

LINDA LINGLE
GOVERNOR

JAMES R. AIONA, JR.
I.T. GOVERNOR

STATE OF HAWAII
OFFICE OF THE DIRECTOR
DEPARTMENT OF COMMERCE AND CONSUMER AFFAIRS
335 MERCHANT STREET, ROOM 310
P.O. Box 541
HONOLULU, HAWAII 96809
Phone Number: 586-2850
Fax Number: 586-2856
www.hawaii.gov/dcca

LAWRENCE M. REIFURTH
DIRECTOR

RONALD BOYER
DEPUTY DIRECTOR

VIA FACSIMILE and U.S. Mail

February 19, 2009

Brian A. Kang, Esq.
Watanabe Ing LLP
First Hawaiian Center
999 Bishop Street, 23rd Floor
Honolulu, HI 96813

Re: Separation of Time Warner Cable Inc. from Time Warner Inc.

Dear Mr. Kang:

This is in response to your June 10, June 27, and July 8, 2008 letters (collectively, the "Letters") on behalf of Time Warner Entertainment Company Inc. ("TWE")¹ concerning the anticipated separation or spin-off of Time Warner Cable Inc. ("TWCI") from Time Warner Inc. ("TWX"). TWE contends that the transaction does not require any action on the part of the Department of Commerce and Consumer Affairs (the "Department" or "DCCA") under Hawai'i Revised Statutes ("HRS") sections 440G-7, 440G-8, and 440G-10.1, and has asked for the Department's response.

For the reasons explained below, DCCA will take no action on the transaction.

I. Background

A. TWE's Explanation of the Transaction

According to TWE, it is wholly owned by Time Warner Cable LLC ("TWCL") and TWCL's subsidiaries. TWCL, in turn, is wholly owned by TWCI, a publicly-traded corporation with approximately 84% of its common stock held by TWX and approximately 16% of its common stock held by public shareholders.

¹ TWE, doing business in the State of Hawai'i ("State") as Oceanic Time Warner Cable ("Oceanic"), holds a franchise to provide cable television services throughout the State.

As part of the transaction, TWX will divest itself of its interest in TWCI by transferring all of its stock in TWCI to TWX's existing public shareholders (i.e., TWX's public shareholders will receive pro rata shares of TWCI). Afterward, TWX and TWCI will completely separate from one another; TWCI will become a stand-alone, public company, and the public shareholders who receive TWCI shares from TWX and the existing public shareholders of TWCI will control TWCI directly.²

TWE asserts that the transaction does not involve the transfer or change in control of TWE's franchises in the State, will not affect the ownership interests held by TWCI in TWE, and will not affect the operations of Oceanic or the services provided pursuant to the cable franchises. TWE further asserts that:

1. TWCI will retain management authority over Oceanic;
2. There will be no assignment or transfer of Oceanic's assets, including any franchises;
3. Oceanic's local management and staff will remain the same and report to the same executives at TWCI;
4. There will be no impact on Oceanic's services, business policies and practices; and
5. Ultimate control of TWCI will continue to rest with the same public shareholders both immediately before and after completion of the spin-off.

According to TWE, TWCI sent Form 394s to approximately 754 local franchising authorities ("LFAs"), including Hawai'i. 688 LFAs did not respond, 62 of the LFAs affirmatively agreed to the transaction, and three LFAs (all in North Carolina) denied consent. TWE later explained that TWCI is continuing to work with these 3 North Carolina LFAs to resolve their differences.

B. DCCA's Evaluation of the Transaction

The Department reviewed TWE's submissions, including the company's contentions of fact, assurances of future effect, and, portions of the information included with the FCC filings. In addition to the aforementioned Form 327-C and Form 394, DCCA reviewed the Separation Agreement and Forms 8-K, 10-K and 10-Q filed by TWCI with the Securities and Exchange Commission (collectively, the "Federal Forms").

The Federal Forms and the attached information are particularly helpful as the certifications and penalties associated with willful false statements provide assurance of

² The transaction is illustrated in the attached Exhibits "A" and "B", which were first attached to TWI's Federal Communications Commission ("FCC") Form 394, dated June 12, 2008, and submitted to DCCA along with TWE's June 27, 2008 letter, and to TWC's FCC Form 327-C for the transfer of its radio licenses, dated June 11, 2008 and filed with the FCC.

the information's veracity. Each of the FCC and SEC documents describe the transaction in terms consistent with those outlined in the Letters.

In addition, DCCA considered information provided by other LFAs and the National Association of Telecommunications Officers and Advisors with regard to other LFAs' review of the TWE Form 394s. DCCA was able to independently confirm that numerous LFAs had approved, but that at least three LFAs had denied approval of, the transaction. As noted above, the vast majority of the LFAs who responded to the Form 394s approved the transaction.³

In sum, DCCA accepts the characterization of the transaction as provided and described in the Letters, the Federal Forms, and the attachments to those forms.

