COMPARATIVE RATES OF RETURN

	1988	1989	1990	3-year Average
Return on shareholder equity				
Cable Operations	6.2%	-10.5%	1.7%	-0.8%
All Industries	13.9%	13.5%	11.1%	12.8%
Difference	7.7%	24.0%	9.4%	13.7%
Return on assets				
Cable Operations	7.2%	5.9%	7.2%	6.8%
All Industries	7.9%	7.9%	7.0%	7.6%
Difference	0.7%	2.0%	-0.2%	0.8%
Return on operating assets				
Cable Operations	8.6%	9.0%	9.9%	9.2%
All Industries	13.6%	13.1%	12.3%	13.0%
Difference	5.0%	4.1%	2.4%	3.8%

Notes:

The rates of return used in this study are standard financial reporting concepts used by analysts. Each is described briefly below; however, a more detailed explanation is provided in the full report.

Return on shareholder equity. The return on shareholder equity is net income after tax reported by the company as a percent of shareholders' equity; that is, the net worth of the company. Net income is what is left for the shareholders after paying all expenses.

Return on total assets. The return on total assets is net income plus interest paid, as a percent of total assets. It is the total return on invested capital to both shareholders and debtholders.

Return on operating assets. The return on operating assets is operating income as a percent of operating assets. Operating income is measured before the reporting of nonoperating income; i.e.,typically income from financial assets. It is also before interest expense, income taxes, and after-tax items. Operating assets equal total assets less financial assets.

A COMPARISON OF THE PROFITABILITY OF THE CABLE TELEVISION INDUSTRY WITH OTHER CORPORATIONS

I. INTRODUCTION

The Policy Economics Group of KPMG Peat Marwick was asked by the National Cable Television Association to study the profitability of five of the largest cable television multiple system operators (MSOs) and to compare the profitability of these systems with that of other U.S. corporations. To the best of our knowledge this is the first such study that includes large, privately-held MSOs.

The Policy Economics Group is a quantitative economic analysis group within KPMG Peat Marwick, a leader in accounting and auditing, tax, and management consulting services. The National Cable Television Association asked KPMG Peat Marwick to perform this analysis in order to have an independent study of cable television financial performance and rates of return.

In performing this study, KPMG Peat Marwick collected financial data from five of the largest cable television MSOs, as ranked by the number of basic subscribers, over the 1988 through 1990 period. These firms include Tele-Communications Inc., Time Warner Inc., Continental Cablevision Inc., Cox Cable Communications, and Times Mirror Cable Television.[1] As shown in Table 1, these five MSOs had 20 million basic subscribers in 1991, or almost 36 percent of the total. Data sources and limitations are described in Appendix A.

These cable television industry data are compared with financial results for companies reported in the Standard & Poor's Compustat PC Plus data base. Compustat includes historical financial information on publicly-traded corporations. These data are used to show normative rates of return to help determine whether the earnings of the cable television industry are above or below the U.S. average for publicly-traded corporations. In making these comparisons, we exclude the finance, insurance, and real estate industries. This financial industry sector contains companies that analysts generally consider not to be comparable to other industries.

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[1] United Artists Cablevision (UA) is now a wholly-owned subsidiary of Tele-Communications, Inc. (TCI). In 1991 UA was the third largest MSO with 2.8 million basic subscribers. Prior to the December 1991 acquisition of the remaining stock of UA, TCI owned 54 percent of UA. No financial information was provide by UA for use in this study.

TABLE 1

NUMBER OF BASIC CABLE TELEVISION SUBSCRIBERS

Tele-Communications Inc.[a b]	7,861,570
Time Warner[a c]	6,590,000
Continental Cablevision Inc.	2,764,000
Cox Cable Communications[a]	1,639,000
Times Mirror Cable Television	1,098,100
Total survey respondents	19,952,670
Total	55,786,390
Subscribers of survey respondents as percent of total industry	35.8%

Sources: Information on five companies from Paul Kagan Associates, Inc. and Warren Publishing Inc. as reported in Cable Television Developments, September 1991, National Cable Television Association. Total subscribers are from A.C. Nielsen Company data for November 1991.

[a] Paul Kagan estimate.

[b] Does not include United Artists Cablesystems.

[c] Includes American Television and Communications, an 82-percent owned subsidiary, and Warner Cable, a wholly-owned subsidiary.

II. METHODOLOGY

The methodology is based on the computation of three key rates of return. The computation of these standard financial reporting concepts is described in this section. In addition, we describe the methodology for compiling the data from the Compustat PC Plus data base on all publicly-traded companies.

FINANCIAL RATES OF RETURN

Three financial ratios are used in the profitability comparison. These are: (a) return on shareholder equity, (b) return on total assets, and (c) return on operating assets. These three concepts are standard financial reporting concepts that are used by investors and other analysts to evaluate relative and absolute rates of return.

