WRITERS GUILD OF AMERICA
CONTRACT 2007
BULLETIN
AUGUST 2007, ISSUE 2

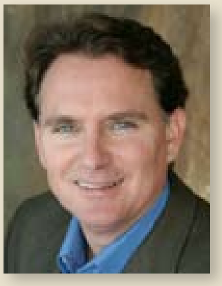
THE NEW MEDIA BUSINESS MODEL

SEE POSTER INSIDE.

CONTRACT 2007 NEGOTIATIONS:

Looking to the Next Round

A Message From Your Chief Negotiator, David Young



Ask me how I would characterize the first round of bargaining that took place between the WGA and the Companies, on July 16 & 18, and I would say that we saw the traditional posturing from the other side about rollbacks while we remained focused on our reasonable, serious proposals. There is nothing here to be particularly worried or relieved about. I've done numerous negotiations and although the specifics might have differed from these talks, the basic patterns of behavior found in labor negotiations are already at work—the mannerisms, the rituals, the careful approach as the pressure begins to slowly build.

As we move forward with the process, however, we expect the AMPTP to eventually engage in productive discussions with us. We've been conducting a great deal of industry analysis, and our proposals address the big issues in ways that we truly believe work for both sides. Our success is ultimately linked to the Companies' success and we wouldn't want to put them in the position where we were attaching prohibitive fixed costs into areas that they feel have much uncertainty. On the issue of residuals, for instance, our proposal

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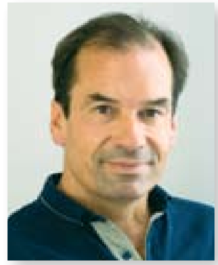
WRITTEN BY JOHN BOWMAN, CHAIR, NEGOTIATING COMMITTEE

America's Next Top Business Model



In the first round of negotiations, chief among the AMPTP's proposals to the Guild was a suggestion that we undertake a joint three-year "study" of new media, using public documents, to determine how writers would be compensated for original and reused material on the Internet. The AMPTP felt that if we negotiated these rates now, they would lose the flexibility they need to competitively price our shows in this new distribution channel. Until they know how much money they are getting, they won't know how much they can afford to pay us. In the meantime, they propose we do original work on the Internet for free and get paid for the reuse of our material at the .3 percent home video rate, or zero if it is ad-supported.

We rejected this proposal for several reasons. This simply isn't how a business model operates. Before you enter any new market, the first thing you do is fix your variable costs. How do you know how much money you can afford to spend on advertising if you don't know how many units you have to sell to cover those costs? Given Wall Street's historic aversion to unpredictable cash flows—they actually punish your stock for unpredictable earnings—the best thing for the AMPTP members, and for us, is to fix these numbers right now, not three years from now. They will then avoid entering markets at a low price point that won't generate sufficient cash to cover their investments.

If they get paid, we get paid; if they don't, we don't. This is all the flexibility they need to

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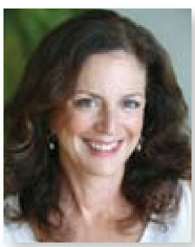
WRITTEN BY MELISSA SALMONS, MEMBER, NEGOTIATING COMMITTEE

The Same Page



This year, you can forget every previous experience you've had with MBA negotiations. Seriously. Forget it. No matter what you remember, no matter what you fear, we will not have that negotiation. Because this year is *that* different. I don't want to add to the hyperbole or feed the hysteria. You get it, it's big. What I hope will not get lost in all the concern is this: Even though this negotiation brings the most fundamental challenge we've had as a union in 50 years, we also find ourselves in the presence of a minor miracle—genuine unity. Because for the first time in decades, we all face the same primary issue. New media.

The opportunities and challenges of new media cut across every conceivable difference among us.

