



Satellite TV's Position on Communications Tax Reform

Andrew Reinsdorf

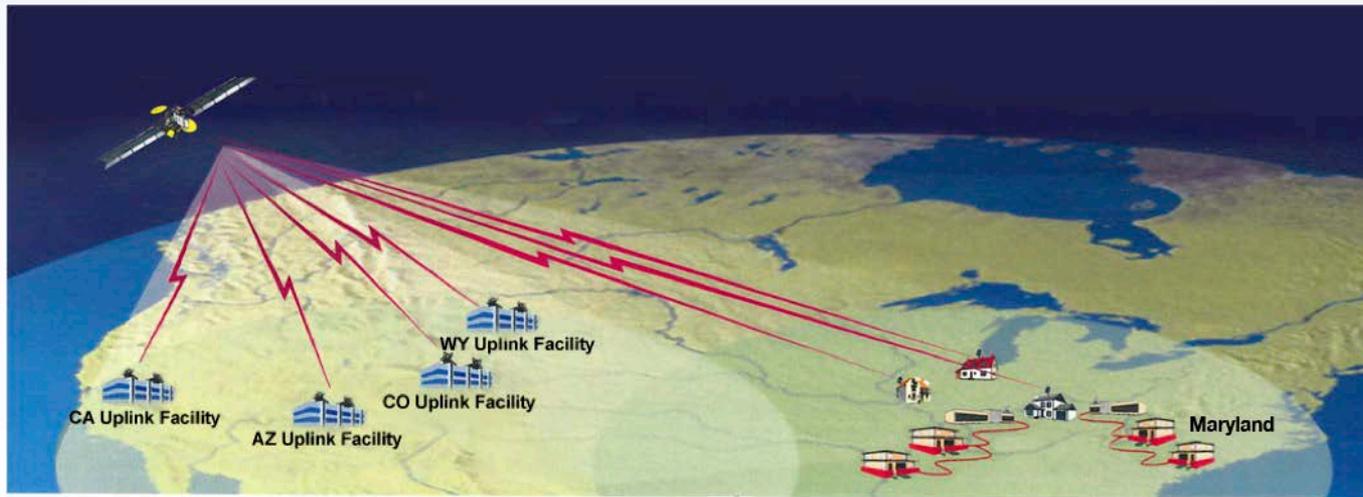
Sr. Vice President, DIRECTV

Maryland Tax Study Commission

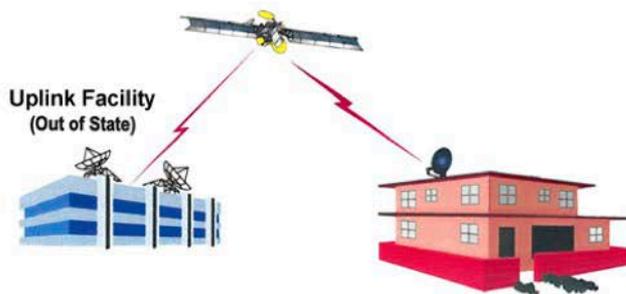
Three Key Points

- Satellite TV is innovative and different.
- Franchise fees are not taxes.
- This Commission should focus on tax reform, not cost of doing business reform.

Cable's In-State Delivery System vs. Satellite TV's Out-of-State Delivery System



SATELLITE TV



CABLE TV



Satellite TV Changed How We Watch TV

Satellite TV innovations include:

- The first 100% all digital programming package.
- DIRECTV has the most full-time HD channels--over 170.
- Satellite TV providers offered the first dual-tuner and HD digital video recorders in the pay TV marketplace.
- DISH has recently introduced technology that gives subscribers the option to skip commercials for certain channels.