II. Decision

HRS section 440G-10.1 (1983) governs the transfer of cable franchises, and provides that:

“(a) No cable franchise, including the rights, privileges, and obligations thereof, may be assigned, sold, leased, encumbered, or otherwise transferred, voluntarily or involuntarily, directly or indirectly, including by transfer of control of any cable system, whether by change in ownership or otherwise, except upon written application to and approval by the director. The form of the application shall be prescribed by the director.

(b) Sections 440G-7⁴ and 440G-8⁵ shall apply to the transfer of cable franchises.”

Additionally, the applicable cable franchise orders require that “[a]ny change in the general ownership of five percent (5%) or more of TWE shall require the prior approval of the Director.”⁶

Based upon the facts as confirmed by the Department, the analysis above, and the information and documentation provided and representations made by TWE, the transaction does not appear to involve the assignment, sale, lease, encumbrance, or

³ These decisions are consistent with the result of the Federal Communications Commission's (FCC) Memorandum Opinion and Order, released on February 11, 2009. The FCC approved TWX's plan to fully separate out its TWCI unit and found that the separation transaction to be consistent with the public interest.

⁴ Section 440G-7, HRS, pertains to the application for a cable franchise.

⁵ Section 440G-8, HRS, pertains to the issuance of a cable franchise.

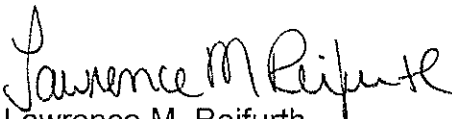
⁶ See, paragraph 7.6 in Decision and Order (“D&O”) Nos. 173, 174, 185, and 241, and paragraph 7.5 in D&O No. 291. D&O No. 154 does not contain this provision.

transfer of TWE's cable franchises in the State;⁷ result in any transfer of control of TWE's cable system because the same public shareholders will retain ultimate control over TWCI, which controls TWCL, and which in turn controls TWE; or result in at least a five percent (5%) change in the general ownership of TWE. Accordingly, DCCA determines that the transaction does not implicate HRS section 440G-10.1 and the applicable provisions of the various D&Os issued to TWE. Therefore, DCCA will not take any action on the transaction under HRS sections 440G-7, 440G-8 and 440G-10.1.

If our understanding of TWE's representations or any of the information provided and representations made by TWE is incorrect, our position on the transaction may change. Thus, the Department reserves and does not waive any of its rights with regard to future modification of this decision.

If you have any questions on the above, please do not hesitate to contact Mr. Clyde Sonobe, the Department's Cable Television Administrator, at (808) 586-2620.