There's a lot of data and information about how new delivery systems are expanding our business (and our employers' bottom lines). You'll see it elsewhere in this bulletin, online at our Guilds' websites, and every day in the trades as new deals are made. It's easy to get overwhelmed by the breadth of the change these new outlets bring. Like the other members of your negotiating committee, I've been absorbing as much of the detail as I can, while striving to keep the aerial view. From that vantage point, here's a snapshot: Two of the first WGA webisode deals were done for a primetime hit (*Lost*) and two daytime serials (*As the World Turns/Young & the Restless*). Entire feature-length films are being streamed online and sold as downloads. Clips from many late-night comedy/variety shows go viral the minute they finish airing on broadcast. No matter what you write, who you write it for, or where it's shown first… it's going online. And the Internet

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IN MEMORIAM

Mel Shavelson

1917 – 2007

Next Round

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is mostly for a revenue-based formula. It couldn't be more simple: If they get paid, we get paid. John Bowman sheds more light on this subject in his article.

My key point is this: The time is now to address our issues—in these negotiations, not some day in the distant future when it's too late. That's the message you sent me loud and clear in the many outreach meetings I've attended. It's probably because you have real expertise in this area. Thirty years ago, two important innovations in the entertainment industry were introduced with the advent of home video and basic cable. The Companies made the same arguments then that they're making now about the Internet: it's a nascent business, we're just starting out, we don't know how it's going to work, etc. Unfortunately, we made a deal back then that we're still paying for. If I could sum up what I've heard over and over again from writers, it's: "Don't fall for that this time."

So, what can you do as we look to the next round of talks with the AMPTP? The answer lies in the article written by Melissa Salmons: Remain united with your fellow Guild members. While the Companies try and promote the idea that the Internet somehow voids history or that the hard-won gains writers and the talent community have made over the years are not to be taken seriously, nourish your resolve. Your resolve to preserve the dignity of writing and respect for writers, your resolve to negotiate for a fair share of the growth of our industry, and your resolve to leave a proud legacy for the next generation of writers.

THE NEW MEDIA BUSINESS MODEL

The companies are saying they can't negotiate a fair residual for reuse of WGA-written content in new media because there is no business model. Don't be misled. They already have strategies for success that involve business models adapted to each new distribution platform. The networks and studios are reaching audiences everywhere by putting content on the Internet, cell phones, iPods, Xbox, and many other devices and services—and each of these platforms generates additional revenue streams. Business models have been developed to generate revenue through download-to-own sales, subscriptions, and advertisements partnered with content.

The growth of new distribution platforms has several business advantages. The additional cost of distributing content online through streaming or downloads diminishes as the platforms multiply. For example, the shift from a DVD to an Internet download has two upsides. First, changing from a packaged good to electronic delivery removes the cost of the physical copy of the program. Second, the electronic form is more convenient for consumers, meaning they are likely to pay more or purchase more often. Lower cost plus higher revenue equals higher profit. There's a good business model!

The multiplication of platforms also makes the business less risky by diversifying revenue streams. A movie is no longer limited to generating revenues through box-office, DVD, and television licensing. Consumers can now access movies through Video-On-Demand, or download to own or rent. TV shows can be watched via ad-supported streaming online or purchased as a download through numerous sites. Additionally, the growth of online streaming has allowed the companies to generate revenue from products that might not sell elsewhere. Both Sony and Warner Bros. have taken older titles from their libraries and placed them online. AOL's in2TV, launched in Summer 2006, features classic Warner Bros. shows that were no longer generating significant revenue from off-network syndication. By August 2006, the site was generating 2 million video streams and an estimated $150,000 in monthly advertising revenue according to Adams Media Research. The Internet has provided another platform where studios can monetize their libraries.

Not only do the media companies have business models for new platforms, but these models are also already increasing revenues. The networks have frequently stated that the new media platforms are additive and have increased total viewing. On the back page of this bulletin, you'll find a slide taken from an NBC presentation to Wall Street analysts in June 2007. NBC is clearly describing a "new model" for content monetization, using the example of its hit series *Heroes.* Under this "new model," paths to the consumer are multiplied and revenue is projected to increase 11 percent.

