

Benefits of Retrans Fee Management



| Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec | YTD T |
|-------|--------------|---------------|----------------|---------------|-----|-----|-----|-----|-----|-----|-----|------------|
| - | \$12,398,188 | \$25,140,164 | \$33,011,283 | \$29,282,157 | - | - | - | - | - | - | - | \$66,374 |
| 8,188 | \$12,769,275 | \$13,433,915 | \$13,871,696 | \$13,902,440 | - | - | - | - | - | - | - | \$710 |
| - | \$310,779 | (\$24,146) | \$387,999 | \$35,747 | - | - | - | - | - | - | - | (\$33,198) |
| - | (\$338,079) | (\$5,580,650) | (\$17,996,821) | (\$9,333,893) | - | - | - | - | - | - | - | (\$33,198) |
| 8,188 | \$25,140,164 | \$33,019,283 | \$29,282,157 | \$33,886,951 | - | - | - | - | - | - | - | - |

| Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct |
|-------------|-------------|-------------|-------------|-------------|-----|-----------|----------|--------------|-----|
| \$1,247,702 | \$1,201,100 | \$1,200,440 | \$1,200,701 | - | - | - | - | - | - |
| \$858,628 | \$886,505 | \$934,372 | \$962,612 | - | - | - | - | - | - |
| \$782,902 | \$818,705 | \$900,167 | \$945,531 | - | - | - | - | - | - |
| \$674,795 | \$688,042 | \$704,032 | \$708,453 | - | - | - | - | - | - |
| \$626,995 | \$641,212 | \$682,464 | \$703,295 | - | - | - | - | - | - |
| \$572,791 | \$590,627 | \$628,677 | \$675,877 | - | - | - | - | - | - |
| \$550,312 | \$565,066 | \$591,790 | \$603,388 | \$1,363,578 | - | - | - | \$9,314,912 | - |
| \$523,036 | \$535,615 | \$578,376 | \$598,773 | \$2,404,139 | - | - | - | \$7,200,113 | - |
| \$505,053 | \$514,870 | \$535,047 | \$539,500 | \$1,303,178 | - | - | - | \$5,704,564 | - |
| \$487,500 | \$502,387 | \$529,500 | \$529,500 | - | - | - | - | \$4,009,175 | - |
| - | - | - | - | - | - | - | - | \$1,930,829 | - |
| - | - | - | - | - | - | - | - | \$1,658,226 | - |
| - | - | - | - | - | - | - | - | \$1,043,519 | - |
| - | - | - | - | - | - | - | - | \$842,244 | - |
| - | - | - | - | - | - | - | - | \$253,753 | - |
| - | - | - | - | - | - | \$15,822 | \$15,710 | \$211,539 | - |
| - | - | - | - | - | - | \$95,675 | \$82,597 | \$1,861,377 | - |
| - | - | - | - | - | - | \$111,498 | \$68,307 | \$34,030,252 | - |
| - | - | - | - | - | - | - | - | (\$143,301) | - |



While Retransmission Fees from multichannel video programming distributors (MVPDs) constitute a relatively new practice, their exponential growth in just a few years has made this revenue source a primary component of a broadcaster's total revenue and valuation, and the most important driver of growth. However, Retrans Fees are also a very complex and laborious revenue stream for Finance Departments to manage for compliance, revenue assurance, cash application, and reporting purposes.

Few broadcasters were prepared to manage this sudden growth in monthly payments, especially since these fees are so distinct from advertising revenues. Compliance requirements and the friction arising from the adaptation by broadcasters of legacy advertising-oriented systems and manual workflows to manage Retrans Fees coming from hundreds of sources with disparate reporting methods and levels of reliability represented a new set of infrastructural challenges (as "Reverse Comp" may represent in the future).

