Other Operating Highlights

Financing

In February, the Company completed an offering of $200 million of additional 9 ¼% Senior Notes due February 15, 2014. Subsequent to the financing, the Company called for the redemption of $200 million of the 9 ¾% Senior Notes due July 15, 2008. Approximately $210 million of cash on hand was used for the redemption. The primary benefit of the financing activities was to defer $200 million of debt maturities from 2008 to 2014.

Capital Expenditures

Capital expenditures were $39.3 million for the quarter. This compares to $49.4 million and $31.5 million for the fourth and first quarters of 2004, respectively. For 2005, the Company expects capital expenditures to be approximately $175 million, which includes the cost of continued expansion of its network, products and systems.

Other Revenue Items

"Our continued strong enterprise growth was complemented by our second consecutive quarter of increased carrier revenue and we are pleased with the continued strengthening in our business," said Mark Peters, Time Warner Telecom's Senior Vice President and Chief Financial Officer. "While the nature of our business includes quarterly fluctuations related to sales cycles, installation timing, disconnects, disputes and contract settlements, the trends in our business continue to be positive."

Summary

"We believe to grow in this industry and to succeed long term, we must create a differentiated and defendable market position," said Herda. "We have done this by building a unique asset that combines the strength of our powerful IP backbone and our local fiber infrastructure, with our leading product portfolio and our network management capabilities. We expect this dynamic set of capabilities combined with our ongoing focus on customer satisfaction and innovation will continue to help us grow the business," concluded Herda.

Time Warner Telecom Inc. plans to conduct a webcast conference call to discuss its earnings results on May 3 at 9:00 a.m. MDT (11:00 a.m. EDT). To access the webcast and the financial and statistical information to be discussed in the webcast, visit www.twtelecom.com under "Investor Relations."

[1] The Company uses a modified definition of EBITDA to eliminate certain non-cash and non-operating income or charges to earnings to enhance the comparability of its financial performance from period to period. Modified EBITDA (or "M-EBITDA) is defined as net income or loss before depreciation, amortization, accretion, asset impairment charge, interest expense, interest income, investment gains and losses, income tax expense and cumulative effect of change in accounting principle. (See a discussion below of Modified EBITDA under "Financial Measures".)

Financial Measures

The Company provides financial measures using generally accepted accounting principles ("GAAP") as well as adjustments to GAAP measures to describe its business trends, including Modified EBITDA. Management believes that its definition of Modified EBITDA (see above) is a standard measure of operating performance and liquidity that is commonly reported and widely used by analysts, investors, and other interested parties in the telecommunications industry because it eliminates many differences in financial, capitalization, and tax structures, as well as non-cash and non-operating income or charges to earnings. Modified EBITDA is not intended to replace operating income (loss), net income (loss), cash flow, and other measures of financial performance and liquidity reported in accordance with GAAP. Management uses Modified EBITDA internally to assess on-going operations and it is the basis for various financial covenants contained in the Company's debt agreements. Modified EBITDA is reconciled to Net Loss, the most comparable GAAP measure to Modified EBITDA, within the Consolidated Operating Highlights.

Due to the significant positive impact of the Company's settlement with WorldCom, Inc. (now MCI Inc.), the Company has presented its selected operating statistics both as reported and net of the settlements as well as a reconciliation between the two, in order to assist in understanding the impact of the settlement and the Company's performance during the quarter net of the impact of that event.

Forward Looking Statements

The statements in this press release concerning the outlook for 2005 and beyond, including expansion plans, revenue trends, growth prospects, service disconnects and expected capital expenditures are forward-looking statements that reflect management's views with respect to future events and financial performance. These statements are based on management's current expectations and are subject to risks and uncertainties. Important factors that could cause actual results to differ materially from those in the forward looking statements include the risks summarized in the Company's filings with the SEC, especially the section entitled "Risk Factors" in its 2004 Annual Report on Form 10-K and the risks set forth in the material posted at www.twtelecom.com under "Investor Relations" for the Company's May 3, 2005 webcast. Time Warner Telecom undertakes no obligations to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

About Time Warner Telecom Inc.

Time Warner Telecom Inc., headquartered in Littleton, Colo., is a leading provider of managed network solutions to a wide array of businesses and organizations throughout the U.S. that require telecommunications intensive services. One of the country's premier competitive telecom carriers, Time Warner Telecom integrates data, dedicated Internet access, and local and long distance voice services for long distance carriers, wireless communications companies, incumbent local exchange carriers, and such enterprise organizations doing business in healthcare, finance, higher education, manufacturing and hospitality industries as well as for federal, state and local government entities. Please visit www.twtelecom.com for more information.

Time Warner Telecom Inc.

Consolidated Operations Highlights

(Dollars in thousands)

Unaudited (1)

	Three Months Ended		
	3/31/05	12/31/04	*Growth %*
Revenue			
Dedicated transport services	$85,648	$83,690	2%
Switched services	40,450	41,053	-1%
Data and Internet services	36,696	34,765	6%
	162,794	159,508	2%
Intercarrier compensation (2)	8,780	8,516	3%
Total Revenue	171,574	168,024	2%
Expenses			
Operating costs	66,807	67,197	-1%
Gross Margin	104,767	100,827	4%
Selling, general and administrative	44,779	46,192	-3%
Modified EBITDA	59,988	54,635	10%
Depreciation, amortization and accretion	58,006	64,531	
Operating Income (Loss)	1,982	(9,896)	
Interest expense	(39,797)	(28,728)	
Interest income	2,721	2,590	
Net loss before income taxes	(35,094)	(36,034)	
Income tax expense	75	111	
Net Loss	($35,169)	($36,145)	
Capital Expenditures	$39,330	$49,382	-20%
Gross Margin	61%	60%	
Modified EBITDA Margin	35%	33%	

(1) For complete financials and related footnotes, please refer to the Company's SEC filings.
(2) Intercarrier Compensation includes switched access and reciprocal compensation.