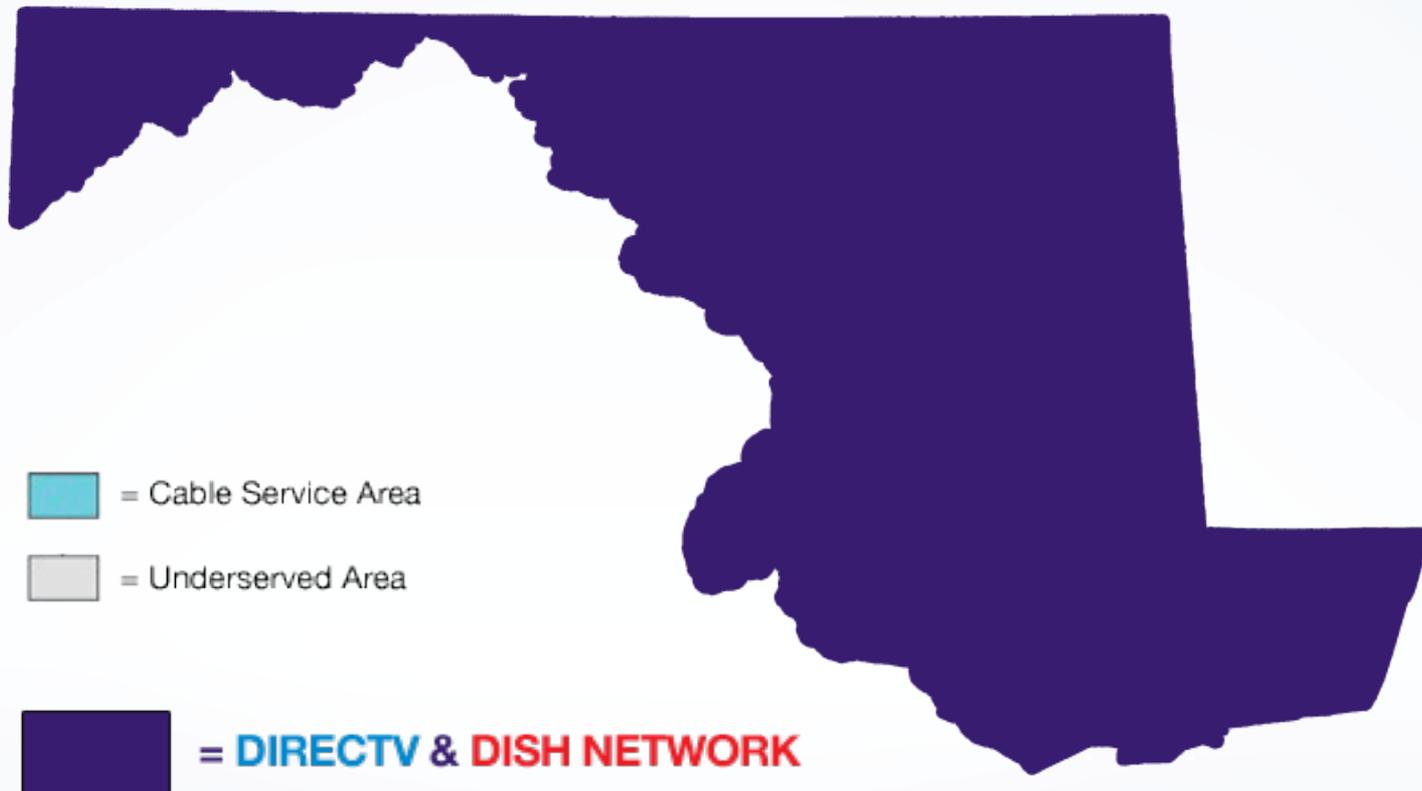
Satellite TV Also Changed Who Can Watch TV

Better Service for

- New Americans
- Rural Areas



Satellite TV Providers Serve All



The Truth Is In The Name

Fees Are Not Taxes

The Truth Is In The Name

There are a lot of fees associated with pay TV:

- Orbital slot fees.
- Spectrum licensing fees.
- Satellite launch fees.
- Franchise Fees.

The Truth Is In The Name

But those fees are not taxes...

They are costs of doing business.

Franchise Fees are NOT a Tax

- They are incumbent cable company negotiated fees that pay for franchise agreements valued in the billions.
- Those agreements enable cable to sell an integrated bundle of video, phone, and high speed internet service.
- This provides cable with a structural marketplace advantage over their primary competitors, satellite TV.

But don't take our word for it...

Ask the *Rockford Register Star* or other newspapers that have weighed in on this issue.

BOSTON
Herald

Rockford Register Star

Daily Herald
Big Picture. Local Focus.

>Lorem ipsum dolor sit amet, consectetur adipiscing elit. Nulla elit erat, aliquet a tincidunt
sit amet, pellentesque et tortor.