What is clear from the NBC slide as well as Les Moonves' declaration of profits from the *CSI* franchise—see the poster included with this bulletin—is that WGA

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TRACKING DIGITAL REVENUES

Our Contract 2007 proposal for new media residuals is a percent of revenue—2.5 percent to be exact. We are proposing a percent of revenue formula because, although tracking revenue is difficult, it is, counterintuitively, much easier than tracking views of a show on the Internet or on cell phones. To help in our ability to track revenue and to know what our members are owed in residuals, we also have proposed a stronger information access clause that will specify exactly what information we must be given by the Companies and a provision for expedited arbitration in case of a dispute over access to information.

Although the Guild has a long history of auditing the studios, much of it in conjunction with SAG and DGA, progress in auditing can be frustratingly slow. To correct this situation the current negotiation includes several proposals to strengthen and extend the audit tools available to the Guild. This will help us with the many deals that are made between different divisions of the same company or different companies that are actually part of the same conglomerate, for example between ABC and the Disney Channel or NBC and Universal Studios, etc. In addition, some deals are very complicated, as when films are "bundled" together and an overall deal made for all of them. Alan Ladd Jr.'s successful lawsuit demonstrated just how easy it is for the studios to manipulate the numbers in their favor. Advertising deals where ad revenues cover several platforms, without specifying how much is being paid for each one, can also be a source of contention. All of these problems are difficult, but we believe that with the proper contract language and enforcement tools, they can be overcome.

content is driving this extremely profitable new media business.

More than 60 percent of WGA shows on the 2006-2007 Network Primetime Schedule are available for streaming online through network websites. Soap operas and cable television programs are increasingly becoming available for free viewing online (ad-supported). These programs are partnered with multiple, unskippable ads that reportedly generate more revenue per viewer than on TV according to Kagan Research. In May 2007, websites owned by News Corp., Viacom, Time Warner, NBC, and Disney generated 1.4 billion video streams. ABC.com generated 100 million video streams alone in May 2007 reported comScore. A quick look on iTunes reveals that hundreds of movies and TV shows written by WGA members are for sale via download. For the last week of July, more than 80 of the top 100 TV episodes sold on iTunes were written by WGA members.

These distribution deals include revenue-sharing agreements that guarantee networks and studios a percentage of advertising revenue generated from the content. Why not the writers, actors, and directors who created the content?

The media companies are well-positioned to capture new media revenue as these platforms grow. And ours would not be the first organization to reach agreement with the companies on sharing revenues derived from content on new media platforms. The networks and studios have already made this a part of doing business on the Internet. To ensure that their content reaches the widest audience possible, networks and studios have made distribution deals with online partners. CBS and Viacom content can be found on the web service Joost. The new NBCU-News Corp online video initiative will distribute content through AOL, Yahoo, Microsoft, and a host of other sites. These distribution deals include revenue-sharing agreements that guarantee networks and studios a percentage of advertising revenue generated from the content. Why not the writers, actors, and directors who created the content?

There is some uncertainty in the emerging new media landscape. No one knows for sure which methods of delivery will work the best. Will consumers want DVDs because they're great gifts? Will they want downloads because they're convenient? Will consumers want to watch movies on their cell phones?

There's no need to answer all these questions to undertake serious negotiations. The formulas we are proposing as the basis for our discussion of new technologies are percentages of revenue—when they get paid, we get paid. If they don't, we don't. The formuals are technology neutral. As the companies develop their business models, residuals are simply an equitable cost of doing business.

As Les Moonves said in an interview with *Wired*, "We don't care how you get our content—over the air, over cable, satellite, the Internet, or on your cell phone—as long as we get paid for it." We couldn't agree more.

The Same Page CONTINUED FROM PAGE 1

will soon become a first-run outlet for our work. Getting union jurisdiction for original material and negotiating a fair rate for reuse of our work in this arena is critical for everyone's future.

