business, the Company has various transactions with equity-method investments, Time Warner and affiliates and subsidiaries of Time Warner. Effective March 12, 2009, upon completion of the Separation, Time Warner and its affiliates are no longer related parties. A summary of these transactions for the years ended December 31, 2010, 2009 and 2008 is as follows (in millions):

	Year Ended December 31,		
	2010	2009	2008
Revenues	$ 17	$ 16	$ 29
Costs of revenues:			
Programming services provided by equity-method investees	$ (238)	(231)	(176)
Programming services provided by subsidiaries of Time Warner and affiliates		(168)	(857)
Other costs charged by equity-method investees	(19)	(16)	(20)
Other costs charged by subsidiaries of Time Warner and affiliates			(1)
Total	$ (257)	$ (415)	$ (1,054)
Selling, general and administrative expenses	$	$ (3)	$ (22)

19. COMMITMENTS AND CONTINGENCIES

Prior to the restructuring of TWE, which was completed in March 2003 (the TWE Restructuring), TWE had various contingent commitments, including guarantees, related to the TWE non-cable businesses. In connection with the TWE Restructuring, some of these commitments were not transferred with their applicable non-cable business and they remain contingent commitments of TWE. Time Warner and its subsidiary, WCI, have agreed, on a joint and several basis, to indemnify TWE from and against any and all of these contingent liabilities, but TWE remains a party to these commitments.

TWC has cable franchise agreements containing provisions requiring the construction of cable plant and the provision of services to customers within the franchise areas. In connection with these obligations under existing franchise agreements, TWC obtains surety bonds or letters of credit guaranteeing performance to municipalities and public utilities and payment of insurance premiums. Such surety bonds and letters of credit as of December 31, 2010 and 2009 totaled $322 million and $313 million, respectively. Payments under these arrangements are required only in the event of nonperformance. TWC does not expect that these contingent commitments will result in any amounts being paid in the foreseeable future.

Contractual Obligations

The Company has obligations to make future payments for goods and services under certain contractual arrangements. These contractual obligations secure the future rights to various assets and services to be used in the normal course of the Company s operations. For example, the Company is contractually committed to make certain minimum lease payments for the use of property under operating lease agreements. In accordance with applicable accounting rules, the future rights and obligations pertaining to firm commitments, such as operating lease obligations and certain purchase obligations under contracts, are not reflected as assets or liabilities in the consolidated balance sheet.

The Company s total rent expense, which primarily includes facility rental expense and pole attachment rental fees, amounted to $212 million in 2010, $212 million in 2009 and $190 million in 2008. The Company has lease obligations under various operating leases including minimum lease obligations for real estate and operating equipment.

The minimum rental commitments under long-term operating leases during the next five years are $117 million in 2011, $107 million in 2012, $99 million in 2013, $90 million in 2014, $82 million in 2015 and $348 million thereafter.

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

The following table summarizes the Company s aggregate contractual obligations as of December 31, 2010 under certain programming, Digital Phone and high-speed data connectivity and other agreements and the estimated timing and effect that such obligations are expected to have on the Company s liquidity and cash flows in future periods (in millions):

2011	$	4,339
2012 2013		8,218
2014 2015		6,011
Thereafter		7,027
Total	$	25,595

Programming purchases represent contracts that the Company has with cable television networks and broadcast stations to provide programming services to its subscribers. The amounts included above represent estimates of the future programming costs for these contract requirements and commitments based on subscriber numbers and tier placement as of December 31, 2010 applied to the per-subscriber rates contained in these contracts. Actual amounts due under such contracts may differ from the amounts above based on the actual subscriber numbers and tier placements.

Digital Phone connectivity obligations relate to transport, switching and interconnection services, primarily provided by Sprint, that allow for the origination and termination of local and long-distance telephony traffic. These expenses also include related technical support services. In the fourth quarter of 2010, the Company began replacing Sprint as the provider of these services. There is generally no obligation to purchase these services if the Company is not providing Digital Phone service. The amounts included above are estimated based on the number of Digital Phone subscribers as of December 31, 2010 and the per-subscriber contractual rates contained in the contracts that were in effect as of December 31, 2010 and also reflect the replacement of Sprint between the fourth quarter 2010 and the first quarter of 2014.

High-speed data connectivity obligations are based on the contractual terms for bandwidth circuits that were in use as of December 31, 2010.

Minimum pension funding requirements have not been presented as such amounts have not been determined beyond 2010. The Company did not have a required minimum pension contribution obligation for its qualified pension plans in 2010; however, the Company made cash contributions of $104 million to the pension plans during 2010 and may make discretionary cash contributions to these plans in 2011.

Legal Proceedings

The Company is the defendant in *In re: Set-Top Cable Television Box Antitrust Litigation*, ten purported class actions filed in federal district courts throughout the United States. These actions are subject to a Multidistrict Litigation Order transferring the cases for pre-trial purposes to the U.S. District Court for the Southern District of New York. On May 10, 2010, the plaintiffs filed a second amended consolidated class action complaint (the Second Amended Complaint), alleging that the Company violated Section 1 of the Sherman Antitrust Act, various state antitrust laws and state unfair/deceptive trade practices statutes by tying the sales of premium cable television services to the leasing of set-top converters boxes. The plaintiffs are seeking, among other things, unspecified treble monetary damages and an injunction to cease such alleged practices. On September 30, 2010, the Company filed a motion to dismiss the Second Amended Complaint. The Company intends to defend against this lawsuit vigorously.

On November 14, 2008, the plaintiffs in *Mark Swinegar, et al. v. Time Warner Cable Inc.*, filed a second amended complaint in the Los Angeles County Superior Court, as a purported class action, alleging that the Company provided to and charged plaintiffs for equipment that they had not affirmatively requested in violation of the proscription in the Cable Consumer Protection and Competition Act of 1992 (the Cable Act) against negative option billing and that such violation was an unlawful act or practice under California s Unfair Competition Law (the UCL). Plaintiffs are seeking restitution under the UCL and attorneys fees. On February 23, 2009, the court denied TWC s motion to dismiss the second amended complaint, and on July 29, 2010, the court denied the Company s motion for summary judgment. On October 7, 2010, the Company filed a petition for a declaratory ruling with the Federal Communications Commission (the

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

FCC) requesting that the FCC determine whether the Company s general ordering process complies with the Cable Act s negative option billing restriction. On October 20, 2010, the FCC requested public comment on this matter. The Company intends to defend against this lawsuit vigorously.

On September 20, 2007, *Brantley, et al. v. NBC Universal, Inc., et al.* was filed in the U.S. District Court for the Central District of California against the Company. The complaint, which also named as defendants several other cable and satellite providers (collectively, the distributor defendants) as well as programming content providers (collectively, the programmer defendants), alleged violations of Sections 1 and 2 of the Sherman Antitrust Act. Among other things, the complaint alleged coordination between and among the programmer defendants to sell and/or license programming on a bundled basis to the distributor defendants, who in turn purportedly offer that programming to subscribers in packaged tiers, rather than on a per channel (or à la carte) basis. Plaintiffs, who seek to represent a purported nationwide class of cable and satellite subscribers, are seeking, among other things, unspecified treble monetary damages and an injunction to compel the offering of channels to subscribers on an à la carte basis. On December 3, 2007, plaintiffs filed an amended complaint in this action that, among other things, dropped the Section 2 claims and all allegations of horizontal coordination. On October 15, 2009, the district court granted with prejudice a motion by the distributor defendants and the programmer defendants to dismiss the plaintiffs third amended complaint, terminating the action. On April 19, 2010, plaintiffs appealed this decision to the U.S. Court of Appeals for the Ninth Circuit. The Company intends to defend against this lawsuit vigorously.

The Company is also a defendant in two other purported class actions. On September 17, 2009, the plaintiffs in *Jessica Fink and Brett Noia, et al. v. Time Warner Cable Inc.*, filed an amended complaint in a purported class action in U.S. District Court for the Southern District of New York alleging that the Company uses a throttling technique which intentionally delays and/or blocks a user s Road Runner service. Plaintiffs are seeking unspecified monetary damages, injunctive relief and attorneys fees. On September 25, 2009, TWC moved for summary judgment in this action, which is pending. On January 27, 2011, the plaintiffs in *Calzada, et al. v. Time Warner Cable LLC*, filed a purported class action in the Los Angeles County Superior Court alleging that the Company recorded phone calls with plaintiffs without notice in violation of provisions of the California Penal Code and the California Unfair Business Practices Act. The plaintiffs are seeking, among other things, unspecified treble monetary damages, injunctive relief, restitution and attorneys fees. The Company intends to defend against each of these lawsuits vigorously.