Return on shareholder equity

The return on shareholder equity is perhaps the most common rate of return concept. It is simply the net income after tax reported by the company as a fraction of the total shareholders' equity; that is, the net worth of the company. Net income is what is left after paying all direct programming cost (for cable companies this is equivalent of cost of sales); deducting all costs of operating, selling, general and administrative expenses; capital costs; interest payments to debtholders; income taxes paid; and other minor after-tax adjustments such as extraordinary gains and losses, special items and minority interest. Shareholder equity is simply the difference between all the assets of the company and the total debts of the company.

Return on total assets

The return on total assets is measured as the income earned by the company that is attributable to all owners of capital; i.e., the shareholders and the debtholders. The total income of the company used in this comparison is the interest paid by the company to debtholders, plus the net income that is attributable to shareholders.

This concept is very useful because it eliminates distinctions that result from the particular arrangement the company chooses to use for financing investments. That is, each company makes separate financial decisions on how to pay for its assets. This decision should not, overall, matter when looking at the profitability of a company's activities. Rather, a more important concept is how much the company earned from the business without regard to whom those earnings are ultimately allocated.

Return on operating assets

The return on operating assets is very similar to the return on total assets, except that it is the ratio of operating income to operating assets. Operating income is measured before the reporting of nonoperating income; i.e., typically income from financial assets. It is also before interest expense, income taxes, and after-tax items. Operating assets equal total assets less financial assets.

To the extent a company has invested in marketable securities or other financial assets it is appropriate to exclude these amounts when studying the profitability of the basic operations of the company. The fact that a cable television company, or for that matter a company in any other industry, may have earned a particular rate of return on a financial asset has nothing to do with whether the basic operations are profitable. For this reason, only the operating income and the operating assets of the company are used.

COMPUSTAT PC PLUS METHODOLOGY

The primary screen criteria used to develop nonfinancial industry data was the presence of sales in a given year. Companies reporting information in each year were treated as a separate group, thus a company that went out of business in 1989, or merged with another firm, is included in the data base in 1988, but not in subsequent years. Companies reporting SIC codes 6000 through 6999 (firms in the finance, insurance, and real estate sector) were identified and eliminated to develop a data base that excluded the financial industry sector.

Table 2 shows the number of firms and the amount of assets in the base set for each year. These data are shown separately for all companies in the data base and for firms in the data base after excluding the financial sector. Our analysis concentrates on this later group.

TABLE 2

NUMBER OF COMPANIES AND TOTAL ASSETS INCLUDED IN COMPUSTAT ANALYSIS

	1988	1989	1990
All corporations			
Firms reporting sales	7,167	6,953	5,930
Total assets (billions of dollars)	11,589	12,311	12,200
All corporations, except financial sector			
Firms reporting sales	6,264	6,112	5,888
Total assets (billions of dollars)	6,130	6,592	7,130

Table B-1, included in Appendix B, provides the number of firms reporting for each data item in each year. The discrepancies in the number of firms reporting some of the income and expense categories shows why a measure of income, such as net income, is appropriate for use in these comparisons.

III. CABLE TELEVISION REVENUE USES AND CHANGES IN CABLE INCOME

Data on the five MSOs provide a picture of how the cable television industry uses the revenues it collects, both to pay expenses for running operations and to provide a return to owners of capital used by the industry.

USES OF CABLE TELEVISION REVENUES

The uses of cable television revenues by major categories are shown in Table 3 and in Figure 1. Operating expenses (including selling and general expenses) are the largest segment of expenditures, averaging almost 37 percent of total revenues over the three-year period. Depreciation and amortization expenses are the second largest use of funds averaging 21 percent of total revenues. Programming costs and interest expense both average about eighteen percent of revenues.

These four categories combined represent about 94 percent of the uses of cable television revenues. The remaining revenues are distributed as income taxes, which account for an average of 3.4 percent of total revenues and other after-tax expenditures (including minority interest and non-recurring items), which account for an average of 2.6 percent of total revenues. The remaining share of total cable television revenues is net income. Net income for cable television operations is roughly 0.3 percent of total revenues on average.

Of the four major categories of expenses, programming costs are growing most rapidly as a share of total revenues. Between 1988 and 1990, the share of total revenues going to support programming costs increased from 16.9 percent to 19.2 percent. This is a 13.6 percent increase in the share of revenues. Operating expenses, on the other hand, declined from 37.2 percent to 35.8 percent -- a 3.8 percent decline in the share of revenues. Depreciation and amortization expenses changed very little over the period, growing slightly from 20.5 percent to 20.7 percent. The interest expense share increased from 17.1 percent to 18.5 percent. This is an 8.2 percent increase in the share of revenues.

