



Television & Online Revenue

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Executive Summary

Objective

As MGM and the entire entertainment industry approach a shift in traditional distribution models, new systems of revenue generation and distribution must be developed.

Goals

The initial goal of the project is to provide short-term revenue and public awareness to MGM. This will increase the company's value as a player in the online space.

The longer term goal is to cement MGM in this position with not only revenue but also profitability. With the right decisions, MGM can not only produce profitability for its own products but own a portion of the eventual common TV delivery platform.

Solution

A "one size fits all" approach has very little room for success. This digital marketplace has brought choice to consumers. If we launch a service that hopes to fit all consumers into a single method of content delivery and revenue, we will naturally only please a portion of the customer base. And if customers' desires change we have to provide a place for them to grow within our service or else we send them to another vendor or to the most flexible option of all - piracy.

To provide the widest range of service for customer flexibility we need to deliver a multi-pronged approach to content delivery and revenue models. This service should encompass ad-supported and EST models with file formats that support all major playback platforms. If this proves to be a success, it should be rolled out as a stand-alone service available to other entertainment providers.

In the first section below, I will detail this multi-pronged approach and how it will benefit the Stargate franchise. In the second section, I will detail how this same service should be rolled out for the larger television marketplace.



Stargate.MGM.com

Ideal services in online TV distribution

The studios are losing ground as customers' desire for product flexibility and availability continually mutate and are quickly served by legacy-free start-ups who have no built-in restraints in regards to established pricing, delivery, contracts and partnerships and to piracy which allows unfettered access to content in any way the customer wishes. How do we compete with these new companies and with piracy? By delivering convenience. Customers are not copyright infringers at heart. They understand and respect the value of the content they consume. However, in a world where HD DVRs offer time-shifting and location-shifting, services such as iTunes offer quick downloads and playback on portable devices and televisions, and high-speed broadband offers access to HD media, is it any surprise that customers feel that the studios' offerings in the online marketplace fall short? It is far too easy to turn to copyright infringement when the official services place artificial restrictions on content consumption. Customers get more flexibility with completely unprotected analog and digital content delivered through the traditional broadcast medium than with the more powerful online options. If we can launch a service that operates at a reasonable rate of exchange with the customer and offers all the flexibility benefits listed above, piracy becomes less convenient than the official service. This is the goal we must achieve.

There are currently three ways in which customers commonly consume digital media. Two have been tried in the marketplace with moderate success. The third would be a hybrid which offers the flexibility provided by analog content along with revenue for the studio. Any service we launch would need to deliver a quality experience and a consistent approach in ALL of these consumption methods. The three methods are:

1. **Streamed content with ads.** Streaming services (Hulu, YouTube) offer instant gratification to consumers who have access to all manner of content. Whether user-generated or official studio content, the benefits of these services is the instant-on experience. No software to install, no accounts to set up. Find something of interest and hit play. This is a great way-to offer value added material and full episodes. VAM can help maintain interest in a show between episodes and during the off season. Full episodes gives potential fans a chance to watch without any commitment. These services are typically ad supported. Customers may not like ads but they will accept them if they are short, infrequent and relevant.

Benefits. The benefits to the studio under this model are clear. Ads can be sold in a fairly similar fashion to traditional

broadcast models. The benefit to the consumer is the chance to watch content without a monetary expense and without committing to a service or creating an account.

Drawbacks. The consumer does not have much flexibility with this type of content. This content can only be viewed on an internet connected device that supports flash (some services use more esoteric plug-ins). It can not be watched in internet-free spaces (airplanes, cars), can't be viewed on a TV without using an unwieldy home theater PC and cannot be watched on any existing portable devices. For the studio, we get very little demographic information which means our ad sales options are weak. Additionally, since this type of service encourages discovering and trying new content, a lot views will be started but not finished which has financial impact.

- 2. Downloaded content for purchase.** The most successful service of this type is the iTunes store. It offers customers the high quality of a downloaded file (less compressed than streamed versions) plus the flexibility to play it on three device types that do not need to be internet connected: on the computer (Mac or PC), on the iPod (far and away the most popular portable device) and the TV (via the AppleTV). Customers can also move this file to a fairly wide number of devices and computers. Customers are freely able to authorize and de-authorize devices as they choose. The option to use these devices without an internet connection should not be understated. Content can be consumed during traditional "down time" that streamed services cannot support - during travel or commute, in the living room away from the computer, etc.

