

DISCUSSION DOCUMENT

Talent Compensation Final Steering Committee Meeting

New York & LA
December 19, 2007

*This document is confidential and is intended solely for the use and
information of the SAG, AFTRA, and the JPC*



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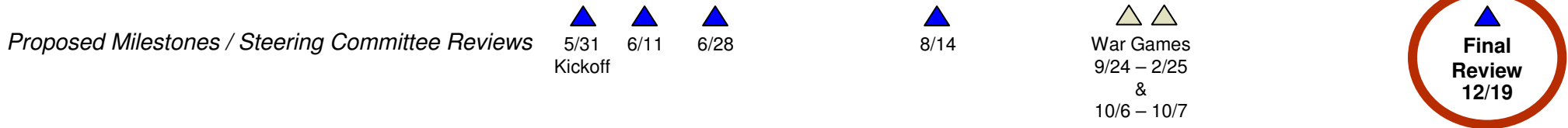
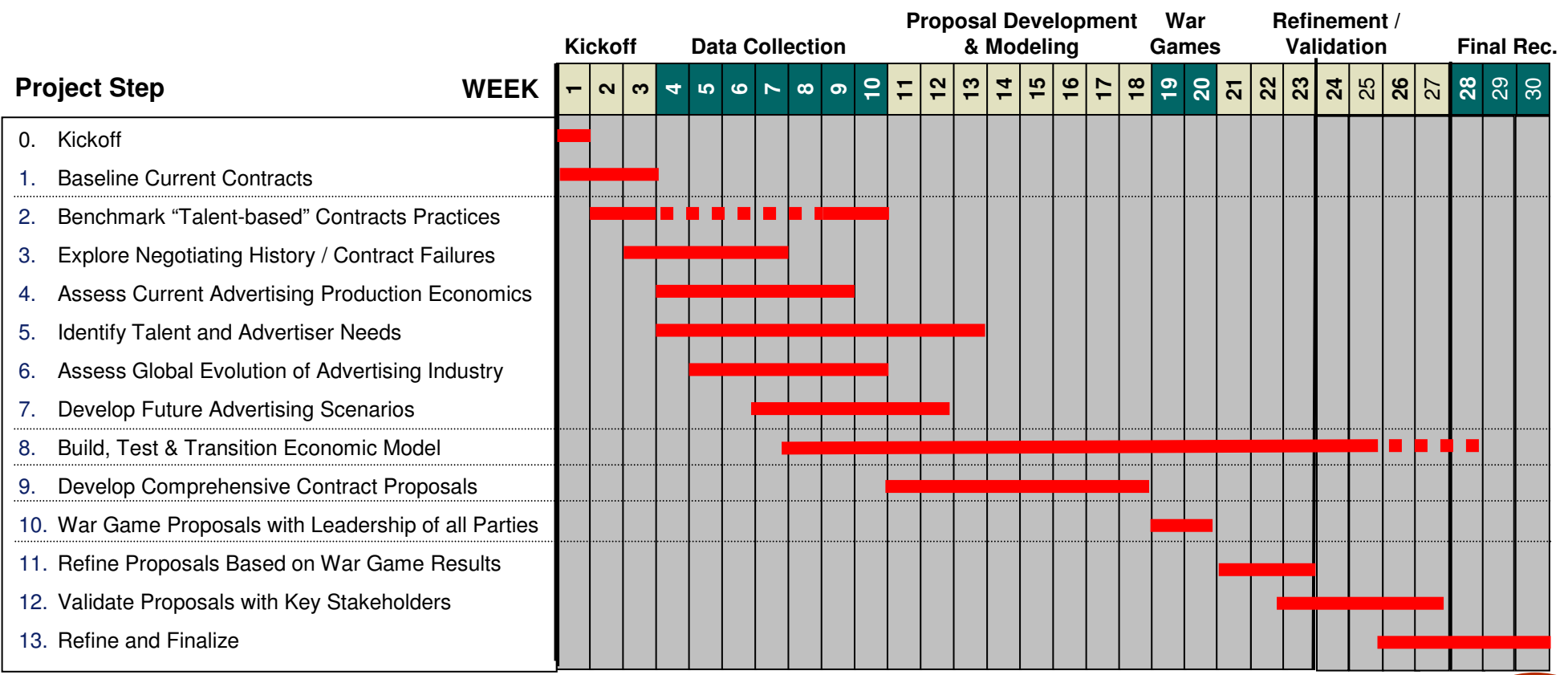
Our charge has been to recommend new ways of compensating commercial talent in preparation for the 2008 negotiations

Project Objectives

- ▶ Investigate the feasibility of alternate methods of compensation for principal performers performing in Television and Radio commercials (“Commercial Contracts,” i.e., the AFTRA Recorded Radio Commercials Contract, the AFTRA Television Recorded Commercials Contract and the SAG Commercials Contract)
- ▶ Provide SAG, AFTRA and the JPC specific recommendations to consider in their negotiations of new collective bargaining agreements upon termination of the current Commercials Contracts
- ▶ Recommend options for broad compensations models, which may include complete revision to the current compensation methodology or retention of the current model, or parts thereof
- ▶ Be comprehensive and take into consideration the myriad interests of all parties - performers and their unions and advertisers and their partners e.g., advertising agencies (both large and small), production companies, talent payroll services, casting directors, and cost consultants

We have reached the conclusion of the first stage of the effort

Project Timeline



Since the LA wargame, we have continued to develop and refine our recommendations

Progress Since LA Wargame

- ▶ Completed aggregate and individual commercial compensation models and conducted orientation session
- ▶ Refined GRP rates based on actual GRP data
- ▶ Developed an additional site-based internet option
- ▶ Analyzed compensation for proposed models under varying future ad spend scenarios
- ▶ Conducted three editing focus groups and a survey of advertisers and advertising agencies on editing
- ▶ Interviewed key stakeholders about their concerns and to gather feedback on the recommendations

Today, we will present our recommendations for the areas most in need of reconsideration

Today's Agenda

- ▶ Present additional analysis that we developed since the last steering committee
- ▶ Review and discuss final proposals
- ▶ Present impact and scenario analysis for the proposals
- ▶ Identify approach to continuing the effort leading up to negotiations

Today's Objectives

- ▶ Bring broader steering committee up to speed on recommendations
- ▶ Create a common understand of proposals that are on the table
- ▶ Help all parties to understand impacts and implications of each proposed model
- ▶ Prepare the committee to move forward with the effort over the coming months

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We considered a wide range of potential compensation models for talent appearing in TV ads

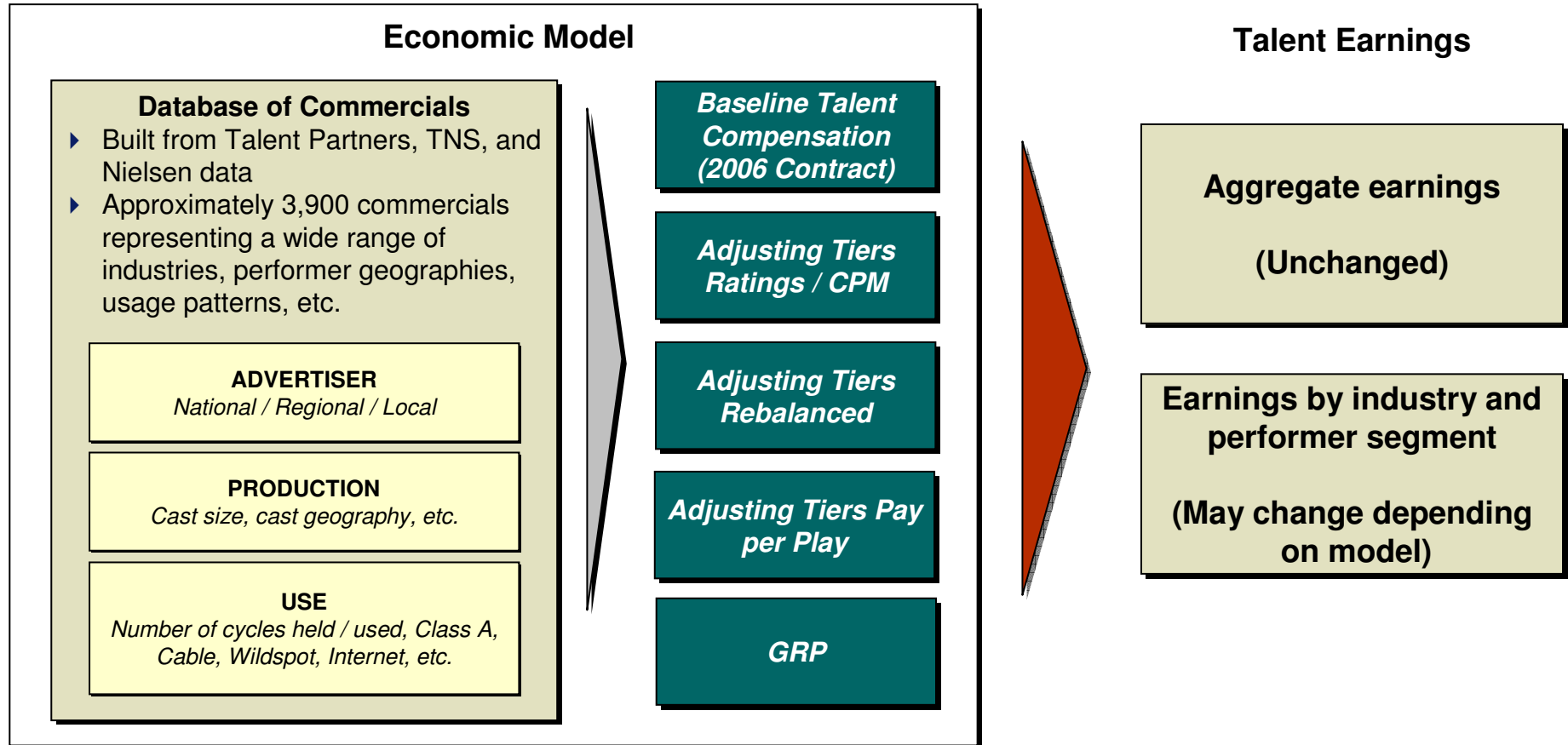
Model	Explanation	Status
Flat rate	▶ One flat rate per principal for appearing in a commercial for a period of time, irrespective of use	▶ Not in consideration – does not track closely with exposure or ROI
Tiers based on channels ✓	▶ Payment per channel on which the ad is placed	▶ Studied in depth
Pay per play	▶ Payment per play for all use in TV	▶ Not under consideration – considered too difficult to track and monitor
Ratings-based (GRP) ✓	▶ Payment of talent based on number of viewers	▶ Studied in depth
Percentage of media spend	▶ Payment of talent based on a percentage of media spend for the placement of the ad	▶ Not under consideration – too difficult to execute given privacy considerations
Percentage of production costs	▶ Payment of talent based on a percentage of production costs of the ad	▶ Not under consideration – does not track with exposure or ROI



Studied in depth

We tested the impact of the proposed models using an Excel-based compensation tool

Aggregate Model Schematic



Additionally, we built an individual commercial model which allows users to test compensation for one commercial under each proposed model

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The Adjusting Tiers model intends to simplify the contract and introduce greater predictability in performer compensation