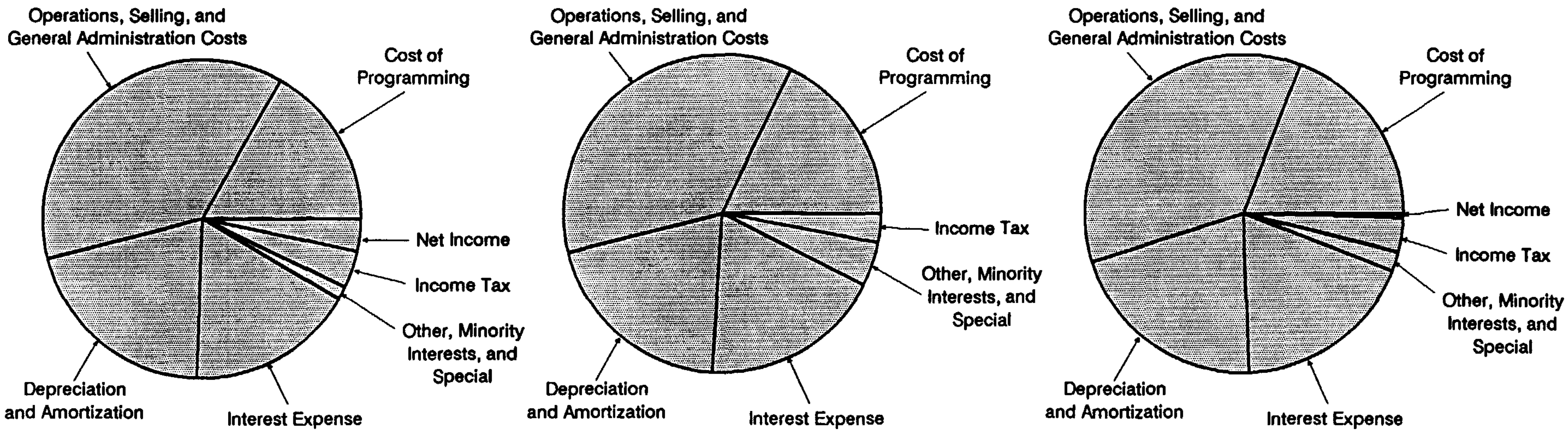
TABLE 3

CABLE TELEVISION USES OF REVENUES

	1988	1989	1990	3-year Average
Programming costs	16.9%	18.4%	19.2%	18.2%
Operating Expense	37.2%	36.9%	35.8%	36.6%
Depreciation & Amortization Expense	20.5%	20.6%	20.7%	20.6%
Interest Expense	17.1%	18.9%	18.5%	18.2%
Income Tax	3.8%	3.0%	3.5%	3.4%
Other After-Tax Expense	1.3%	4.6%	2.0%	2.6%
Net Income	3.2%	-2.5%	0.3%	0.3%

Figure 1

Cable Television Uses of Revenues



Net Income in 1989 was –$126.7 million.

1988 **1989** **1990**

CABLE TELEVISION TRENDS IN INCOME

Table 4 shows three measures of cable television income for the five companies. Figure 2 shows these same measures as a percent of total industry revenues. Operating income, which excludes income from financial assets and is before interest, income taxes, and other after-tax items, has grown steadily over the past three years, although the rate of growth in 1990 was significantly below that of the prior year. This, in part, reflects a slow-down in the growth rate in cable television basic subscribers. The number of basic television subscribers increased by about 8 percent in 1988 and again in 1989. This rate fell to 4 percent in 1990.[2]

The trends apparent in the pre-tax income and net income are quite different, however. Rather than rising steadily, pre-tax income (which is income before income taxes, minority interest and special items) falls by nearly 50 percent from 1988 to 1989. In 1990, pre-tax income rebounds almost to its former level, but there is a net decrease of roughly $25 million from the 1988 level at the end of this period.

Net income, which is the "bottom-line" of a company, has performed poorly since 1988. The five companies show a significant net loss in 1989 that almost equals the net income earned in 1988. Net income in 1990 is only $18 million, and as show earlier in Table 3, is only 0.3 percent of industry revenues.