[Franchise] fees are negotiated with municipalities for cable companies to have exclusive rights. The fees are established because cable companies bury their lines under public streets and sidewalks. They are using public property to make their business work. Satellite TV companies deliver service directly from satellites orbiting the Earth, no digging involved.

Morris lorem elit, vestibulum quis rutrum eu, semper eget nibh. Aenean ornare ornare
ligula, ac sollicitudin risus convallis id fames ac turpis egestas. Duis vulputate
malesuada elementum. Ut sed libero est, eget. vestibulum quis rutrum eu, semper eget.

Rockford Register Star Editorial Staff, November 26, 2012

W O R C E S T E R
TELEGRAM & GAZETTE

Savannah Morning News.

THE STATE
Journal Register
THE OLDEST NEWSPAPER IN ILLINOIS

**Quad-Cities
Online**
Dispatch · Argus

Or Time Warner Cable . . .

Brief submitted by Time Warner in Time Warner Entertainment – Advance Newhouse Partnership v. City of Lincoln, (D. Neb. 2004).

“Franchise fees, in turn, are commonly understood to be consideration for the contractual award of a government benefit. Many cases have treated franchise fees as a form of “rent.” Cable franchises are enforceable as contracts, even though they are traditionally awarded by ordinance. . . . The contractual nature of cable franchise fees removed them far from ‘taxes.’ Taxes simply have no contractual element; they are a demand of sovereignty. The consent of the taxpayer is not necessary to their enforcement.”

Or Comcast. . .



customers and increase the number of delivery platforms, such as online and through our mobile applications for smartphones and tablets; and as fees for retransmission of broadcast networks increase.

Technical Labor Expenses

Technical labor expenses include the internal and external labor costs to complete service call and installation activities, as well as network operations, fulfillment and provisioning costs. These expenses remained relatively stable in 2011 and 2010 due to improvements in our service call metrics and decreases in customer activity.

Customer Service Expenses

Customer service expenses include the personnel and other costs associated with handling service calls and customer support. Customer service expenses remained relatively stable in 2011. Customer service expenses decreased in 2010 primarily due to operating efficiencies and due to higher levels of activity in 2009 related to the transition by broadcasters from analog to digital transmission and our all digital conversion.

Marketing Expenses

Marketing expenses increased in 2011 and 2010 primarily due to increases in spending associated with the continued expansion of business services and costs associated with the XFINITY® brand and competitive marketing, and due to increases in direct sales efforts.

Other Costs and Expenses

Other operating costs and expenses include franchise fees, pole rentals, plant maintenance, vehicle-related costs, advertising and representation fees, and expenses associated with our business services. These expenses increased in 2011 and 2010 primarily due to the continued expansion of business services and other service enhancement initiatives. During 2011, 2010 and 2009, we implemented personnel and cost reduction programs that were focused on streamlining our Cable Communications operations. In connection with these initiatives, during 2011, 2010 and 2009, we recorded \$36 million, \$66 million and \$81 million, respectively, of severance costs.

NBCUniversal Segments Overview

The discussion below compares the NBCUniversal segments' pro forma combined results for 2011 and 2010, as well as our Cable Networks segment actual results for 2010 and 2009. Management believes reviewing our operating results by combining actual and pro forma results for the NBCUniversal segments for 2011 and 2010 is more useful in identifying trends in, or reaching conclusions regarding, the overall operating performance of these segments for the current year. Our pro forma segment information includes adjustments as if the NBCUniversal and Universal Orlando transactions had occurred on January 1, 2010. Our pro forma data was also adjusted for the effects of acquisition accounting and the elimination of costs and expenses directly related to the transactions but does not include adjustments for costs related to integration activities, cost savings or synergies that have been or may be achieved by the combined businesses. Pro forma amounts are not necessarily indicative of what our results would have been had we operated the NBCUniversal contributed businesses or Universal Orlando since January 1, 2010, nor of our future results.