Time Warner Telecom Inc.

Consolidated Operations Highlights

(Dollars in thousands)
Unaudited (1)

	Three Months Ended March 31		
	2005	2004	*Growth %*
Revenue			
Dedicated transport services	$85,648	$84,160	2%
Switched services	40,450	38,113	6%
Data and Internet services	36,696	28,424	29%
	162,794	150,697	8%
Intercarrier compensation (2)	8,780	10,952	-20%
	171,574	161,649	6%
Expenses			
Operating costs	66,807	64,317	4%
Gross Margin	104,767	97,332	8%
Selling, general and administrative	44,779	45,312	-1%
Modified EBITDA	59,988	52,020	15%
Depreciation, amortization and accretion	58,006	56,813	
Operating Income (Loss)	1,982	(4,793)	
Interest expense	(39,797)	(35,822)	
Interest income	2,721	1,319	
Investment gains	-	690	
Net loss before income taxes	(35,094)	(38,606)	
Income tax expense	75	225	
Net Loss	($35,169)	($38,831)	
Capital Expenditures	$39,330	$31,548	25%
Gross Margin	61%	60%	
Modified EBITDA Margin	35%	32%	

(1) For complete financials and related footnotes, please refer to the Company's SEC filings.
(2) Intercarrier Compensation includes switched access and reciprocal compensation.

Time Warner Telecom Inc.
Highlights of Results Per Share
Unaudited (1)

	Three Months Ended		
	3/31/05	12/31/04	3/31/04
Weighted Average Shares Outstanding (thousands)			
Basic and Diluted	115,871	115,797	115,515
Basic and Diluted Loss per Common Share			
As Reported	($0.30)	($0.31)	($0.34)

	As of		
	3/31/05	12/31/04	3/31/04
Common shares (thousands)			
Actual Shares Outstanding	116,079	115,806	115,670
Options (thousands)			
Options Outstanding	19,468	19,224	19,417
Options Exercisable	12,912	12,871	11,046
Options Exercisable and In-the-Money	2,160	2,120	1,507

(1) For complete financials and related footnotes, please refer to the Company's SEC filings.

Time Warner Telecom Inc.

Condensed Consolidated Balance Sheet Highlights

(Dollars in thousands)
Unaudited (1)

	March 31, 2005	December 31, 2004
ASSETS		
Cash and equivalents, and short-term investments	$373,176	$432,506
Receivables	51,853	56,972
Less: allowance	(10,885)	(11,415)
Net receivables	40,968	45,557
Other current assets	25,826	25,598
Long-term investments	-	-
Property, plant and equipment	2,374,956	2,336,338
Less: accumulated depreciation	(1,090,548)	(1,033,246)
Net property, plant and equipment	1,284,408	1,303,092
Other Assets	100,824	98,835
Total	$1,825,202	$1,905,588
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	$34,673	$42,504
Deferred revenue	19,967	20,229
Accrued taxes, franchise and other fees	64,653	69,001
Accrued interest	18,246	44,265
Accrued payroll and benefits	21,197	23,209
Current portion of debt and lease obligations	2,369	1,387
Other current liabilities	73,510	81,145
Total current liabilities	234,615	281,740
Long-Term Debt and Capital Lease Obligations		
Floating rate Senior secured notes, due 2/15/2011	240,000	240,000
9.25% Senior unsecured notes, due 2/15/2014	400,493	200,000
9.75% Senior unsecured notes, due 7/15/2008	200,000	400,000
10.125% Senior unsecured notes, due 2/1/2011	400,000	400,000
Capital lease obligations	11,843	10,584
Less: current portion	(2,369)	(1,387)
Total long-term debt and capital lease obligations	1,249,967	1,249,197
Other Long-Term Liabilities	7,671	7,493
Stockholders' Equity	332,949	367,158
Total	$1,825,202	$1,905,588

(1) For complete financials and related footnotes, please refer to the Company's SEC filings.

Time Warner Telecom Inc.
Selected Operating Statistics
Unaudited (1)

	Quarter Ended				
	2004				2005
	Mar. 31	Jun. 30	Sept. 30	Dec. 31	Mar. 31
Operating Metrics:					
Route Miles					
Metro	11,998	12,247	12,453	12,375	12,835
Regional	6,694	6,694	6,694	6,794	7,015
Total	18,692	18,941	19,147	19,169	19,850
Fiber Miles					
Metro	626,873	637,081	646,849	642,298	653,506
Regional	273,963	273,963	273,963	275,163	275,186
Total	900,836	911,044	920,812	917,461	928,692
Buildings (2)					
On-net	4,350	4,576	4,839	5,074	5,281
Type II	12,502	13,114	13,895	14,139	14,576
Total	16,852	17,690	18,734	19,213	19,857
Networks					
Class 5 Switches	41	41	40	39	39
Soft Switches	12	12	12	13	20
Headcount					
Total Headcount	1,982	1,971	1,990	1,986	2,019
Sales Associates (3)	305	310	323	314	317
Customers	9,209	9,632	9,982	10,396	10,740

(1) For complete financials and related footnotes, please refer to the Company's SEC filings.
(2) Buildings "On-net" represents customer locations to which the Company's fiber network is directly connected. Type II buildings are carried on the Company's fiber network, including the Company's switch for switched services, with a leased service from the Company's distribution ring to the customer location.
(3) Includes Sales Account Executives and Customer Care Specialists.