TABLE 4

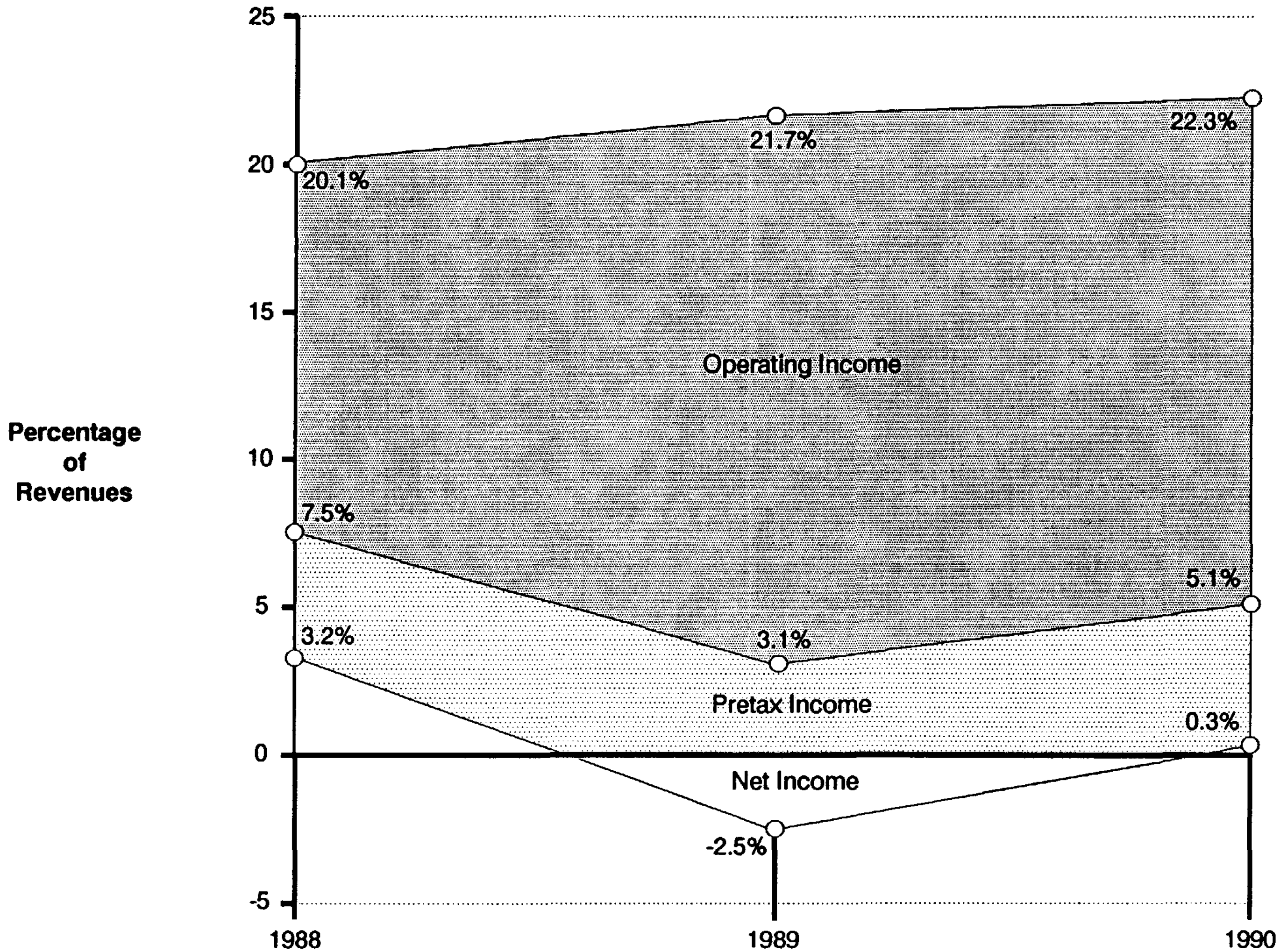
CABLE TELEVISION INCOME TRENDS
(Thousands of dollars)

	1988	1989	1990
Operating Income	$871,791	$1,107,723	$1,313,071
Pre-tax Income	$326,488	$157,216	$301,818
Net Income	$140,194	($126,726)	$18,620

[2] See A.C. Nielsen Company data as reported in Cable Television Developments, September 1991, National Cable Television Association.

Figure 2

Cable Television Financial Trends



IV. PROFITABILITY COMPARISONS

The three measures provide a range of comparisons with each giving a somewhat different perspective on industry profitability. While each measure shows significantly different levels of profitability, the common theme is that cable television industry profitability is at best similar to that of other corporations, and more generally, well below that of other corporations.

RETURN ON SHAREHOLDER EQUITY COMPARISONS

The comparison of the return for cable operations with the return of all nonfinancial industries is shown in Table 5. These results show cable operations to be performing at below the breakeven point during this period. On average for the three-year period, cable operations yielded a -0.8 percent return on equity whereas the all-industry data yielded a return of 12.8 percent.