Certain Patent Litigation

On September 1, 2006, Ronald A. Katz Technology Licensing, L.P. (Katz) filed a complaint in the U.S. District Court for the District of Delaware alleging that TWC and several other cable operators, among other defendants, infringe 18 patents purportedly relating to the Company s customer call center operations and/or voicemail services. The plaintiff is seeking unspecified monetary damages as well as injunctive relief. On March 20, 2007, this case, together with other lawsuits filed by Katz, was made subject to a Multidistrict Litigation (MDL) Order transferring the case for pretrial proceedings to the U.S. District Court for the Central District of California. In April 2008, TWC and other defendants filed common motions for summary judgment, which argued, among other things, that a number of claims in the patents at issue are invalid under Sections 112 and 103 of the Patent Act. On June 19 and August 4, 2008, the court issued orders granting, in part, and denying, in part, those motions. Defendants filed additional individual motions for summary judgment in August 2008, which argued, among other things, that defendants respective products do not infringe the surviving claims in plaintiff s patents. On August 13, 2009, the district court found one additional patent invalid, but denied defendants motions for summary judgment on three remaining patents, and on October 27, 2009, the district court denied the defendants requests for reconsideration of the decision. Based on motions for summary judgment brought by other defendants, the district court found, in decisions on January 29, 2010 and December 3, 2010, two of the three remaining patents invalid with respect to those defendants. The Company intends to defend against this lawsuit vigorously.

On June 1, 2006, Rembrandt Technologies, LP (Rembrandt) filed a complaint in the U.S. District Court for the Eastern District of Texas alleging that the Company and a number of other cable operators infringed several patents purportedly related to a variety of technologies, including high-speed data and IP-based telephony services. In addition,

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

on September 13, 2006, Rembrandt filed a complaint in the U.S. District Court for the Eastern District of Texas alleging that the Company infringes several patents purportedly related to high-speed cable modem internet products and services. On June 18, 2007, these cases, along with other lawsuits filed by Rembrandt, were made subject to an MDL Order transferring the case for pretrial proceedings to the U.S. District Court for the District of Delaware. In November 2008, the district court issued its claims construction orders. In response to these orders, the plaintiff has indicated it will dismiss its claims relating to the alleged infringement of eight patents purportedly relating to high-speed data and IP-based telephony services. The plaintiff has not indicated that it will dismiss its claim relating to one remaining patent alleged to relate to digital video decoder technology. Summary judgment motions are pending relating to the remaining claim. The Company intends to defend against the remaining claim vigorously.

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

As part of the restructuring of TWE in 2003, Time Warner agreed to indemnify the Company from and against any and all liabilities relating to, arising out of or resulting from specified litigation matters brought against the TWE non-cable businesses. Although Time Warner has agreed to indemnify the Company against such liabilities, TWE remains a named party in certain litigation matters.

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

20. ADDITIONAL FINANCIAL INFORMATION

Other Cash Flow Information

Additional financial information with respect to cash (payments) and receipts for the years ended December 31, 2010, 2009 and 2008 is as follows (in millions):

	Year Ended December 31,		
	2010	2009	2008
Cash paid for interest	$ (1,458)	$ (1,234)	$ (745)
Interest income received[(a)]	99	13	38
Cash paid for interest, net	$ (1,359)	$ (1,221)	$ (707)
Cash paid for income taxes	$ (481)	$ (90)	$ (40)

Cash refunds of income taxes		93		53		4
Cash paid for income taxes, net	$	(388)	$	(37)	$	(36)

(a) Interest income received includes amounts received under interest rate swap contracts.

The consolidated statement of cash flows for the year ended December 31, 2010 does not reflect $43 million of common stock repurchases that were included in other current liabilities as of December 31, 2010 for which payment was made in January 2011.

Table of Contents

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

Noncash financing activities for the year ended December 31, 2009 included the TW NY Exchange, in which Historic TW transferred its 12.43% non-voting common stock interest in TW NY to TWC in exchange for 26.7 million newly issued shares (after giving effect to the TWC Reverse Stock Split) of TWC s Class A common stock.

Interest Expense, Net

Interest expense, net, for the years ended December 31, 2010, 2009 and 2008 consisted of (in millions):

	Year Ended December 31,		
	2010	2009	2008
Interest income	$ 3	$ 5	$ 38
Interest expense	(1,397)	(1,324)	(961)
Interest expense, net	$ (1,394)	$ (1,319)	$ (923)

Other Expense, Net

Other expense, net, for the years ended December 31, 2010, 2009 and 2008 consisted of (in millions):

	Year Ended December 31,		
	2010	2009	2008
Direct transaction costs related to the Separation	$	$ (28)	$ (17)
Income (loss) from equity investments, net	(110)	(49)	16
Impairment of investment in Clearwire Communications			(367)
Gain (loss) on equity award reimbursement obligation to Time Warner	5	(21)	
Other	6	12	1
Other expense, net	$ (99)	$ (86)	$ (367)

Other Current Assets

Other current assets as of December 31, 2010 and 2009 consisted of (in millions):

	December 31,	
	2010	2009
Prepaid income taxes	$ 287	$ 103
Other prepaid expenses	116	96

Other current assets		22		53
Total other current assets	$	425	$	252

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

Other Current Liabilities

Other current liabilities as of December 31, 2010 and 2009 consisted of (in millions):

	December 31, 2010	December 31, 2009
Accrued interest	$ 507	$ 469
Accrued compensation and benefits	357	327
Accrued franchise fees	166	166
Accrued insurance	152	142
Accrued sales and other taxes	92	116
Accrued rent	50	41
Accrued share repurchases	43	
Accrued marketing support	27	53
Other accrued expenses	235	258
Total other current liabilities	$ 1,629	$ 1,572

21. CONDENSED CONSOLIDATING FINANCIAL STATEMENTS

TWE and TW NY (the Guarantor Subsidiaries) are subsidiaries of Time Warner Cable Inc. (the Parent Company). The Guarantor Subsidiaries have fully and unconditionally, jointly and severally, directly or indirectly, guaranteed the debt issued by the Parent Company in its 2007 registered exchange offer and its 2008, 2009 and 2010 public offerings. The Parent Company owns all of the voting interests, directly or indirectly, of both TWE and TW NY.

The SEC s rules require that condensed consolidating financial information be provided for subsidiaries that have guaranteed debt of a registrant issued in a public offering, where each such guarantee is full and unconditional and where the voting interests of the subsidiaries are wholly owned by the registrant. Set forth below are condensed consolidating financial statements presenting the financial position, results of operations, and cash flows of (i) the Parent Company, (ii) the Guarantor Subsidiaries on a combined basis (as such guarantees are joint and several), (iii) the direct and indirect non-guarantor subsidiaries of the Parent Company (the Non-Guarantor Subsidiaries) on a combined basis and (iv) the eliminations necessary to arrive at the information for Time Warner Cable Inc. on a consolidated basis.

There are no legal or regulatory restrictions on the Parent Company s ability to obtain funds from any of its subsidiaries through dividends, loans or advances.

These condensed consolidating financial statements should be read in conjunction with the consolidated financial statements of Time Warner Cable Inc.

Basis of Presentation

In presenting the condensed consolidating financial statements, the equity method of accounting has been applied to (i) the Parent Company s interests in the Guarantor Subsidiaries and the Non-Guarantor Subsidiaries, (ii) the Guarantor Subsidiaries interests in the Non-Guarantor Subsidiaries and (iii) the Non-Guarantor Subsidiaries interests in the Guarantor Subsidiaries, where applicable, even though all such subsidiaries meet the requirements to be consolidated under U.S. generally accepted accounting principles. All intercompany balances and transactions between the Parent Company, the Guarantor Subsidiaries and the Non-Guarantor Subsidiaries have been eliminated, as shown in the column Eliminations.

The accounting bases in all subsidiaries, including goodwill and identified intangible assets, have been allocated to the applicable subsidiaries.

Prior to March 12, 2009, Time Warner Cable Inc. was not a separate taxable entity for U.S. federal and various state income tax purposes and its results were included in the consolidated U.S. federal and certain state income tax returns of

Table of Contents

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

Time Warner Inc. In the condensed consolidating financial statements, income tax provision has been presented based on each subsidiary s legal entity basis. Deferred taxes of the Parent Company, the Guarantor Subsidiaries and the Non-Guarantor Subsidiaries have been presented based upon the temporary differences between the carrying amounts of the respective assets and liabilities of the applicable entities.

Certain administrative costs incurred by the Parent Company, the Guarantor Subsidiaries or the Non-Guarantor Subsidiaries are allocated to the various entities based on the relative number of video subscribers at each entity.

Effective January 1, 2010, the Company prospectively modified its intercompany transfer pricing agreement for certain services. While this modification did not materially impact net income of either the Guarantor Subsidiaries or the Non-Guarantor Subsidiaries, it did increase revenues and associated expenses (including expenses reported as intercompany royalties) for the Non-Guarantor Subsidiaries and reduced revenues and associated expenses for the Guarantor Subsidiaries.