Sincerely,



Lawrence M. Reifurth

Director of Commerce and Consumer Affairs

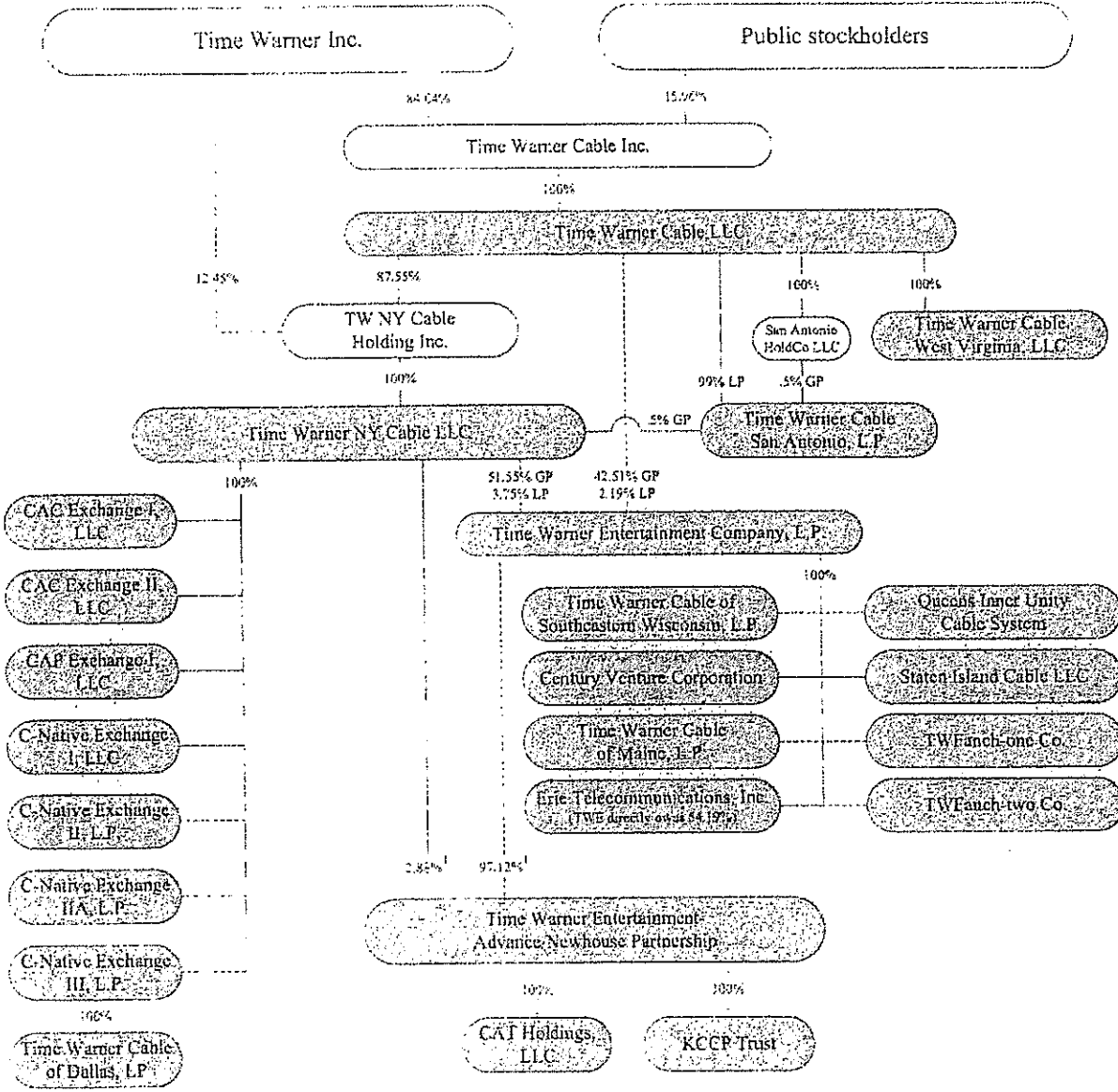
Enclosures

c: Department of the Attorney General
Clyde S. Sonobe

⁷ This decision is consistent with DCCA's treatment of the 2006 transaction in which Comcast redeemed its interest in TWE and TWE became wholly owned by TWCI. The transaction in 2006 is very similar to the current transaction because, in 2006, there was no transfer of Oceanic's cable system, Oceanic's local management and staff remained the same, there was no change in control of Oceanic, and there was no impact on Oceanic's business policies or practices.

Time Warner Cable Pre-Closing Ownership Structure of Franchise-Owning Entities

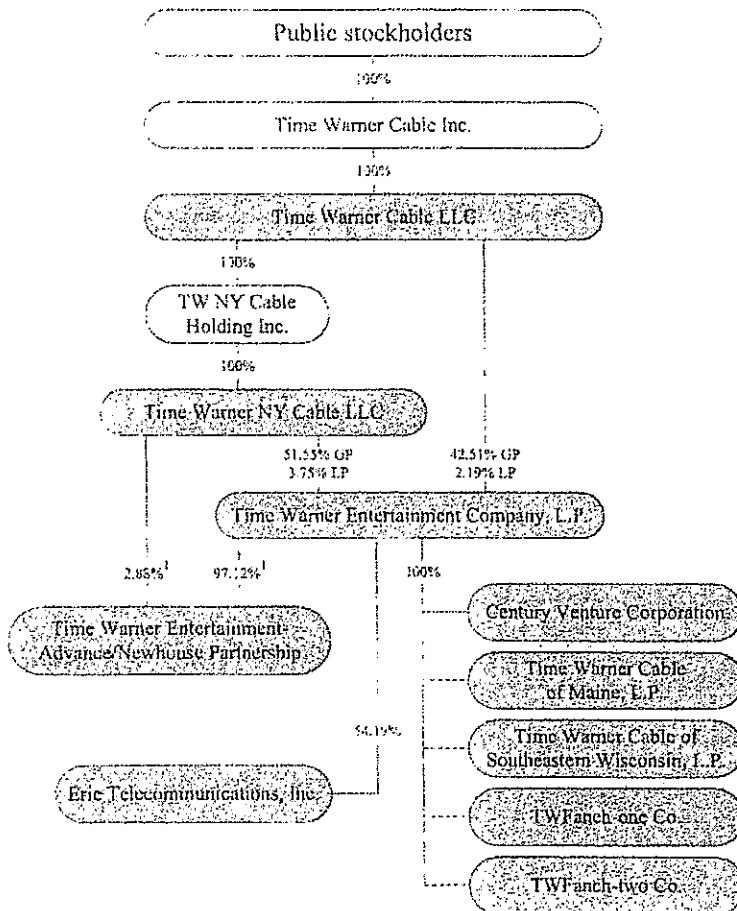
(franchise-owning entities are shaded in gray;
solid line indicates direct ownership, dashed line indicates indirect
ownership through wholly-owned subsidiaries not listed on this chart)



Beneficial ownership

Time Warner Cable Post-Closing Ownership Structure of Franchise-Owning Entities

(franchise-owning entities are shaded in gray;
solid line indicates direct ownership, dashed line indicates indirect
ownership through wholly-owned subsidiaries not listed on this chart)



Beneficial ownership