Time Warner Telecom Inc.
Selected Operating Statistics
Unaudited (1)

	2004						2005
	Mar. 31 (Note 2)			Jun. 30	Sept. 30	Dec. 31	Mar. 31
Financial Metrics: (1), (2)	As Reported	MCI Settlement	Net of Settlement	As Reported	As Reported	As Reported	As Reported
Revenue ($000)							
Dedicated transport services	$84,160	$1,661	$82,499	$83,552	$81,175	$83,690	$85,648
Switched services	38,113	(25)	38,138	39,321	39,418	41,053	40,450
Data and Internet services	28,424	675	27,749	29,908	31,708	34,765	36,696
Subtotal	150,697	2,311	148,386	152,781	152,301	159,508	162,794
Intercarrier Compensation	10,952	-	10,952	10,045	8,287	8,516	8,780
Total Revenue	$161,649	$2,311	$159,338	$162,826	$160,588	$168,024	$171,574
Operating Costs	64,317	-	64,317	64,221	65,550	67,197	66,807
Selling, general and administrative	45,312	(400)	45,712	43,381	43,432	46,192	44,779
Modified EBITDA (2)	$52,020	$2,711	$49,309	$55,224	$51,606	$54,635	$59,988
Capital Expenditures ($000)	$31,548	-	$31,548	$44,023	$46,880	$49,382	$39,330
Gross Margin (3)	60%	n/a	60%	61%	59%	60%	61%
Modified EBITDA Margin	32%	n/a	31%	34%	32%	33%	35%

(1) For complete financials and related footnotes, please refer to the Company's SEC filings.
(2) The Company separately presents Modified EBITDA, gross margin and Modified EBITDA margin without MCI settlements to help enhance comparability of these measures between periods.
(3) The Company utilizes a fully burdened gross margin, including network costs, and personnel costs for customer care, provisioning, network maintenance, technical field and network operations.

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

FORM 10-Q

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

For the quarterly period ended March 31, 2005

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 0-30218

TIME WARNER TELECOM INC.
(Exact name of Registrant as specified in its charter)

State of Delaware **(State or other jurisdiction of incorporation or organization)**	**84-1500624** **(I.R.S. Employer Identification Number)**
10475 Park Meadows Drive **Littleton, Colorado** **(Address of principal executive offices)**	**80124** **(Zip Code)**

Registrant's telephone number, including area code: (303) 566-1000

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

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes ☒ No ☐

The number of shares outstanding of Time Warner Telecom Inc.'s common stock as of April 30, 2005 was:

Time Warner Telecom Inc. Class A common stock — 50,151,180 shares
Time Warner Telecom Inc. Class B common stock — 65,936,658 shares

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TIME WARNER TELECOM INC.

CONSOLIDATED AND CONDENSED BALANCE SHEET

	March 31, 2005	December 31, 2004
	(unaudited) (amounts in thousands, except share amounts)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 248,218	130,052
Investments	124,958	302,454
Receivables, less allowances of $10,885 and $11,415, respectively (a)	40,968	45,557
Prepaid expenses	14,804	13,088
Deferred income taxes	11,022	12,510
Total current assets	439,970	503,661
Property, plant, and equipment	2,374,956	2,336,338
Less accumulated depreciation	(1,090,548)	(1,033,246)
	1,284,408	1,303,092
Deferred income taxes	47,755	46,267
Goodwill	26,773	26,773
Other assets, net of accumulated amortization (note 1)	26,296	25,795
Total assets	$ 1,825,202	1,905,588
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable (b)	$ 34,673	42,504
Deferred revenue	19,967	20,229
Accrued interest	18,246	44,265
Accrued payroll and benefits	21,197	23,209
Other current liabilities	140,532	151,533
Total current liabilities	234,615	281,740
Long-term debt and capital lease obligations (note 2)	1,249,967	1,249,197
Other long-term liabilities	7,671	7,493
Stockholders' equity (note 1):		
Preferred stock, $0.01 par value, 20,000,000 shares authorized, no shares issued and outstanding	—	—
Class A common stock, $0.01 par value, 277,300,000 shares authorized, 50,142,568 and 49,868,947 shares issued and outstanding as of March 31, 2005 and December 31, 2004, respectively	502	499
Class B common stock, $0.01 par value, 162,500,000 shares authorized, 65,936,658 shares issued and outstanding as of March 31, 2005 and December 31, 2004	659	659
Additional paid-in capital	1,173,397	1,172,440
Accumulated deficit	(841,609)	(806,440)
Total stockholders' equity	332,949	367,158
Total liabilities and stockholders' equity	$ 1,825,202	1,905,588
(a) Includes receivables resulting from transactions with affiliates (note 3)	$ 1,680	1,997
(b) Includes payables resulting from transactions with affiliates (note 3)	$ 9,113	8,844

TIME WARNER TELECOM INC.

CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended March 31, 2005	Three Months Ended March 31, 2004
	(amounts in thousands, except per share amounts)	
Revenue (a):		
Dedicated transport services	$ 85,648	84,160
Switched services	40,450	38,113
Data and Internet services	36,696	28,424
Intercarrier compensation	8,780	10,952
Total revenue	171,574	161,649
Costs and expenses (a):		
Operating (exclusive of depreciation, amortization, and accretion shown separately below)	66,807	64,317
Selling, general, and administrative	44,779	45,312
Depreciation, amortization, and accretion	58,006	56,813
Total costs and expenses	169,592	166,442
Operating income (loss)	1,982	(4,793)
Interest expense	(39,797)	(35,822)
Interest income	2,721	1,319
Investment gain	—	690
Loss before income taxes	(35,094)	(38,606)
Income tax expense	75	225
Net loss	$ (35,169)	(38,831)
Net loss per common share, basic and diluted	$ (0.30)	(0.34)
Weighted average shares outstanding, basic and diluted	115,871	115,515
(a) Includes revenue and expenses resulting from transactions with affiliates (note 3):		
Revenue	$ 4,315	5,613
Operating expenses	$ 1,376	1,050
Selling, general, and administrative	$ 882	590

See accompanying notes.

TIME WARNER TELECOM INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Three Months Ended March 31, 2005	2004
	(amounts in thousands)	
Cash flows from operating activities:		
Net loss	$ (35,169)	(38,831)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation, amortization, and accretion	58,006	56,813
Stock-based compensation	198	293
Deferred debt issue and extinguishment costs	9,699	9,437
Gain on investments	—	(690)
Changes in operating assets and liabilities:		
Receivables and prepaid expenses	1,873	1,545
Accounts payable, deferred revenue, and other current liabilities	(47,880)	(36,525)
Net cash used in operating activities	(13,273)	(7,958)
Cash flows from investing activities:		
Capital expenditures	(37,810)	(29,050)
Purchases of investments	(8,931)	(84,889)
Proceeds from maturities of investments	187,400	66,985
Other investing activities	143	1,385
Net cash provided by (used in) investing activities	140,802	(45,569)
Cash flows from financing activities:		
Net proceeds from issuance of common stock upon exercise of stock options	424	594
Net proceeds from issuance of common stock in connection with the employee stock purchase plan	338	555
Net proceeds from issuance of debt	196,778	426,443
Payment of capital lease obligations	(403)	(508)
Payment of debt obligations	(206,500)	(396,000)
Net cash (used in) provided by financing activities	(9,363)	31,084
Increase (decrease) in cash and cash equivalents	118,166	(22,443)
Cash and cash equivalents at beginning of period	130,052	353,032
Cash and cash equivalents at end of period	$ 248,218	330,589
Supplemental disclosures of cash flow information:		
Cash paid for interest	$ 63,262	42,506
Cash paid for income taxes	$ 307	320
Addition of capital lease obligation	$ 1,520	2,498

See accompanying notes.

TIME WARNER TELECOM INC.

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
Three Months Ended March 31, 2005
(Unaudited)

	Common Stock									
	Class A			Class B			Additional paid-in capital	Accumulated deficit	Total stockholders' equity
	Shares	Amount		Shares	Amount				
	(amounts in thousands)								
Balance at January 1, 2005	49,869	$	499	65,937	$	659	1,172,440	(806,440)	367,158
Net loss and comprehensive loss	—		—	—		—	—	(35,169)	(35,169)
Shares issued for cash in connection with the exercise of stock options	213		2	—		—	422	—	424
Shares issued for cash in connection with the employee stock purchase plan	100		1	—		—	337	—	338
Forfeiture of restricted stock	(39)								
Stock based compensation	—		—	—		—	198	—	198
Balance at March 31, 2005	50,143	$	502	65,937	$	659	1,173,397	(841,609)	332,949

See accompanying notes.

TIME WARNER TELECOM INC.

NOTES TO CONSOLIDATED AND CONDENSED FINANCIAL STATEMENTS

March 31, 2005
(unaudited)

1. Organization and Summary of Significant Accounting Policies

Description of Business and Capital Structure

Time Warner Telecom Inc. (the "Company"), a Delaware corporation, is a leading provider of managed network solutions to business customers in 44 metropolitan markets in the United States. The Company delivers data, dedicated Internet access, and local and long distance voice services.

The Company has two classes of common stock outstanding, Class A common stock and Class B common stock. Holders of Class A common stock have one vote per share and holders of Class B common stock have ten votes per share. Each share of Class B common stock is convertible, at the option of the holder, into one share of Class A common stock. The Class B common stock is collectively owned directly or indirectly by Time Warner Inc. ("Time Warner") and Advance Telecom Holdings Corporation and Newhouse Telecom Holdings Corporation ("Advance/Newhouse"). Time Warner and Advance/Newhouse are referred to as the "Class B Stockholders." Holders of Class A common stock and Class B common stock generally vote together as a single class. However, some matters require the approval of 100% of the holders of the Class B common stock voting separately as a class, and some matters require the approval of a majority of the holders of the Class A common stock, voting separately as a class. As of March 31, 2005, the Class B Stockholders had approximately 93% of the combined voting power of the outstanding common stock and were represented by five members of the Board of Directors.

The Company also is authorized to issue shares of Preferred Stock. The Company's Board of Directors has the authority to establish voting powers, preferences, and special rights for the Preferred Stock. No such voting powers, preferences, or special rights have been established and no shares of Preferred Stock have been issued as of March 31, 2005.

Basis of Presentation

The accompanying interim consolidated and condensed financial statements are unaudited, but in the opinion of management, reflect all adjustments necessary for a fair presentation of the results for the periods indicated. The results of operations for any interim period are not necessarily indicative of results for the full year. The accompanying financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto for the year ended December 31, 2004.

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Basis of Consolidation

The consolidated and condensed financial statements include the accounts of the Company and all entities in which the Company has a controlling voting interest ("subsidiaries"). Intercompany accounts and transactions have been eliminated in consolidation. Significant accounts and transactions with Class B Stockholders and its affiliates are disclosed as related party transactions.