Prior to October 1, 2009, interest income (expense), net, was determined based on third-party debt and the relevant intercompany amounts within the respective legal entity. Beginning October 1, 2009, the Parent Company began to allocate interest expense to certain subsidiaries based on each subsidiary s contribution to revenues. This allocation serves to reduce the Parent Company s interest expense and increase the interest expense of both the Guarantor Subsidiaries and Non-Guarantor Subsidiaries.

Table of Contents

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

Consolidating Balance Sheet
December 31, 2010

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries (in millions)	Eliminations	TWC Consolidated
ASSETS					
Current assets:					
Cash and equivalents	$ 2,980	$ 67	$	$	$ 3,047
Receivables, net	44	179	495		718
Receivables from affiliated parties	31	25	43	(99)	
Deferred income tax assets	150	93	78	(171)	150
Other current assets	303	47	75		425
Total current assets	3,508	411	691	(270)	4,340
Investments in and amounts due from consolidated subsidiaries	41,628	23,033	11,613	(76,274)	
Investments	18	6	842		866
Property, plant and equipment, net	51	3,800	10,022		13,873
Intangible assets subject to amortization, net		10	122		132
Intangible assets not subject to amortization		6,216	17,875		24,091
Goodwill	4	3	2,084		2,091
Other assets	381	20	28		429
Total assets	$ 45,590	$ 33,499	$ 43,277	$ (76,544)	$ 45,822
LIABILITIES AND EQUITY					
Current liabilities:					
Accounts payable	$	$ 222	$ 307	$	$ 529
Deferred revenue and subscriber-related liabilities		65	98		163
Payables to affiliated parties	25	43	31	(99)	
Accrued programming expense		727	38		765
Other current liabilities	555	512	562		1,629
Total current liabilities	580	1,569	1,036	(99)	3,086
Long-term debt	20,418	2,703			23,121
Mandatorily redeemable preferred equity		1,928	300	(1,928)	300
Deferred income tax liabilities, net	9,634	4,944	4,840	(9,781)	9,637

Long-term payables to affiliated parties	5,630	691	8,704	(15,025)	
Other liabilities	118	119	224		461
TWC shareholders equity:					
Due to (from) TWC and subsidiaries		7	(1,568)	1,561	
Other TWC shareholders equity	9,210	17,517	29,741	(47,258)	9,210
Total TWC shareholders equity	9,210	17,524	28,173	(45,697)	9,210
Noncontrolling interests		4,021		(4,014)	7
Total equity	9,210	21,545	28,173	(49,711)	9,217
Total liabilities and equity	$ 45,590	$ 33,499	$ 43,277	$ (76,544)	$ 45,822

Table of Contents

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

Consolidating Balance Sheet
December 31, 2009

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries (in millions)	Eliminations	TWC Consolidated
ASSETS					
Current assets:					
Cash and equivalents	$ 1,048	$	$	$	$ 1,048
Receivables, net	26	211	426		663
Receivables from affiliated parties	20	8	215	(243)	
Deferred income tax assets	139	107	89	(196)	139
Other current assets	153	50	49		252
Total current assets	1,386	376	779	(439)	2,102
Investments in and amounts due from consolidated subsidiaries	40,951	20,774	10,593	(72,318)	
Investments	19	5	951		975
Property, plant and equipment, net	17	3,948	9,954		13,919
Intangible assets subject to amortization, net		5	269		274
Intangible assets not subject to amortization		6,216	17,876		24,092
Goodwill	4	3	2,104		2,111
Other assets	180	9	32		221
Total assets	$ 42,557	$ 31,336	$ 42,558	$ (72,757)	$ 43,694
LIABILITIES AND EQUITY					
Current liabilities:					
Accounts payable	$	$ 176	$ 302	$	$ 478
Deferred revenue and subscriber-related liabilities		45	125		170
Payables to affiliated parties	8	215	20	(243)	
Accrued programming expense		697	41		738
Other current liabilities	464	545	563		1,572
Total current liabilities	472	1,678	1,051	(243)	2,958
Long-term debt	19,617	2,714			22,331
Mandatorily redeemable preferred equity		1,928	300	(1,928)	300
Deferred income tax liabilities, net	8,955	4,428	4,360	(8,786)	8,957

Long-term payables to affiliated parties		4,640		512		8,704		(13,856)		
Other liabilities		188		108		163				459
TWC shareholders equity:										
Due to TWC and subsidiaries				7		571		(578)		
Other TWC shareholders equity		8,685		16,315		27,409		(43,724)		8,685
Total TWC shareholders equity		8,685		16,322		27,980		(44,302)		8,685
Noncontrolling interests				3,646				(3,642)		4
Total equity		8,685		19,968		27,980		(47,944)		8,689
Total liabilities and equity	$	42,557	$	31,336	$	42,558	$	(72,757)	$	43,694

116

Table of Contents

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

Consolidating Statement of Operations
Year Ended December 31, 2010

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries (in millions)	Eliminations	TWC Consolidated
Revenues	$	$ 3,001	$ 15,867	$	$ 18,868
Costs of revenues		1,691	7,250		8,941
Selling, general and administrative		190	2,867		3,057
Depreciation		753	2,208		2,961
Amortization			168		168
Intercompany royalties		(346)	346		
Restructuring costs		30	22		52
Total costs and expenses		2,318	12,861		15,179
Operating Income		683	3,006		3,689
Equity in pretax income of consolidated subsidiaries	2,532	1,778	202	(4,512)	
Interest expense, net	(343)	(478)	(573)		(1,394)
Other income (expense), net		4	(103)		(99)
Income before income taxes	2,189	1,987	2,532	(4,512)	2,196
Income tax provision	(881)	(778)	(716)	1,492	(883)
Net income	1,308	1,209	1,816	(3,020)	1,313
Less: Net income attributable to noncontrolling interests		(93)		88	(5)
Net income attributable to TWC shareholders	$ 1,308	$ 1,116	$ 1,816	$ (2,932)	$ 1,308

117

Table of Contents

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

Consolidating Statement of Operations
Year Ended December 31, 2009

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	TWC Consolidated
			(in millions)		
Revenues	$	$ 3,860	$ 14,212	$ (204)	$ 17,868
Costs of revenues		2,091	6,668	(204)	8,555
Selling, general and administrative		418	2,412		2,830
Depreciation	1	742	2,093		2,836
Amortization		1	248		249
Restructuring costs		34	47		81
Total costs and expenses	1	3,286	11,468	(204)	14,551
Operating Income (Loss)	(1)	574	2,744		3,317
Equity in pretax income of consolidated subsidiaries	2,729	1,892	53	(4,674)	
Interest expense, net	(822)	(476)	(21)		(1,319)
Other expense, net	(31)	(8)	(47)		(86)
Income before income taxes	1,875	1,982	2,729	(4,674)	1,912
Income tax provision	(805)	(789)	(774)	1,548	(820)
Net income	1,070	1,193	1,955	(3,126)	1,092
Less: Net income attributable to noncontrolling interests		(42)		20	(22)
Net income attributable to TWC shareholders	$ 1,070	$ 1,151	$ 1,955	$ (3,106)	$ 1,070

Table of Contents

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

Consolidating Statement of Operations
Year Ended December 31, 2008

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries (in millions)	Eliminations	TWC Consolidated
Revenues	$	$ 3,324	$ 14,050	$ (174)	$ 17,200
Costs of revenues		1,783	6,536	(174)	8,145
Selling, general and administrative		425	2,429		2,854
Depreciation		664	2,162		2,826
Amortization		1	261		262
Restructuring costs		4	11		15
Impairment of cable franchise rights		2,729	12,093		14,822
Loss on sale of cable systems		11	47		58
Total costs and expenses		5,617	23,539	(174)	28,982
Operating Loss		(2,293)	(9,489)		(11,782)
Equity in pretax loss of consolidated subsidiaries	(11,531)	(6,723)	(1,726)	19,980	
Interest income (expense), net	(504)	(466)	47		(923)
Other income (expense), net	(15)	11	(363)		(367)
Loss before income taxes	(12,050)	(9,471)	(11,531)	19,980	(13,072)
Income tax benefit	4,706	3,255	3,310	(6,162)	5,109
Net loss	(7,344)	(6,216)	(8,221)	13,818	(7,963)
Less: Net loss attributable to noncontrolling interests		1,227		(608)	619
Net loss attributable to TWC shareholders	$ (7,344)	$ (4,989)	$ (8,221)	$ 13,210	$ (7,344)