Reviewing the data on a year-by-year basis, it is clear that cable operation losses in 1989 drive down the three-year average. The return on equity for cable operations drops dramatically from 1988 to 1989, falling more than 16 percentage points in a single year. The nonfinancial industry return, on the other hand, is essentially unchanged during this period, dropping by less than half a percentage point. Cable operations recovered somewhat in 1990, although not to the 1988 level. The return on equity for cable operations in 1990 is less than 2 percent. The aggregate industry return declines several points from 1989 to 1990, nonetheless, the disparity between the industry-wide returns and the cable returns of over 9 percentage points is still very large.

TABLE 5

RETURN ON SHAREHOLDER EQUITY COMPARISONS

	1988	1989	1990	3-year Average
Cable Operations	6.2%	-10.5%	1.7%	-0.8%
All Industries	13.9%	13.5%	11.1%	12.8%
Difference	7.7%	24.0%	9.4%	13.7%

RETURN ON TOTAL ASSETS COMPARISON

The rates of return on total assets for cable operations and for all industries are provided in Table 6. These data show much more similar levels of profitability. However, the three-year average return for cable operations of 6.8 percent is nearly a percentage point below that of nonfinancial industries of 7.6 percent.

The pattern observed in the returns on shareholder equity also appears in the returns on total assets. Cable operations show a significant decline in profitability in 1989 followed by a recovery in 1990. The nonfinancial industry measure is level from 1988 to 1989 and shows a modest decline in 1990.

The similarity in the annual pattern for return on shareholder equity and return on total assets is to be expected because both include net income in the ratio. The absolute difference in these two ratios reflects differences in the underlying capital structure of cable operations and the U.S. average for all corporations.

TABLE 6

RETURN ON TOTAL ASSETS COMPARISON

	1988	1989	1990	3-year Average
Cable Operations	7.2%	5.9%	7.2%	6.8%
All Industries	7.9%	7.9%	7.0%	7.6%
Difference	0.7%	2.0%	-0.2%	0.8%

RETURN ON OPERATING ASSETS COMPARISON

The return on operating assets provides a different perspective on the relative profitability of cable television operations vis-a-vis other industries. Because the return on operating assets measures only the income related directly to the operations of the firm, it excludes any income or expense extraneous to the firm's core business. For example, whether or not a company chooses to raise funds by taking a loan from a bank or issuing stock is immaterial to the price at which it can sell its goods and services, and the cost of supporting its operations.

As discussed above, operating income is computed as total revenues from the company's operations less programming costs, less various operating expenses, and less depreciation and amortization charges. It is before any interest expense and before income taxes. It specifically excludes the return on financial assets. Operating assets are total assets, less financial assets.

The rates of return on operating assets are compared in Table 7. On average over the three-year period, cable operations had significantly lower returns than shown by the nonfinancial industry return. The cable return is almost four percentage points below the all-industry return.

The return on operating assets shows a moderate but steady rise for cable operations. The nonfinancial industry return on operating assets shows a small decline over the period. As a consequence, the difference between the two groups of firms drops approximately in half from a full five-percent difference in 1988 to a 2.4-percent difference in 1990. Both the three-year average and the year-by-year comparisons show the cable television industry to be significantly less profitable that the nonfinancial average.

TABLE 7

RETURN ON OPERATING ASSETS COMPARISON

	1988	1989	1990	3-year Average
Cable Operations	8.6%	9.0%	9.9%	9.2%
All Industries	13.6%	13.1%	12.3%	13.0%
Difference	5.0%	4.1%	2.4%	3.8%

V. CONCLUSION

In examining relative profitability of MSOs, we relied primarily on three common measures of financial performance, return on shareholder equity, return on total assets, and return on operating assets. Two of these measures, return on equity and return on operating assets, show the cable television industry to have been significantly less profitable than other nonfinancial industries during the 1988 through 1990 period. The return on total assets measure shows the cable television industry to have a level of profitability only slightly below that of other industries. Table 8 shows these three comparisons averaged over the three-year period. Figure 3 provides a graph showing these same rates of return.