As writers we might start at the same point, with that same blank page, but we quickly fan out from there. Our issues and needs often vary wildly depending on the form we write, the genre, the distribution outlet, the budget, the level of creative control, the residual formula—plus dozens of other variables you never imagine until you sit down with a writer who works in a different field and listen.

The most intense of these conversations usually happen around negotiations. In the past, we'd come together and hope that our needs could be heard among all the competing interests. We'd pray we didn't get overlooked because some other faction in the union needed more or made more or just made more noise. And no matter what deal was struck in the end, there were writers in every form who would tell you they got screwed—not only by management intransigence, but because their fellow Guild members could not understand and get behind the issue that mattered most to them.

Not this time. For once, we can all go into a negotiation knowing that our major interests are truly the same.

America's Next Top Business Model

CONTINUED FROM PAGE 1

compete. By pegging our compensation to a portion of revenues, we don't impose a large fixed cost on the companies that will prevent their entering new markets. This is so reasonable of us that one is tempted to believe the only reason the companies refuse to negotiate with us on this matter is that they have, in fact, already fixed their residual costs, at .3 percent of revenues, and hope we will go along. Given that television presently enjoys a 2 percent or 2.5 percent residual on cable, and a 1.2 percent residual for pay-per-view, I can't imagine a study that would persuade us to acquiesce to this onerous and artificially low rate. For both sides' sakes, let's fix these numbers now.

Besides, as NBC and CBS trumpet in the financial press, they already have models, and they are additive and don't require much capital investment. For instance, the "old business model" for television could rely only on ad sales. Now they can rely on ad sales, subscription fees, syndication sales (due to the relaxing of fin-syn rules), DVD sales, VOD, wireless, international, pay-per-view, and the Internet. This is the reason all major networks enjoyed higher ad rates at the upfronts, despite the erosion of broadcast viewership. Advertisers are willing to pay higher rates for the ability to target the more demographically defined Internet audience.

Think of it this way: An Internet download has no box costs, no hard media costs, no shipping or handling. Time Warner is suggesting that their VOD margins are three times higher than DVDs, which, in 2004, were already estimated at 65 percent. (For every one dollar of revenue, the studios get 65 cents. Writers currently get .3 cents.) If this margin improvement is true—and it does make intuitive sense—it means they are now getting 88 cents for every dollar of revenue generated. (Writers, by the way, will continue to get .3 cents under the company proposal.) In addition, they can show their movies and television shows on multiple platforms, available at all times, which gives then access to an even broader market.

This model sounds like a license to print money. We would like to join in the companies' success right now. Let's end the posturing and get down to bargaining.

THE NEW MEDIA BUSINESS MODEL

Hollywood's New Media Strategy

Exploiting WGA-Written Content on New Platforms

- 62% of WGA network primetime programs streaming online
- Hundreds of TV shows and movies available for download to rent or own
- 80+ of top 100 TV episodes recently downloaded on iTunes are WGA content
- Full TV episodes available on cell phones

A key strategy for the networks and studios in creating business models in new media is exploiting WGA-written content across new distribution platforms. Currently, online video streaming is the most popular new media platform, and networks say that it is increasing viewership. Downloads and portable devices like cell phones are also growing in popularity.