Table of Contents

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

Consolidating Statement of Cash Flows
Year Ended December 31, 2010

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries (in millions)	Eliminations	TWC Consolidated
Cash provided (used) by operating activities	$ (480)	$ 892	$ 4,794	$ 12	$ 5,218
INVESTING ACTIVITIES					
Acquisitions and investments, net of cash acquired and distributions received	35	(992)	(164)	1,169	48
Capital expenditures	(35)	(617)	(2,278)		(2,930)
Other investing activities		1	9		10
Cash used by investing activities		(1,608)	(2,433)	1,169	(2,872)
FINANCING ACTIVITIES					
Borrowings (repayments), net	(271)	179		(1,169)	(1,261)
Borrowings	1,872				1,872
Repayments		(8)			(8)
Debt issuance costs	(25)				(25)
Proceeds from exercise of stock options	113				113
Dividends paid	(576)				(576)
Repurchases of common stock	(472)				(472)
Net change in investments in and amounts due to and from consolidated subsidiaries	1,778	597	(2,365)	(10)	
Other financing activities	(7)	15	4	(2)	10
Cash provided (used) by financing activities	2,412	783	(2,361)	(1,181)	(347)
Increase in cash and equivalents	1,932	67			1,999
Cash and equivalents at beginning of period	1,048				1,048
Cash and equivalents at end of period	$ 2,980	$ 67	$	$	$ 3,047

Table of Contents

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

Consolidating Statement of Cash Flows
Year Ended December 31, 2009

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries (in millions)	Eliminations	TWC Consolidated
Cash provided by operating activities	$ 238	$ 625	$ 3,923	$ 393	$ 5,179
INVESTING ACTIVITIES					
Acquisitions and investments, net of cash acquired and distributions received	64	(4,527)	(94)	4,469	(88)
Capital expenditures	(11)	(1,016)	(2,204)		(3,231)
Other investing activities		6	6		12
Cash provided (used) by investing activities	53	(5,537)	(2,292)	4,469	(3,307)
FINANCING ACTIVITIES					
Borrowings (repayments), net	642	(62)		681	1,261
Borrowings	12,037				12,037
Repayments	(8,677)				(8,677)
Debt issuance costs	(34)				(34)
Proceeds from exercise of stock options	4				4
Net change in investments in and amounts due to and from consolidated subsidiaries	2,246	(226)	(1,631)	(389)	
Payment of special cash dividend	(10,856)				(10,856)
Other financing activities		(4)		(4)	(8)
Cash used by financing activities	(4,638)	(292)	(1,631)	288	(6,273)
Decrease in cash and equivalents	(4,347)	(5,204)		5,150	(4,401)
Cash and equivalents at beginning of period	5,395	5,204		(5,150)	5,449
Cash and equivalents at end of period	$ 1,048	$	$	$	$ 1,048

121

Table of Contents

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

Consolidating Statement of Cash Flows
Year Ended December 31, 2008

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries (in millions)	Eliminations	TWC Consolidated
Cash provided (used) by operating activities	$ (927)	$ 1,207	$ 5,223	$ (203)	$ 5,300
INVESTING ACTIVITIES					
Acquisitions and investments, net of cash acquired and distributions received	(659)	(3)	(579)	556	(685)
Capital expenditures		(926)	(2,596)		(3,522)
Other investing activities		16	51		67
Cash used by investing activities	(659)	(913)	(3,124)	556	(4,140)
FINANCING ACTIVITIES					
Borrowings (repayments), net	1,533			(1,739)	(206)
Borrowings	7,182				7,182
Repayments	(2,217)	(600)			(2,817)
Debt issuance costs	(97)				(97)
Net change in investments in and amounts due to and from consolidated subsidiaries	395	2,055	(2,097)	(353)	
Other financing activities		(3)	(2)		(5)
Cash provided (used) by financing activities	6,796	1,452	(2,099)	(2,092)	4,057
Increase in cash and equivalents	5,210	1,746		(1,739)	5,217
Cash and equivalents at beginning of period	185	3,458		(3,411)	232
Cash and equivalents at end of period	$ 5,395	$ 5,204	$	$ (5,150)	$ 5,449

Table of Contents

TIME WARNER CABLE INC.
MANAGEMENT S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting (as such term is defined in Rule 13a-15(f) under the Exchange Act). The Company s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company s assets that could have a material effect on the financial statements.

Internal control over financial reporting is designed to provide reasonable assurance to the Company s management and board of directors regarding the preparation of reliable financial statements for external purposes in accordance with generally accepted accounting principles. Internal control over financial reporting includes self-monitoring mechanisms and actions taken to correct deficiencies as they are identified. Because of the inherent limitations in any internal control, no matter how well designed, misstatements may occur and not be prevented or detected. Accordingly, even effective internal control over financial reporting can provide only reasonable assurance with respect to financial statement preparation. Further, the evaluation of the effectiveness of internal control over financial reporting was made as of a specific date, and continued effectiveness in future periods is subject to the risks that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies and procedures may decline.

Management conducted an evaluation of the effectiveness of the Company s system of internal control over financial reporting as of December 31, 2010 based on the framework set forth in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on its evaluation, management concluded that, as of December 31, 2010, the Company s internal control over financial reporting is effective based on the specified criteria.

The Company s internal control over financial reporting as of December 31, 2010 has been audited by the Company s independent auditor, Ernst & Young LLP, a registered public accounting firm, as stated in their report at page 125 herein.

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and
Shareholders of Time Warner Cable Inc.

We have audited the accompanying consolidated balance sheet of Time Warner Cable Inc. (the Company) as of December 31, 2010 and 2009, and the related consolidated statements of operations, cash flows, equity and comprehensive income for each of the three years in the period ended December 31, 2010. The financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on the financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Time Warner Cable Inc. at December 31, 2010 and 2009, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2010, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Time Warner Cable Inc. s internal control over financial reporting as of December 31, 2010, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 18, 2011 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

New York, New York
February 18, 2011

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and
Shareholders of Time Warner Cable Inc.

We have audited Time Warner Cable Inc. s (the Company) internal control over financial reporting as of December 31, 2010, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). The Company s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Time Warner Cable Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Time Warner Cable Inc. as of December 31, 2010 and 2009, and the related consolidated statements of operations, cash flows, equity and comprehensive income for each of the three years in the period ended December 31, 2010 of Time Warner Cable Inc. and our report dated February 18, 2011 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

New York, New York

February 18, 2011

Table of Contents

TIME WARNER CABLE INC.
SELECTED FINANCIAL INFORMATION

The selected financial information set forth below as of December 31, 2010 and 2009 and for the years ended December 31, 2010, 2009 and 2008 has been derived from and should be read in conjunction with the audited consolidated financial statements and other financial information presented elsewhere herein. The selected financial information set forth below as of December 31, 2008, 2007 and 2006 and for the years ended December 31, 2007 and 2006 has been derived from audited consolidated financial statements not included herein. Capitalized terms are as defined and described in the consolidated financial statements or elsewhere herein.

	Year Ended December 31,				
	2010	2009	2008	2007	2006
	(in millions, except per share data)				
Selected Operating Statement Information:[a]					
Revenues:					
Video	$ 10,995	$ 10,760	$ 10,524	$ 10,165	$ 7,632
High-speed data	4,960	4,520	4,159	3,730	2,756
Voice	2,032	1,886	1,619	1,193	715
Advertising	881	702	898	867	664
Total revenues	18,868	17,868	17,200	15,955	11,767
Total costs and expenses[b]	15,179	14,551	28,982	13,189	9,588
Operating Income (Loss)[b]	3,689	3,317	(11,782)	2,766	2,179
Interest expense, net	(1,394)	(1,319)	(923)	(894)	(646)
Other income (expense), net[c]	(99)	(86)	(367)	156	131
Income (loss) from continuing operations before income taxes	2,196	1,912	(13,072)	2,028	1,664
Income tax benefit (provision)	(883)	(820)	5,109	(806)	(645)
Income (loss) from continuing operations	1,313	1,092	(7,963)	1,222	1,019
Discontinued operations, net of tax					1,042
Cumulative effect of accounting change, net of tax[d]					2
Net income (loss)	1,313	1,092	(7,963)	1,222	2,063
Less: Net (income) loss attributable to noncontrolling interests	(5)	(22)	619	(99)	(87)
Net income (loss) attributable to TWC shareholders	$ 1,308	$ 1,070	$ (7,344)	$ 1,123	$ 1,976
Basic income (loss) from continuing operations per common share attributable to TWC common shareholders	$ 3.67	$ 3.07	$ (22.55)	$ 3.45	$ 2.84

Discontinued operations										3.14
Cumulative effect of accounting change										0.01
Basic net income (loss) per common share attributable to TWC common shareholders	$	3.67	$	3.07	$	(22.55)	$	3.45	$	5.99
Diluted income (loss) from continuing operations per common share attributable to TWC common shareholders	$	3.64	$	3.05	$	(22.55)	$	3.45	$	2.84
Discontinued operations										3.14
Cumulative effect of accounting change										0.01
Diluted net income (loss) per common share attributable to TWC common shareholders	$	3.64	$	3.05	$	(22.55)	$	3.45	$	5.99
Average common shares outstanding:										
Basic		354.2		349.0		325.7		325.6		330.1
Diluted		359.5		350.9		325.7		325.7		330.1
Cash dividends declared per share	$	1.60	$		$		$		$	
Special cash dividend declared and paid per share	$		$	30.81	$		$		$	

126

Table of Contents

TIME WARNER CABLE INC.
SELECTED FINANCIAL INFORMATION (Continued)

	Year Ended December 31,				
	2010	2009	2008	2007	2006
			(in millions)		
Selected Balance Sheet Information:[a]					
Cash and equivalents	$ 3,047	$ 1,048	$ 5,449	$ 232	$ 51
Total assets	45,822	43,694	47,889	56,600	55,821
Total debt[e]	23,121	22,331	17,728	13,577	14,432

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

(b) Total costs and expenses and Operating Income (Loss) include restructuring costs of $52 million in 2010, $81 million in 2009 and $15 million in 2008 and merger-related and restructuring costs of $23 million in 2007 and $56 million in 2006. Total costs and expenses and Operating Income (Loss) in 2008 includes a $14.822 billion impairment charge on cable franchise rights and a $58 million loss on the sale of cable systems.