TABLE 8

COMPARISON OF AVERAGERATES OF RETURN OVER 1988-90 PERIOD

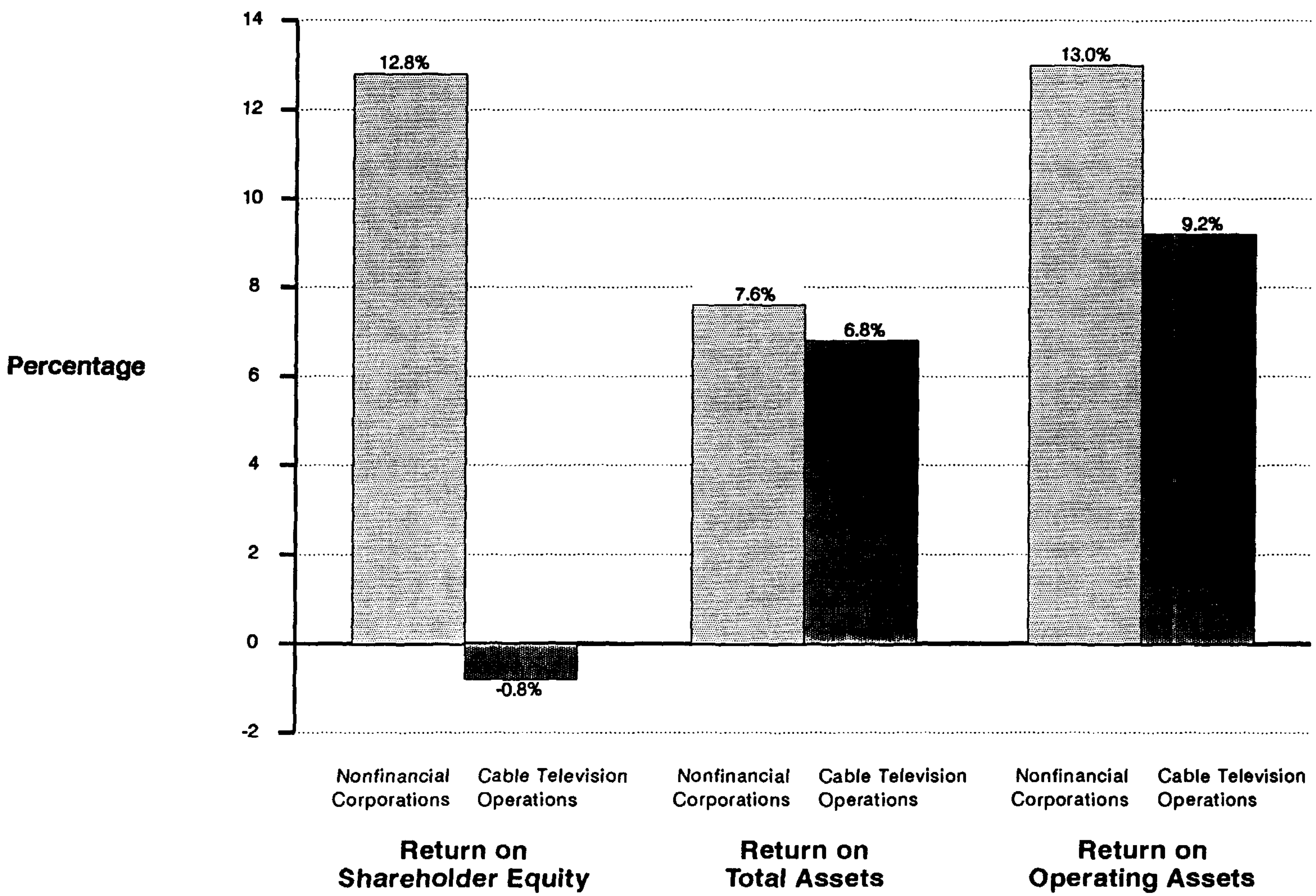
	Cable Television Operations	Nonfinancial Corporations
Return on shareholder equity	-0.8%	12.8%
Return on total assets	6.8%	7.6%
Return on operating assets	9.2%	13.0%

It is our conclusion, therefore, that the profitability of cable operations of the five major cable firms we studied is less than or equal to the average profitability of publicly-traded U.S. nonfinancial industries over this period. While we have not studied the profitability of every company in the cable television industry, we have no reason to believe the companies we studied, which represent 36 percent of basic service cable television subscribers, are not representative of the entire industry.

Figure 3

Cable versus Nonfinancial Corporations

1988 – 1990 Average



APPENDIX A

APPENDIX A

DATA SOURCES AND LIMITATIONS

Cable television industry data were gathered from the five MSOs through the use of a survey form that requested basic financial information. A copy this form is included in this appendix. While KPMG Peat Marwick has not audited these figures, as part of the survey process we have performed consistency testing and conducted follow-up requests when necessary to clarify or validate the information reported.

Two of these companies are not publicly-traded and would only supply information for this survey provided that confidentiality is guaranteed. In addition, most of the information provided on cable television operations is not publicly available -- even for publicly-traded companies. Thus, we may only show total results for the five companies. All completed survey forms were returned solely to KPMG Peat Marwick, and no individual company data have been released to the National Cable Television Association, or to any other party.

In collecting these data we asked for separate information on cable and noncable operations. Only the cable operations of these companies are analyzed in this report. Information collected on noncable operations is used solely for testing and verification purposes.

The survey form was designed to correspond to standard financial reporting concepts. This allowed the development of an aggregate income statement and balance sheet for the cable operations of each company and a total for all five companies. To ensure consistency in reporting, each data item requested was defined in a five-page definition of terms section entitled "Survey Terminology" that was sent to each company with the survey form.