Adjusting Tiers Philosophy

- ▶ Develop one classification system for national networks which includes Class A, Cable and Hispanic networks
- ▶ Tie compensation to the current value of each media channel, with a defined methodology which updates over time
- ▶ Minimize pay-per-play related monitoring demands
- ▶ Introduce greater predictability for both advertisers and talent
- ▶ Simplify the contract through streamlining and elimination of terms

Adjusting Tiers

The model prescribes a pre-payment for national TV use for a given period of time

Talent Compensation =

1 Session and Other Fixed Fees

Session Fees*	Per Session, TV	\$567
Tags / Versions	2 – 25	\$158
	26 - 50	\$88
	51+	\$48
Holding Fees	Per cycle	\$567

* To be treated as a payment for services rendered

Methodology: Based on current contract fees

+

2 Rates for National TV Networks (HH Ratings & CPM-based Tiering)

	Tier 1	Tier 2	Tier 3	Tier 4	Tier 5	Tier 6	Tier 7
	<ul style="list-style-type: none"> ▶ ABC ▶ CBS ▶ FOX ▶ NBC 	<ul style="list-style-type: none"> ▶ COM ▶ CW ▶ DISC ▶ ESPC ▶ ESPN ▶ LIFE ▶ MTV ▶ NAN ▶ NICK ▶ OXYG ▶ SPD ▶ TNT ▶ USA ▶ Telefutera ▶ Telemundo ▶ Univision 	<ul style="list-style-type: none"> ▶ BRAV ▶ CNBC ▶ FOOD ▶ FX ▶ G4 ▶ MTV2 ▶ SCFI ▶ SPK ▶ TBS ▶ TLC ▶ VH-1 ▶ WE 	<ul style="list-style-type: none"> ▶ A&E ▶ AFAM ▶ AMC ▶ BET ▶ CNN ▶ ESP2 ▶ FNEW ▶ HGTV ▶ NGC ▶ THC ▶ TOON ▶ TVL 	<ul style="list-style-type: none"> ▶ ANPL ▶ CMT ▶ CORT ▶ DSCH ▶ E! ▶ GOLF ▶ GSN ▶ HLN ▶ LMN ▶ MSNB ▶ TDIS ▶ TRAV ▶ TWC 	<ul style="list-style-type: none"> ▶ TBD – Minor Cable Networks 	<ul style="list-style-type: none"> ▶ TBD – Minor Cable Networks
Principal	\$1,567 / Network / Cycle	\$400 / Network / Cycle	\$252 / Network / Cycle	\$178 / Network / Cycle	\$89 / Network / Cycle	\$44 / Network / Cycle	\$30 / Network / Cycle

Note: Cycle = 13 weeks, MPU = 21 months

X 3 Weight by Role

Role	On Camera	Off Camera
Principal	100%	75%
Group 3-5	73%	42%
Group 6-8	65%	37%
Groups >8	54%	30%



Fees for Excessive Use and a Tier 2 – 7 Cap are built into model

Two Alternate Structures Exist for Tiering Networks:
 Option 2) Rebalanced Tiers
 Option 3) Retained Pay-per-play for Tier 1

Adjusting Tiers

The Adjusting Tiers model seeks to simplify existing terms and increase equity across Class A and Cable (1/5)


Key Terms of Proposed Contract Model

Area	From	To
 Class A and Cable	<ul style="list-style-type: none"> ▶ Rate differentials between Cable and Class A ▶ Cap on Cable ▶ Class A pay-per-play ▶ Specific rates for cable only ads 	<p><u>Options A & B- Fully Tiered:</u></p> <ul style="list-style-type: none"> ▶ Class A and Cable networks combined into a single classification system ▶ In the CPM and ratings model, channels tiered based on Household Ratings and CPM ▶ In the Rebalanced model, 11% of Class A compensation is shifted to cable to account for a higher number of average plays on cable ▶ Fees for heavy use will apply to commercials played above pre-specified thresholds for a given cycle ▶ A cap will apply to Tiers 2-7 payments ▶ Cable minimum in place – similar to current contract <p><u>Option C - Tiered with Pay-per-Play:</u></p> <ul style="list-style-type: none"> ▶ Tier 1 networks retain pay-per-play - Tiers 2 – 7 operate as in Fully Tiered Option ▶ Class A pay rates will be lowered to realign Class A and Cable earnings <ul style="list-style-type: none"> – No cap applies to Class A ▶ Remainder of terms same as Adjusting Tiers Options A & B
 Syndication	<ul style="list-style-type: none"> ▶ Current “gentleman’s agreement” - agreed to be treated as Class A, but tracking of Syndication is difficult 	<ul style="list-style-type: none"> ▶ Syndicator allocated to a Tier based on average rating of the Syndicator’s programs
Spanish Language Provisions	<ul style="list-style-type: none"> ▶ Flat payment structures for Spanish language national networks 	<ul style="list-style-type: none"> ▶ Spanish language networks will be placed into the national tiered structure along with English networks based on the same audience metrics ▶ Spanish networks may be placed into a lower tier to preserve competitive talent costs ▶ Other Spanish terms remain unchanged (wild spot, etc.)

The Adjusting Tiers model (2/5)

Key Terms of Proposed Contract Model

Area	From	To
Class B & C	<ul style="list-style-type: none"> Rarely used usage types 	<ul style="list-style-type: none"> Treated either as wild spot or Class A usage, depending on number of cities
Wild Spot	<ul style="list-style-type: none"> Flat pre-payment for unlimited use per-DMA 	<ul style="list-style-type: none"> No fundamental change to payment structure Session and holding fees no longer credit – rates adjusted for revenue neutrality
Dealer	<ul style="list-style-type: none"> Two different Dealer types, each with provisions for use in and not in New York City 	<ul style="list-style-type: none"> Combine the two Dealer types into a single Dealer type with no differential for use in New York City, paid at flat rate
Session Fees	<ul style="list-style-type: none"> Apply towards usage 	<ul style="list-style-type: none"> Treated as payment for time worked and no longer apply to usage
Holding Fees	<ul style="list-style-type: none"> Holding fee required to maintain exclusivity and right to use commercial Credited against use 	<ul style="list-style-type: none"> No longer credited against use Use rates adjusted to keep compensation neutral
Earnings per Role	<ul style="list-style-type: none"> Different rates by role for different usage types 	<ul style="list-style-type: none"> Normalized rates by role for different types of usage Set as a percentage of principal on-camera rates
Internet / New Media (Audio & Video)	<ul style="list-style-type: none"> Free bargaining with made-fors Single rate for move-overs does not differentiate for exposure 	<ul style="list-style-type: none"> Internet will be compensated based on one of three models – tiers based on total impressions, site-based or flat payment New media (e.g. mobile, gaming, etc) will be divided into four categories – rights can be bought per category per cycle for a flat fee Same 13-week cycle time as TV Move from internet to TV will be compensated at standard use rates Made for internet ads treated the same as move-overs – same session rates as for TV

 **Key updates since last steering committee**

The Adjusting Tiers model (3/5)


Key Terms of Proposed Contract Model

Area	From	To
Edits (Video)	<ul style="list-style-type: none"> ▶ Each edit constitutes a new commercial, incurring separate session, holding and usage fees, with some exceptions 	<ul style="list-style-type: none"> ▶ Modified pricing system for edits which considers the extent to which the ad is edited in determining compensation due to the performer
Validation	<ul style="list-style-type: none"> ▶ Pay-per-play for Class A is difficult to track; agency reports use for payment 	<ul style="list-style-type: none"> ▶ Class A and Cable must be tracked if heavy use clause in place ▶ Validation for internet and new media require standard metrics but tiers eliminate need for precision
MPU	<ul style="list-style-type: none"> ▶ For first 21 months of use the advertiser may pay contract rates; afterwards must bargain with performer for additional use ▶ For cable only ads, 1 year is the MPU; afterwards must bargain with performer for additional use 	<ul style="list-style-type: none"> ▶ MPU of 21 months for all TV ads, including cable only ads
Cycle Length	<ul style="list-style-type: none"> ▶ 13-week cycle length for TV ▶ 1 year cycle for internet 	<ul style="list-style-type: none"> ▶ 13-week cycle length for TV will remain the same ▶ Cycle length options for radio will also remain unchanged ▶ Internet will transition to a 13 week cycle
Exclusivity	<ul style="list-style-type: none"> ▶ Exclusivity paid as a multiple of session fee dependent on the number of noncompetitive products or services to which the advertiser wishes to hold the talent exclusive 	<ul style="list-style-type: none"> ▶ No change
Tags	<ul style="list-style-type: none"> ▶ Creation of multiple introduction or ending changes for commercials without changing body of commercial 	<ul style="list-style-type: none"> ▶ No Change

The Adjusting Tiers model (4/5)

Key Terms of Proposed Contract Model


Area	From	To
Scope of contract	<ul style="list-style-type: none"> ▶ Contract covers production of commercials in the US and its territories ▶ Contractual use fees apply in the US, Canada and Mexico ▶ Signatories are not to produce outside the US to avoid talent costs 	<ul style="list-style-type: none"> ▶ No change ▶ However, might consider treating Mexico as part of Latin America and pay under foreign provisions ▶ No data available to assess impact
Overscale payments	<ul style="list-style-type: none"> ▶ Overscale payments are not credited against use unless specifically agreed upon by the performer 	<ul style="list-style-type: none"> ▶ No change
Program openings and closings	<ul style="list-style-type: none"> ▶ Opening and closings associated with a program which are an endorsement of an advertiser's product are considered a commercial for use and holding ▶ Each program with which the opening and closing is associated results in the creation of a new commercial 	<ul style="list-style-type: none"> ▶ No change except use payment based on tiers
Signatures off camera	<ul style="list-style-type: none"> ▶ Musical signatures are paid for a 13 week cycle ▶ Each additional 13 week cycle paid at the same flat rate 	<ul style="list-style-type: none"> ▶ Payment for signatures will be at applicable TV or internet use rates

 **Key updates since last steering committee**

The Adjusting Tiers model (5/5)

Key Terms of Proposed Contract Model

Area	From	To
Seasonal use	<ul style="list-style-type: none"> ▶ May be used for one 13 week cycle plus two weeks to qualify as a seasonal commercial ▶ May be used for two consecutive seasons, performer paid holding fee that cannot be credited for cycles in between seasons ▶ Exclusivity does not apply 	<ul style="list-style-type: none"> ▶ No change except use payment based on tiers
Foreign use	<ul style="list-style-type: none"> ▶ Payment based on a multiple of session fee depending on countries, at least: <ul style="list-style-type: none"> –3 session fees for the UK –2 session fees for Europe –1 session fee for all other countries 	<ul style="list-style-type: none"> ▶ No change ▶ Potential to create a bundle of English language speaking countries similar to bundle of Spanish speaking countries offered in Spanish Language provision
Theatrical/industrial	<ul style="list-style-type: none"> ▶ Talent used in theatrical or industrial outlets are paid a session fee for 30 days of use, 0.6 session fees is due for use beyond the 30th day ▶ Use of a commercial on a video cassette or like format provided to the public will be paid 3.2 session fees 	<ul style="list-style-type: none"> ▶ Change period of use to 13 weeks for one session fee ▶ Outdoor video billboards treated under new media provisions

 **Key updates since last steering committee**

Based on the need for compensation in line with exposure, we developed a model which shifts pay from network to cable