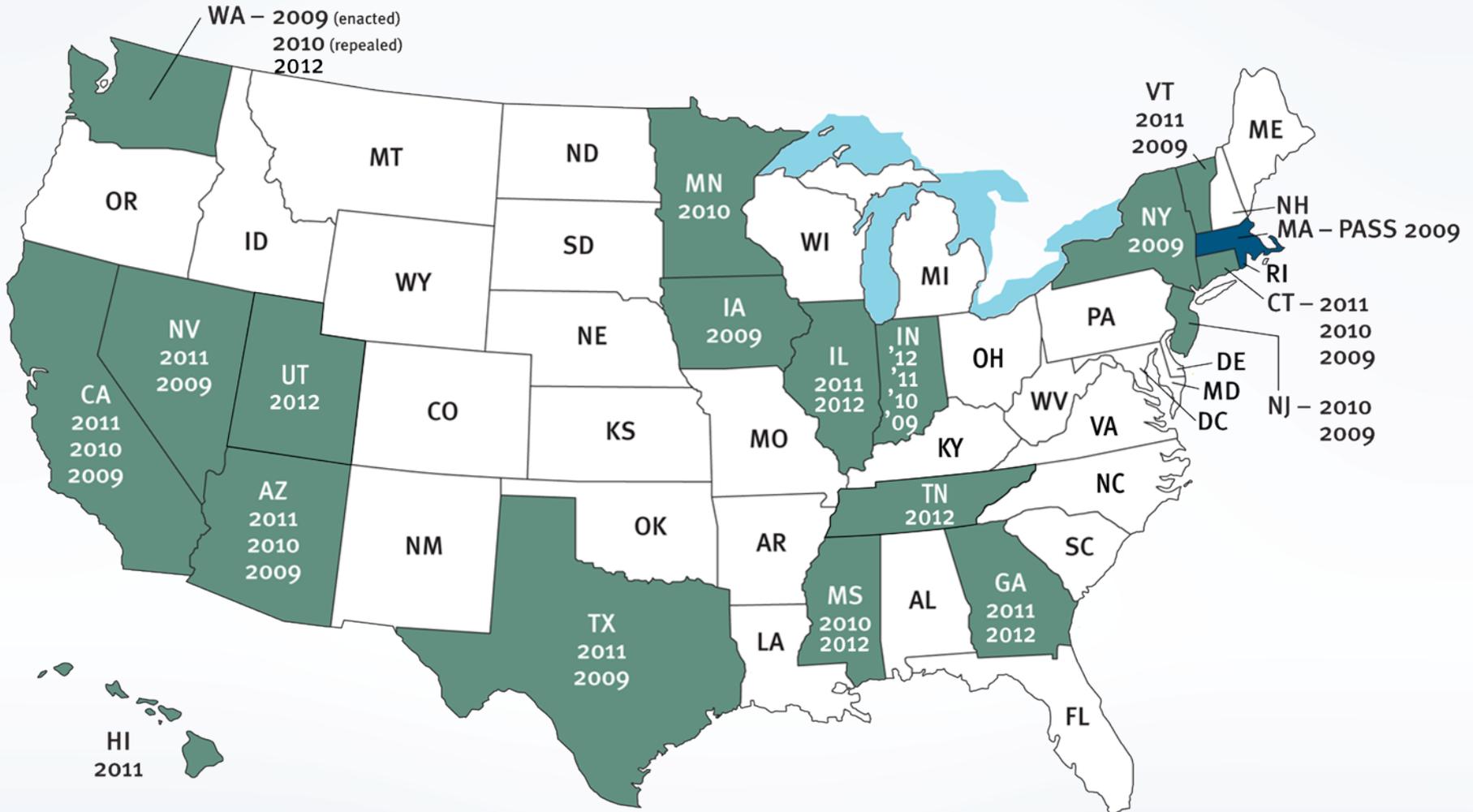
“Other operating expenses include franchise fees, pole rentals, plant maintenance, vehicle-related costs, expenses related to our regional sports and news networks, advertising representation and commission fees, and expenses associated with our business services.”

Again, Franchise Fees Are Not a Tax

Replacing franchise fees with a uniform tax is bad for:

- Localities
- Competition
- Tax Reform

Across the country, legislators and constituents have rejected proposals that would impose a tax on satellite TV that offsets the amounts cable pays in franchise fees.



