

A
tvnewsday
Webinar



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RAOUL DESOTA
CABLE AUDIT ASSOCIATES

Retrans Agreements:
What the Other Side Knows...
That You May Not

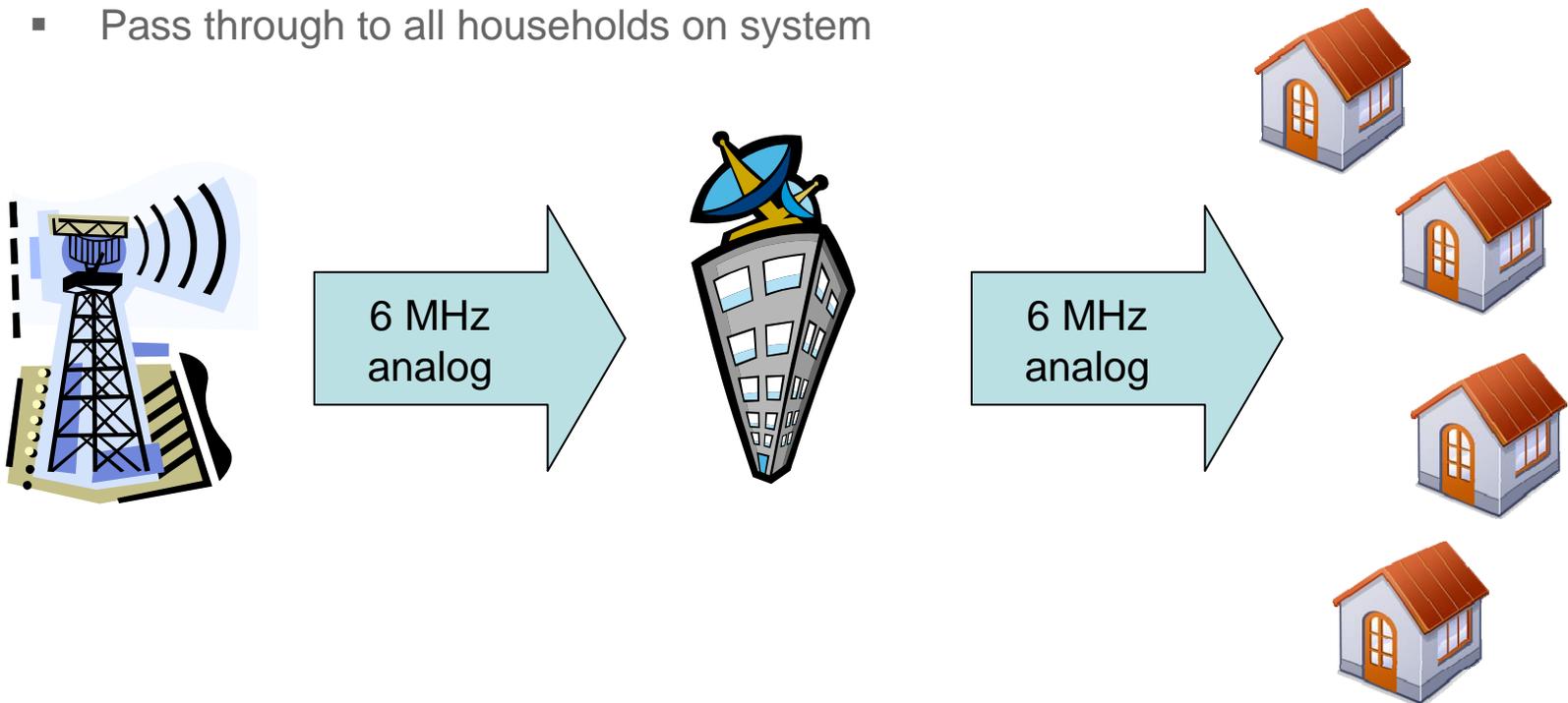
Moderator: **KATHY HALEY**, TVNEWSDAY

Retransmission 3.0

- 1.0: Second channel and MFN backstop
- 2.0: “Incognito Cash”
- 2.5: Basic cash for carriage
- 3.0: Complex program carriage, technology and business operations agreements