TIME WARNER TELECOM INC.

NOTES TO CONSOLIDATED AND CONDENSED FINANCIAL STATEMENTS - continued

Investments

Marketable equity securities held by the Company are classified as available-for-sale. Accordingly, marketable equity securities are included in other assets at fair value. Unrealized gains and losses on equity securities classified as available-for-sale are carried, net of taxes, as a component of accumulated other comprehensive income in stockholders' equity until the investment is sold or considered impaired, at which time the realized gain or loss is included in income. Other equity investments which are not publicly traded and in which the Company's ownership interest is less than 20% are generally carried at the lower of cost or net realizable value. Realized gains and losses are determined on a specific identification basis. As of December 31, 2004, the Company had sold its remaining marketable equity securities.

Marketable debt securities are classified as held-to-maturity as the Company has the intent and ability to hold the securities to maturity. Held-to-maturity securities are carried at amortized cost. The fair value of marketable debt securities is not materially different than the amortized cost.

Receivables

The Company generally bills in advance for the majority of the services it provides and does not require significant collateral from its customers. The Company evaluates whether receivables are reasonably assured of collection by ongoing credit evaluations of significant customers' financial condition, and provides an allowance for doubtful accounts based on the expected collectability of all receivables. The allowance for doubtful accounts was $10.9 million, or 21% of gross receivables, as of March 31, 2005, compared to $11.4 million, or 20% of gross receivables, as of December 31, 2004.

Revenue

The Company's revenue is derived primarily from business communications services, including dedicated transport, Ethernet, local switched, long distance, data and Internet access services, and intercarrier compensation, which is comprised of reciprocal compensation and switched access services. The Company's customers are principally data and telecommunications-intensive businesses, long distance carriers, Internet service providers ("ISPs"), wireless communications companies, incumbent local exchange carriers ("ILECs"), competitive local exchange carriers ("CLECs"), and governmental entities.

Revenue for dedicated transport, data, Internet, and the majority of switched services is generally billed in advance on a fixed rate basis and recognized over the period the services are provided. Revenue for the majority of switched access services and long distance is generally billed on a transactional basis determined by customer usage with some fixed rate elements. The transactional elements of switched services are billed in arrears and estimates are used to recognize revenue in the period earned.

The Company evaluates whether receivables are reasonably assured of collection based on certain factors, including the likelihood of billing being disputed by customers. In situations where a dispute is likely, revenue is not recognized until cash is collected.

Reciprocal compensation is an element of intercarrier compensation revenue that represents compensation from local exchange carriers ("LECs") for local exchange traffic originated on another LEC's facilities and terminated on the Company's facilities. Reciprocal compensation rates are established between the parties based on federal and state regulatory rulings. The Company recognizes reciprocal compensation revenue primarily on a cash basis except in those cases where the revenue is under dispute or at risk, in which case the Company defers recognition of the revenue until the outstanding issues are resolved. The Company utilizes the cash basis because changes in, and interpretations of, regulatory rulings create disputes and often result in significant delays in payments. Reciprocal compensation represented 2% and 3% of revenue during the three months ended March 31, 2005 and 2004, respectively.

Switched access is also an element of intercarrier compensation revenue and represents the connection between a long distance carrier's point of presence and an end-user's premises provided through

TIME WARNER TELECOM INC.

NOTES TO CONSOLIDATED AND CONDENSED FINANCIAL STATEMENTS - continued

the Company's switching facilities. The Federal Communications Commission ("FCC") regulates interstate access rates, and through regulations and regulatory developments these rates have been reduced to parity with the ILEC rates competing in each service area. Switched access is billed in arrears and estimates are used to recognize revenue in the period earned. Switched access revenue represented 3% and 4% of revenue for the three months ended March 31, 2005 and 2004, respectively.

Significant Customers

The Company has substantial business relationships with a few large customers, including major long distance carriers. The Company's top 10 customers accounted for 32% and 34% of the Company's consolidated revenue for the three months ended March 31, 2005 and 2004, respectively. AT&T Corp. and MCI, Inc. are two of the Company's largest customers at 8% and 4% of revenue, respectively, for the quarter ended March 31, 2005. The announced merger of AT&T Corp. and SBC Communications Inc. and the Verizon Communications purchase of MCI Inc., if consummated, may result in AT&T buying less local transport services from the Company in SBC's service area in the long term, and MCI buying less local transport services from the Company in Verizon's service area. No customer accounted for 10% or more of total revenue in the three months ended March 31, 2005 or 2004.

Income Taxes

As of March 31, 2005, the Company has recorded a deferred tax asset of $58.8 million, net of a valuation allowance of $247 million. The Company has concluded that it is more likely than not that the net deferred tax asset of $58.8 million will be realized because the Company could utilize tax-planning strategies in the event its net operating losses were to expire. However, the Company believes there may be risks in realizing amounts in excess of the $58.8 million through utilization of available tax planning strategies and therefore has established a valuation allowance.

Asset Retirement Obligations

Effective January 1, 2003, the Company adopted the provisions of Financial Accounting Standards Board ("FASB") Statement No. 143, *Accounting for Asset Retirement Obligations* ("SFAS 143"). SFAS 143 requires that the estimated fair value of an asset retirement obligation be recorded when incurred. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset and depreciated over the asset's estimated useful life. The Company has asset retirement obligations related to decommissioning of electronics in leased facilities and the removal of certain fiber and conduit systems. Considerable management judgment is required in estimating these obligations. Important assumptions include estimates of retirement costs, the timing of the future retirement activities, and the likelihood of retirement provisions being enforced. Changes in these assumptions based on future information could result in adjustments to estimated liabilities.