(c) Other income (expense), net, includes income (losses) from equity-method investments of $(110) million in 2010, $(49) million in 2009, $16 million in 2008, $11 million in 2007 and $129 million in 2006 and gains (losses) related to the change in the fair value of the Time Warner equity award reimbursement obligation of $5 million in 2010 and $(21) million in 2009. Other income (expense), net, in 2009 includes $28 million of direct transaction costs (e.g., legal and professional fees) related to the Separation and a $12 million gain due to a post-closing adjustment related to the 2007 dissolution of TKCCP. Other income (expense), net, in 2008 includes $17 million of direct transaction costs related to the Separation and a $367 million impairment charge on the Company s investment in Clearwire Communications LLC, an equity-method investment. Other income (expense), net, in 2007 includes a gain of $146 million as a result of the distribution of the assets of TKCCP.

(d) Cumulative effect of accounting change, net of tax, includes a benefit in 2006 related to the cumulative effect of a change in accounting principle recognized in connection with the adoption of authoritative guidance issued by the Financial Accounting Standards Board regarding accounting for share-based payments.

(e) Amounts include $1 million and $4 million of debt due within one year as of December 31, 2008 and 2006, respectively, which primarily relates to capital lease obligations.

Table of Contents

TIME WARNER CABLE INC.
QUARTERLY FINANCIAL INFORMATION
(Unaudited)

	Quarter Ended			
	March 31,	June 30,	September 30,	December 31,
	(in millions, except per share data)			
2010				
Revenues:				
Subscription	$ 4,426	$ 4,518	$ 4,511	$ 4,532
Advertising	173	216	223	269
Total revenues	4,599	4,734	4,734	4,801
Operating Income	850	918	927	994
Net income	215	342	363	393
Net income attributable to TWC shareholders	214	342	360	392
Net income per common share attributable to TWC common shareholders:				
Basic[(a)]	0.60	0.96	1.00	1.10
Diluted[(a)]	0.60	0.95	1.00	1.09
Common stock high	53.45	57.37	59.07	66.11
Common stock low	41.33	48.93	50.96	54.66
Cash dividends declared per share	0.40	0.40	0.40	0.40
2009				
Revenues:				
Subscription	$ 4,219	$ 4,300	$ 4,316	$ 4,331
Advertising	145	174	182	201
Total revenues	4,364	4,474	4,498	4,532
Operating Income	716	882	828	891
Net income	184	317	268	323
Net income attributable to TWC shareholders	164	316	268	322
Net income per common share attributable to TWC common shareholders:				
Basic[(a)]	0.48	0.90	0.76	0.91
Diluted[(a)]	0.48	0.89	0.76	0.91
Common stock high[(b)(c)]	68.22	36.25	44.01	44.09
Common stock low[(b)]	20.19	24.00	28.66	38.24
Special cash dividend declared and paid per share	30.81			

(a) Per common share amounts for the quarters and full years have each been calculated separately. Accordingly, quarterly amounts may not sum to the annual amounts because of differences in the weighted-average common shares outstanding during each period.

(b) Common stock high and low prices reflect the 1-for-3 reverse stock split implemented on March 12, 2009.

(c) Common stock high price for the quarter ended March 31, 2009 reflects the high price prior to the payment of the special cash dividend of $30.81 per share.

Table of Contents

EXHIBIT INDEX

Pursuant to Item 601 of Regulation S-K

Exhibit Number	Description
3.1	Second Amended and Restated Certificate of Incorporation of Time Warner Cable Inc. (TWC or the Company), as filed with the Secretary of State of the State of Delaware on March 12, 2009 (incorporated herein by reference to Exhibit 3.1 to Amendment No. 1 to TWC s Registration Statement on Form 8-A filed with the Securities and Exchange Commission (the SEC) on March 12, 2009 (the TWC March 2009 Form 8-A)).
3.2	Amendment to Second Amended and Restated Certificate of Incorporation of the Company, as filed with the Secretary of State of the State of Delaware on March 12, 2009 (incorporated herein by reference to Exhibit 3.2 to the TWC March 2009 Form 8-A).
3.3	By-laws of the Company, effective as of March 12, 2009 (incorporated herein by reference to Exhibit 3.3 to the TWC March 2009 Form 8-A).
4.1	Indenture, dated as of April 30, 1992, as amended by the First Supplemental Indenture, dated as of June 30, 1992, among Time Warner Entertainment Company, L.P. (TWE), Time Warner Companies, Inc. (TWCI), certain of TWCI s subsidiaries that are parties thereto and The Bank of New York, as Trustee (incorporated herein by reference to Exhibits 10(g) and 10(h) to TWCI s Current Report on Form 8-K dated June 26, 1992 and filed with the SEC on July 15, 1992 (File No. 1-8637)).
4.2	Second Supplemental Indenture, dated as of December 9, 1992, among TWE, TWCI, certain of TWCI s subsidiaries that are parties thereto and The Bank of New York, as Trustee (incorporated herein by reference to Exhibit 4.2 to Amendment No. 1 to TWE s Registration Statement on Form S-4 dated and filed with the SEC on October 25, 1993 (Registration No. 33-67688) (the TWE October 25, 1993 Registration Statement)).
4.3	Third Supplemental Indenture, dated as of October 12, 1993, among TWE, TWCI, certain of TWCI s subsidiaries that are parties thereto and The Bank of New York, as Trustee (incorporated herein by reference to Exhibit 4.3 to the TWE October 25, 1993 Registration Statement).
4.4	Fourth Supplemental Indenture, dated as of March 29, 1994, among TWE, TWCI, certain of TWCI s subsidiaries that are parties thereto and The Bank of New York, as Trustee (incorporated herein by reference to Exhibit 4.4 to TWE s Annual Report on Form 10-K for the year ended December 31, 1993 and filed with the SEC on March 30, 1994 (File No. 1-12878)).
4.5	Fifth Supplemental Indenture, dated as of December 28, 1994, among TWE, TWCI, certain of TWCI s subsidiaries that are parties thereto and The Bank of New York, as Trustee (incorporated herein by reference to Exhibit 4.5 to TWE s Annual Report on Form 10-K for the year ended December 31, 1994 and filed with the SEC on March 30, 1995 (File No. 1-12878)).
4.6	Sixth Supplemental Indenture, dated as of September 29, 1997, among TWE, TWCI, certain of TWCI s subsidiaries that are parties thereto and The Bank of New York, as Trustee (incorporated herein by reference to Exhibit 4.7 to Historic TW Inc. s (Historic TW) Annual Report on Form 10-K for the year ended December 31, 1997 and filed with the SEC on March 25, 1998 (File No. 1-12259) (the Time Warner 1997 Form 10-K)).
4.7	Seventh Supplemental Indenture dated as of December 29, 1997, among TWE, TWCI, certain of TWCI s subsidiaries that are parties thereto and The Bank of New York, as Trustee (incorporated herein by reference to Exhibit 4.8 to the Time Warner 1997 Form 10-K).
4.8	Eighth Supplemental Indenture dated as of December 9, 2003, among Historic TW, TWE, Warner Communications Inc. (WCI), American Television and Communications Corporation (ATC), the

	Company and The Bank of New York, as Trustee (incorporated herein by reference to Exhibit 4.10 to Time Warner Inc. s (Time Warner) Annual Report on Form 10-K for the year ended December 31, 2003 (File No. 1-15062)).
4.9	Ninth Supplemental Indenture dated as of November 1, 2004, among Historic TW, TWE, Time Warner NY Cable Inc., WCI, ATC, the Company and The Bank of New York, as Trustee (incorporated herein by reference to Exhibit 4.1 to Time Warner s Quarterly Report on Form 10-Q for the quarter ended September 30, 2004 (File No. 1-15062)).
4.10	Tenth Supplemental Indenture dated as of October 18, 2006, among Historic TW, TWE, TW NY Cable Holding Inc. (TW NY), Time Warner NY Cable LLC (TW NY Cable), the Company, WCI, ATC and The Bank of New York, as Trustee (incorporated herein by reference to Exhibit 4.1 to Time Warner s Current Report on Form 8-K dated and filed October 18, 2006 (File No. 1-15062)).