From literal “retransmission”

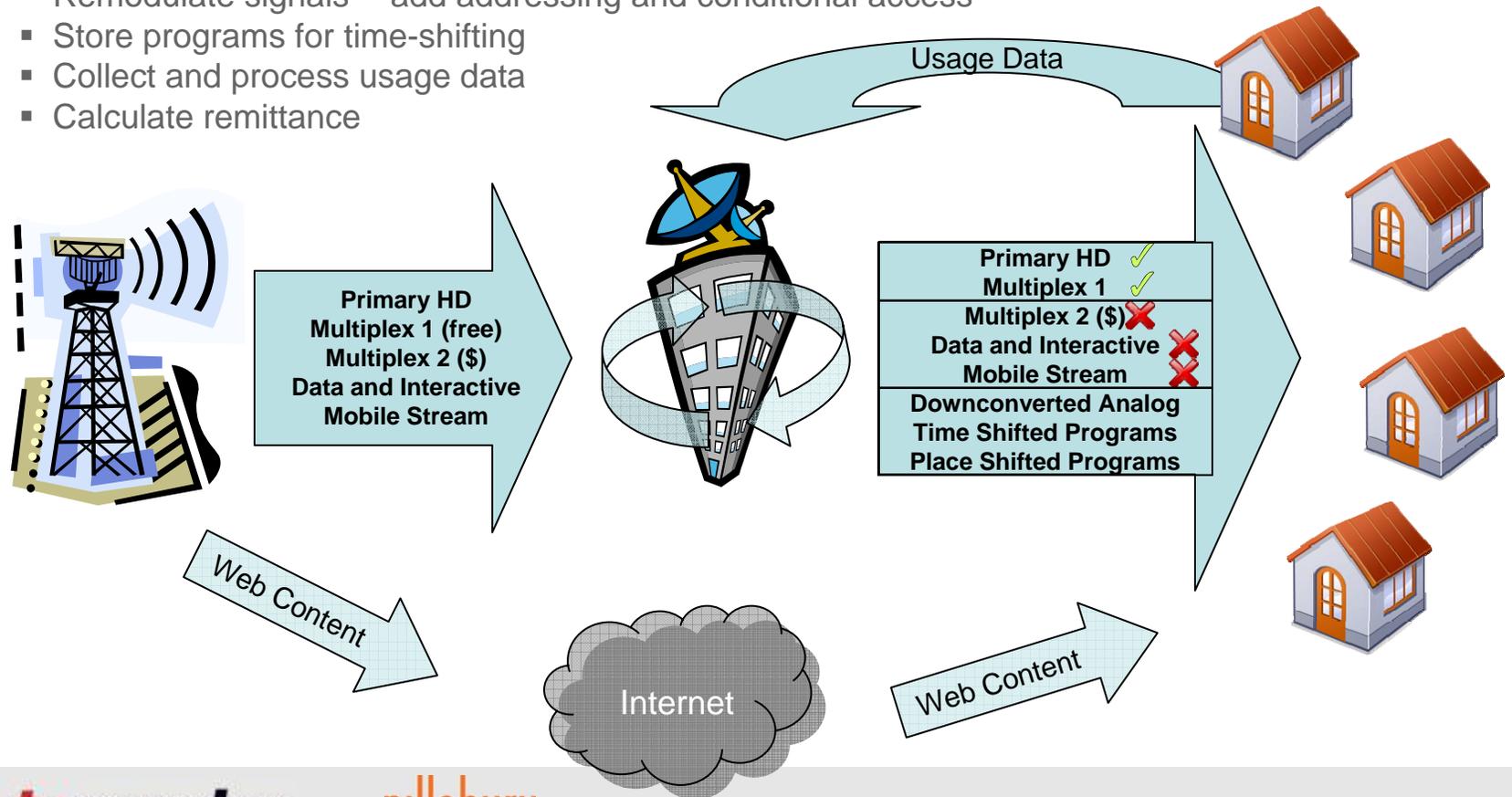
- Collect broadcast signal
- Pass through to all households on system



Until recently, carriage was simple. Financial terms were the only terms that really mattered in retransmission agreements.