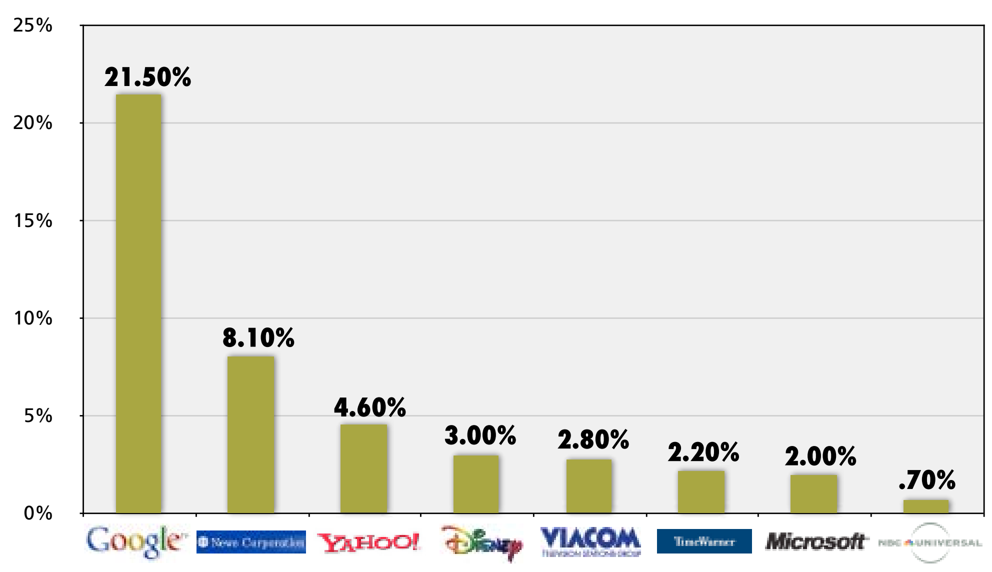
A Snapshot of WGA Content Online

24	*CSI: Miami*	*Heartland*	*The Loop*	*Rescue Me*
30 Rock	*CSI: NY*	*Heroes*	*Lost*	*Rules of Engagement*
According to Jim	*Day Break*	*Hidden Palms*	*Medium*	*Saving Grace*
All of Us	*Desperate Housewives*	*High School Musical*	*My Boys*	*Six Degrees*
American Dad	*Drive*	*House*	*NCIS*	*Standoff*
Andy Barker, PI	*Everybody Hates Chris*	*How I Met Your Mother*	*The New Adventures of Old Christine*	*Studio 60 on the Sunset Strip*
The Bill Engvall Show	*Friday Night Lights*	*Jericho*	*Numb3rs*	*Supernatural*
The Black Donnellys	*The Game*	*Kidnapped*	*October Road*	*Traveler*
Bones	*Girlfriends*	*Knights of Prosperity*	*The Office*	*Ugly Betty*
Brothers & Sisters	*Greek*	*Kyle XY*	*One Tree Hill*	*Vanished*
The Class	*Grey's Anatomy*	*Last Comic Standing*	*Prison Break*	*Veronica Mars*
The Closer	*Grounded for Life*	*Law & Order*	*Psych*	*What About Brian*
CSI	*Hannah Montana*	*Lincoln Heights*	*Raines*	*100s of Movies*

This chart is only a snapshot of the WGA-written programs available online. Seventy-one percent of WGA programs from the 2006-2007 network primetime schedule are available for either streaming or download. Additionally, soap operas, cable programs, and older titles from studio libraries as well as hundreds of movies can be streamed or purchased via download. And the list only grows.

Online Video Streaming

8 Billion Streams Per Month



Source: comScore, May 2007

In May 2007, the online video market reached 8 billion streams. The media conglomerates are among the top online video destinations and captured almost 18 percent of the video streams on their own websites. This figure does not account for studio content found on other sites, like YouTube or Yahoo.