In response to the materiality and cost of managing these challenges, some broadcast groups have outsourced the management of retransmission revenues to MAI to avail themselves of its size, scale and expertise in this area;

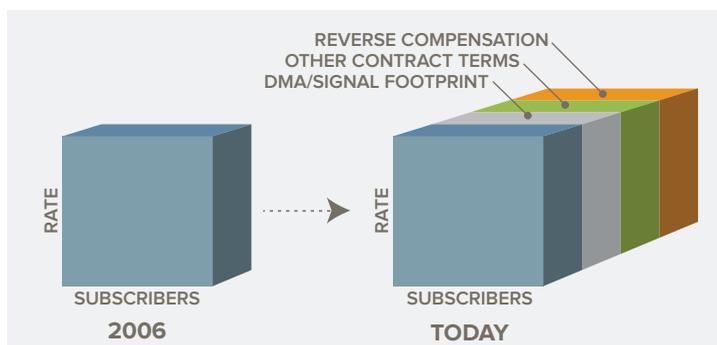
in this way, the entire data flow can be externally managed, from invoicing, processing monthly remittance data and creating journal entries to making necessary adjustments and accruals, resolving discrepancies and managing Aging Balances and collections. These broadcasters have therefore derived the same general benefits offered by service providers such as ADP's payroll service: better data, cost savings pertaining to labor and infrastructure/technology, scalability of service, access to skilled resources and reduced corporate risk. In the context of U.S. broadcasters, this outsourcing provides further industry-specific value in three key areas: *Contract Compliance, Process Standardization and Reporting.*

1. Contract Compliance

As Retrans revenue has grown, broadcasters' contracts with MVPDs have correspondingly become more complex (see diagram below). Rate calculations have evolved from a simple "rate x subscribers" model to now include other considerations related to In and Out-of-Market DMAs (Designated Market Areas), carrier penetration and rate contingencies, specialized subscriber calculations for non-single family home accounts and other terms affecting payments borrowed from traditional cable network contracts. As a result, and combined with the heightened

M&A activity in broadcasting, accurately and efficiently ensuring contract compliance has become quite difficult. However, MAI's expertise in managing this process for many networks and stations has enabled broadcasters to identify and resolve contract compliance and reporting issues each month in real time, saving money, reducing their cash conversion cycle and removing the need to deal with large adjustments and difficult MVPD collections efforts at a later date.