The MSO data are compared with financial information for all publicly-traded corporations. These data are developed from the Standard & Poor's Compustat PC Plus data base. Compustat PC Plus is an electronic data base with financial data on over 7,000 current public companies and 3,500 former public companies. Data are collected from annual and quarterly shareholder's reports, SEC 10-K and 10-Q reports, and other sources. Compustat data items are directly comparable to those data items included in the MSO survey.

DATA LIMITATIONS

The data used in this study are subject to certain limitations. The first applies only to the two companies that reported significant noncable operations. These companies have some discretion in deciding where to source certain corporation-wide income and expense items, as well as assets and liabilities. The financial results for these companies could differ had the company made different decisions on how to treat such items. On the other hand, the data used in this study comes from financial reports originally reviewed by the company's auditors and we have no reason to believe it is biased in any way. The remaining three companies are essentially cable television only companies and no allocations between cable and noncable operations are necessary.

The second limitation applies to corporate balance sheet information generally. Assets and shareholder equity concepts used for financial reporting purposes represent the value of the company on an historic cost basis rather than on a fair market value basis. That is, it represents the value of the company when the assets were originally purchased, less certain capital recovery charges, and when the debts were incurred. It does not necessarily represent the value of the company if the assets were to be sold today. Thus, when calculating rates of return with these data, the results could be above or below market yields otherwise available. Because this same limitation exists in all standard financial reporting information, and more particularly because it is the same concept that is being used for all publicly-traded companies on the Compustat PC Plus data base, we do not believe its use is distorting when used for comparative purposes.

KPMG Peat Marwick

Policy Economics Group

2001 M Street, N.W.
Washington, DC 20036

Telephone 202 467 3800

Telecopier 202 728 0546

GENERAL INSTRUCTIONS TO KPMG PEAT MARWICK SURVEY

The NCTA has asked the Policy Economics Group (PEG) of KPMG Peat Marwick to conduct a study of the profitability of companies which operate cable systems. Attached is a survey form we have designed which, when completed, will give us the financial information we need to conduct our study.

We are asking that you supply us with information from 1988, 1989 and, if possible, 1990.

In general, we expect that all information we request will be available from profit and loss statements and from balance sheets. Although we ask for information for the **consolidated operations of the entire company** and cable-only operations, our primary focus is on those data which are solely related to cable. It is, therefore, very important that every effort be made, when responding to the survey, to distinguish, as much as possible, cable-operations financial data from data related to noncable operations. The selected balance sheet information we have requested will be helpful to us when it is necessary to allocate such items as interest expense, income taxes, dividend payments, and retained earnings between cable and noncable operations.

In addition to completing the survey, we ask that you send to us copies of your annual reports or audited financial statements for 1988, 1989 and, if possible, 1990.

All individual company data supplied to the Policy Economics Group of KPMG Peat Marwick will be kept completely confidential. The data will be maintained in password-protected computer files which will be accessed solely by staff members actively involved with the project. No KPMG Peat Marwick staff members outside of the Policy Economics Group will have access to the company data you submit.

Specific instruction for completing the survey:

* Split all information between total consolidated operations of the company and cable operations (show percent owned if less than 100 percent).
  Include income from minority-owned affiliates as a separate line item.
  Include assets from minority-owned affiliates as a separate line item.

* Report all amounts on GAAP basis.

* Enter all amounts in thousands of dollars.

* Provide information on all major acquisitions and dispositions during this period, as described on the attached form.

* Provide the name and telephone number of a contact person who can answer questions we may have on survey responses.

To ensure accuracy and integrity in the survey results, it is necessary that the survey be answered as carefully as possible. If you have any questions or concerns about the survey, please call Mr. Lin Smith at 202-467-3828.

So that the NCTA is able to use the results of the profitability study as soon as possible, we ask that, if possible, you return the completed survey form to us within approximately two weeks.

Please send the completed survey form and financial reports to:

Mr. Linden C. Smith
KPMG Peat Marwick
2001 M Street, NW
Washington, DC 20036

Thank you for your cooperation.

KPMG Peat Marwick
Policy Economics Group

Supplementary Survey Information

Please provide the name and telephone number of the person responsible for completing this survey form:

Name: ______________

Telephone: ______________

Please enter the average percent of ownership of all cable operations included in the survey:

Percent: _______

We will use the following information on acquisitions and dispositions to help understand year-to-year fluctuations in the profitability of the cable operations.