Benefits. As made clear above this is the most flexible option currently on the market with support for multiple device types, multiple locations, and no need for an always-on internet connection. Customers who opt for this service avoid ads in exchange for a low per episode fee. The studio gains a customer who pays directly for the content. Per season pricing give the studio a full season commitment from the customer.

Drawbacks. The customer is forever locked into Apple devices due to Apple's FairPlay DRM mechanism - there is no way to migrate the content to a non-FairPlay device. Due to the success of the iPod, the studios are under Apple's thumb in terms of sales options. Without iPod support, new services are unlikely to succeed. It is not in Apple's best interest to license FairPlay nor to become part of an industry-wide DRM initiative. This has resulted in a stalemate - no competing services can succeed yet no one wants an Apple monopoly.

- 3. Downloaded content with ads.** No service exists with this option. Customers have traditionally been given TV content with no direct monetary expense (subsidized by advertisers) but have had the flexibility to time-shift and skip ads with DVRs, watch in HD, and to transfer to computer which opens up all the options listed above - with the added benefit of not being tied solely to Apple devices. Users can do these things themselves or simply turn to bit-torrent. Users see little wrong with downloading this file since they could easily do the same steps to produce the file themselves. As you can see, "free" is not the primary motivator in the scenario. The flexibility to use media as desired is the motivator. TV has always been "free" to the customer. They just want it to be convenient.

A service that can offer downloads with all this convenience with the minor drawback of having ads inserted would be wildly successful. In the face of turning to bit-torrent for morally gray file downloads when high-quality official versions are available with the same indirect expense as has always been in place with TV, it is a simple decision for most consumers. As a part of this service, users would willingly give up basic information for this high-quality content: signing up/logging in for the service and providing demographic data and localization information. This would be vital data to advertisers who could more accurately target TV viewers better than ever before. If pushed to the extreme, simple questions could provide much more targeted ads - yes/no questions such as "do you like to cook?" and "do you like to read books?" could immensely tailor advertising and vastly

reduce ads wasted on viewers who have no interest in a product or service.

Benefits. The consumer gets high quality digital files which would allow use on any device and would not require an always-on internet connection. The studio gets marketing data which will help lure advertisers to the platform.

Drawbacks. The elephant in the corner with a service of this type is clearly that it cannot function without a complete lack of DRM protections. If ad-supported content would be DRM-free, then EST products would need to be DRM-free as well to offer the same flexibility and device support. To the customer this is a benefit but to the studio it is a cause for concern. Later in this proposal I will discuss the potential pros and cons of a DRM-free future.

If a service can offer all of these options it allows maximum flexibility to the consumer and that is the only chance for success. It also allows the studio to stay involved with a customer as their attitude towards a show changes and their choices in content consumption change.

For example, let's say that I have been recently been told about Stargate Atlantis from a friend. She has recommended this show but since I don't know if I will like it or not, my willingness to commit much time or money to it is small. I could visit Stargate.MGM.com and stream the pilot episode for free (ad-supported). Note that this option is currently not available on most services; Hulu, for example, will only be showing the most recent few episodes of current series. This already offers more than any legal service offers and is a reason to stay away from bit-torrent.

Now let's say that I like the show. I can go on consuming it streamed online. But the time may come where I want to enjoy the show away from my computer. I can simply switch to the ad-supported download option. Setting up an account is simple and doesn't ask many invasive questions. Now I can play back this file on my iPod while I commute to work or on any device that supports our standard video formats (the xbox 360, the AppleTV, the PSP, etc). Now I can enjoy the content in my living room without having to pay for the privilege. I can skip the ads if I want but they are kept to a minimum and are tailored to me much better than standard broadcast TV. Additionally if my device supports it, I can click the ad and learn more. I could always edit the file to remove the ads but it really isn't worth the effort.

I am now a dedicated fan. I like the show so much that I am willing to pay to avoid the ads altogether so I can be immersed in the show. I may and go back and purchase the episodes that I had previously downloaded with ads.

Since this service offers the most flexibility, I can change my usage type at any time without added commitments or changes. I may not feel like purchasing episodes anymore and I can go back to ad-supported without any drop in quality. I can watch streamed episodes during the day at work. At each step I am provided the best quality service based on my usage needs and my spending threshold. I get all the content from the official site so I know that this is the best quality. I have no reason to turn to another service or go to bit-torrent because the official site offers the most convenient and flexible experience. And I know that I'm contributing back to the people who make the show.