To sophisticated program distribution and data collection operations

- Collect broadcast signal(s)
- Filter unwanted bits (programs, data, interactive)
- Remodulate signals -- add addressing and conditional access
- Store programs for time-shifting
- Collect and process usage data
- Calculate remittance



The retransmission consent agreement is dead

- Killed by evolving technology and cash payments
- “Retransmission” isn’t one-dimensional
- When distributor pays cash it wants “cash terms” – concessions it gets “pay networks” to make
 - Prohibit “free” and alternative program distribution
 - Strict MFNs on financial and non-financial terms
 - Assurance of what’s in the broadcast signal
- Both sides need to manage uncertainty

Balancing legitimate interests

- Understand the other side's technical capabilities and limitations
- Appreciate the external factors that are driving business change
- Give each side a measure of certainty and flexibility

	Broadcast	Cable
Flexibility	<p><i>Add more HD or SD channels</i></p> <p><i>Embed interactive bits</i></p> <p><i>Serve "alternative" devices (mobile)</i></p> <p><i>Migrate content to web</i></p>	<p><i>Manage system capacity across DMA lines</i></p> <p><i>Launch advanced services (time shifting, place shifting, interactive, VOD)</i></p> <p><i>Upgrade to all digital</i></p>
Certainty	<p><i>Know when, where and how all broadcast services are being carried</i></p> <p><i>Know that new services won't be blocked by distribution partner</i></p>	<p><i>Predictable costs through term</i></p> <p><i>Control "erosion" (protect the "walled garden")</i></p> <p><i>Match competitor's services</i></p>

New Broadcast Services

- Mobile distribution
- Interactive elements
- Addressable advertising
- Online streaming or on-demand

Distribution and use of the broadcast signal

- What processing and re-purposing are permissible?
 - Time-shifting (RS-DVR, VOD, start-over/look back)
 - Place-shifting (Slingbox)
 - Re-formatting and alternative platforms (mobile, podcasts)
- Where and how are signal elements used?
- What programs or data can be “re-purposed”?
- What data is collected, who gets it, and how is it used?

Accountability for Carriage Fees

- Broadcasters jealously fight for strict accuracy and accountability in viewership data
- Little or no attention paid to authenticating carriage fees
- Definition of a “subscriber” may not be as simple as it seems

Look forward five years

- Look at your own business and technology and the other side's business and technology. What is the five-year roadmap?
- Cable, satellite and IPTV companies are engineering their agreements for a five-year horizon. Terms that seem innocuous today can be very problematic later
- Engineer your agreements to 2014, not 2009

As Nat Ostroff said in TVNewsday interview, broadcasting is about a lot more than just delivering your signal to a cable headend

Managing Carriage Agreements



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Two Different Views of the Consumer

Broadcast Television

Nielsen
Households
DMA's
Digital
HD

Multichannel Distributors

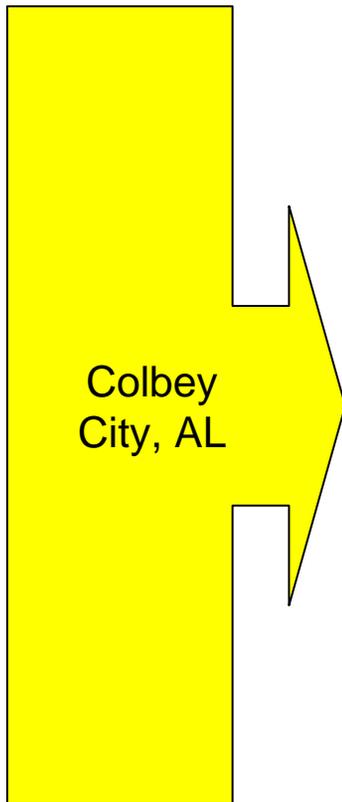
Viewing Subscriber
Headends
Systems
Regions/Divisions
Analog Basic
Digital Tiers
HD
Premium
SVOD
VOD

What Can Go in to a Remittance?

