

**NOTICE TO THE COMPANIES REPRESENTED BY THE AMPTP IN THE 2008
SAG NEGOTIATIONS:**

SETTING THE RECORD STRAIGHT – AND AN UPDATE ON NEGOTIATIONS

Negotiations Update

The AMPTP has been negotiating with SAG now for 13 days. Last week, we asked AFTRA to delay the start of its negotiations until May 5th so that we could give the SAG talks every opportunity to produce an agreement. Since the SAG negotiations are due to wrap up on Friday, May 2nd, today is a good time to let you know where things stand.

When we requested an extra week for the SAG negotiations, we told you that there were “significant gaps” between the parties. Candidly, we must offer the same assessment of the negotiations today, with just over two days to go. Although both parties have spent considerable time in the negotiating room, we are not yet close to an agreement. This is the case for two fundamental reasons:

First, SAG initially rejected the framework for new media that was established through the DGA, WGA and AFTRA Network Code negotiations. The Producers’ position has been that there is no valid reason to upend the new media framework that has already been accepted by writers, directors, and AFTRA Network Code. Last week, SAG indicated that it would be willing to live within the existing new media framework – but only with more than 70 changes to the framework, some of which would go a long way toward making the framework itself unworkable.

The second reason is this: SAG’s willingness to work with the existing new media framework (albeit with more than 70 changes) was conditioned on AMPTP addressing SAG’s demands in traditional media areas. Unfortunately, these demands – including a doubling of the existing DVD formula and huge increases in compensation and benefits – would result in enormous cost increases that we are not willing to accept. The SAG Basic and TV Agreements are mature labor pacts for mature businesses. In such circumstances employers in other industries typically negotiate reductions and efficiencies to reduce costs. We are not seeking to do this. But we cannot responsibly accept the unprecedented, double-digit increases in DVD residuals and conditions being sought by SAG, or wage hikes that in some cases reach 200%. As a result, we have made little progress in narrowing the significant differences with SAG on these critical traditional media issues.

We still have two days of negotiations remaining with SAG, and we are going to continue to work as hard as we can to find a mutually acceptable resolution. Failing that, we are prepared to begin negotiations with AFTRA on Monday, May 5th.

Setting the Record Straight

While the AMPTP-SAG negotiations have been going on, SAG's leadership has sent four reports to SAG members. These messages contain statements and information that we believe should be placed in the proper context.

SAG's April 22nd Report

SAG Statement: When actors are employed, their overall compensation is decreasing.

The Facts:

- Theatrical earnings and residuals rose to \$596,437,362 last year, up 6% last year over 2006 and up 24% since 2003.
- Television earnings and residuals rose to \$705,032,281 last year, up 1.2% over 2006 and 9% since 2003.
- And even these figures understate the overall compensation increases because the figures are capped for reporting purposes to the Screen Actors Guild – Producers Pension and Health Plans and thus do not reflect total actor earnings from over-scale deals, participations, and so forth.

SAG Statement: Our proposals address many issues facing today's middle income actors.

The Facts:

- Producers are spending ever-increasing portions of programming budgets on actors. In fact, cast costs rose at more than twice the rate of overall production costs between the 2000-01 television season and the 2007-08 season (using one network as an example). Total cast costs rose 78.4% during this period. The cost for principal cast members rose 80.1%, and the cost for non-series regulars rose 69% -- compared to a 33.6% increase in overall production costs.
- The Producers increased minimum payments in the labor agreements recently reached in the WGA, DGA and AFTRA Network Code negotiations. These minimums increased by 3.5% -- more than the average annual rate of inflation over the last 17 years (since 1991). Receiving pay increases in excess of the rate of inflation would surely be attractive to many working middle class American families.

SAG Statement: Actors are being forced to incorporate clumsy dialog and action in television series and motion pictures more and more each season. We are seeking reasonable solutions, which include compensation and pre-approval for performing product integration. This is not the soda can on the table anymore. It's scripted and is an integral part of the story and plot development.

The Facts:

- Audiences do not believe that actors are endorsing particular products just because they are using them in the course of a television show or movie. Having an actor drive a Ford vs. a Chevrolet, or talk on a Motorola cell phone instead of a Nokia phone makes no difference to the audience, and it certainly does not constitute a “forced endorsement” any more than it constitutes “forced driving” or “forced talking on a cell phone.”
- In today’s challenging marketplace, producers are doing everything possible to maintain the flow of advertising dollars to the entertainment industry. Product placement is simply another way to attract advertising revenue – revenue which benefits the entire industry, including actors, in the long-run because it allows more shows to be produced and jobs to be created.
- Television is an ad-supported medium, and our advertisers are concerned that commercials associated with our programs are not drawing the same audiences as before because of DVRs and other factors. Due to concerns about the effectiveness of advertising on television, advertisers have come to us to integrate their products into our shows, and we must do so to maintain the ad-supported medium.

SAG’s April 24th Report

SAG Statement: Today 134 million Americans (or 3 in 4 Internet users) view online videos each month. YouTube alone has over 200 million unique visitors every month.