42 States Got It Right: They Tax Satellite TV and Cable Equally

Alabama

Alaska

Arizona

Arkansas

California

Colorado

Connecticut

Delaware

Georgia

Hawaii

Idaho

Illinois

Indiana

Iowa

Kansas

Louisiana

Maine

Maryland

Michigan

Minnesota

Mississippi

Missouri

Montana

Nebraska

Nevada

New Hampshire

New Jersey

New Mexico

New York

North Dakota

Oklahoma

Oregon

Pennsylvania

Rhode Island

South Carolina

South Dakota

Texas

Vermont

Washington

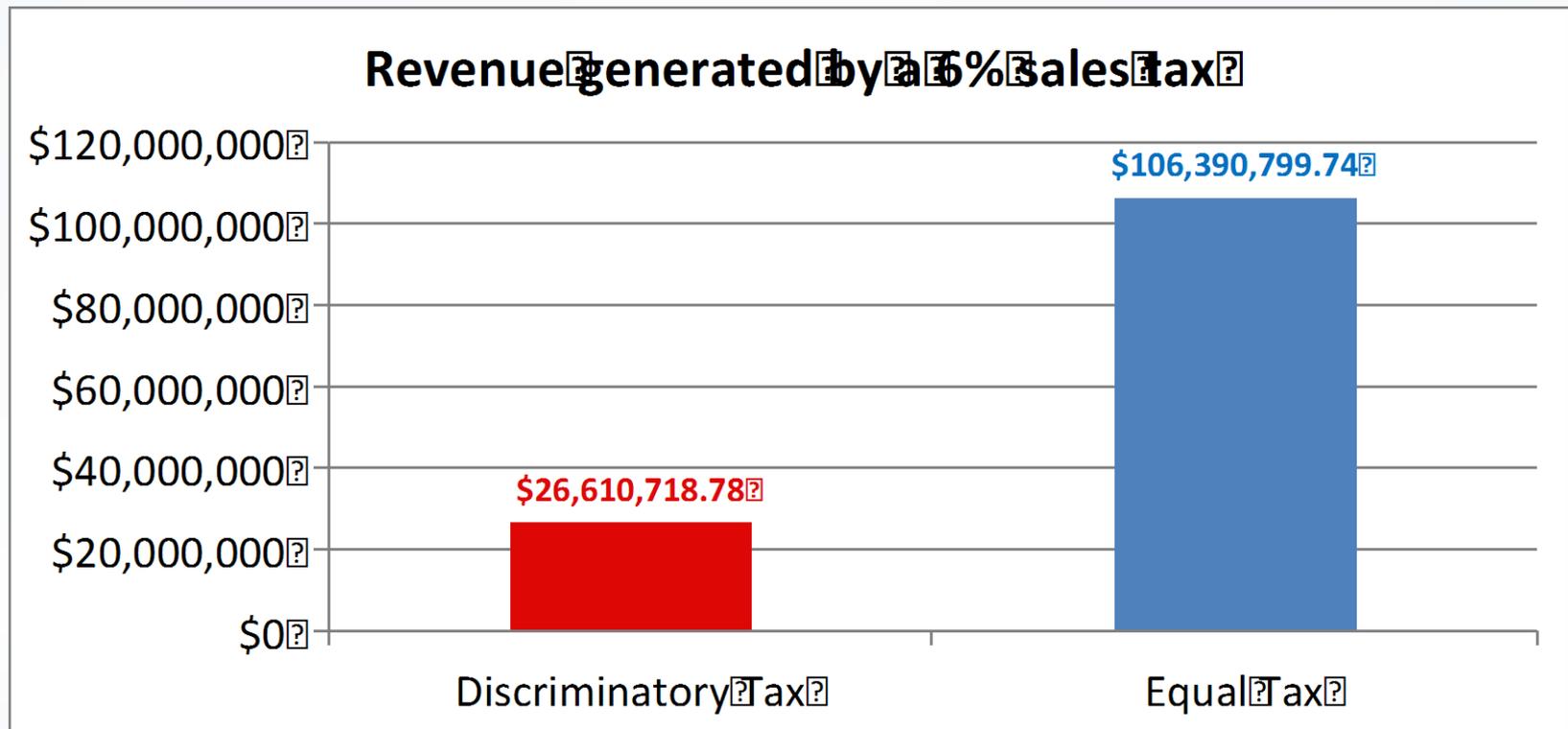
West Virginia

Wisconsin