- Carriage Level & Channel #'s
- Equivalent Billing Units (EBU's)
- System Penetration
- Commercial Accounts
- Lifeline Basic Subscribers
- Marketing Credits & Support
- Uncollectible Accounts
- Headend & System Consolidations
- Systems Sold & Purchased
- License Fees & Amount Paid per System
- Prior Period Adjustments

System Structure

SYSTEM



MSO defined

Can be any geographic area

- City – Alexander City, AL
- Region – Northern Michigan
- State – New Mexico

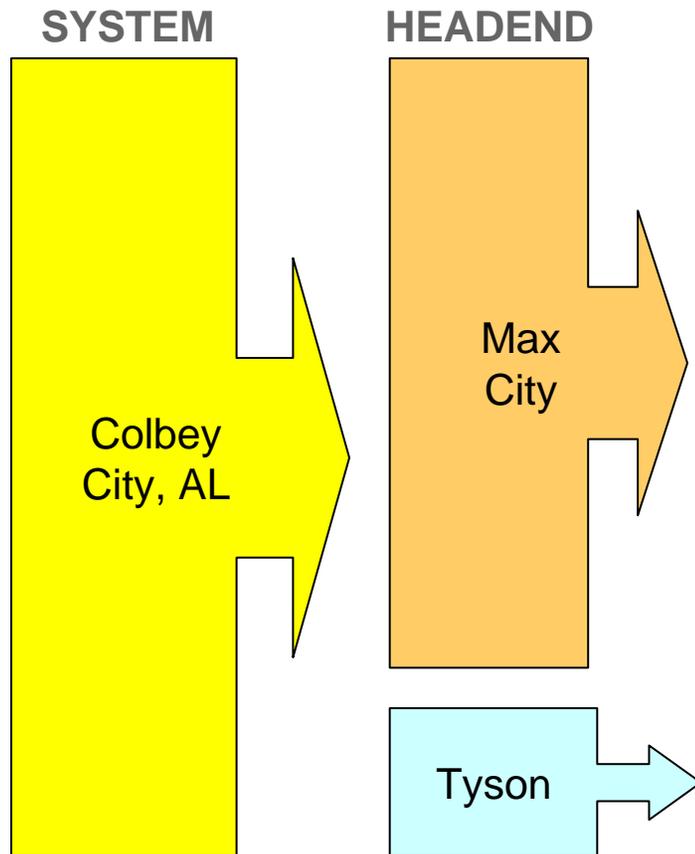
Related to MSO billing system

- CSG
- Cable Data

Comprised of Headends, Channel Lineups and Franchise Tax Areas

Can change over time