This is the type of service that can succeed. It requires commitment from the studio and faith that our customers want to reward us for making quality content.

Integration with Stargate.MGM.com

The largest challenge is integrating these three approaches into a single cohesive platform. Different technologies and hurdles would need to be overcome for each approach. I'll discuss these one by one.

Streamed, ad-supported full episodes and VAM

This approach would allow fans to enjoy behind the scenes content and full episodes at any time. This would also be a perfect method to introduce new viewers to the show. With nothing to download and instant playback, there is no barrier to entry. The episodes are streamed with dynamically inserted ads. Pre-rolls would likely be used but customers' disapproval of pre-rolls may encourage us to experiment. This method would involve no forms or login methods. Simply click play.

A combination of DoubleClick-provided ads along with a BrightCove media player will allow for the quickest launch. Certainly costs are higher with this approach but since it deals with known providers and an existing infrastructure, time to launch and expenses are understood and predictable. Term lengths with these vendors should be kept to a minimum if not avoided altogether.

In the long-term, a custom built solution either contracted out or compiled by component vendors would allow us to maximize revenue and control.

Downloaded, DRM-free, ad-supported full episodes

No one has yet combined downloadable episodes with advertising. This might be the most likely approach to succeed long-term due to the fans getting content for free and MGM getting paid for ad placements. Users would go to the official site and download after answering a few simple demographic questions. Questions would need to be answered for each file downloaded. We could tailor ads better with demographic questions tied to that anonymous user.* At launch, these files would be encoded to support major platforms such as iPod, AppleTV, PSP, etc. If a new platform gains prominence, supporting it would only be a re-encode away. Users can watch videos on any compatible platform since the service would be agnostic. Computer, portable, set-top-box. Device makers can go crazy and a common set of media types will develop that will allow us to easily support most devices.

* An elegant solution for this would be to build a real-time ad inserting system for downloadable files. I don't know if anything like this exists and if it doesn't, we should begin patenting it. This could allow us to customize the ad at time of download based on demographic questions which must be filled out to proceed. Ads could stay timely and could be targeted by whichever factors are most useful to advertisers. We could even allow users to pick the ads of their choice.

Downloaded, DRM-free, purchased full episodes

Simply enough we sell these episodes DRM-free and ad-free. Ideally, we insert a digital watermark with the customer's account number. This works as a deterrent and can be used as a legal stick if necessary. Since this is DRM-free, we face the possibility of users sharing videos between friends or via bit-torrent. However, if we sufficiently lower the barrier to entry and provide solutions to customers that favor one model/pricing method over another, we can deliver high quality and fast downloads in a way that customers will prefer over bit-torrent.

Summary:

The benefit of digital media to consumers is that it is flexible and available immediately. Whenever the customer wants it. On whichever device. We simply need to be there to offer it in a widely accepted format and at a reasonable rate of exchange. Piracy is not going away. It cannot be defeated. There is no way to turn dedicated pirates into customers. There is however, the opportunity to turn people that pirate for convenience into customers if our service is at least as high quality and convenient as the bit-torrent version.

The industry assumes that there is no way to compete with 'free.' In reality, that is not our competition. People understand the value of the content they consume. They simply value the flexibility and immediacy of online sources more. That is an area where we can compete. And win.



TV.com: The Future of Television

Objective

With a well built structure in place that has proven itself for Stargate, MGM should roll this service into to a large scale, stand-alone operation. All shows would have the same usage rules and formats.

Solution

MGM should make an offer to fully acquire or take a major stake in TV.com. It is currently owned by CNET Networks who don't seem to be pushing it to the limits. As a site, it has the ultimate domain name which would be ideal for our service. Beyond this, the site has existing community aspects which would only strengthen our concept. TV.com has a section for every TV show - past and present. It has forums, user reviews, user ratings and a small user-generated videos section. It already has meta data for each episode. It has an editorial staff that handles TV-related news, podcasts and articles. It is a very complete site that no one seems to know about. There doesn't seem to be any push to distribute content here. The site is ad-supported and uses iTunes affiliate links to half-heartedly sell episodes.

CNET Networks may be open to an offer on TV.com. Their stock price is hovering around \$7-8. With a high of ~ \$75/share in 2000, and a high of \$15/share since then, I believe CNET would jump at the chance to make a quick buck and/or be relevant again. It would be the ideal site to plug an advanced distribution model into.