Model	Rationale for Approach	Economic Impacts
<div data-bbox="113 451 415 641" style="background-color: #006666; color: white; padding: 10px; text-align: center;"> Rebalanced Tiers Model </div>	<ul style="list-style-type: none"> ▶ Talent compensation for cable TV is not commensurate with the value generated for advertisers ▶ Proposed model rebalances cable and network earnings to bring proportion of earnings in line with media spend for cable and network ▶ The model: <ul style="list-style-type: none"> – Reallocates compensation allotting a greater proportion to cable TV – Eliminates cable pay based on subscribers, which does not link to exposure or value – Eliminates pay per play in Class A, for consistency and simplicity – Tiers Spanish language national networks and syndicators 	<ul style="list-style-type: none"> ▶ Increases cable compensation by 11%, while decreasing network by 10% ▶ Syndication earnings decrease by 18% due to move from pay per play to tiers ▶ Average compensation per role increases for majority of roles ▶ Distribution of earnings is more tightly distributed around average of \$19K for one year of use <ul style="list-style-type: none"> – Fewer roles earn <\$5K – Roles earning > \$25K are rare ▶ Advertisers using cable advertising heavily will see an increase in costs while those using network heavily will see a decrease

See section 2 of Appendices document for detailed analysis

We also developed and assessed two other tiered options

Model	Rationale for Approach	Economic Impacts
<p>CPMs and Ratings</p>	<ul style="list-style-type: none"> ▶ Values national TV channels using proxies for reach and quality of audience ▶ The model: <ul style="list-style-type: none"> – Eliminates cable pay based on subscribers which does not link to exposure or value – Eliminates pay per play in Class A for consistency and simplicity – Tiers Spanish language national networks and syndicators 	<ul style="list-style-type: none"> ▶ Increases Class A compensation by 36%, while decreasing cable by 20% ▶ Syndication earnings decreased by 61% due to move from pay per play to tiers ▶ Average compensation per role increases for the majority of roles ▶ Distribution of earnings is more tightly distributed around average of \$19K for one year of use <ul style="list-style-type: none"> – Fewer roles earn <\$5K – Roles earning > \$25K are rare ▶ Advertisers using cable advertising heavily will see a decrease in costs while those using network heavily will see an increase
<p>Hybrid with Pay per Play</p>	<ul style="list-style-type: none"> ▶ Similar to rebalanced tiers but preserves pay per play for network TV ▶ Reduces compensation per play to allocate more pay to cable ▶ Eliminates cable pay based on subscribers which does not link to exposure or value ▶ Tiers Spanish language national networks and syndicators ▶ Introduced to address talent concern with elimination of pay per play 	<ul style="list-style-type: none"> ▶ Increases cable compensation by ~11%, while decreasing network by ~11% ▶ Syndication earnings decreased by 11% - remains pay per play ▶ Average compensation per role increases for many roles ▶ Distribution of earnings is similar to baseline scenario ▶ Shift between talent earnings brackets is minimal

While the tiered model increases transparency, the heavy use clause creates significant monitoring challenges

Overview of Adjusting Tiers Benefits and Challenges Specific to Option 2: Rebalanced Tiers

Target Objective	Pros	Cons	Trade Offs
Linked to advertiser ROI	<ul style="list-style-type: none"> Tiers established based on viewers and CPMs, proxies for advertiser value Rebalances Class A and cable to compensate for higher number of plays in cable 	<ul style="list-style-type: none"> Advertisers pay for channel for 13 weeks regardless of actual use 	<ul style="list-style-type: none"> Advertisers may sometimes overpay for a channel in exchange for a simpler payment model
Fairly compensates talent	<ul style="list-style-type: none"> Links compensation to anticipated exposure by tiering based on viewers Rebalances Class A and cable compensation in step with viewership 	<ul style="list-style-type: none"> Results in a decrease to Class A compensation to offset increase in cable 	<ul style="list-style-type: none"> Rebalancing of Class A, eliminating pay per play to gain greater simplicity and balance with exposure
Easy to monitor and verify	<ul style="list-style-type: none"> Talent is able to verify where ads should run based on channels purchased 	<ul style="list-style-type: none"> Introduction of heavy use clause makes monitoring burdensome 	<ul style="list-style-type: none"> Heavy use provisions create significant work in exchange for talent protection against exposure
Reduces complexity	<ul style="list-style-type: none"> Tiered structure is simple to understand Eliminates pay per play in Class A 	<ul style="list-style-type: none"> Heavy use clause creates significant complexity 	<ul style="list-style-type: none"> Heavy use provisions create significant work in exchange for talent protection against exposure
Improves predictability	<ul style="list-style-type: none"> More predictable than current pay per play for both talent and advertisers 	<ul style="list-style-type: none"> Unpredictability will persist as advertisers frequently change use of the ad 	<ul style="list-style-type: none"> Eyeball-based measures would be more precise but less predictable
Administratively feasible	<ul style="list-style-type: none"> Builds on familiar constructs which would make transition easier 	<ul style="list-style-type: none"> Heavy use clause is likely infeasible - requires tracking of plays in cable 	<ul style="list-style-type: none"> Heavy use provisions create significant work in exchange for talent protection against high exposure

Under rebalanced tiers, payments for heavy Class A ads will decrease, while heavy cable use will cost advertisers more

Generalized Implications Specific to Option 2: Rebalanced Tiers

	Industry	Talent
Segments which benefit	<ul style="list-style-type: none"> ▶ Advertisers running ads heavily on a limited number of channels ▶ Advertisers using Class A heavily - those with above average use will pay at the average under the tiered model 	<ul style="list-style-type: none"> ▶ Performers who make <ul style="list-style-type: none"> – Low-use Class A ads – Higher rated / more valuable cable ads - networks currently undervalued with today's subscriber-based units
Segments negatively impacted	<ul style="list-style-type: none"> ▶ Advertisers running ads infrequently on a high number of channels ▶ Small to mid-sized advertisers who only run their ads a limited number of times on national networks 	<ul style="list-style-type: none"> ▶ Performers who make <ul style="list-style-type: none"> – Heavy use Class A ads (above average) – Ads run on low rated cable networks - networks currently overvalued with today's subscriber-based units

The adjusting tiers model may present verification issues, particularly if heavy use clause is retained

Adjusting Tiers Verification Issues

Verification Need

- ▶ Reporting of channels on which the ad is run

-
- ▶ Reporting of plays in cases of heavy use

Verification Requirements and Rationale

- ▶ For talent to understand payments, they must be informed of the channels on which the ad was run
- ▶ Requires talent payment staff at agencies to compile and report channels used
- ▶ This is a new work step that is not required by the current compensation model

- ▶ If heavy use clause is retained, it will require agencies to report number of uses from post analysis reports
- ▶ This is a new work step that is not required by the current compensation model
- ▶ May represent a significant amount of additional work

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Philosophy of GRP model

GRP Philosophy

- ▶ Eliminate TV silos by establishing a uniform TV metric across types
- ▶ Establish a common metric which aligns how talent and advertisers think about measuring value and exposure
- ▶ Address actors' need for compensation based on exposure - exposure is the volume and frequency of people seeing a performer in an ad – with potential for impact on employability
- ▶ Address advertisers' desire for compensation based on ROI – larger audiences reached equates to greater value created and higher talent compensation

The GRP model determines residual compensation based on the commercial's GRP

Talent Compensation =

1 Session and Other Fixed Fees +

Session Fees*	Per Session, TV	\$567
Tags / Versions	2 – 25	\$158
	26 - 50	\$88
	51+	\$48
Holding Fees	Per cycle	\$567

* To be treated as a payment for services rendered
 Methodology: Based on current contract fees

2 \$ per GRP

GRP Level	\$ per GRP	Total Cost of Tier
1st GRP	\$100	\$100
2nd GRP	\$100	\$100
3-140	\$21	\$2,898
141-280	\$11	\$1,529
281-560	\$11	\$3,069
560+	\$4	-

X **4** GRP

TV Media GRP	200
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X

3 Role Weight

Role	%
Principal on camera	100%
Groups 3-5 on camera	73%
Groups 6-8 on camera	65%
Groups > 9 on camera	54%

The GRP Model eliminates silos across TV (1/5)

Key Terms of Proposed Contract Model



Area	From	To
Class A and Cable	<ul style="list-style-type: none"> ▶ Rate differentials between Cable and Class A ▶ Cap on Cable ▶ Class A pay-per-play ▶ Specific rates for cable only ads 	<ul style="list-style-type: none"> ▶ Silos eliminated -- earnings based on number of GRPs regardless of network, cable or syndicated use ▶ For channels where GRPs are not calculated, a tiered structure will be used ▶ Talent payment would track closely with both exposure and value delivered ▶ Limits challenges of tracking uses related to make-goods and spins
Syndication	<ul style="list-style-type: none"> ▶ Current “gentleman’s agreement” - agreed to be treated as Class A, but tracking of Syndication is difficult 	
Spanish Language Provisions	<ul style="list-style-type: none"> ▶ Flat payment structures for Spanish language national networks 	
Class B&C	<ul style="list-style-type: none"> ▶ Flat rate payments per cycle 	
Wild Spot	<ul style="list-style-type: none"> ▶ Flat pre-payment for unlimited use on a per-DMA basis 	
		<ul style="list-style-type: none"> ▶ No fundamental change to payment structure ▶ Session and holding fees no longer apply towards Wild Spot use – rates adjusted for revenue neutrality




Key updates since last steering committee

GRP model (2/5)

Key Terms of Proposed Contract Model

Area	From	To
Dealer	<ul style="list-style-type: none"> ▶ Two different Dealer types, each with provisions for use in and not in New York City 	<ul style="list-style-type: none"> ▶ Combine the two Dealer types into a single Dealer type with no differential for use in New York City, paid at flat rate
Session Fees	<ul style="list-style-type: none"> ▶ Apply towards usage 	<ul style="list-style-type: none"> ▶ Treated as payment for time worked and no longer apply to usage
 Holding Fees	<ul style="list-style-type: none"> ▶ Holding fee required to maintain exclusivity and right to use commercial ▶ Credited towards use 	<ul style="list-style-type: none"> ▶ No longer credited against use ▶ Use rates adjusted to keep compensation neutral as a result of this change
Earnings per Role	<ul style="list-style-type: none"> ▶ Different rates by role for different usage types 	<ul style="list-style-type: none"> ▶ Normalized rates by role for different types of usage ▶ Set as a percentage of principal on-camera rates
 Internet / New Media (Audio & Video)	<ul style="list-style-type: none"> ▶ Free bargaining difficult with made-fors ▶ Single rate for move-overs does not differentiate for exposure 	<ul style="list-style-type: none"> ▶ Internet will be compensated based on one of three models – tiers based on total impressions, site-based or flat payment ▶ New media (e.g. mobile, gaming, etc) will be divided into four categories – rights can be bought per category per cycle for a flat fee ▶ Same 13-week cycle time as TV ▶ Move from internet to TV will be compensated at standard use rates ▶ Made for internet ads treated the same as move-overs – same session rates as for TV

 **Key updates since last steering committee**

GRP model (3/5)