RATE EVOLUTION

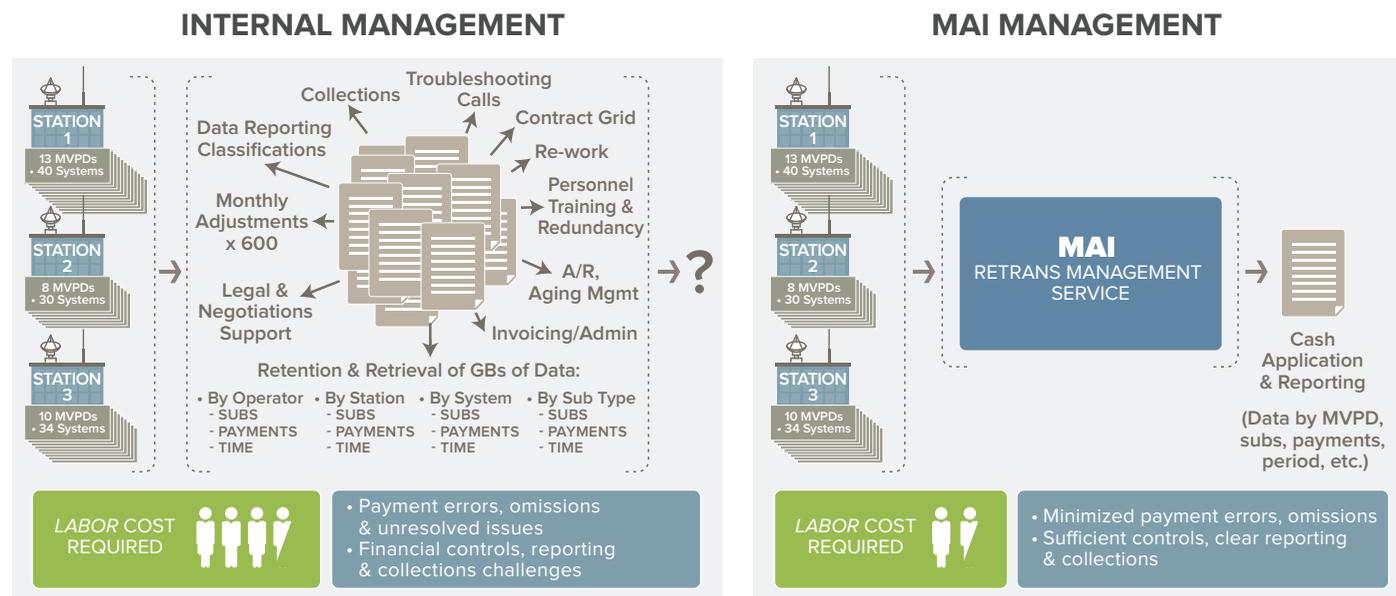


2. Process Standardization: Simplification and Best Practices

The many labor-intensive processes required of Broadcasters to fully and transparently process Retrans fees received from many MVPDs are numerous and highly technical; this work far exceeds passive cash application, as it requires interpretation of data, detection of payment and reporting errors and omissions, intuiting trends and patterns in payments, applying proper accounting treatment and correcting issues over time with MVPDs by phone and email. The expertise and depth of specialized knowledge Broadcaster personnel need to perform these functions every month is significant. Typically, mid and lower-level Accounting personnel are assigned by Broadcast companies to execute this multitude of tasks that require industry knowledge, relationships,

multi-period follow-up and persistence. Furthermore, each Broadcaster must invent such processes and protocols independently, without the benefit of shared knowledge and experience or proper database tools.

MAI's service offers Broadcasters the benefits of a dedicated and specialized team, within a fully scaled service using best practices derived from years of experience performing Retrans Management for hundreds of broadcast stations every month. Clients benefit from best-in-class practices and protocols, evolved software, industry expertise and relationships, and account management teams dedicated to the management of billions of dollars in monthly remittances.



3. Reporting

Given the volume and import of retrans fees, proper intelligence and reporting has also become a critical need for leaders in broadcasting for forecasting and financial planning, as well as for preparation for MVPD renewal negotiations. A dependable, consistent and detailed set of performance metrics, reports and trend analyses down

to the DMA, station, MVPD and Network level derived from broadcast-customized, software-based solutions comprises yet another benefit of outsourcing that leading broadcasters have enjoyed, and mimics the practices of the large, experienced cable networks.

“The data aggregated by and through MAI’s outsourced service was foundational in developing a sophisticated capability to analyze retransmission revenue all while offloading the heavy volume of laborious, lower value processing work.”

- John Robertson
Director of Finance, Hearst Television

Summary

The proper management of retransmission fees is a task few companies are equipped to do to meet the expectations and needs of top management. The complexity, dynamic nature and materiality of these fees may require very high investment from broadcasters to adequately manage as these firms may need to increase headcount and develop or acquire/maintain complex software solutions. Therefore, what was planned as proper revenue management by responsible management can easily morph into a dangerous distraction from broadcasters’ core business. MAI therefore provides a service to manage the process for these companies.

MAI Contacts

The best way to learn more about how we can deliver real value to you and your organization is to talk to one of our experts.

We look forward to hearing from you.

Audit & Revenue Management:

Karin Bleiler, *VP Revenue Management Services*

Media Audits International
5775 DTC Boulevard, Greenwood Village, CO 80111
kbleiler@mai-global.com
+1-303-694-0444 Main
+1-720-407-7912 Direct
+1-720-431-7903 Mobile

Tim Waddingham, *Director, Client Development*

Media Audits International
5775 DTC Boulevard, Greenwood Village, CO 80111
twaddingham@mai-global.com
+1-303-694-0444 Main
+1-720-407-7569 Direct
+1-720-339-3637 Mobile

Bruce Lazarus, *Chief Executive Officer*

Media Audits International
5775 DTC Boulevard, Greenwood Village, CO 80111
blazarus@mai-global.com
+1-303-694-0444 Main
+1-720-407-7555 Direct
+1-720-341-3339 Mobile



*Corporate Headquarters
5775 DTC Boulevard,
Greenwood Village, CO 80111
United States*

*+1-303-694-0444
mai-global.com*

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