Syndication

If we build our system intelligently, it could be syndicated to any number of sites which would receive a percentage of ad and EST revenue based on their sales. This would save the networks infrastructure costs in setting up their own unique system for handling content distribution - both VAM and full episodes. Fans would gain the chance to promote their favorite shows while also earning a small kick-back.

Partners

Clearly a DRM-free TV distribution model will be a bitter pill for media companies to swallow. We should start small with cable channels who do not have a large presence in the EST or ad-supported markets currently. Once we prove success, more studios will join.



The DRM-Free Future

Today

The entertainment industry has been understandably concerned about copyright infringement since the advent of home entertainment. Since Macrovision protection through to CSS encoding on DVDs and now with advanced encryption such as BD+ on the next-generation HD disc formats. Our content is all we have. It makes absolute sense to protect it. Unfortunately every encryption mechanism has been cracked. Just this past week BD+ has been broken. We must ask ourselves if the time, money, and customer experience used on these measures have brought us an equivalent increase in profitability. I don't know if this can be proven. But we can consider the effects.

Institutionalized piracy

One of the many reasons for encryption is to protect our content from large scale piracy operation in Asia. But all of our protection methods act on the micro level not the macro level. Large scale copyright infringers simply do bit-for-bit replication with all copyright protections in place. Government pressures are the only way to affect this market.

Personal piracy

Personal piracy has not been thwarted by our encryption either. Most users who break through CSS protections on DVDs simply do it for the convenience and flexibility that comes with disconnecting content from the physical medium. Certainly these files get onto the internet. There is potential that these downloads equate with lost revenue. But certainly we cannot assume that all of these people would have purchased the DVDs had no pirated option been available. Most would have just gone without.

In this area, it is our customers who miss out. More flexibility is offered to pirates than to our paying customers. As each new encryption method is broken, users who have purchased these discs use the new methods to open up freedoms to use their content in ways that work best for them.

And since all version of our content is available on the internet already, what do future encryption methods protect us against? The cat is already out of the bag and there is no putting it back in.

Tomorrow

So what would a DRM-free world look like? It would open up more ways in which customers could consume our products. It would allow us to be at the cutting edge of any new development. Imagine if the day the video iPod was released, we could have launched a store which would allow our content to be viewed on this hot new device. Instead, we needed to wait for Apple to develop a proprietary solution which has kept us under their pricing model ever since. DRM-free equals flexibility - for the studio and for the consumer. Our goal should not be keeping pirated content out of everyone's hands. Our goal should be maximizing sales. We do this by giving users high quality products at reasonable prices. The great news about piracy is that people want our products. We just need to find the right offering and get it into their hands.

So what does this mean for this proposal?

The hurdle is launching this DRM-free. Otherwise it is doomed to failure since it would not support the most popular device (iPod) and would require a lot more infrastructure (real-time DRM wrapping, loading into media players which can sync with supported devices, etc) and limit us to Windows Media devices which have not caught on in the marketplace. DRM-free actually hurts us very little. Episodes of Stargate Atlantis go onto bit-torrent by the time the west coast episode is airing anyway. The bit-torrent versions have already had the ads stripped and are DRM-free. Current season SGA episodes are available in 720p. This content knows no borders and offers no benefit to MGM. Our official downloads would have two major benefits over the bit-torrent versions. A): Quality control since these will be encoded by Deluxe and officially offered by MGM and B): will download fast and reliably. In exchange for these benefits, customers will be shown a single 30 sec ad spot at each standard ad break or will pay for the video outright. Since they will be DRM-free, the consumer will certainly have the ability to strip these ads out. For most consumers, this is unlikely due to the time, software and experience required to do this. Regardless, even for users who strip the ads, each ad will get at least one view. Surely there will be concern about distributing these ad-free versions to friends. While this is somewhat probable, it is not a major cause for concern. Since the barrier to receive these episodes is so small, even casual fans will simply download directly from MGM instead of trading the ad-free versions and even if they do get the ad-free episode from a friend, we didn't have that individual as a customer anyway and getting them interested in Stargate can only help.

DRM is not providing us the benefits it did in the past. Now it is a liability. Removing DRM will not negatively affect our revenues or profits; at this point it is a leap of faith that we must come to terms with.