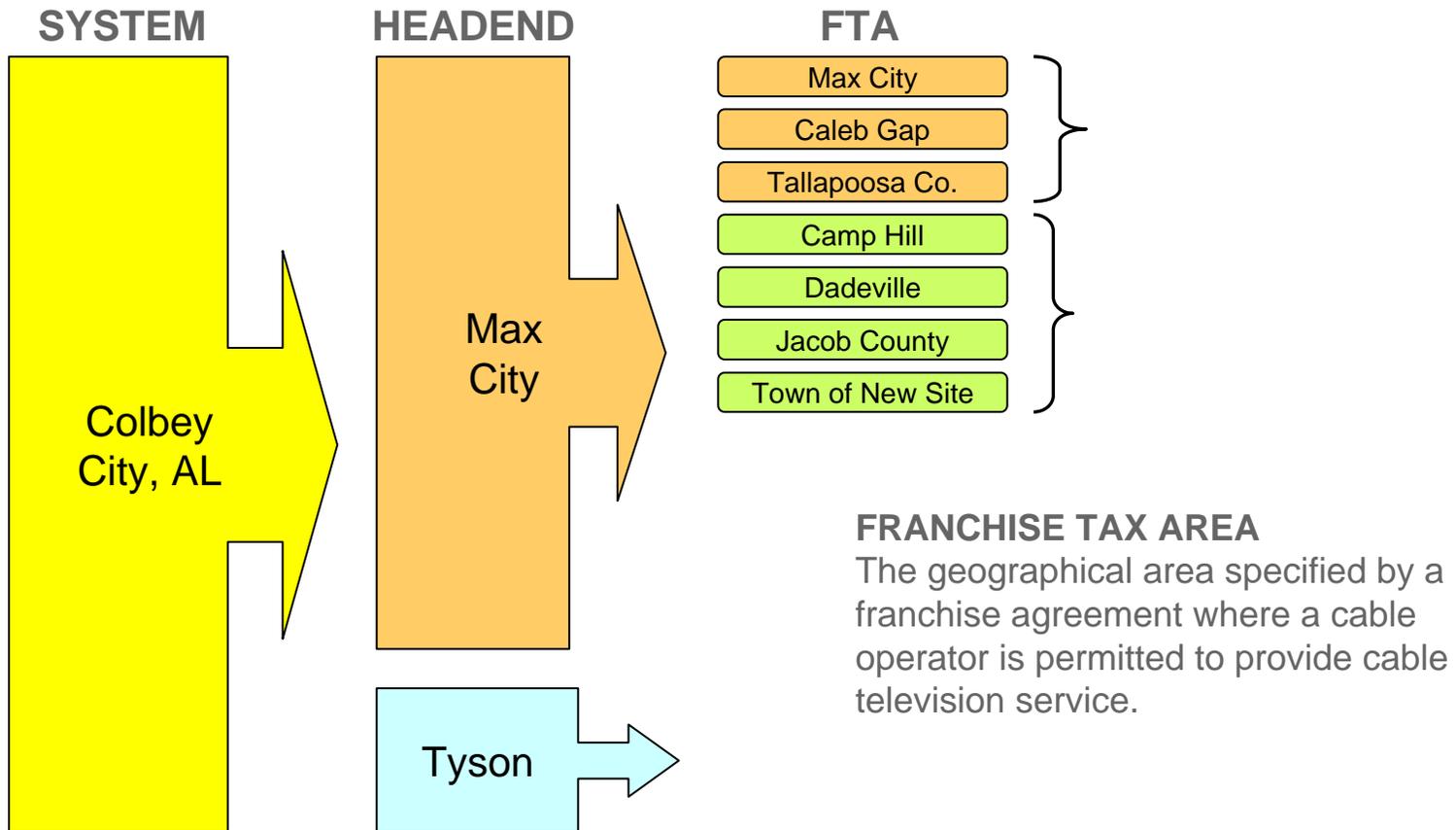
System Structure



HEADEND

The control center of a cable television system, where incoming signals are amplified, converted, processed, and combined into a common cable along with any origination cablecasting for transmission to subscribers. Usually includes antennas, preamplifiers, frequency converters, demodulators, processors and other related equipment.

System Structure



Franchise Tax Area (FTA)

The following information is reported for each FTA

A. Subscribers and revenue for each level of service

Limited Basic

Basic

Analog Tier

Digital Basic

Digital Tiers (Sports, Movie, Family, HD, etc.)