Acquisitions of cable operations during the 1988 through 1990 period:

Name of company	Date of Acquisition	Purchase Price or Value	Percent of Equity Purchased

Dispositions of cable operations during the 1988 through 1990 period:

Name of company	Date of Disposition	Sales Price or Consideration	Percent of Equity Sold	Net Gain or Loss

SURVEY TERMINOLOGY

INCOME STATEMENT: OPERATING REVENUES

1. Operating revenues -	Include gross revenues (the amount of actual billings to customers for regular sales completed during the period) reduced by any cash discounts, or any other allowances for which credit is given to customers.
a. Basic service revenues -	Include tier revenues. Include add sets, remote converters, installation income, etc. if these revenues are not billed separately. Include only pure-retail cable, non-HSD revenues.
b. Pay TV revenues -	Include all revenues from pay TV services.
c. Pay-per-view revenues -	Include all revenues from pay-per-view services.
d. Advertising revenues -	Include all revenues from advertising.
e. Other cable revenues -	Include all other cable-related revenues not included on lines 1a, 1b, 1c, and 1d, such as home shopping fees, lease revenues, channel fees, late payment fees, etc. Include add sets, remote converters, installation income, etc. if these revenues are billed separately.
f. Noncable operating revenues -	All operating revenues other than those described above. Do not include income from financial assets as it will be included in nonoperating income on line 9. This item includes income from noncable affiliates, and noncable operating income earned by the cable company.
g. Total operating revenues -	This item should equal the total of lines 1a, 1b, 1c, 1d, 1e, and 1f. It includes both cable and noncable operating revenue.

INCOME STATEMENT: OPERATING EXPENSES

2. Cost of sales / Programming costs -	Include all direct costs of sales and services sold to customers.
a. Basic services -	Amounts paid to third parties for basic services and copyright fees.
b. Local programming -	Direct costs incurred to develop and produce local programming, exclusive of third-party payments (other than those made to access foundations, corporations, or other entities).
c. Pay TV & pay-per-view -	Amounts paid to third parties for premium services.

SURVEY TERMINOLOGY

d. Other cable cost of sales -	Include all other cable costs of sales and service not included on 2a, 2b, and 2c. In general, costs reported on this line should correspond to revenues reported on line 1e.
e. Noncable cost of sales and services -	Include all direct costs of sales and services sold to customers for noncable business. This item includes costs of noncable affiliates, and costs of noncable operations of the cable company. In general, costs reported on this line should correspond to revenues reported on line 1f.
f. Total cost of sales / programming -	This item should equal the total of all programming and other cable costs included in lines 2a, 2b, 2c, and 2d, as well as the direct costs of noncable operations included on line 2e.
3. Operating, selling, general, & administrative expenses -	Include all commercial expenses of operation incurred in the regular course of business to generate operating revenue. Franchise fees should be included.
4. Depreciation & depletion -	Noncash charges for obsolescence of and wear and tear on tangible property and depletion charges.
5. Amortization -	Noncash charges for writing-off the cost of intangible assets and goodwill over the period for which there is an economic benefit.
6. Total operating expenses -	This item equals the total of lines 2f, 3, 4, and 5.
7. Operating income -	This item represents operating income after deducting cost of sales and programming, operating, selling, general and administrative costs, depreciation, and amortization. This item should equal line 1g less line 6. Any difference should be identified and explained.

SURVEY TERMINOLOGY

INCOME STATEMENT: NET INCOME

8. Operating income -	Same as line 7.
9. Nonoperating income -	Include income from activities separate from normal operation of the business. Examples includes income from dividends, interest, rents, and royalties.
10. Nonoperating expense	
a. Interest expense -	Include interest expense on all short- and long-term debt. Enter expense as a negative amount.
b. Other nonoperating expense -	Include noninterest expenses related to activities separate from normal operation of the business. These expenses will generally be related to income reported on line 9. Enter these expenses as a negative amount.
c. Total nonoperating expense -	This item equals the total of lines 10a and 10b.
11. Pretax income -	This item represents operating and nonoperating income before provision for income taxes. This item should equal line 8, plus line 9, plus line 10c (as a negative amount). Any difference should be identified and explained.
12. Total income taxes -	Include all income taxes imposed by federal, state, and local governments. It is the provision for both current and deferred income taxes.
13. After-tax income or loss from minority interest -	Include the net earnings, usually accounted for using the equity method, of minority interests in affiliates when reported on an after-tax basis. If the company only reports these items on a pretax basis they should be entered here; however, a "P" should be entered next to the item. This item has two parts: (a) minority interests of others in the equity of consolidated subsidiaries, and (b) minority interests of the company in nonconsolidated affiliates.
a. Consolidated subsidiary -	Include the portion of after-tax loss (income) of consolidated subsidiaries that is attributable to stock owned by other investors.
b. Nonconsolidated affiliates -	Include the earnings (loss) of minority interests in nonconsolidated affiliates owned by the parent company when reported on an after-tax basis. The company's