Key Terms of Proposed Contract Model

Area	From	To
Edits (Video)	<ul style="list-style-type: none"> ▶ Each edit constitutes a new commercial, incurring separate session, holding and usage fees 	<ul style="list-style-type: none"> ▶ Edits paid based on GRPs associated with the plays of the ad
Validation	<ul style="list-style-type: none"> ▶ Pay-per-play for Class A is difficult to track; agency reports use for payment 	<ul style="list-style-type: none"> ▶ Validation will require tracking and aggregation ▶ Validation for internet and new media require standard metrics but tiers eliminate need for precision
MPU	<ul style="list-style-type: none"> ▶ For first 21 months of use the advertiser may pay contract rates; afterwards must bargain with performer for additional use ▶ For cable only ads, 1 year is the MPU; afterwards must bargain with performer for additional use 	<ul style="list-style-type: none"> ▶ MPU of 21 months for all TV ads, including cable only ads
Cycle Length	<ul style="list-style-type: none"> ▶ 13-week cycle length for TV ▶ 1 year cycle for internet 	<ul style="list-style-type: none"> ▶ 13-week cycle length for TV will remain the same ▶ Cycle length options for radio will also remain unchanged ▶ Internet will transition to a 13 week cycle
Exclusivity	<ul style="list-style-type: none"> ▶ Exclusivity paid as a multiple of session fee dependent on the number of noncompetitive products or services to which the performer is held exclusive 	<ul style="list-style-type: none"> ▶ No Change
Tags	<ul style="list-style-type: none"> ▶ Creation of multiple introduction or ending changes for commercials without changing body of commercial 	<ul style="list-style-type: none"> ▶ No Change




Key updates since last steering committee

GRP model (4/5)

Key Terms of Proposed Contract Model


Area	From	To
Scope of contract	<ul style="list-style-type: none"> ▶ Contract covers production of commercials in the US and its territories ▶ Contractual use fees apply in the US, Canada and Mexico ▶ Signatories are not to produce outside the US to avoid talent costs 	<ul style="list-style-type: none"> ▶ No change ▶ However, might consider treating Mexico as part of Latin America and pay under foreign provisions ▶ No data available to assess impact
Overscale payments	<ul style="list-style-type: none"> ▶ Overscale payments are not credited against use unless specifically agreed upon by the performer 	<ul style="list-style-type: none"> ▶ No change
Program openings and closings	<ul style="list-style-type: none"> ▶ Opening and closings associated with a program which are an endorsement of an advertiser's product are considered a commercial for use and holding ▶ Each program with which the opening and closing is associated results in the creation of a new commercial 	<ul style="list-style-type: none"> ▶ No change
Signatures off camera	<ul style="list-style-type: none"> ▶ Musical signatures are paid for a 13 week cycle ▶ Each additional 13 week cycle paid at the same flat rate 	<ul style="list-style-type: none"> ▶ Payment for signatures should be at applicable TV or internet use rates

 **Key updates since last steering committee**


GRP model (5/5)

Key Terms of Proposed Contract Model

Area	From	To
Seasonal use	<ul style="list-style-type: none"> ▶ May be used for one 13 week cycle plus two weeks to qualify as a seasonal commercial ▶ May be used for two consecutive seasons, performer paid holding fee that cannot be credited for cycles in between seasons ▶ Exclusivity does not apply 	<ul style="list-style-type: none"> ▶ No change except use payment based on GRP
Foreign use	<ul style="list-style-type: none"> ▶ Payment based on a multiple session fee depending on countries, at least: <ul style="list-style-type: none"> –3X session fees for the UK –2X session fees for Europe –1X session fee for all other countries 	<ul style="list-style-type: none"> ▶ No change
Theatrical/industrial	<ul style="list-style-type: none"> ▶ Talent used in theatrical or industrial outlets are paid a session fee for 30 days of use, 0.6 a session fee is due for use beyond the 30th day ▶ Use of a commercial on a video cassette or like format provided to the public will be paid 3.2 session fees 	<ul style="list-style-type: none"> ▶ Change period of use to 13 weeks for one session fee ▶ Outdoor video billboards treated under new media provisions

 **Key updates since last steering committee**

The GRP model tracks closely with exposure and advertiser ROI

Model	Rationale	Economic Impacts
	<ul style="list-style-type: none"> ▶ Links talent compensation to number of eyeballs ▶ Tracks closely both with advertiser value and exposure of performers ▶ Aligns talent payment to the standard industry metric ▶ Eliminates silos by using the same metric across TV types 	<ul style="list-style-type: none"> ▶ Decreases Class A compensation by 26% while increasing cable by 29% ▶ Decreases syndication by 57% as it has a relatively low number of GRPs ▶ Average change in compensation by role is low with average principal on and off camera increasing slightly ▶ % of earnings in the highest bracket of earnings (\$25K and over) increase relative to the baseline, as do earnings in the < \$5K bracket ▶ This is due to the fact that there is no minimum or cap on the GRP model ▶ High cable commercials tend to earn more under the GRP model while high network earn less

See section 2 of Appendices document for detailed analysis

However, it does present verification and administrative challenges

Overview of GRP Benefits and Challenges

Area	Pros	Cons	Trade Offs
Linked to advertiser ROI	<ul style="list-style-type: none"> Aligns talent payment with standard measure of value for advertisers – creates very strong link to ROI 	<ul style="list-style-type: none"> High GRP advertisers could pay higher talent fees If using estimates, advertisers pay even in the case of under delivery 	<ul style="list-style-type: none"> Requires industry to aggregate and report GRP data
Fairly compensates	<ul style="list-style-type: none"> Compensation linked to number of viewers across all types of TV 	<ul style="list-style-type: none"> Does not address frequency of play (single network or across networks) unless heavy use clause used With estimates, talent not compensated for over-delivery 	<ul style="list-style-type: none"> Does not link payment to number of plays but links actual number of viewers more closely
Easy to monitor and verify	<ul style="list-style-type: none"> Uses existing measures commonly used in the TV industry today 	<ul style="list-style-type: none"> Talent cannot easily verify their ads under this model – will not know what channels are included in a GRP buy 	<ul style="list-style-type: none"> Advertisers could provide list of channels on the media buy to allow for greater verifiability Would result in some additional administrative work
Reduces complexity	<ul style="list-style-type: none"> Creates a common metric across TV silos Eliminates accounting for make goods 	<ul style="list-style-type: none"> Requires advertisers to aggregate data across multiple media buys for a single commercial 	<ul style="list-style-type: none"> Using estimated GRPs means that talent will not be compensated in cases of over-delivery However, use of actuals could delay payment and be administratively burdensome
Improves predictability	<ul style="list-style-type: none"> For advertisers, predictability would be significantly improved 	<ul style="list-style-type: none"> Talent payment will depend on media buys – predictability is limited 	<ul style="list-style-type: none"> Use of estimates instead of actuals improves predictability and speed of payment
Administratively feasible	<ul style="list-style-type: none"> Uses information that advertisers and agencies already use 	<ul style="list-style-type: none"> Will require aggregation of multiple media buys – this could be burdensome at least in the transition period 	<ul style="list-style-type: none"> Using estimated GRPs means that talent will not be compensated in cases of over-delivery However, use of actuals could delay payment and be administratively burdensome

Impacts of the GRP model on both industry and talent are highly dependent upon a combination of ratings and use

Generalized Implications

	Industry	Talent
<i>Segments that Benefit</i>	<ul style="list-style-type: none"> ▶ Advertisers who advertise heavily during low-rated programs ▶ Smaller advertisers buying limited numbers of GRPs ▶ Advertisers using channels with consistent over-delivery (assuming estimates used) 	<ul style="list-style-type: none"> ▶ Talent on highly rated commercials (e.g., Super Bowl) that may have limited runs ▶ Talent with a high number of ads being used on higher rated cable channels ▶ Talent on networks / channels which consistently under-deliver on GRPs (assuming estimates used)
<i>Segments that Negatively Impacted</i>	<ul style="list-style-type: none"> ▶ Advertisers using media plans with high GRPs for an average number of uses ▶ Advertisers using channels which consistently under-deliver (assuming estimates used) 	<ul style="list-style-type: none"> ▶ Talent on extremely high run, low rated channels or networks ▶ Talent shown on channels which consistently over-deliver on GRPs (assuming estimates used)

The GRP model will require a significant redesign of the verification process

GRP Verification Issues

Verification Need

- ▶ Reporting of number of GRPs associated with ad runs

Verification Requirements and Rationale

- ▶ Requires agency staff to consolidate and report on GRPs by commercial and provide this information to talent payment staff
- ▶ This is a new work step that is not required by the current compensation model
- ▶ Will require re-engineering flow of information to talent payment staff and payroll companies
- ▶ May prove difficult when media buy is made for a group of commercials, not an individual commercial

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Radio

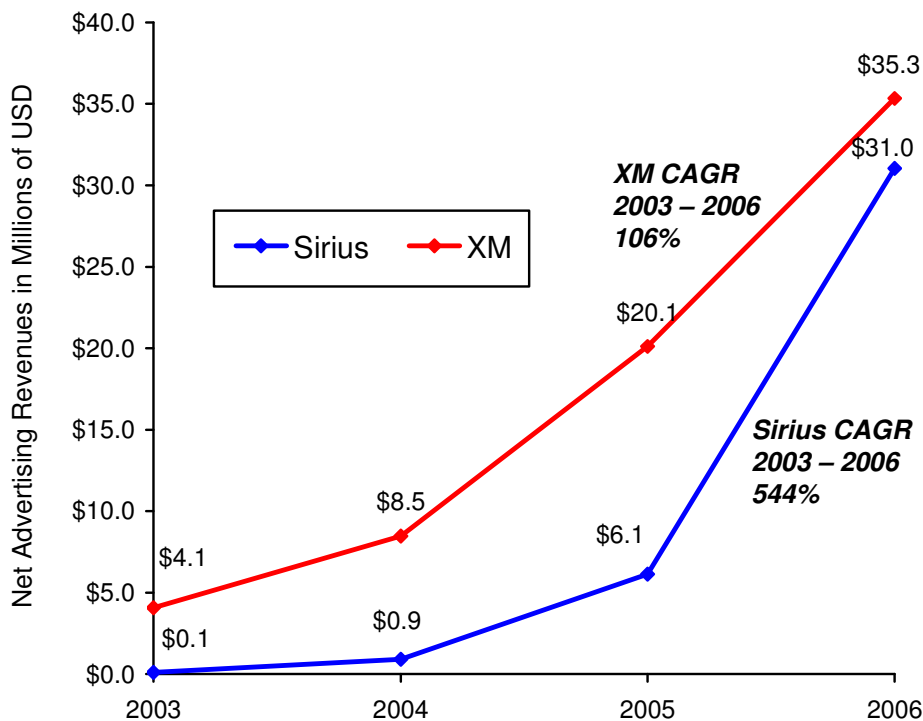
We concluded that compensation for radio is generally acceptable as it is today, with the exception of internet compensation