Table of Contents

Exhibit Number	Description
4.11	Eleventh Supplemental Indenture dated as of November 2, 2006, among TWE, TW NY, the Company and The Bank of New York, as Trustee (incorporated herein by reference to Exhibit 99.1 to Time Warner s Current Report on Form 8-K dated and filed November 2, 2006 (File No. 1-15062)).
4.12	$4.0 Billion Three-Year Revolving Credit Agreement, dated as of November 3, 2010, among the Company, as Borrower, the Lenders from time to time party thereto, Bank of America, N.A., as Administrative Agent, BNP Paribas, Citibank, N.A., Deutsche Bank Securities Inc. and Wells Fargo Bank, National Association, as Co-Syndication Agents, and Barclays Bank PLC, JPMorgan Chase Bank, N.A., Mizuho Corporate Bank, LTD., The Bank of Tokyo-Mitsubishi UFJ, LTD. and The Royal Bank of Scotland plc, as Co-Documentation Agents, with associated Guarantees (incorporated herein by reference to Exhibit 4 to the Company s Quarterly Report on Form 10-Q for the quarter ended September 30, 2010).
4.13	$6.0 Billion Amended and Restated Five-Year Revolving Credit Agreement, dated as of December 9, 2003 and amended and restated as of February 15, 2006, among the Company, as Borrower, the Lenders from time to time party thereto, Bank of America, N.A., as Administrative Agent, Citibank, N.A. and Deutsche Bank AG, New York Branch, as Co-Syndication Agents, and BNP Paribas and Wachovia Bank, National Association, as Co-Documentation Agents, with associated Guarantees (the Amended and Restated Revolving Credit Agreement) (incorporated herein by reference to Exhibit 10.51 to Time Warner s Annual Report on Form 10-K for the year ended December 31, 2005 (File No. 1-15062) (the Time Warner 2005 Form 10-K)) (terminated on November 3, 2010).
4.14	First Amendment Agreement, dated as of March 3, 2009, to the Amended and Restated Revolving Credit Agreement, among the Company, as Borrower, Lehman Brothers Bank, FSB, as Exiting Lender, the Lenders from time to time party thereto, and Bank of America, N.A., as Administrative Agent (incorporated herein by reference to Exhibit 4.2 to the Company s Quarterly Report on Form 10-Q for the quarter ended March 31, 2009 (the TWC March 31, 2009 Form 10-Q)).
4.15	$4.0 Billion Five-Year Term Loan Credit Agreement, dated as of February 21, 2006, among the Company, as Borrower, the Lenders from time to time party thereto, The Bank of Tokyo-Mitsubishi UFJ Ltd., New York Branch, as Administrative Agent, The Royal Bank of Scotland plc and Sumitomo Mitsui Banking Corporation, as Co-Syndication Agents, and Calyon New York Branch, HSBC Bank USA, N.A. and Mizuho Corporate Bank, Ltd., as Co-Documentation Agents, with associated Guarantees (incorporated herein by reference to Exhibit 10.52 to the Time Warner 2005 Form 10-K) (terminated on December 21, 2009).
4.16	Amended and Restated Limited Liability Company Agreement of TW NY Cable, dated as of July 28, 2006 (incorporated herein by reference to Exhibit 4.14 to the Company s Current Report on Form 8-K dated and filed with the SEC on February 13, 2007 (the TWC February 13, 2007 Form 8-K)).
4.17	Indenture, dated as of April 9, 2007, among the Company, TW NY, TWE and The Bank of New York, as trustee (incorporated herein by reference to Exhibit 4.1 to the Company s Current Report on Form 8-K dated April 4, 2007 and filed with the SEC on April 9, 2007 (the TWC April 4, 2007 Form 8-K)).
4.18	First Supplemental Indenture, dated as of April 9, 2007 (the First Supplemental Indenture), among the Company, TW NY, TWE and The Bank of New York, as trustee (incorporated herein by reference to Exhibit 4.2 to the TWC April 4, 2007 Form 8-K).
4.19	Form of 5.40% Exchange Notes due 2012 (included as Exhibit A to the First Supplemental Indenture incorporated herein by reference to Exhibit 4.2 to the TWC April 4, 2007 Form 8-K).
4.20	Form of 5.85% Exchange Notes due 2017 (included as Exhibit B to the First Supplemental Indenture incorporated herein by reference to Exhibit 4.2 to the TWC April 4, 2007 Form 8-K).
4.21	Form of 6.55% Exchange Debentures due 2037 (included as Exhibit C to the First Supplemental Indenture incorporated herein by reference to Exhibit 4.2 to the TWC April 4, 2007 Form 8-K).

4.22	Form of 6.20% Notes due 2013 (incorporated herein by reference to Exhibit 4.1 to the Company s Current Report on Form 8-K dated June 16, 2008 and filed with the SEC on June 19, 2008 (the TWC June 16, 2008 Form 8-K)).
4.23	Form of 6.75% Notes due 2018 (incorporated herein by reference to Exhibit 4.2 to the TWC June 16, 2008 Form 8-K).
4.24	Form of 7.30% Debentures due 2038 (incorporated herein by reference to Exhibit 4.3 to the TWC June 16, 2008 Form 8-K).
4.25	Form of 8.25% Notes due 2014 (incorporated herein by reference to Exhibit 4.1 to the Company s Current Report on Form 8-K dated November 13, 2008 and filed with the SEC on November 18, 2008 (the TWC November 13, 2008 Form 8-K)).

Exhibit Number	Description
4.26	Form of 8.75% Notes due 2019 (incorporated herein by reference to Exhibit 4.2 to the TWC November 13, 2008 Form 8-K).
4.27	Form of 7.50% Notes due 2014 (incorporated herein by reference to Exhibit 4.1 to the Company s Current Report on Form 8-K dated March 23, 2009 and filed with the SEC on March 26, 2009 (the TWC March 23, 2009 Form 8-K)).
4.28	Form of 8.25% Notes due 2019 (incorporated herein by reference to Exhibit 4.2 to the TWC March 23, 2009 Form 8-K).
4.29	Form of 6.75% Debentures due 2039 (incorporated herein by reference to Exhibit 4.1 to the Company s Current Report on Form 8-K dated June 24, 2009 and filed with the SEC on June 29, 2009 (the TWC June 24, 2009 Form 8-K)).
4.30	Form of 3.5% Notes due 2015 (incorporated herein by reference to Exhibit 4.1 to the Company s Current Report on Form 8-K dated December 8, 2009 and filed with the SEC on December 11, 2009 (the TWC December 8, 2009 Form 8-K)).
4.31	Form of 5.0% Notes due 2020 (incorporated herein by reference to Exhibit 4.2 to the TWC December 8, 2009 Form 8-K).
4.32	Form of 4.125% Notes due 2021 (incorporated herein by reference to Exhibit 4.1 to the Company s Current Report on Form 8-K dated November 9, 2010 and filed with the SEC on November 15, 2010 (the TWC November 15, 2010 Form 8-K)).
4.33	Form of 5.875% Debentures due 2040 (incorporated herein by reference to Exhibit 4.2 to the TWC November 15, 2010 Form 8-K).
10.1	Amended and Restated Agreement of Limited Partnership of TWE, dated as of March 31, 2003, by and among the Company, TWE Holdings I Trust (Comcast Trust I), ATC, Comcast Corporation and Time Warner (the TWE Limited Partnership Agreement) (incorporated herein by reference to Exhibit 3.3 to Time Warner s Current Report on Form 8-K dated March 28, 2003 and filed with the SEC on April 14, 2003 (File No. 1-15062) (the Time Warner March 28, 2003 Form 8-K)).
10.2	First Amendment, dated as of December 31, 2009, to the TWE Limited Partnership Agreement, between Time Warner Cable LLC, TW NY Cable, and TWE GP Holdings LLC (incorporated herein by reference to Exhibit 10.2 to the Company s Annual Report on Form 10-K for the year ended December 31, 2009 (the TWC 2009 Form 10-K)).
10.3	Contribution Agreement, dated as of September 9, 1994, among TWE, Advance Publications, Inc. (Advance Publications), Newhouse Broadcasting Corporation (Newhouse), Advance/Newhouse Partnership and Time Warner Entertainment-Advance/Newhouse Partnership (TWE-A/N) (incorporated herein by reference to Exhibit 10(a) to TWE s Current Report on Form 8-K dated September 9, 1994 and filed with the SEC on September 21, 1994 (File No. 1-12878)).
10.4	Amended and Restated Transaction Agreement, dated as of October 27, 1997, among Advance Publications, Newhouse, Advance/Newhouse Partnership, TWE, TW Holding Co. and TWE-A/N (incorporated herein by reference to Exhibit 99(c) to Historic TW s Current Report on Form 8-K dated October 27, 1997 and filed with the SEC on November 5, 1997 (File No. 1-12259)).
10.5	Transaction Agreement No. 2, dated as of June 23, 1998, among Advance Publications, Newhouse, Advance/Newhouse Partnership, TWE, Paragon Communications (Paragon) and TWE-A/N (incorporated herein by reference to Exhibit 10.38 to Historic TW s Annual Report on Form 10-K for the year ended December 31, 1998 and filed with the SEC on March 26, 1999 (File No. 1-12259) (the Time Warner 1998 Form 10-K)).
10.6	Transaction Agreement No. 3, dated as of September 15, 1998, among Advance Publications, Newhouse, Advance/Newhouse Partnership, TWE, Paragon and TWE-A/N (incorporated herein by reference to