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NOTES TO CONSOLIDATED AND CONDENSED FINANCIAL STATEMENTS - continued

In conjunction with the adoption of SFAS 143, the Company recorded a $5.9 million liability, an asset of $2.9 million in property, plant, and equipment, and a $3.0 million charge to earnings to account for the cumulative effect of the depreciation and accretion expense that would have been recorded had SFAS 143 been in effect in earlier periods. The asset retirement obligation increased primarily due to the accretion of the liability and was $7.7 million and $7.5 million as of March 31, 2005 and December 31, 2004, respectively.

Segment Reporting

The Company operates in 44 service areas, and the Company's management makes decisions on resource allocation and assesses performance based on total revenue, expenses, and capital spending of these operating locations. Each of the service areas offer similar products and services, has similar customers and networks, is regulated by the same type of authorities, and is managed directly by the Company's executives, allowing the 44 service areas to be aggregated, resulting in one line of business.

Loss Per Common Share and Potential Common Share

The Company computes loss per common share in accordance with the provisions of FASB Statement No. 128, *Earnings Per Share,* which requires companies with complex capital structures to present basic and diluted earnings per share ("EPS"). Basic EPS is measured as the income or loss available to common stockholders divided by the weighted average outstanding common shares for the period. Diluted EPS is similar to basic EPS but presents the dilutive effect on a per share basis of potential common shares (*e.g.*, convertible securities, stock options, etc.) as if they had been converted at the beginning of the periods presented. Potential common shares that have an anti-dilutive effect (*e.g.*, those that increase income per share or decrease loss per share) are excluded from diluted EPS.

Basic loss per share for all periods presented herein was computed by dividing the net loss by the weighted average shares outstanding for the period.

The diluted loss per common share for all periods presented was computed by dividing the net loss attributable to common shares by the weighted average outstanding common shares for the period. Options to purchase 19.5 million and 19.4 million shares of the Company's Class A common stock outstanding at March 31, 2005 and 2004, respectively, were excluded from the computation of weighted average shares outstanding because their inclusion would be anti-dilutive.

Stock-Based Compensation

The Company follows SFAS No. 123, *Accounting for Stock-Based Compensation* ("SFAS 123"), which allows companies to either expense the estimated fair value of options or continue to follow the intrinsic value method set forth in Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* ("APB 25"), and disclose the pro-forma effect on net income (loss) as if the fair value of the options had been expensed.

To determine the pro-forma effect, the fair value of options was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions: risk-free interest rate of 4.2% and 2.8% in the three months ended March 31, 2005 and 2004, respectively; dividend yield of 0% during each period; volatility factor of the expected market price of the Company's common stock of 1.10 and 1.16 as of March 31, 2005 and 2004, respectively; and a weighted-average expected life of the option of five years during each period.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options, which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including expected stock price characteristics significantly different from those of traded options. Because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of the Company's employee stock options.

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NOTES TO CONSOLIDATED AND CONDENSED FINANCIAL STATEMENTS - continued

The weighted-average fair value of options granted was $2.81 and $5.81 for the three months ended March 31, 2005 and 2004, respectively. For purposes of pro-forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period. The Company's pro-forma net loss and pro-forma net loss per share, under the accounting provisions of SFAS 123, are shown below:

	Three months ended March 31, 2005	Three months ended March 31, 2004
	(amounts in thousands, except per share amounts)	
Net loss, as reported	$ (35,169)	(38,831)
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards	$ (4,492)	(11,430)
Pro-forma net loss	$ (39,661)	(50,261)
Basic and diluted loss per share, as reported	$ (0.30)	(0.34)
Pro-forma loss per share	$ (0.34)	(0.44)

In December 2004, the FASB issued Statement No. 123R, *Share-Based Payments* ("SFAS 123R"). The statement is effective for the Company as of January 1, 2006 and requires recognition of compensation cost in the statement of operations for all share-based payments (including employee stock options) at fair value. SFAS 123R applies to all future grants, as well as the unvested portion of existing grants as of December 31, 2005.

The Company's stock option expense under SFAS 123, as disclosed above in the pro-forma disclosure, has a significant pro-forma impact on its results of operations and has been impacted by the high volatility of the Company's stock price. As a result, the Company believes that application of the provisions of SFAS 123R is expected to have a significant impact to reported net income (loss) and earnings (loss) per share.

Reclassifications

Certain prior period amounts have been reclassified for comparability with the 2005 presentation.

TIME WARNER TELECOM INC.

NOTES TO CONSOLIDATED AND CONDENSED FINANCIAL STATEMENTS - continued

2. Long-Term Debt and Capital Lease Obligations

Long-term debt and capital lease obligations are summarized as follows:

	March 31, 2005	December 31, 2004
	(amounts in thousands)	
9 3/4% Senior Notes, due 2008	$ 200,000	400,000
10 1/8% Senior Notes, due 2011	400,000	400,000
Second Priority Senior Secured Floating Rate Notes, due 2011	240,000	240,000
9¼% Senior Notes, due 2014	400,493	200,000
Capital lease obligations	11,843	10,584
Total obligations	1,252,336	1,250,584
Less current portion of capital lease obligations	2,369	1,387
Total long-term obligations	$1,249,967	1,249,197

As of December 31, 2004, the Company had outstanding $400 million principal amount 9¾% Senior Notes due July 2008 (the "9¾% Senior Notes"). On March 11, 2005, the Company redeemed $200 million of the 9¾% Senior Notes. Interest on the remaining 9¾% Senior Notes is payable semi-annually on January 15 and July 15. The 9¾% Senior Notes are unsecured, unsubordinated obligations of the Company. Interest expense, including amortization and write-off of $2.1 million deferred debt issue costs and the premium of $6.5 million paid on the early redemption of $200 million of the 9¾% Senior Notes in March 2005, totaled approximately $17.6 million and $10.1 million for the three months ended March 31, 2005 and 2004, respectively. At March 31, 2005, the fair market value of the remaining $200 million 9¾% Senior Notes was approximately $198 million.