Perspectives on the Radio Talent Compensation

Category	Industry Views (n=5)	Talent Views (n=8)
Internet/New Media	<ul style="list-style-type: none"> ▶ Felt internet move over rate is too high, especially for Regional/Local advertisers (2/4) ▶ Limited experience with made-for internet/new media (5/5) 	<ul style="list-style-type: none"> ▶ Thinks compensation for internet is too low (4/8) ▶ Limited experience with made-for internet/new media (7/7)
Editing	<ul style="list-style-type: none"> ▶ Stated that editing provisions are overly restrictive (2/5) ▶ Felt editing provisions are restrictive but fair (3/5) 	<ul style="list-style-type: none"> ▶ Felt editing provisions were restrictive but needed because it is easy to make edits to audio (5/5)
Compensation	<ul style="list-style-type: none"> ▶ Minimal issues identified for terrestrial radio (5/5) ▶ Disagree with “L.A. Scale” on principle (2/5) 	<ul style="list-style-type: none"> ▶ Minimal issues identified for terrestrial radio (6/7) ▶ Felt that radio overall is undervalued (1/8) ▶ Felt that session fees are too low (1/8)
Complexity	<ul style="list-style-type: none"> ▶ Found the contract easier to apply than the TV contract (5/5) ▶ Did not feel that the contract is complex (5/5) 	<ul style="list-style-type: none"> ▶ Found the contract easier to apply than the TV contract (8/8) ▶ Did not feel that the contract is complex (8/8)
Exposure	<ul style="list-style-type: none"> ▶ No issues with exposure on radio (5/5) 	<ul style="list-style-type: none"> ▶ No concerns regarding exposure (7/7)
Cycle length	<ul style="list-style-type: none"> ▶ For limited campaigns (e.g., a promotion), a shorter cycle might help (3/3) 	<ul style="list-style-type: none"> ▶ Open to shortening cycle length in certain cases (4/5)

Analysis shows that new radio formats are growing but still lag behind terrestrial radio in monetizing listeners through ad sales

US Satellite Radio Advertising Revenue 2003-2006



Approximate Ad Revenue Per Listener Traditional and New Radio Channels

DIRECTIONAL

Format	US Ad Spend 2006	Listeners	Revenue per Listener
Terrestrial Radio	\$20,384MM ¹	232MM ²	\$87.86
Satellite Radio	\$66.3MM ³	17MM ⁴	\$3.92
Audio Podcast	\$80MM ⁵	6MM ⁶	\$13.28
Internet Radio	\$50MM ⁷	29MM ⁸	\$1.72

(1) E-Marketer Radio Trends On Air and Online August 2007 (2) Arbitron RADAR 93 June 2007 Radio Listening Estimates
 (3) Net ad sales from SEC 10-K Filings 2003-2006, XM Radio and Sirius Radio (4) Arbitron National Satellite Report Spring 2007 – weekly cume listeners – XM and Sirius radio
 (5) E-Marketer Podcast Advertising report February 2007 (6) Pew Internet and American Life Project data
 (7) Interview with Eric Ronning of Ronning Lipset Radio 8/8/07 (8) Arbitron Radio Listening Report 2007, online radio audience estimates, pg. 5

The current cost of internet move-overs has contributed to limited use of online radio ads - we recommend that cost be reduced

Current Compensation for Online Radio Ads

- ▶ Compensation for move-overs from terrestrial radio:
 - 3X session fee for one year
 - 1X session fee for 8 weeks (temporary agreement)
- ▶ “Made-fors” are freely bargained
- ▶ Extension term and unlimited editing rights are freely bargained
- ▶ Move from internet to new media or vice versa costs 3X session fee, if not agreed upon in bargaining
- ▶ No tracking structure is in place - payments are for unlimited use

Proposed Compensation for Online and New Media Audio Ads

- ▶ Free bargaining will be eliminated
- ▶ Made for internet and move-overs will be treated the same
- ▶ Flat price for online formats equal to a half session fee for a 13 week period
- ▶ For new media formats such as video games or podcasts, a flat rate per type of new media outlet will be paid to talent
- ▶ As internet and new media audiences grow, these rates should be reevaluated

We recommend that advertising on satellite radio be treated as local program use

Satellite Radio Overview

XM Satellite Radio	
Subscribers	8.6MM
# of stations	170
# of commercial-free channels	69
# of channels with commercials	101

Sirius Satellite Radio	
Subscribers	6.0MM
# of stations	130
# of commercial-free channels	69
# of channels with commercials	61

Discussion
<ul style="list-style-type: none"> ▶ Recently released ratings of satellite radio show low weekly listener cumes, e.g., <ul style="list-style-type: none"> – XM Radio average weekly cume by station – 61K listeners – Sirius Radio average weekly cume by station – 51K listeners – ABC Daytime Direction Network weekly cume - 6.4MM listeners ▶ As satellite radio grows, this classification should be re-evaluated, for example, <ul style="list-style-type: none"> – If currently proposed XM/Sirius merger is approved – If Arbitron ratings show a significant increase in satellite listening

Source: XM radio website, Sirius radio website, Yahoo Company profiles, Motley Fool "Satellite Radio Merger: Don't Fail XM Now: October 25, 2007, <http://www.fool.com/investing/high-growth/2007/10/25/satellite-radio-merger-dont-fail-xm-now.aspx>, Arbitron National Satellite Report Spring 2007, BAH analysis

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Fast-evolving internet and new media are key areas around which we propose building more structure

Current Compensation for Internet and New Media

- ▶ Compensation for move-overs from TV and radio:
 - 3X session fee for one year
 - 1X session fee for 8 weeks (temporary agreement)
- ▶ “Made-fors” are freely bargained
- ▶ Extension term and unlimited editing rights are freely bargained
- ▶ Move from internet to new media or vice versa costs 3X session fee, if not agreed upon in bargaining
- ▶ No tracking structure is in place - payments are for unlimited use

Quotes on Internet and New Media

Industry

- ▶ *“Internet rates shut out the little guys”*
- ▶ *“Casting directors don’t have time to negotiate each time they do an internet made for”*
- ▶ *“Advertisers don’t think they should have to pay to put their own ad on their website”*

Talent

- ▶ *“We have no bargaining leverage – it’s take it or leave it”*
- ▶ *“I have no idea what exposure I’ll get online – it can be huge”*

Our recommendations better link compensation in these areas to value and exposure

Internet and New Media Philosophy

- ▶ Free bargaining should be eliminated and made-fors and move-overs should be treated equally under the new provisions
- ▶ Internet cycle length should be changed to 13 weeks to match the TV cycle length
- ▶ Exclusivity will not apply for internet or new media
- ▶ Three different models for internet are proposed – a flat rate model, a site-based model and an impression-based model
- ▶ For new media, we propose payment of a flat price for each type of new media as an interim solution given measurement and monitoring challenges
- ▶ These recommendations are intended to provide advertisers greater flexibility to control costs - we anticipate an increase of internet advertising under union contracts
- ▶ To account for the fact that internet and new media advertising is changing rapidly, we propose a clause similar to that found in the AFM contract¹ which allows parties to call meetings if provisions are found no longer to be relevant in a changed media environment

(1) American Federation of Musicians of the United States and Canada - Television and Radio Commercial Announcements Agreement October 17, 2004 – October 16, 2007, Article XI – Internet Commercial Announcements – subsection 1, page 33

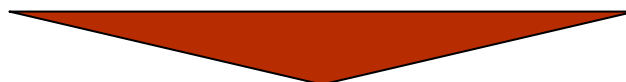
Our proposed models treat ads made for the internet and ads moved over to the internet the same

Internet or New Media “Move-Over” Ads

- ▶ Performers paid a session fee to make the ad
- ▶ Talent paid applicable use when ad used on TV
- ▶ Ad is also re-formatted for use on the internet or in new media
- ▶ Talent paid additional use payments for the internet depending on how the ad is used online

Made-For Internet or New Media Ads

- ▶ Performers paid a session fee to shoot the ad – same session rate as a TV session fee
- ▶ Ad is used on the internet or in new media
- ▶ Talent paid use payments depending on how the ad is used online



- ▶ Performers paid a session fee equal to a TV session fee despite lower production costs for made-for internet ads
- ▶ Resulting payments combines a relatively expensive session payment with relatively low use payments
- ▶ This will make use of union talent more feasible in made-for internet ads while still compensating talent for time and exposure

For use payment for internet ads, we are proposing three different approaches

1

Flat Rate

- ▶ Ads can be shown online anywhere
- ▶ No tracking required – pre-payment per cycle is for unlimited use

2

Site-Based

- ▶ Links payment to type of use - talent is more expensive for widely distributed ads
- ▶ Allows advertisers to control cost by providing greater flexibility
- ▶ Limits risk of click fraud
- ▶ Limits need for tracking relative to impression-based model
- ▶ Relatively easy for talent to verify
- ▶ Affordable for small advertisers

3

Impression-Based

- ▶ Links payment to type of use - talent is more expensive for heavily used ads
- ▶ Pays a flat price for a range of impressions
- ▶ Tiers assessed annually to verify range of impressions and pricing per tier
- ▶ Affordable for small advertisers

Tier	Use – Sessions for a 13 weeks
------	-------------------------------

Video

Video – Unrestricted Use	1.0
--------------------------	-----

Audio

Streamed Audio (any outlet)	0.5
-----------------------------	-----

(1) Top 5 US websites are currently Google, Yahoo!, Myspace, YouTube and Facebook based on Alexa web traffic data

Category	Use – Sessions for a 13 weeks
----------	-------------------------------

Video

Advertiser’s website	0.25
Traffic drivers used on advertiser’s website	0.25
Each top 5 site ¹	0.25
1-10 3 rd Party sites (outside top 5)	0.25
> 10 3 rd party sites (outside top 5)	0.125
Syndicated ad network	0.50
Unlimited	1.5

Audio

Streamed Audio (any outlet)	0.5
-----------------------------	-----

Tier	Impressions	Use – Sessions for a 13 weeks
------	-------------	-------------------------------

Video

1	Over 10MM	1.5
2	Up to 10MM	1.0
3	Up to 5MM	0.75
4	Up to 2.5MM	0.5
5	Up to 100K	0.25

Audio

Streamed Audio (any outlet)	All	0.5
-----------------------------	-----	-----

For new media, we propose creating five different buckets each paid at a flat rate