Wyoming

If Additional Revenue is Needed, then Tax Cable & Satellite Equally

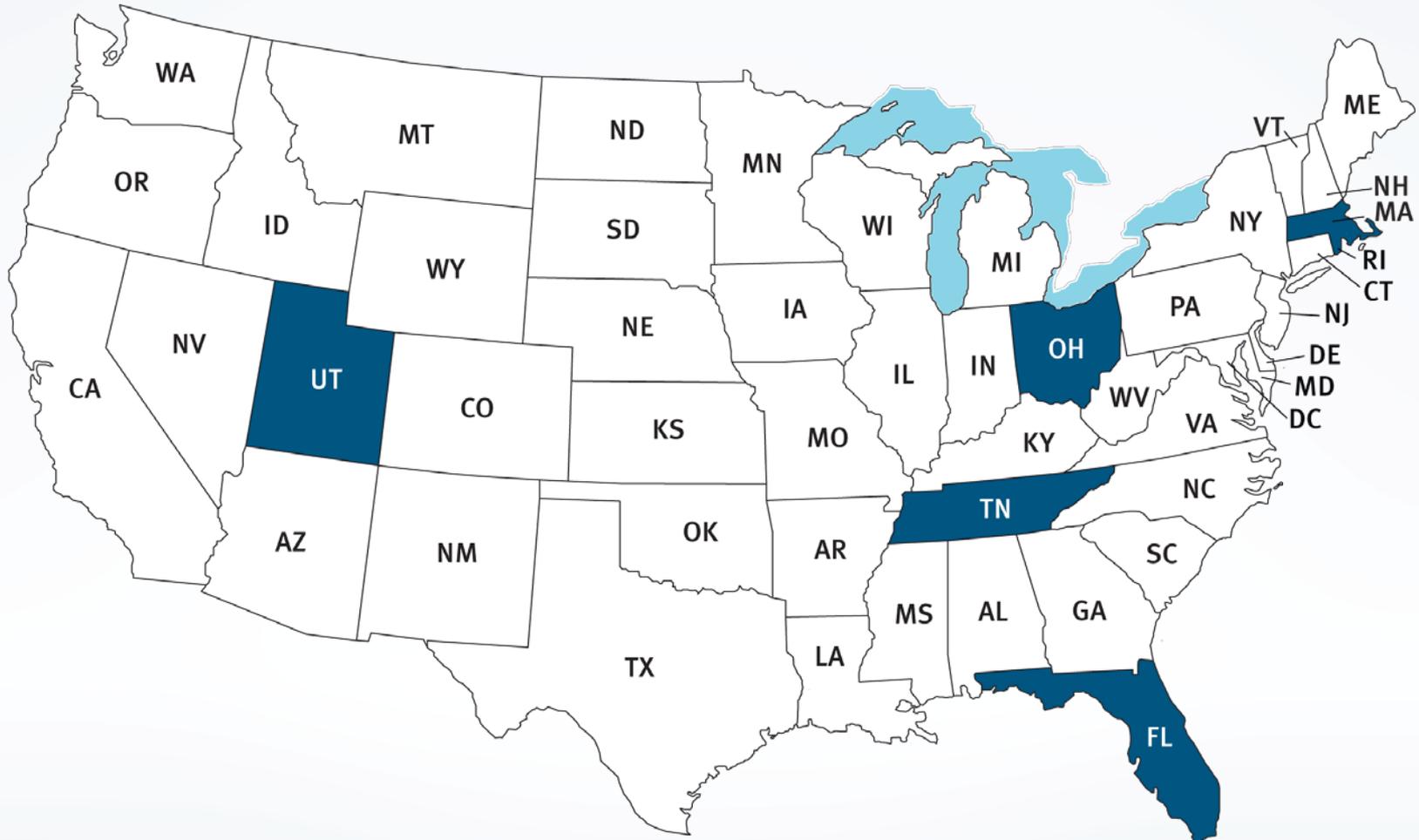
Fair taxation generates four times more money than a discriminatory TV tax



* Based on 434,918 DBS subscribers

* Based on 1,288,438 cable subscribers (\$79,780,080.96) + \$26,610,718.78

Cable's Fuzzy Math: Only 5 States Have Enacted Some Form Of Discriminatory State Tax on Satellite TV.



Another 3 States Eliminated Franchise Fees and Forced Satellite TV Subscribers To Help Backfill The Lost Revenue.