Online Video Streaming

Media Conglomerate Websites Capture 1.4 Billion Streams

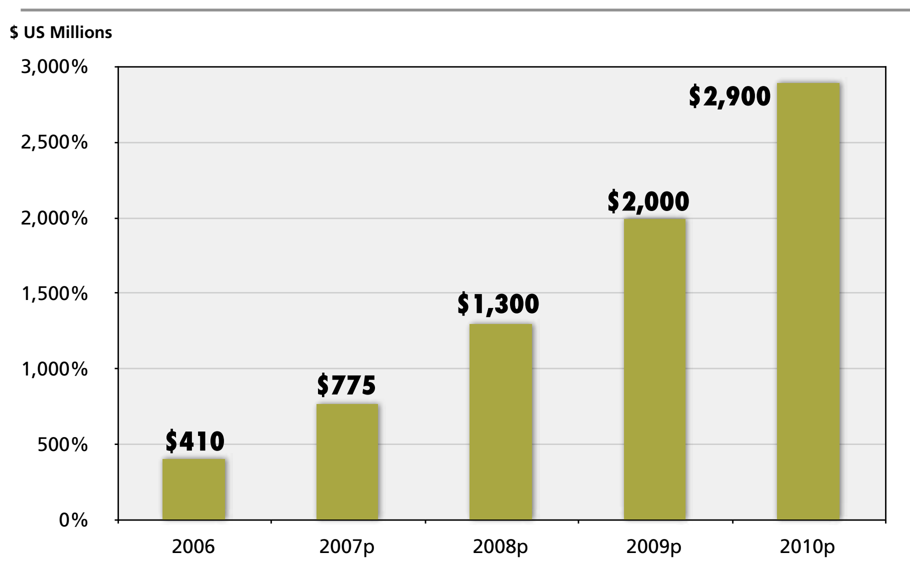
- **ABC:** 100 million videos streamed in May 2007
- **CBS:** 5 million videos streamed on Innertube over two-month period
- **Fox Interactive Media:** 680 million videos in May 2007
- **NBC:** 58 million videos streamed in May 2007
- **Time Warner Network:** 185 million videos streamed in May 2007
- **Viacom Digital:** 237 million videos streamed in May 2007

Source: comScore and Company Reporting

Since the start of the 2006-2007 TV season, all of the broadcast networks have offered ad-supported streaming of TV programs and other extras on its sites. On network websites, content is partnered with ads that have reportedly reached $40 per thousand viewers, a significantly higher figure than TV rates.

Online Streaming Revenue

Revenues Projected to Grow 63% Annually



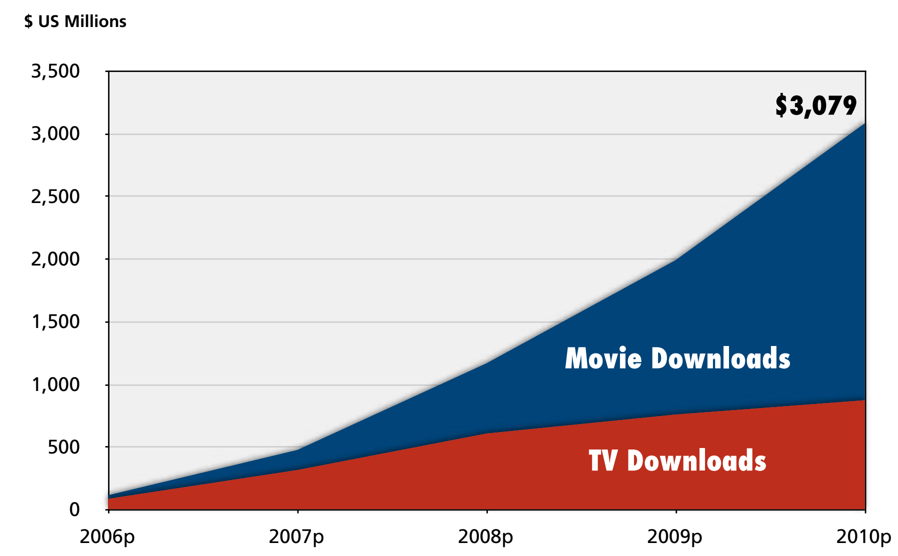
Hollywood Film and TV Studios Expected to Capture 75% of Online Streaming Revenue Market

Source: eMarketer, March 2007

The online video streaming market is projected to grow rapidly. Professionally produced content is wanted online by advertisers who seek to partner with established brands and high-value programs. As a result, eMarketer projects that Hollywood will capture 75 percent of the online video ad revenue.