New Media Categories

Mobile Video

- ▶ Video ads on podcast, mobile phones or PDAs

Out of Home Video

- ▶ Outdoor video advertising e.g. taxi video screens

In-Game & Virtual Worlds

- ▶ Ads embedded in games or virtual worlds

Digital Audio Formats

- ▶ Audio ads associated with podcasts or other audio formats

All Other Formats

- ▶ All other emerging new media outlets

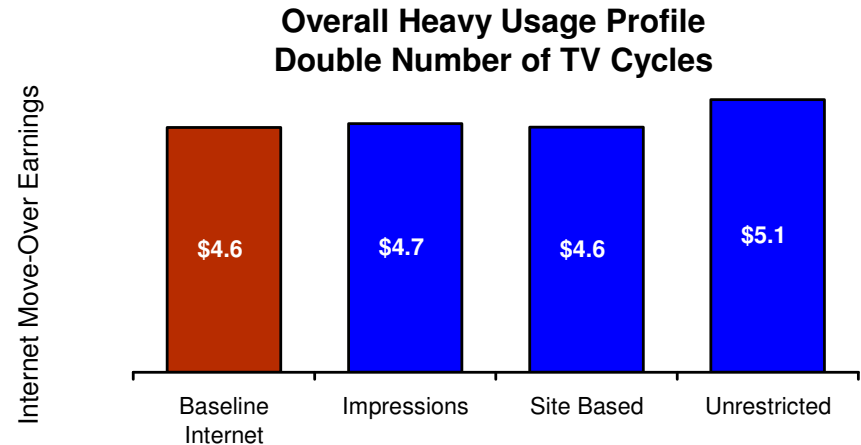
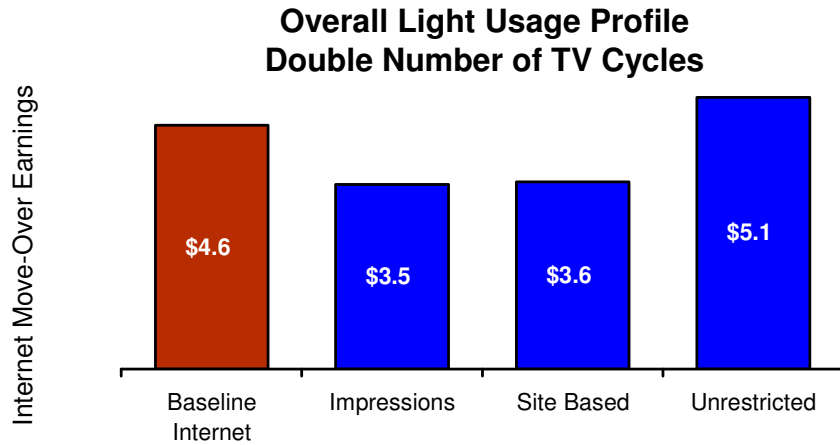
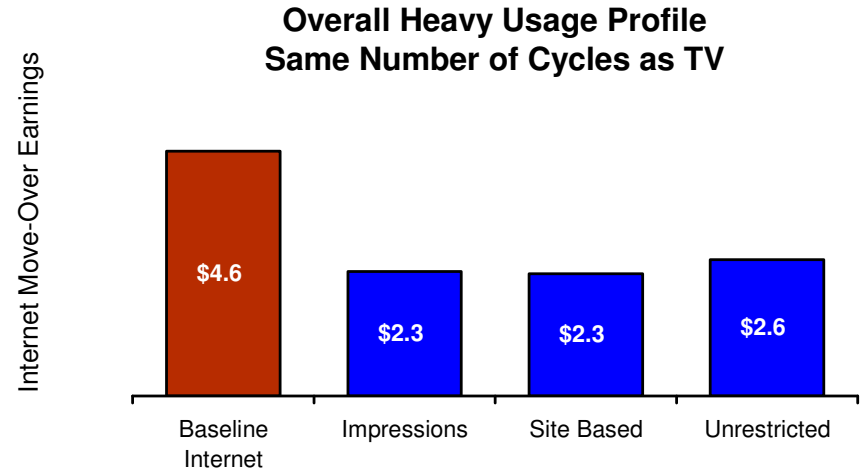
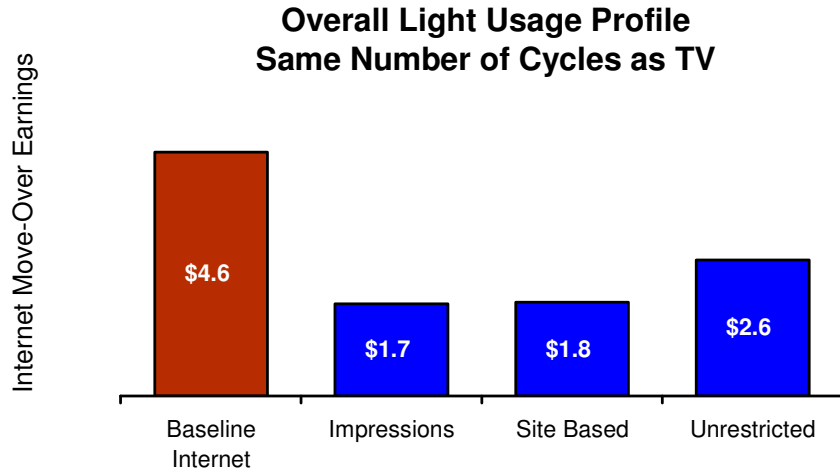
Discussion

- ▶ Payments will be for 13 weeks of use during which time the ad is actively made available
- ▶ For cases where the ad is placed and use will continue beyond 13 weeks (e.g., an ad placed on a cartridge video game), payment should be high
- ▶ We proposed a one-time payment for “perpetual” placements between 2.5 and 5 session fees¹
- ▶ As new media categories grow and evolve, flat rates should be adjusted accordingly and/or categories added

(1) Proposed compensation for perpetual placements are based on a perpetuity calculation of the proposed 0.25 session fees divided by the discount rate – a discount rate of 10% would yield a payment of 2.5 session fees while a discount rate of 5% would yield 5 session fees

For internet and new media ads, anticipated impact on talent compensation depends on use profile and number of cycles

Total Talent Compensation for 700 Commercials Moved Over to Internet or New Media from TV Commercial Sample Data (18% of total ads)



The three internet models range in precision and administrative and tracking complexity - each comes with pros and cons

Overview of Internet Models Benefits and Challenges

Target Objective	Pros	Cons	Trade Offs
Linked to advertiser ROI	<ul style="list-style-type: none"> ▶ Impression-based and site-based model links relatively closely to advertiser ROI ▶ Shorter cycles give advertisers greater flexibility and control over costs 	<ul style="list-style-type: none"> ▶ Flat rate model not closely linked to ROI ▶ Impressions-based model treats all impressions equally, irrespective of value 	<ul style="list-style-type: none"> ▶ Models which link more closely to ROI require greater tracking ▶ Impressions model may lead to unintended expense to advertiser
Fairly compensates	<ul style="list-style-type: none"> ▶ Impression-based and site-based models link well to exposure 	<ul style="list-style-type: none"> ▶ Flat rate model does not closely link to talent exposure 	<ul style="list-style-type: none"> ▶ Models which link more closely to exposure require greater tracking
Easy to monitor and verify	<ul style="list-style-type: none"> ▶ Flat model and site-based model are relatively easy to verify 	<ul style="list-style-type: none"> ▶ Impressions-based model is not easy to verify – talent would not know where ad should be running 	<ul style="list-style-type: none"> ▶ Impressions based model is more precise but would require talent to sacrifice some ability to verify placement of ads
Reduces complexity	<ul style="list-style-type: none"> ▶ Flat model is very simple ▶ Site-based model relatively easy to execute ▶ Eliminates free bargaining 	<ul style="list-style-type: none"> ▶ Impression-based and site-based introduce complexity relative to current flat rate for move-overs 	<ul style="list-style-type: none"> ▶ More simple models are less precise with respect to value and exposure
Improves predictability	<ul style="list-style-type: none"> ▶ Flat tier payment is more predictable for talent than impression-based ▶ Site-based model is likely to be predictable once media plan is made 	<ul style="list-style-type: none"> ▶ Impression-based model will introduce a loss of control for advertisers if an ad gets more impressions than anticipated 	<ul style="list-style-type: none"> ▶ Advertisers benefit for small campaigns in site and impression models, but will run the risk of an ad over-delivering impressions - costing more than anticipated
Administratively feasible	<ul style="list-style-type: none"> ▶ Eliminates free bargaining ▶ Flat rate option administratively simple 	<ul style="list-style-type: none"> ▶ Impression-based model will require aggregation of impressions delivered on multiple platforms 	<ul style="list-style-type: none"> ▶ Impressions and site based models will require introduction of more tracking and administration for greater precision

Flat rates for new media is proposed as an interim solution until tracking methods improve

Overview of New Media Models Benefits and Challenges

Target Objective	Pros	Cons	Trade Offs
Linked to advertiser ROI	<ul style="list-style-type: none"> ▶ Shorter cycles give advertisers greater flexibility and control over costs 	<ul style="list-style-type: none"> ▶ Not strongly linked due to flat rates 	<ul style="list-style-type: none"> ▶ Ease of payment and predictability exchanged for close link to ROI
Fairly compensates	<ul style="list-style-type: none"> ▶ Rates set at reasonable points given low exposure in these channels 	<ul style="list-style-type: none"> ▶ Given flat rates, there is potential for high exposure in certain cases without high compensation 	<ul style="list-style-type: none"> ▶ Simplicity of system traded off for precision in the absence of reliable measures
Easy to monitor and verify	<ul style="list-style-type: none"> ▶ Easy to monitor and verify 	<ul style="list-style-type: none"> ▶ Will require some tracking of different types of new media – may be difficult to classify what falls into a new category 	<ul style="list-style-type: none"> ▶ Broad buckets established for ease of execution but they may be difficult to implement
Reduces complexity	<ul style="list-style-type: none"> ▶ Structure is simple and easy to understand 	<ul style="list-style-type: none"> ▶ Value all new media channels the same – may need adjustment in the future as different channels grow at different rates 	<ul style="list-style-type: none"> ▶ Structure not based on actual viewership – predictability built in, exchanged against precise measures of value
Improves predictability	<ul style="list-style-type: none"> ▶ Advertisers and talent know exact costs related to new media ▶ No risk of unintended costs due to viral distribution of ads 	<ul style="list-style-type: none"> ▶ More “moving parts” than current lump sum payments for new media 	<ul style="list-style-type: none"> ▶ Structure not based on actual viewership – predictability built in, exchanged against precise measures of value
Administratively feasible	<ul style="list-style-type: none"> ▶ Simple structure that requires little tracking or administrative burden ▶ Eliminates free bargaining 	<ul style="list-style-type: none"> ▶ Creates new categories which will require tracking and some additional administrative work 	<ul style="list-style-type: none"> ▶ Free bargaining eliminated but replaced by new media category based system

With a more robust structure in place, greater use of digital advertising is anticipated resulting in greater overall compensation

Generalized Implications

	Industry	Talent
<i>Segments which Benefit</i>	<ul style="list-style-type: none"> ▶ Advertisers wishing to use ads on the internet for limited campaigns, or as part of an online ad gallery, for example ▶ Advertisers wishing to use ads for a short period of time ▶ Casting directors who no longer need to negotiate for made for internet 	<ul style="list-style-type: none"> ▶ Talent with the opportunity to appear in a greater number of ads: <ul style="list-style-type: none"> – Greater number of ads moved over – Increased talent use in made-fors ▶ Talent agents who no longer have to negotiate for made for internet
<i>Segments negatively impacted</i>	<ul style="list-style-type: none"> ▶ Advertisers who use the internet heavily and fall into the highest tiers of use in the site-based and impression-based models 	<ul style="list-style-type: none"> ▶ Talent placed on low traffic campaigns which will generate less income than the current model ▶ Talent whose ads were frequently moved over to internet in the past ▶ Talent with significant bargaining leverage in negotiations for made for internet

The proposed models will eliminate free bargaining but will introduce new verification and reporting requirements

Internet and New Media Verification Issues

Verification Need

- ▶ Placement of ads on sites (site-based model)

Verification Requirements and Rationale

- ▶ Requires reporting of placement of ads by site
- ▶ Will require new reporting process within agencies to funnel this information to talent payroll staff
- ▶ Requires an additional work step and reporting process
- ▶ In cases where ads are posted by a party other than the advertiser, verification and resolution process required

-
- ▶ Impressions associated with online ads (impression-based model)

- ▶ Requires consolidation and reporting of ad impressions
- ▶ Will require new reporting process within agencies to funnel this information to talent payroll staff
- ▶ Requires an additional work step and reporting process