The Facts:

- While 134 million Americans are viewing online videos each month, the full comScore report is more revealing: The average online viewer consumes 75 videos per month with an average duration of 2.7 minutes. That means online viewers are mostly watching brief clips and short-form videos -- and not the full-length, scripted series that would generate residuals for SAG members. Unless we agree on a workable solution for new media, the television industry, one of the most significant sources of SAG earnings, could be undermined by new media alternatives.
- Actually, YouTube has about 80 million unique visitors every month, according to comScore. Regardless, the vast majority of YouTube videos are amateur or unauthorized postings that generate no revenue for the Producers or Guilds. YouTube and similar video sharing sites do not abide by the SAG contract with regard to production, reuse or any other established terms and conditions.

SAG Statement: This year the leading 100 media companies will realize an estimated \$20.7 billion in Internet revenue.

The Facts: This is a highly misleading number because the \$20.7 billion number refers not just to the parent companies of the signatory Producers but to cable providers, newspaper publishers, search engines, Internet service providers, software developers, classified ads and others that would not be signatories to SAG's contract. Microsoft, Google, Yahoo!, The Washington Post Co., and CareerBuilder are among the leading 100 media companies whose Internet revenue is irrelevant to SAG earnings and residuals.

SAG Statement: Advertisers will spend \$2.9 billion annually on online video ads by 2010.

The Facts: Even if SAG's optimistic revenue projection turns out to be accurate, only a portion of that revenue will be attributable to Guild-covered programs that will generate residuals. Networks have generated \$120 million in ad revenue from streaming content online since 2007, as calculated by Starcom USA. Neither the Producers nor SAG will share in the remaining advertising revenue from banner ads, pop-ups, and other forms of Internet advertising.

SAG Statement: This season some shows are being streamed live multiple times before the episode is scheduled to broadcast. Some series have their entire catalog of episodes available for ad supported streaming.

The Facts:

- The new media framework established by the DGA, WGA and AFTRA Network Code addresses the new media uses listed by SAG, including streaming of TV shows prior to broadcast, streaming of feature films, and the repurposing of made-for new media to broadcast television. It further establishes reasonable new media minimums and residuals.
- Networks are trying to replace lost viewers by making their series available through streaming on the Internet. In the recent DGA, WGA and AFTRA Network Code contract negotiations the Producers have agreed to pay talent even though the purpose of streaming is promotional and intended to draw viewers back to the networks.

SAG Statement: SAG is not asking for jurisdiction in new media to be granted by the AMPTP because we already have jurisdiction.

The Facts: The existing made-for new media agreement that AMPTP has with SAG is no different than the agreement AMPTP had with WGA when it recently negotiated for jurisdiction in derivative and original made-for new media. Rather than give SAG jurisdiction, the Guild's made-for new media side letter gives the Producer the right to cover or not cover productions made under the side letter.

SAG's April 26th Report

SAG Statement: Real earnings are on the decline with average inflation-adjusted residual earnings decreasing 7% over the last 5 years.

The Facts:

- Residuals from feature films rose to \$212,803,366 last year, up 4.5% over 2006.
- Residuals from television rose to \$257,768,213 last year, up 9.5% over 2006.

SAG Statement: Here's what we are asking for: Reasonable residuals for actors' work released to DVD and home video.

The Facts:

- SAG's is demanding \$500 million in extra DVD residual revenue.
- The DVD market is flat, and this is no time to be adding significant new costs to the ability of producers to do business in this sector. Total home video sales and rentals fell by about 3% last year (according to the Digital Entertainment Group), and some analysts forecast spending on DVDs to fall 4%-5% this year (e.g., Pali Capital analyst Richard Greenfield). In short, it simply does not make sense to fight over a bigger piece of a declining format – a format that producers must still depend on to put actors to work on their next films.
- Continuing the existing formula will result in actors receiving an estimated \$500 million in DVD residuals over the three-year life of the new labor agreement.
- Upending the well-settled DVD formula would also require significant changes to the entire industry financial framework. DVD revenues are used to help finance films, and the current DVD residual formula forms the basis for all kinds of profit participation deals throughout the industry. It is simply not possible to revise the DVD residual formula for actors without dramatically changing the entire industry's financial framework.

SAG Statement: Changes in industry business models – like declining network repeats and increased online streaming -- and reality shows -- mean declining network residuals payments.

The Facts: There is no proof that Internet streaming has impacted network replays. In fact, where networks can get ratings, they far prefer the more profitable replay than an Internet play. In addition, network residuals have not declined across the board. Fewer replays are the result of increased non-scripted reality programming or an increased reliance on heavily serialized shows that do not replay well. In short, repeats and online streaming are unrelated.

SAG's April 29th Report

SAG Statement: For actors, it takes more work to qualify for our health plan. A middle-income actor has to work 38 days at scale to qualify for Plan I SAG health insurance.

The Facts: SAG members – even ones that do not work regularly – receive pension and health benefits that would be the envy of middle class Americans. For example, SAG members need only earn \$28,120 per year to qualify for the top tier Health Plan I, or \$13,790 to qualify for Health Plan II. By SAG's estimate, that can be accomplished with less than two months of work.

SAG Statement: Our country is in a health care crisis. The SAG plan must remain a viable option for working actors and their families. As medical costs go up, so must employer contributions to our plan.

The Facts: The SAG health plan is in good financial condition. In fact, the plan is in such good shape that the Guild trustees recently sought to have excess Health Plan money used to increase Pension benefits.