Premium Services & Bundled Packages

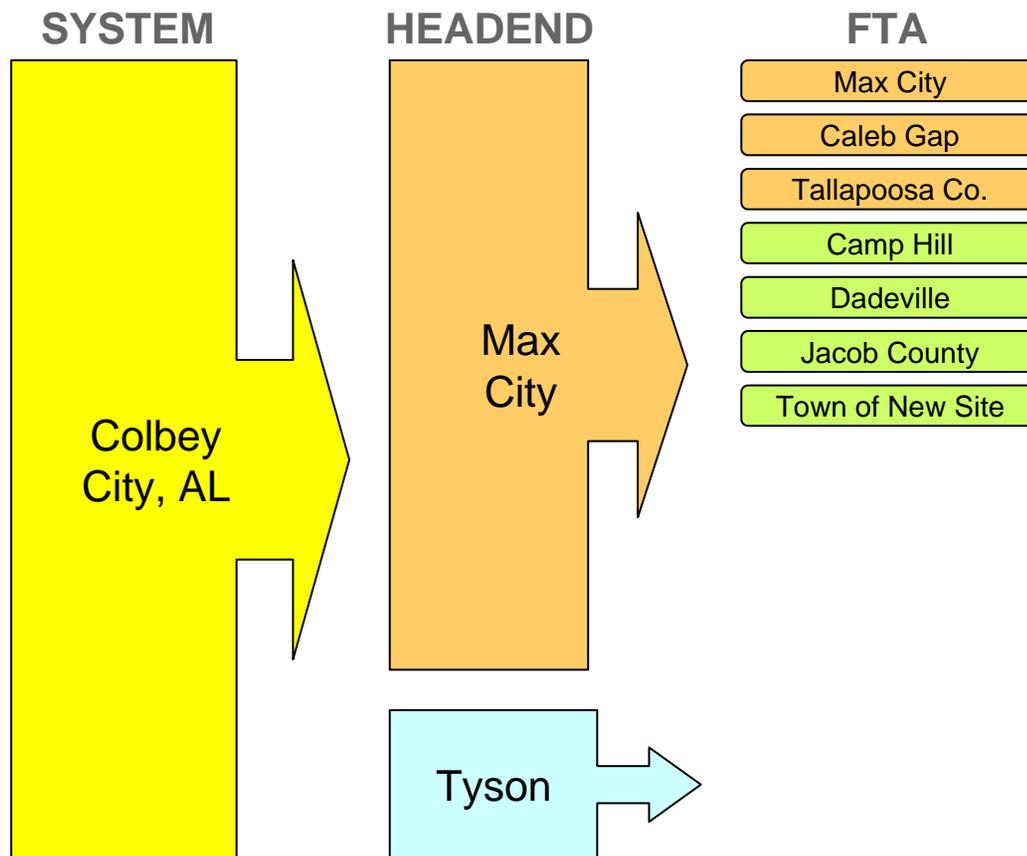
Retail rates for each level of service

Free Accounts

Non-standard revenue

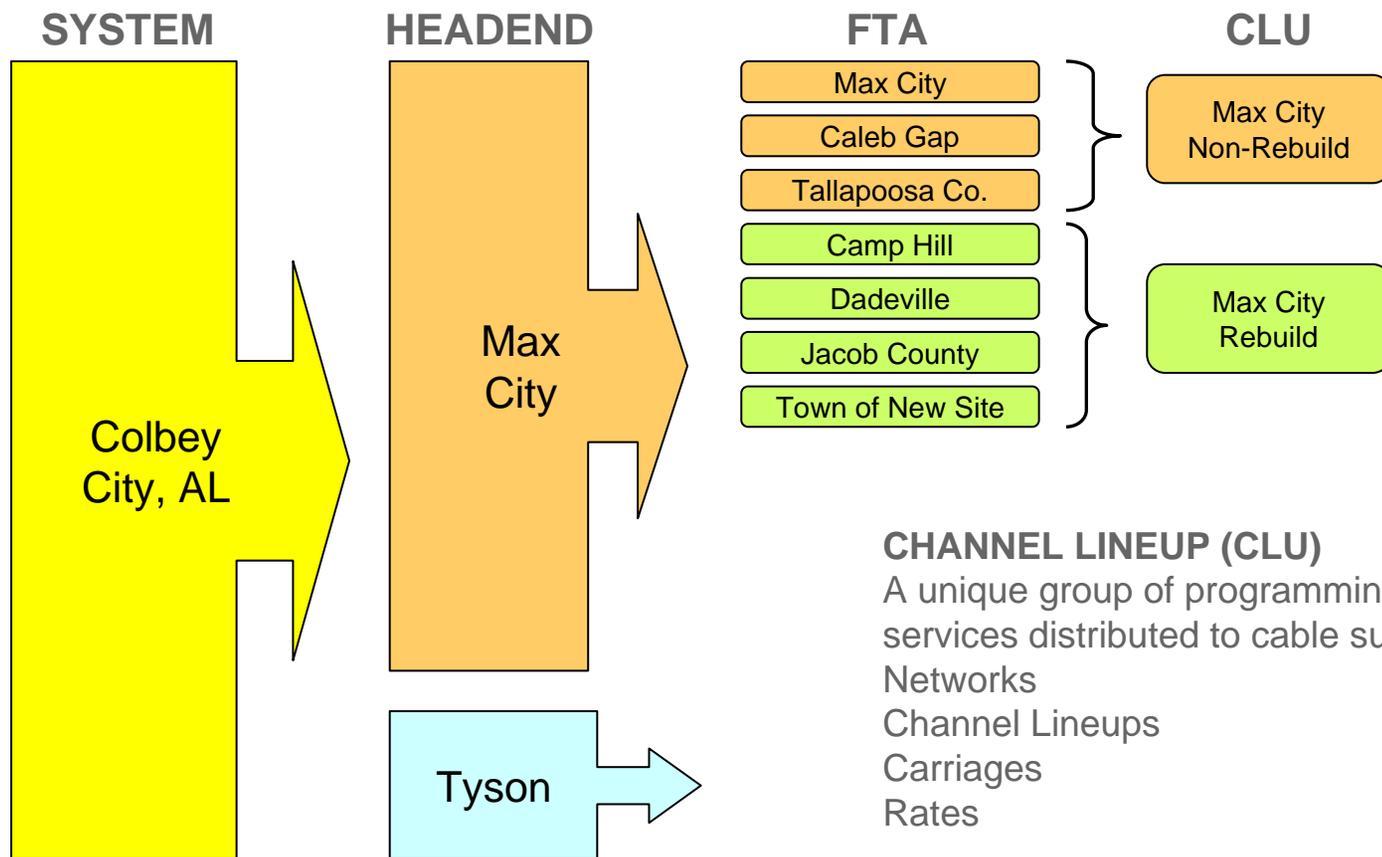
System Structure

Channel Lineup



System Structure

Channel Lineup



CHANNEL LINEUP (CLU)

A unique group of programming services distributed to cable subscribers

- Networks
- Channel Lineups
- Carriages
- Rates

Channel Lineup (CLU)

Channel lineups often include the following information:

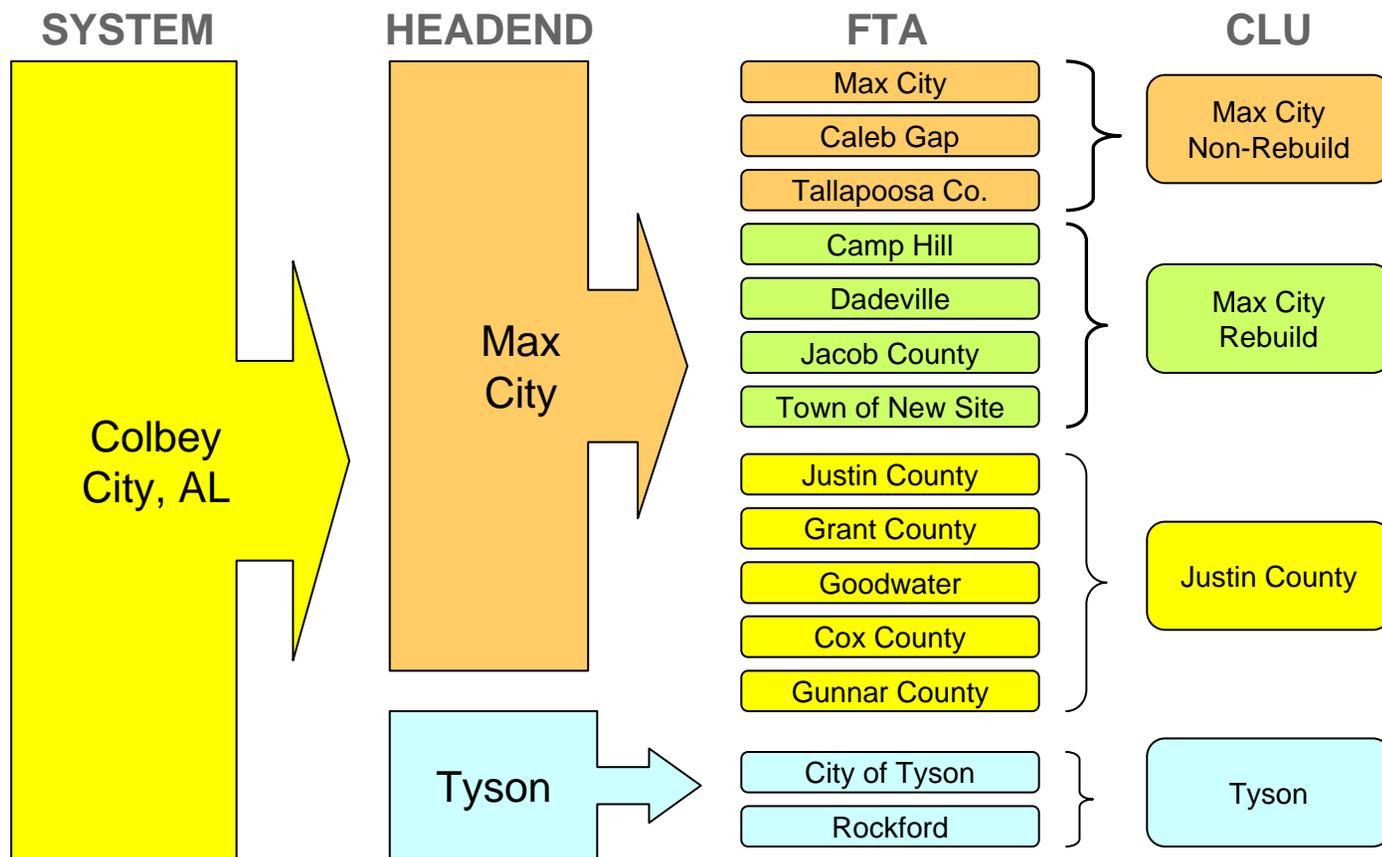
- Networks carried

- Channel number

- Networks carried by tier (i.e. Limited Basic, Expanded Basic, Premium Packages, Digital Basic, Sports Tiers, etc.)

- Network launch dates

The Subscriber & Revenue Building Blocks



Validation

- The validation process is not about suspicion.
- Validation of the business controls you have around your revenue streams is not disciplinary – it is , instead, part of a set of financial best practice disciplines.
- Cable and satellite subscriber accounting is complex and contains many variables that are not seen in revenues derived from advertising.
- Above all, in the case of cable systems, the subscriber and financial transactions that you see today are a culmination of 50 years of cable industry evolution, thousands of pages of contracts and over \$100 billion in infrastructural upgrades.

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- Revenue & Subscriber accounting takes place in a very dynamic environment.

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- Revenue & Subscriber accounting takes place in a very dynamic environment.
- The business environment surrounding multichannel subscription services changes constantly with new system purchases and sales, headend consolidations, corporate reorganizations of reporting divisions, collapsing programming tiers and bundled offers.
- Does your contract allow for a clear ongoing administration of these dynamics and does it allow for regular validation of key financial indicators.

Retrans Agreements:
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Q & A

Thank you for joining us!

Please watch your email for a link to the recorded version of this webinar.

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