	Exhibit 10.39 to the Time Warner 1998 Form 10-K).
10.7	Amended and Restated Transaction Agreement No. 4, dated as of February 1, 2001, among Advance Publications, Newhouse, Advance/Newhouse Partnership, TWE, Paragon and TWE-A/N (incorporated herein by reference to Exhibit 10.53 to Time Warner s Transition Report on Form 10-K for the year ended December 31, 2000 and filed with the SEC on March 27, 2001 (File No. 1-15062)).
10.8	Master Transaction Agreement, dated as of August 1, 2002, by and among TWE-A/N, TWE, Paragon and Advance/Newhouse Partnership (incorporated herein by reference to Exhibit 10.1 to Time Warner s Quarterly Report on Form 10-Q for the quarter ended June 30, 2002 and filed with the SEC on August 14, 2002 (File No. 1-15062)).

Table of Contents

Exhibit Number	Description
10.9	Third Amended and Restated Partnership Agreement of TWE-A/N, dated as of December 31, 2002, among TWE, Paragon and Advance/Newhouse Partnership (incorporated herein by reference to Exhibit 99.1 to TWE s Current Report on Form 8-K dated December 31, 2002 and filed with the SEC on January 14, 2003 (File No. 1-12878) (the TWE December 31, 2002 Form 8-K)).
10.10	Consent and Agreement, dated as of December 31, 2002, among TWE-A/N, TWE, Paragon, Advance/Newhouse Partnership, TWEAN Subsidiary LLC and JP Morgan Chase Bank (incorporated herein by reference to Exhibit 99.2 to the TWE December 31, 2002 Form 8-K).
10.11	Pledge Agreement, dated December 31, 2002, among TWE-A/N, Advance/Newhouse Partnership, TWEAN Subsidiary LLC and JP Morgan Chase Bank (incorporated herein by reference to Exhibit 99.3 to the TWE December 31, 2002 Form 8-K).
10.12	Agreement and Declaration of Trust, dated as of December 18, 2003, by and between Kansas City Cable Partners and Wilmington Trust Company (incorporated herein by reference to Exhibit 10.6 to the TWC February 13, 2007 Form 8-K).
10.13	Separation Agreement, dated May 20, 2008, among Time Warner, the Company, TWE, TW NY, WCI, Historic TW and ATC (incorporated herein by reference to Exhibit 99.1 to the Company s Current Report on Form 8-K dated May 20, 2008 and filed with the SEC on May 27, 2008 (the TWC May 20, 2008 Form 8-K)).
10.14	Reimbursement Agreement, dated as of March 31, 2003, by and among Time Warner, WCI, ATC, TWE and the Company (the Reimbursement Agreement) (incorporated herein by reference to Exhibit 10.7 to the Time Warner March 28, 2003 Form 8-K).
10.15	Amendment No. 1, dated May 20, 2008, to the Reimbursement Agreement, by and among the Company and Time Warner (incorporated herein by reference to Exhibit 10.2 to the Company s Quarterly Report on Form 10-Q for the quarter ended June 30, 2008 (the TWC June 30, 2008 Form 10-Q)).
10.16	Second Amended and Restated Tax Matters Agreement, dated May 20, 2008, between the Company and Time Warner (incorporated herein by reference to Exhibit 99.2 to the TWC May 20, 2008 Form 8-K).
10.17	Intellectual Property Agreement, dated as of August 20, 2002, by and among TWE and WCI (incorporated herein by reference to Exhibit 10.16 to Time Warner s Quarterly Report on Form 10-Q for the quarter ended September 30, 2002 (File No. 1-15062) (the Time Warner September 30, 2002 Form 10-Q)).
10.18	Amendment to the Intellectual Property Agreement, dated as of March 31, 2003, by and between TWE and WCI (incorporated herein by reference to Exhibit 10.2 to the Time Warner March 28, 2003 Form 8-K).
10.19	Intellectual Property Agreement, dated as of August 20, 2002, by and between the Company and WCI (incorporated herein by reference to Exhibit 10.18 to the Time Warner September 30, 2002 Form 10-Q).
10.20	Amendment to the Intellectual Property Agreement, dated as of March 31, 2003, by and between the Company and WCI (incorporated herein by reference to Exhibit 10.4 to the Time Warner March 28, 2003 Form 8-K).
10.21	Underwriting Agreement, dated March 23, 2009, among the Company, TW NY, TWE and Banc of America Securities LLC, Citigroup Global Markets Inc., Deutsche Bank Securities Inc., UBS Securities LLC and Wachovia Capital Markets, LLC, on behalf of themselves and as representatives of the underwriters named therein (incorporated herein by reference to Exhibit 1.1 to the TWC March 23, 2009 Form 8-K).
10.22	Underwriting Agreement, dated June 24, 2009, among the Company, TW NY, TWE and Banc of America Securities LLC, BNP Paribas Securities Corp., Citigroup Global Markets Inc., J.P. Morgan Securities Inc.

	and Mitsubishi UFJ Securities (USA), Inc., on behalf of themselves and as representatives of the underwriters named therein (incorporated herein by reference to Exhibit 1.1 to the TWC June 24, 2009 Form 8-K).
10.23	Underwriting Agreement, dated December 8, 2009, among the Company, TW NY, TWE and Barclays Capital Inc., Deutsche Bank Securities Inc. and Goldman, Sachs & Co., on behalf of themselves and as representatives of the underwriters named therein (incorporated herein by reference to Exhibit 1.1 to the TWC December 8, 2009 Form 8-K).
10.24	Underwriting Agreement, dated November 9, 2010, among the Company, the Guarantors and BNP Paribas Securities Corp., Citigroup Global Markets Inc., Morgan Stanley & Co. Incorporated and RBS Securities Inc., on behalf of themselves and as representatives of the underwriters listed therein (incorporated herein by reference to Exhibit 1.1 to the TWC November 15, 2010 Form 8-K).
10.25	Employment Agreement, effective as of August 3, 2009, between the Company and Glenn A. Britt (incorporated herein by reference to Exhibit 10.1 to the Company s Quarterly Report on Form 10-Q for the quarter ended September 30, 2009 (the TWC September 30, 2009 Form 10-Q)).
10.26	Employment Agreement, effective as of January 1, 2010, between the Company and Landel C. Hobbs (incorporated herein by reference to Exhibit 10.32 to the TWC 2009 Form 10-K).