-
- ▶ Use of different new media channels

- ▶ Requires tracking of use of different new media outlets
- ▶ Requires an additional work step and reporting process not in place today

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Compensation models were tested against future scenarios to address the unpredictability of ad spend

Simulated Ad Spend Scenarios

UPDATED SCENARIOS

	Description	Rationale
1 Consensus	<ul style="list-style-type: none"> ▶ Consensus of published ad spend forecasts 	<ul style="list-style-type: none"> ▶ Industry forecasts of ad spend trends considered relatively reliable predictor of future trends
2 Rapid Digital Increase	<ul style="list-style-type: none"> ▶ Internet ad spend grows at 30% while 2002-06 increase in internet ad spend was 28% and consensus forecast 2007-11 is 15% 	<ul style="list-style-type: none"> ▶ New digital video applications rapidly gain market share ▶ Industry sees greater benefits from targeted online video ads, increases spending in digital video ▶ Audience for video ads grows as broadband penetration increases
3 Slower Digital Increase	<ul style="list-style-type: none"> ▶ Forecasts internet ad spend at 5% 	<ul style="list-style-type: none"> ▶ Digital video ads do not see the ROI anticipated ▶ Successful digital models are non-video formats – i.e., banner, text, email ads via the internet and mobile phones
4 Rapid Cable Increase	<ul style="list-style-type: none"> ▶ TV advertising budgets shift to Cable from Broadcast and Spot ▶ Forecasts Cable growth at 25%; 2002-05 growth was 12%, consensus forecast 2007-11 is 6% 	<ul style="list-style-type: none"> ▶ Audience-measurement technology improves in Cable TV, drawing more advertising spend ▶ Ability to more precisely target TV ads increases effectiveness of advertising through Cable
5 6 Increase / Decrease in Total Ad Spend	<ul style="list-style-type: none"> ▶ Macroeconomic conditions impact the overall ad spend but do not significantly impact ratio of spend across channels ▶ These scenario forecasts evaluate approximately double consensus growth and approximately half consensus growth for each media channel 	<ul style="list-style-type: none"> ▶ Tests the impact of slower and faster ad spend growth

There are three primary drivers of ad spend – only increases in usage per commercial impact our scenario forecasts

Driver

Description

Increase in Commercial Production

- ▶ Increase might be due to:
 - Marketers increasing the number of commercials produced
 - Increase in the number of marketers producing commercials
 - Increase in the cost of production per commercial
- ▶ **However, analysis of Talent Partners data suggests that the number of TV commercials produced does not grow with ad spend**



Increase in Usage per Commercial

- ▶ **Increase in marketers' use of their commercial inventory**, including,
 - Longer periods of use
 - Additional plays in given media channels
 - Use in additional media channels

Increase in Media Cost

- ▶ Increase in per-unit cost of media
- ▶ **Proposed compensation models not driven by media cost**

See section 3 of Appendices document for detailed analysis

Scenario findings showed that the GRP model is the most sensitive TV model - tiered models fluctuate less in comparison




Summary of Forecast Analysis

- ▶ **GRP model fluctuates the most across scenarios**
 - Pay for play approach makes this model structurally sensitive to any change in the use of a commercial
 - In addition, there are no caps or minimums in the GRP model
- ▶ **Pure tiered models fluctuate the least across scenarios**
 - Not impacted by increase in Cable and Class A plays as these models are driven by channels not plays
 - Increases in cable earnings are capped and there is a minimum payment, further reducing variability
- ▶ **Adjusting Tiers–Pay-per-Play and Baseline were moderate in terms of fluctuation by scenario**
 - Compensation is impacted by changes in Class A plays
 - Not impacted by changes in Cable plays
 - Increases in cable earnings are capped and there is a minimum payment, further reducing variability
- ▶ **Unlimited internet model results in highest compensation given assumption of moderate use and use for double the number of TV cycles for internet ads;**
 - Analysis does not account for potentially higher uptake driven by lower talent costs
 - Impression and site-based are higher than the baseline when higher usage is assumed
- ▶ **Baseline and Unlimited Use internet model vary less than Site- and Impression-Based**
 - Former two do not vary with usage, only vary with number of commercials produced
 - Latter two vary with usage

Scenario analysis










































We found that the models react differently to environmental shifts

Change Relative to Baseline
(Current contract under each forecast)

 Little or no change
 Increase (>1%)
 Decrease (<1%)

Television Models

Internet Models

	CPM & Ratings Tiers	Rebalanced Tiers	Tiers with Pay per Play	GRP	Impressions	Sites	Flat Rate
1 Consensus							
2 Rapid Digital Increase							
3 Slower Digital Increase							
4 Rapid Cable Increase							
5 Increase in Total Ad Spend							
6 Decrease in Total Ad Spend							

See section 3 of Appendices document for detailed analysis

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- ▶ Economic Impacts and Scenario Analysis
- ▶ Editing
- ▶ Next Steps

We identified editing as a key area in need of updates to better fit with today's media landscape

Key Issues Identified with Editing

Current Editing Provisions for TV and Radio

- ▶ Sections 26 for SAG and AFTRA TV and Section 23 for AFTRA allow certain types of edits to be made without creating a new commercial
- ▶ Edits not covered under these provisions create a new commercial
 - Separate use and holding fees are paid for each version created
 - Use is calculated on each new commercial independently
 - Can become expensive for advertisers

Industry

- ▶ *“The editing structure is cost prohibitive – I can’t do targeted advertising.”*
- ▶ *“How am I supposed to explain to my clients the high cost of re-purposing their own ad?”*
- ▶ *“With new media, it’s getting harder to work with the editing rules.”*
- ▶ *“It is not easy to decide what qualifies as an edit under Section 26.”*

Talent

- ▶ *“I can’t get anyone to tell me what the criteria for getting paid another session fee for another version of a commercial.”*
- ▶ *“Currently there is no way of tracking edits that are being used.”*

The objective of our editing recommendations is to allow creative options for advertisers and increase the volume of work for talent

Editing Philosophy

- ▶ Advertisers would like greater flexibility to edit, particularly for TV and internet, and feel that they would edit more if talent costs were lower
- ▶ Their main concern is the high cost of multiple versions, even if changes made to ads are minimal or designed to reach small, targeted audiences
- ▶ In addition, confusion around editing provisions is a source of frustration for both talent and industry
- ▶ The proposed approach draws on practices from other contracts, viewpoints gathered during the interview campaign and from industry experts, focus group discussions and a survey of advertisers and agencies
- ▶ It intends to make trade-offs equally across industry and talent
- ▶ However, there is a lack of reliable data in this area
- ▶ Therefore, these recommendations are our best effort towards achieving these objectives given informational limitations

Advertisers' desire to make more edits is anticipated to increase as new, targeted ad formats continue to grow

Interactive Ad Format Case Study – GE's "One Second Theater"

Concept

- ▶ Traditional TV ad that contains bonus content for viewers who slow down their DVR at the right moment

Target Audience

- ▶ Commercial-skipping DVR users

How it works

- ▶ Beginning of spot advises viewers to watch for a "secret"
- ▶ Towards the end of the commercial, a series of screen shots flashes quickly
- ▶ DVR user pauses the ad, rewinds, and advances one frame at a time to see the special content
- ▶ Frames show red curtains, GE symbol, and a still shots of bonus content related to the ad

Results

- ▶ 8% of DVR users watched the spot
- ▶ 2 minutes was average time spent with this 30 second ad

Discussion

- ▶ Emerging technologies and formats seek to better target consumers in the increasingly fragmented traditional media landscape
- ▶ These technologies micro-target ads to consumers and require flexible editing rules in order to show a positive ROI
- ▶ Online and in new media, advertisers are able to micro-target consumers in the same way
- ▶ AFTRA and SAG signatories are likely to use these new technologies and formats in the future, potentially increasing the number of edits significantly
- ▶ Editing rules should be designed to work well with new technologies – not make them too costly to use

Source: Melillo, Wendy. "From GE Theater to the Digital Stage". *Adweek*, 12 Feb 2007

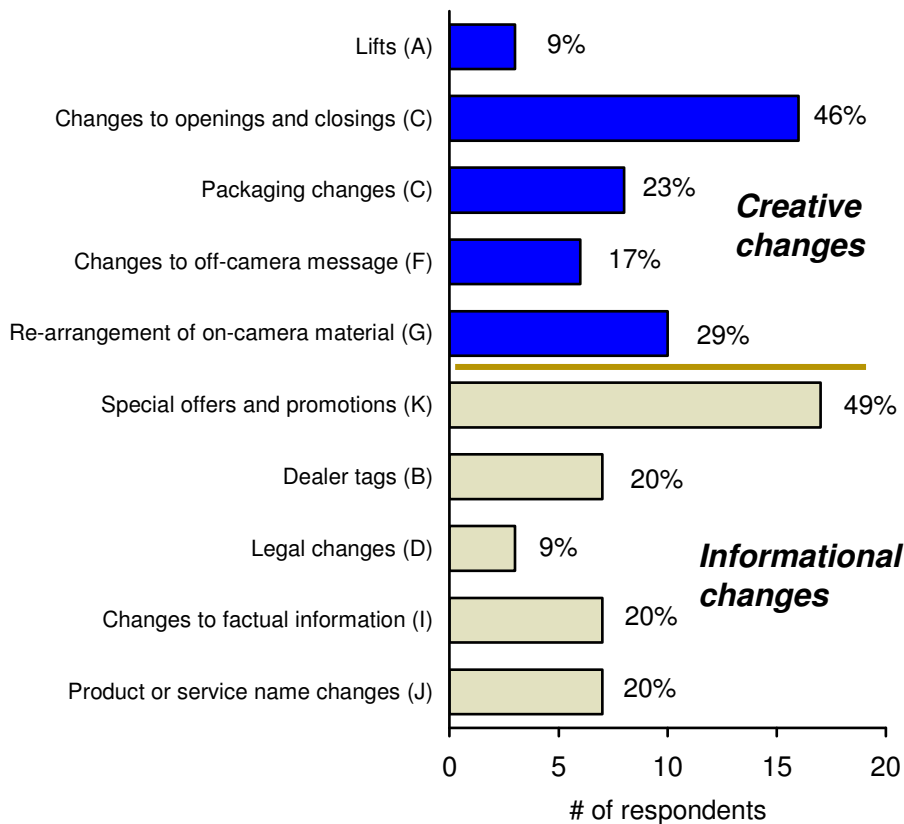
"Introducing GE's "One Second Theater"; A Whole New World of Creative Content". *Business Wire*, 8 May 2006

Neary, Lynn. "On Madison Avenue, Old Players Learn a New Game". *npr.org*, 8 May 2007

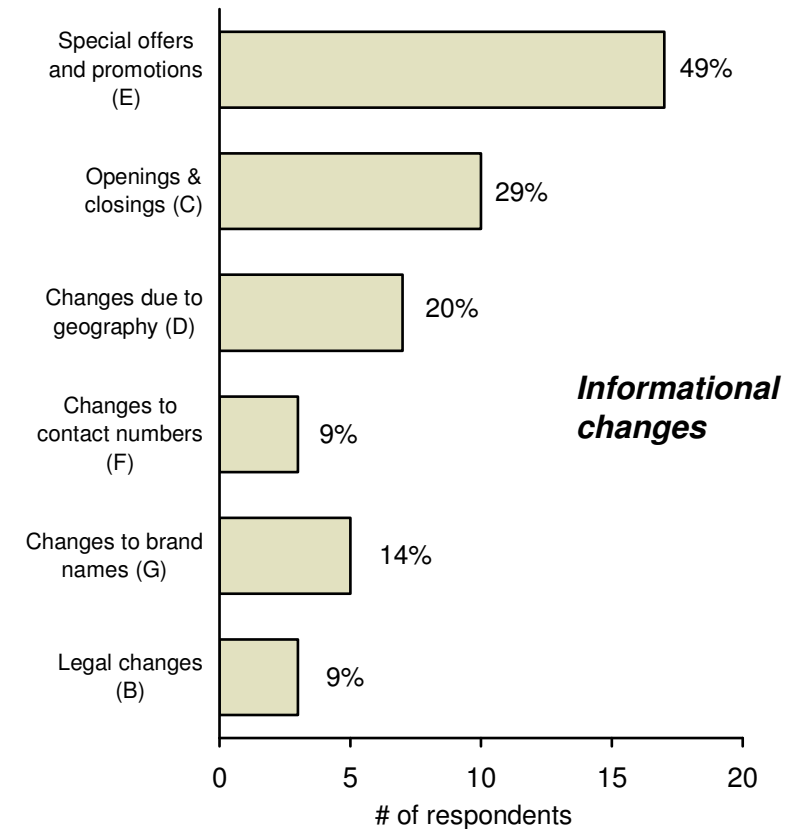
In addition to issues related to cost, there are issues related to difficulty interpreting and using the current contract

Question: Which subsections of Section 26 or 23 do you find difficult to interpret?