Download Revenue

Market Projected to Grow from $112 Million in 2006 to $3 Billion in 2010

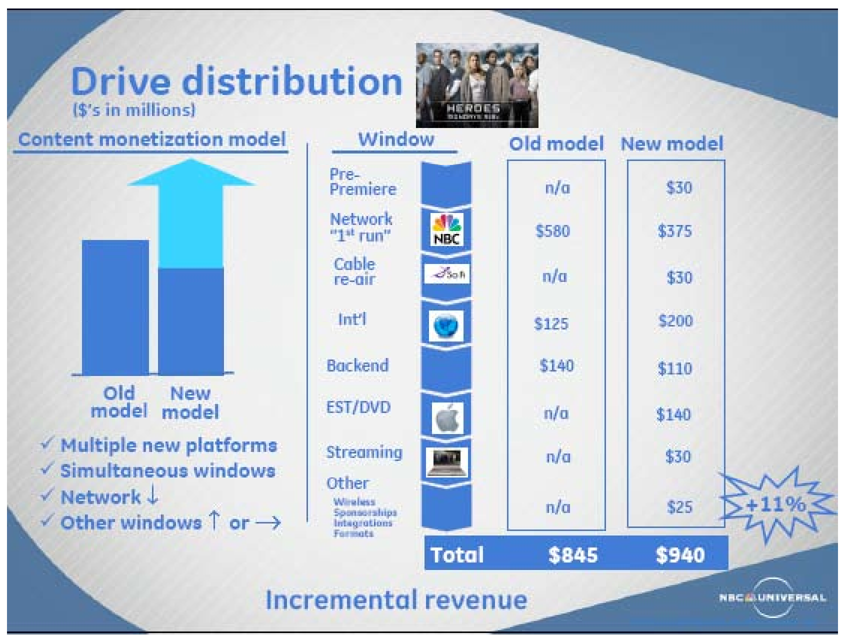


Source: Adams Media Research, February 2007

Download revenue, jumpstarted by iTunes, is also projected to reach $3 billion in revenue in 2010. TV downloads are most popular now, but as more movie titles are put online, downloading speed increases, and the PC connects to the TV, movie downloads are projected to become dominant.

New Media Business Model

NBC Says "New Model" Boosts Revenue



Source: slide from NBC presentation to investors.

The media conglomerates most certainly have business models for new media. Here is NBC's "new model" for television distribution. This "new model" incorporates streaming, downloads, and wireless and projects 11 percent revenue growth as a result.

New Media Business Model

Companies Project Significant Revenue from New Media Businesses

COMPANY	2006 ESTIMATED NEW MEDIA REVENUES	2007 ESTIMATED NEW MEDIA REVENUES	PROJECTED COMPOUND ANNUAL NEW MEDIA REVENUE GROWTH 2007-10
CBS	$200 Million	"Hundreds of millions"	28.2%
Disney	$500 Million	$700 Million	33.2%
NBC Universal	$400 Million	$1 Billion	Unknown
TimeWarner	$300 Million	Unknown	36.9%
Viacom Television Stations Group	$150 Million	$500 Million	46.5%
News Corporation	$400 Million	$1 Billion	48.4%

Source: Company Reports and Goldman Sachs

At each of the companies, digital revenue will be a driver of growth. Please note that the numbers reflect both revenues from online streaming and downloads as well as Internet assets, such as MySpace at News Corp.

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THE NEW MEDIA BIG BANG

As the new media universe expands so do profits for the entertainment industry. CBS has developed a business model that fuses traditional and new media to create a super nova in revenue from the *CSI* franchise.

ALAN SCHWARTZ OF BEAR STEARNS:

"How many different ways today can you create revenue off of CSI versus four years ago?"

"... And at the end of the day, you have a $2 billion profit machine for the CBS Corporation..."

LESLIE MOONVES:
President/CEO, CBS Corporation

CBS at Bear Stearns 20th Annual Media Conference, March 5, 2007.

IF THEY GET PAID, WE GET PAID

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