Table of Contents

Exhibit Number	Description
10.27	Employment Agreement, effective as of January 1, 2010, between the Company and Robert D. Marcus (incorporated herein by reference to Exhibit 10.33 to the TWC 2009 Form 10-K).
10.28	Amended and Restated Employment and Termination Agreement, dated as of June 1, 2000, by and between TWE and Carl U.J. Rossetti (as extended by Letter Agreements dated November 21, 2000, November 30, 2001, November 22, 2002, November 24, 2003, November 17, 2004, November 10, 2005, November 27, 2006 and December 4, 2007) (incorporated herein by reference to Exhibit 10.1 to the TWC June 30, 2008 Form 10-Q).
10.29	First Amendment, effective as of January 1, 2008, to Employment Agreement between TWE and Carl U.J. Rossetti (incorporated herein by reference to Exhibit 10.2 to the TWC June 30, 2008 Form 10-Q).
10.30	Letter Agreement, dated November 14, 2008, between TWE and Carl U.J. Rossetti (incorporated herein by reference to Exhibit 10.40 to the Company s Annual Report on Form 10-K for the year ended December 31, 2008 (the TWC 2008 Form 10-K)).
10.31	Letter Agreement, dated December 9, 2009, between TWE and Carl U.J. Rossetti (incorporated herein by reference to Exhibit 10.37 to the TWC 2009 Form 10-K).
10.32	Second Amendment, effective as of January 1, 2010, to Employment Agreement between TWE and Carl U.J. Rossetti (incorporated herein by reference to Exhibit 10.38 to the TWC 2009 Form 10-K).
10.33*	Letter Agreement, dated December 14, 2010, between TWE and Carl Rossetti.
10.34	Employment Agreement, dated as of June 1, 2000, by and between TWE and Michael LaJoie (incorporated herein by reference to Exhibit 10.41 to the TWC February 13, 2007 Form 8-K).
10.35	First Amendment, dated December 22, 2005, to Employment Agreement between TWE and Michael LaJoie (incorporated herein by reference to Exhibit 10.33 to the Company s Annual Report on Form 10-K for the year ended December 31, 2007 (the TWC 2007 Form 10-K)).
10.36	Second Amendment, effective as of January 1, 2008, to Employment Agreement between TWE and Michael LaJoie (incorporated herein by reference to Exhibit 10.4 to the TWC March 31, 2009 Form 10-Q).
10.37	Extension to Employment Agreement, dated December 12, 2008, between TWE and Michael LaJoie (incorporated herein by reference to Exhibit 10.5 to the TWC March 31, 2009 Form 10-Q).
10.38	Third Amendment, effective as of January 1, 2010, to Employment Agreement between TWE and Michael LaJoie (incorporated herein by reference to Exhibit 10.43 to the TWC 2009 Form 10-K).
10.39	Amended and Restated Employment and Termination Agreement, dated as of June 1, 2000, between TWE and Marc Lawrence-Apfelbaum (as renewed through 2012) (incorporated herein by reference to Exhibit 10.1 to the Company s Quarterly Report on Form 10-Q for the quarter ended March 31, 2010 (the TWC March 31, 2010 Form 10-Q)).
10.40	First Amendment, effective as of January 1, 2008, to Employment Agreement between TWE and Marc Lawrence-Apfelbaum (incorporated herein by reference to Exhibit 10.2 to the TWC March 31, 2010 Form 10-Q).
10.41	Letter Agreement, dated December 10, 2009, between TWE and Marc Lawrence-Apfelbaum (incorporated herein by reference to Exhibit 10.3 to the TWC March 31, 2010 Form 10-Q).
10.42	Second Amendment, effective as of January 1, 2010, to Employment Agreement between TWE and Marc Lawrence-Apfelbaum (incorporated herein by reference to Exhibit 10.4 to the TWC March 31, 2010 Form 10-Q).
10.43*	Letter Agreement, dated December 2, 2010, between TWE and Marc Lawrence-Apfelbaum.
10.44	Memorandum Opinion and Order issued by the Federal Communications Commission, dated July 13, 2006 (the Adelphia/Comcast Order) (incorporated herein by reference to Exhibit 10.42 to the TWC February 13, 2007 Form 8-K).

10.45	Erratum to the Adelphia/Comcast Order, dated July 27, 2006 (incorporated herein by reference to Exhibit 10.43 to the TWC February 13, 2007 Form 8-K).
10.46	Time Warner Cable Inc. 2006 Stock Incentive Plan (incorporated herein by reference to Exhibit 10.45 to the TWC February 13, 2007 Form 8-K).
10.47	Time Warner Cable Inc. 2006 Stock Incentive Plan, as amended, effective March 12, 2009 (incorporated herein by reference to Exhibit 10.1 to the TWC March 31, 2009 Form 10-Q).
10.48	Time Warner Cable Inc. 2007 Annual Bonus Plan (incorporated herein by reference to Exhibit 10.45 to the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2006 (the TWC 2006 Form 10-K)).

v

Table of Contents

Exhibit Number	Description
10.49	Form of Non-Qualified Stock Option Agreement, used through 2009 (incorporated herein by reference to Exhibit 10.46 to the TWC 2006 Form 10-K).
10.50	Form of Non-Qualified Stock Option Agreement, used commencing in 2010 (incorporated herein by reference to Exhibit 10.50 to the TWC 2009 Form 10-K).
10.51*	Form of Performance-Based Non-Qualified Stock Option Agreement, used commencing in 2011.
10.52	Form of Restricted Stock Units Agreement, as amended through December 14, 2007, used through 2009 (incorporated herein by reference to Exhibit 10.40 to the TWC 2007 Form 10-K).
10.53	Form of Restricted Stock Units Agreement, used commencing in 2010 (incorporated herein by reference to Exhibit 10.52 to the TWC 2009 Form 10-K).
10.54	Addendum to Restricted Stock Units Agreement (applicable to certain officers), used commencing in 2010 (incorporated herein by reference to Exhibit 10.53 to the TWC 2009 Form 10-K).
10.55*	Form of Performance-Based Restricted Stock Units Agreement and Addendum thereto (applicable to certain officers), used commencing in 2011.
10.56	Form of Restricted Stock Units Agreement for Non-Employee Directors, as amended through December 14, 2007, used through 2009 (incorporated by reference to Exhibit 10.41 of the TWC 2007 Form 10-K).
10.57	Form of Restricted Stock Units Agreement for Non-Employee Directors, used commencing in 2010 (incorporated herein by reference to Exhibit 10.55 of the TWC 2009 Form 10-K).
10.58*	Forms of Notice of Grant of Restricted Stock Units for Non-Employee Directors, used commencing in 2011.
10.59	Form of Deferred Stock Units Agreement for Non-Employee Directors (incorporated herein by reference to Exhibit 10.48 of the TWC 2008 Form 10-K).
10.60	Description of Director Compensation (incorporated herein by reference to the section titled Director Compensation in the Company s Proxy Statement dated April 12, 2010).
10.61	Master Distribution, Dissolution and Cooperation Agreement, dated as of January 1, 2007, by and among Texas and Kansas City Cable Partners, L.P., TWE-A/N, Comcast TCP Holdings, Inc., TWE-A/N Texas and Kansas City Cable Partners General Partner LLC, TCI Texas Cable Holdings LLC, TCI Texas Cable, LLC, Comcast TCP Holdings, Inc., Comcast TCP Holdings, LLC, KCCP Trust, Time Warner Cable Information Services (Kansas), LLC, Time Warner Cable Information Services (Missouri), LLC, Time Warner Information Services (Texas), L.P., Time Warner Cable/Comcast Kansas City Advertising, LLC, TCP/Comcast Las Cruces Cable Advertising, LP, TCP Security Company LLC, TCP-Charter Cable Advertising, LP, TCP/Conroe-Huntsville Cable Advertising, LP, TKCCP/Cebridge Texas Cable Advertising, LP, TWEAN-TCP Holdings LLC, and Houston TKCCP Holdings, LLC (incorporated herein by reference to Exhibit 10.46 to the TWC February 13, 2007 8-K).
10.62	Letter Agreement, dated April 18, 2007, by and among Comcast Cable Communications Holdings, Inc., MOC Holdco I, LLC, TWE Holdings I Trust, Comcast of Louisiana/Mississippi/Texas, LLC, TWC, TWE, Comcast, Time Warner and TW NY, relating to certain TWE administrative matters in connection with the redemption of Comcast s interest in TWE (incorporated herein by reference to Exhibit 10.3 to the Company s Quarterly Report on Form 10-Q for the quarter ended March 31, 2007).
12*	Computation of Ratio of Earnings to Fixed Charges and Ratio of Earnings to Combined Fixed Charges and Preferred Dividend Requirements.
21*	Subsidiaries of the Company.
23*	Consent of Ernst & Young LLP.
31.1*	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, with respect to the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2010.

31.2*	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, with respect to the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2010.
32	Certification of Principal Executive Officer and Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, with respect to the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2010.

Exhibit Number	Description
101	The following financial information from the Company s Annual Report on Form 10-K for the year ended December 31, 2010, filed with the SEC on February 18, 2011, formatted in eXtensible Business Reporting Language: (i) Consolidated Balance Sheet as of December 31, 2010 and December 31, 2009, (ii) Consolidated Statement of Operations for the years ended December 31, 2010, 2009 and 2008, (iii) Consolidated Statement of Cash Flows for the years ended December 31, 2010, 2009 and 2008, (iv) Consolidated Statement of Equity for the years ended December 31, 2010, 2009 and 2008, (v) Consolidated Statement of Comprehensive Income for the years ended December 31, 2010, 2009 and 2008 and (vi) Notes to Consolidated Financial Statements.

* Filed herewith.

This exhibit will not be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934 (15 U.S.C. 78r), or otherwise subject to the liability of that section. Such exhibit will not be deemed to be incorporated by reference into any filing under the Securities Act or Securities Exchange Act, except to the extent that the Company specifically incorporates it by reference.