Section 26
Out of 35 respondents



Section 23
Out of 35 respondents



Foreign TV commercial contracts treat edits differently than the US TV contract

Editing Provisions in Foreign Commercial Contracts

Australia

- ▶ If additional spots are created using new material, and the original spot is not withdrawn, these are new spots and must be separately paid for use
- ▶ New spots will be **paid for TV/Internet and Cinema use at 50% of the usual fees**, and will be paid at the full rate for In-flight and Industrial use
- ▶ **If the new version replaces the original spot/lift, and the original is withdrawn, no separate use fees will be due**

Canada

- ▶ Provisions similar to current US contract
- ▶ Two lifts allowed though only two of the three versions can play in the same cycle
- ▶ **Payments for more than one allowable change of approximately ¼ a session fee per change greater than one**

UK

- ▶ Compensation based on ratings
- ▶ Payment for lifts, known as “cut downs,” paid as a continuation of the original ad
- ▶ **Other changes paid as a separate ad though UK model does not include payment of holding fees**

Source: 2005 Off-Shore Commercial Agreement – MEAA Australia - Key Elements Page 6 - TEAM Services July 2007, National Commercial Agreement - Canadian Association of Advertisers and ACTRA – Section 19 – Editing of Commercials page 100 Agreements for The Employment of Artists in Television Commercials – British Actors Equity Association, Section 26 – Editing of Commercials, page 25

We are proposing a new structure wherein changes to ads fall into three categories depending on the nature of the change made

Proposed Editing Category Definitions

1

Informational Changes

- ▶ Changes required to allow for the continuation, legality or factual accuracy of the ad's message
- ▶ For example (not exhaustive);
 - Laws or regulations
 - Continuity clearance
 - Factual information about the product's availability
 - Changes to brand name necessitated by geography
 - Pricing

2

Edits

- ▶ Changes to an ad which do not change the storyline of the ad or the product
- ▶ For example (not exhaustive);
 - “Refreshes”
 - Lifts
 - Rearrangement of on-camera material
 - Changes to off camera message
 - Targeted ads (e.g., Visible World)
- ▶ Includes retail promotional ads

3

Versions (New Commercials)

- ▶ Changes which modify the storyline or product
- ▶ A change to the storyline adds character(s) or event(s)
 - A character is defined as the personality or part which an actor recreates
 - An event is defined as something that occurs in a certain place during a particular interval of time
- ▶ Change would qualify as a version if product featured would impact the performer's exclusivity differently than base commercial

In the proposed structure, these three categories would each be treated differently across different broadcast outlets

TV

Tiered Models

- ▶ Payments for edits based on a number of session fees for a range of edits
- ▶ Resulting ads considered one commercial for use and holding
- ▶ More than one edit can run in the same market or cycle
- ▶ Versions would be treated as a new, separate ad

GRP Model

- ▶ Edits paid as an extension of the original ad – pay for additional GRPs of associated use
- ▶ More than one edit can run in the same market or cycle
- ▶ Versions would be treated as a new, separate ad

All Models

- ▶ Section 26 streamlined to cover only the informational change category
- ▶ No additional payment to talent for informational changes, aside from applicable use payments
- ▶ Compensation for alternate scenes or lines remains largely unchanged, but their use will not create a new ad unless qualifying as a new version

Radio (including Internet Radio)

Terrestrial Radio

- ▶ No change to editing rules – all edits outside of Section 23 are paid as new versions
- ▶ Pilot approach recommended for retail and spot radio advertisers as well as lifts to determine if volume of work would increase using tiered structure for edits

General

- ▶ Applicable tag rates apply for another additional lines performed by talent
- ▶ Section 23 remains unchanged

Internet Radio

- ▶ Factual changes may be made to allow ads to be usable on internet radio e.g. removal of geography specific special offers

Internet/New Media

- ▶ Tiers of edits similar to TV
- ▶ Tiers will be broader than for TV – allowing for a higher number of edits per tier
- ▶ Use would be paid based on the basis of one ad for the selected model e.g., for the site-based model, more compensation due if edits are used on additional sites
- ▶ Compensation for alternate scenes or lines remains largely unchanged, but their use will not create a new ad unless qualifying as a new version

Editing

Section 26 should be simplified to include only informational changes as defined in this recommendation

Editing Permitted under SAG/AFTRA Section 26

Subsection	Description of Exception	Perspective
A. One shorter or longer version	<ul style="list-style-type: none"> ▶ One additional shorter or longer version (“lift”) 	Eliminate
B. Dealer identification	<ul style="list-style-type: none"> ▶ Dealer identifications for the same product or service for the same advertiser 	Retain
C. Introduction and ending changes; package changes	<ul style="list-style-type: none"> ▶ Change to beginning or end with no change to the body, for the same type and class of product and same brand name ▶ Changes in beginning, body or end only for new packaging, not to be used in same market 	Eliminate
D. Legal changes	<ul style="list-style-type: none"> ▶ Message of the commercial is changed to comply with legal standards 	Retain
F. Off-camera message	<ul style="list-style-type: none"> ▶ Off-camera message changed, new version substituted for the original 	Eliminate
G. Rearrangement of on-camera material	<ul style="list-style-type: none"> ▶ On-camera portion re-edited with no substantial change in material used; new version substituted for the original 	Eliminate
I. Factual information	<ul style="list-style-type: none"> ▶ Changes to factual information such as times of departure, telephone numbers, etc. 	Retain
J. Product/service name changes – same advertiser	<ul style="list-style-type: none"> ▶ Same product/service, including part of company or trade name, different product name in different geographies ▶ Same product/service, different brand name in different geographies 	Retain
K. Special offers and promotions	<ul style="list-style-type: none"> ▶ Ad changed to reflect different sales or special promotions for the same product and advertiser ▶ Change in product featured, one version per geography 	Retain

Editing

For edits under the tiered model, advertisers would pay a flat payment plus associated use for a range of edits

Editing Compensation Tiers for Tiered Models – Video Formats

TV

# of Edits	# of Session Fees
1-2	2
3-5	3
6-15	4
16-30	5
>30	6

Internet & New Media

# of Edits	Session Fees
1-5	2
6-30	3
>30	4

Retail ads would be considered edits under the proposed structure and associated session fees would be paid

Current Provisions

- ▶ Talent and advertisers agree that current provisions are not retail friendly and have driven retailers away from using union talent
- ▶ Format frequently used by retailers is referred to as a “donut” ad - the opening and/or closing remains the same but a different special is featured in the middle
- ▶ Currently, this ad format would create multiple new commercials, even though the openings and closings are unchanged



Proposed Structure

- ▶ Under the proposed recommendation, this ad format would fall into the edit category
- ▶ Talent in the opening and closing would be compensated for use and edits made
- ▶ For example, a retail ad which changes the featured weekly special would count as 13 edits during cycle and talent would be paid 4 session fees, in addition to payment for use and session

Editing

To make these new provisions work, a few key ground rules must be in place

FOR DISCUSSION

Focus Group Findings

Editing Ground Rule Recommendation

1 Changes to Cast

- ▶ For ease of tracking, talent felt that paying the entire original cast would be the best option
- ▶ Advertisers were less favorable to this idea, because they would be paying talent for use in which they did not generate any value

- ▶ Addition of a new character creates a new version
- ▶ For edits which do not create a new ad, original cast paid for all subsequent edits

2 Notification of Editing Intent

- ▶ Talent would like to know in advance how their ads will be edited so they can opt out if desired
- ▶ Advertisers often do not know in advance how many edits they will make and are sometimes not in control of need to edit

- ▶ If advertisers hit top editing tiers without notifying talent in advance (e.g. 16-30 edits), an additional payment of one or several session fees will be due

3 Maximum Period of Use for Edits

- ▶ Talent is concerned with commercials gaining more shelf life, resulting in fewer commercial produced overall
- ▶ Talent is also concerned with an ad running too long and an association with the product created

- ▶ Maximum period of use of the original ad will apply to all edited ads

This recommendation introduces a changed approach to editing and may require a phase-in period

Editing Verification Issues

Verification Need

- ▶ Categorization of informational changes, edits and versions

Verification Requirements and Rationale

- ▶ Requires advertisers and their agencies to categorize changes to ads into informational changes, edits and versions, respecting the spirit of the definitions
- ▶ Will require a phase in period to become familiar with the definitions
- ▶ Anticipated to lead to an increase volume of claims in the short term

-
- ▶ Tracking of edits

- ▶ Edits will not be considered separate commercials as they might be today
- ▶ Tracking them may prove more challenging for purpose of payment of additional session fees and use

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Next steps

Over the coming months, work on the study should continue in order to smooth the negotiation and adoption of changes

Learnings from the Study

- ▶ We have found both goodwill and significant concern on both sides of the table
- ▶ Open dialogue between talent and industry was helpful in finding common ground and building trust
- ▶ Smaller group formats were more effective for testing and discussing ideas than larger groups

Open Issues

- ▶ Implementation planning for proposed models - requires significant additional effort
- ▶ Encouragement of greater confidence in the GRP model needed if this approach is to be pursued
- ▶ Education of members to encourage greater willingness to change and to increase confidence around the models
- ▶ Structure of a pilot or phase-in program for the recommendations
- ▶ Strategy to ensure progress despite other challenges and time constraints on all parties
- ▶ Owner of simulation models for the industry is not yet resolved

Recommended Next Steps

- ▶ Both sides now have the individual and aggregate models as well as the final recommendations from BAH
- ▶ We recommend that both sides dedicate time to experimenting and familiarizing themselves with the models and recommendations
- ▶ They should meet on a regular basis to continue the dialogue
- ▶ An additional wargame would be positive step to further test and debate the recommendations