The $400 million principal amount 10 1/8% Senior Notes due February 2011 (the "10 1/8% Senior Notes") are unsecured, unsubordinated obligations of the Company. Interest on the 10 1/8% Senior Notes is payable semi-annually on February 1 and August 1. Interest expense, including amortization of deferred debt issue costs, relating to the 10 1/8% Senior Notes totaled approximately $10.4 million for each of the three months ended March 31, 2005 and 2004. At March 31, 2005, the fair market value of the $400 million of 10 1/8% Senior Notes was approximately $389 million.

The $240 million principal amount of Second Priority Senior Secured Floating Rate Notes due February 2011 (the "2011 Notes") are secured obligations, on a second lien basis, of the Company's wholly owned subsidiary Time Warner Telecom Holdings Inc. ("Holdings"). The 2011 Notes are guaranteed by the Company and its subsidiaries and Holdings' subsidiaries. The amount of guarantee attributable to any one subsidiary is subject to a maximum that is equivalent to 20% of the outstanding principal balance of the 2011 Notes. Interest is computed based on a specified LIBOR rate plus 4.0% and is reset and payable quarterly. Based on the LIBOR rate in effect as of March 31, 2005, the rate was 6.79% and interest expense including amortization of deferred debt issuance costs was $4.3 million and $1.5 million for the three months ended March 31, 2005 and 2004, respectively. At March 31, 2005, the fair market value of the $240 million of 2011 Notes was approximately $244 million.

TIME WARNER TELECOM INC.

NOTES TO CONSOLIDATED AND CONDENSED FINANCIAL STATEMENTS - *continued*

As of December 31, 2004, Holdings had outstanding $200 million principal amount of 9¼% Senior Notes due February 2014 (the "2014 Notes"). On February 9, 2005, Holdings issued an additional $200 million of 2014 Notes at a premium of 100.25%. The 2014 Notes are unsecured, unsubordinated obligations of Holdings and are subject to similar guarantees as the 2011 Notes, except that the guarantees are unsecured. The notes are guaranteed by the Company and its subsidiaries and Holdings' subsidiaries. Interest is payable semi-annually on February 15 and August 15. Interest expense, including amortization of deferred debt issuance costs and premium, relating to the 2014 Notes was $7.4 million and $2.2 million for the three months ended March 31, 2005 and 2004, respectively. At March 31, 2005, the fair market value the 2014 Notes was approximately $389 million.

None of the above described notes has been listed on any securities exchange or inter-dealer automated quotation system, and the estimated market values are based on indicative pricing published by investment banks. While the Company believes these approximations to be reasonably accurate at the time published, indicative pricing can vary widely depending on volume traded by any given investment bank and other factors.

The Company has a $150 million revolving credit facility (the "Revolver") that is fully available on a revolving basis and expires on February 20, 2009, or April 14, 2008, if any 9¾% Senior Notes remain outstanding on that date. Holdings is the borrower under the facility and the Company and its subsidiaries and Holdings' subsidiaries are guarantors. Interest is calculated based on a specified Eurodollar rate plus 2¼% to 3%. If the Revolver were drawn, certain restrictive financial covenants would apply. The Company is required to pay commitment fees on a quarterly basis of 0.5% per annum on the undrawn available commitment of the Revolver. Commitment fee expense was $187,500 for the three months ended March 31, 2005 and $498,000 for the three months ended March 31, 2004, including $415,000 of expense related to a terminated credit facility, and has been classified as a component of interest expense in the accompanying consolidated statements of operations.

The Senior Notes are governed by indentures that contain certain restrictive covenants. These restrictions affect, and in many respects significantly limit or prohibit, among other things, the ability of the Company to incur indebtedness, make prepayments of certain indebtedness, pay dividends, make investments, engage in transactions with stockholders and affiliates, issue capital stock of subsidiaries, create liens, sell assets, and engage in mergers and consolidations. The credit agreement for the Revolver contains similar restrictions, as well as certain financial covenants that the Company must comply with if it draws on the facility.

As of March 31, 2005, the Company was in compliance with all of its covenants.

TIME WARNER TELECOM INC.

NOTES TO CONSOLIDATED AND CONDENSED FINANCIAL STATEMENTS - continued

3. Related Party Transactions

In the normal course of business, the Company engages in various transactions with affiliates of the Class B Stockholders, generally on negotiated terms among the numerous affected operating units that, in management's view, result in reasonable arms-length terms.

The Company benefits from its relationship with Time Warner Cable, an affiliate of Time Warner, both through access to local rights-of-way and construction cost sharing. The Company has similar arrangements with Bright House Networks, LLC ("Bright House"), an affiliate of Advance/Newhouse, which manages certain cable systems in Florida and Indiana. Twenty-three of the Company's 44 markets use fiber capacity licensed from Time Warner Cable or Bright House (the "Cable Operations".) Under the terms of those agreements, if the Company wishes to license fiber capacity in addition to the capacity initially licensed in 1998, the Company must pay the Cable Operations an amount equal to the Company's allocable share of the total cost of constructing the route in question, plus permitting and supervision fees as a license fee. The Company generally pays the license fee at the time the network is constructed. Under those agreements, the Company licenses discrete fibers and attaches its own electronics so that the Company's networks are functionally separate from the licensor's. Pursuant to the licensing arrangements, the Company paid the Cable Operations $1.4 million and $1.1 million for the three months ended March 31, 2005 and 2004, respectively. These fees are capitalized to property, plant, and equipment and amortized over their useful lives as depreciation and amortization expense. As of March 31, 2005, the Company's property, plant, and equipment included $188.9 million in payments for licenses of fiber capacity pursuant to the capacity license agreements.

Under the licensing arrangement, the Company reimburses the Cable Operations for facility maintenance and pole and conduit rental costs. The reimbursements to the Cable Operations aggregated $1.4 and $1.1 million for the three months ended March 31, 2005 and 2004, respectively, and are a component of operating expenses in the consolidated statements of operations. In certain cases, the Company's operations are co-located with the Cable Operations facilities and are allocated a charge for various overhead expenses. Under the terms of leases and subleases between the Company and the Cable Operations, allocations for rent from the Cable Operations are typically based on square footage and allocations for utility charges are based on actual usage. These charges aggregated $882,000 and $590,000 from the Cable Operations for the three months ended March 31, 2005 and 2004, respectively, and are a component of selling, general, and administrative expenses in the consolidated statements of operations. The charges by these affiliates for rent and utilities do not differ materially from charges the Company incurs in locations where the Company leases spaces from unaffiliated parties.

Affiliates of the Class B Stockholders purchase services from the Company. Revenue from these affiliates, which includes dedicated transport services, switched services, and data and Internet services, aggregated $4.3 million and $5.6 million for the three months ended March 31, 2005 and 2004, respectively.

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NOTES TO CONSOLIDATED AND CONDENSED FINANCIAL STATEMENTS - continued

4. Commitments and Contingencies

Pending legal proceedings are substantially limited to litigation incidental to the business of the Company. In the opinion of management, the ultimate resolution of these matters will not have a material adverse effect on the Company's financial statements.

Management routinely reviews the Company's exposure to liabilities incurred in the normal course of its business operations. Where a probable contingency exists and the amount can be reasonably estimated, the Company records the estimated liability. Considerable judgment is required in analyzing and recording such liabilities and actual results could vary significantly from the estimates.

5. Supplemental Guarantor Information

On February 20, 2004, Holdings ("Issuer") issued $440 million in Senior Notes consisting of $240 million principal amount of 2011 Notes, and $200 million principal amount of 2014 Notes. On February 9, 2005, Holdings issued an additional $200 million of 2014 Notes. These notes are guaranteed by the Company ("Parent Guarantor") and its subsidiaries and Holdings' subsidiaries ("Combined Subsidiary Guarantors"). The guarantees are joint and several. A significant amount of the Issuer's cash flow is generated by the Combined Subsidiary Guarantors. As a result, funds necessary to meet the Issuer's debt service obligations are provided in large part by distributions or advances from the Combined Subsidiary Guarantors. Under certain circumstances, contractual and legal restrictions, as well as the Company's financial condition and operating requirements and those of the Company's subsidiaries, could limit the Issuer's ability to obtain cash for the purpose of meeting its debt service obligations, including the payment of principal and interest on the 2011 and 2014 Notes.

The following information sets forth the Company's Condensed Consolidating Balance Sheets as of March 31, 2005 and December 31, 2004, Condensed Consolidating Statements of Operations for the three months ended March 31, 2005 and 2004, and Condensed Consolidating Statements of Cash Flows for the three months ended March 31, 2005 and 2004.

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NOTES TO CONSOLIDATED AND CONDENSED FINANCIAL STATEMENTS - continued

TIME WARNER TELECOM INC.
CONDENSED CONSOLIDATING BALANCE SHEET
March 31, 2005

	Parent Guarantor	Issuer	Combined Subsidiary Guarantors	Eliminations	Consolidated
			(amounts in thousands)		
ASSETS					
Current assets:					
Cash and cash equivalents	$ 15,168	236,636	(3,586)	—	248,218
Investments	8,957	116,001	—	—	124,958
Receivables, net	—	169	40,799	—	40,968
Prepaid expenses and other current assets	2,828	6,150	5,826	—	14,804
Deferred income taxes	5,421	5,601	—	—	11,022
Total current assets	32,374	364,557	43,039	—	439,970
Property, plant and equipment, net	—	45,044	1,239,364	—	1,284,408
Deferred income taxes	14,906	32,849	—	—	47,755
Goodwill	—	—	26,773	—	26,773
Other assets, net of accumulated amortization	8,833	16,328	1,135	—	26,296
Total assets	$ 56,113	458,778	1,310,311	—	1,825,202
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)					
Current liabilities:					
Accounts payable	$ —	(1,154)	35,827	—	34,673
Other current liabilities	11,282	35,941	152,719	—	199,942
Intercompany payable (receivable)	(1,665,382)	(216,715)	1,882,097	—	—
Total current liabilities	(1,654,100)	(181,928)	2,070,643	—	234,615
Losses in subsidiary in excess of investment	777,264	361,651	—	(1,138,915)	—
Long-term debt and capital lease obligations	600,000	641,804	8,163	—	1,249,967
Other long-term liabilities	—	—	7,671	—	7,671
Stockholders' equity (deficit)	332,949	(362,749)	(776,166)	1,138,915	332,949
Total liabilities and stockholders' equity (deficit)	$ 56,113	458,778	1,310,311	—	1,825,202