TV PROGRAMMING COSTS

AN ANALYSIS OF THE MARKET FORCES DRIVING ENTERTAINMENT AND SPORTS RIGHTS FEES

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EXECUTIVE SUMMARY

Sharp increases in the cost to produce entertainment programming and field major league sports teams ripple broadly through our nation's economic fabric. These escalating costs affect consumers directly—through higher ticket prices for movies and sports events or for in-home entertainment; and indirectly—through higher advertising and promotional costs which are built into the cost of everything from a box of Wheaties to a Big Mac. These cost pressures are particularly acute on television networks.

The cost of creating film, TV and sports entertainment have been rising at rates much faster than inflation. This upward cost trend is due in part to the changing economics of a worldwide entertainment industry, where success is measured in the hundreds of millions of dollars. In particular, the expectations of those in the limited talent pool who can consistently achieve success have grown dramatically. And the resulting cost increases to produce movies and television series and obtain rights to major league sports over the last decade have impacted all TV networks—broadcast and cable.

Prime examples of these entertainment and sports cost trends include:

- Since the early 1990's, national media payments for sports rights have risen 32%... from $1.34 bil./year to $1.77 bil./year, a 6% per year increase.
- From 1994 to 1997, the average ticket price to attend a regular-season NFL, MLB, NBA and NHL game climbed 25% from $24.51 to $30.55, an 8% per year rise.
- Production costs of motion pictures released by the major studio have risen 33% in the last four years alone, from nearly $30 mil. to nearly $40 mil. per film, equivalent to a 10%/year compound growth rate.
- The prices charged to basic cable networks to license off-network syndicated TV series have nearly doubled over the last four years from $400,000-$600,000 per episode to $600,000-$800,000 today, 12% per year increase.
- Broadcast network TV spot rates, measured in "cost-per-thousands", increased 47% between 1994 and 1997.

The rapid rise in entertainment and sports costs is consistent with supply/demand economic theory. While the supply of top talent--be they actors, athletes, writers or directors--has remained relatively static over the years, there are today more potential bidders for their services. Today, 6 broadcast television networks, 36 widely-carried basic cable networks and a growing number of premium cable networks compete for a finite amount of top level entertainment and sports programming. Coupled with a long-term demand on the part of both advertisers and consumers for top entertainment product, the classic supply/demand equation remains in constant imbalance in favor of the limited supply. Limited supply/growing demand results in higher cost structures throughout the entertainment and sports industries production and distribution chains.

MAJOR LEAGUE SPORTS COST ANALYSIS

- From 1982-86, the payroll for a National Football League team averaged about $4.5 mil. a year. Over the latest four year period (1994-1997) the payroll has gone up seven-fold, to a per team average of $32.6 mil. a year.

- The TV rights to broadcast NFL games have more than doubled between the 1982-86 and 1994-97 contracts, from $2.1 bil. to $4.4 bil. The next four-year TV contract for broadcast and cable rights to NFL games, covering the 1998-02 seasons, could be 40% to 50% higher than the current deal.

- The rights fees for the new four-year (1998-2001) National Basketball Association TV deal with NBC and TNT/TBS is nearly two-and-one-half times the cost for the last four-year deal (1994-1997). NBC's contract went from $750 mil. to $1.75 bil., up 133%, while Turner Broadcasting's fees went from $350 mil. to $890 mil., up 154%.

- The average National Basketball Association player salary has gone up more than four-fold over the last ten years, from $510,000 in 1986 to $2.2 mil. in 1996.

- Between the 1993-94 and 1996-97 National Hockey League seasons, the average player salary has increased 82%, from nearly $500,000 to more than $900,000.

- Between the 1993 and 1997 Major League Baseball seasons, the average team payroll increased from $31 mil. to $44.5 mil., a rise of 43%.

Nowhere are TV programming cost increases more evident than in the sports programming sector. Higher sports network programming costs, in turn, are attributable to dramatically higher sports rights fees charged to the networks by professional sports teams and leagues. Ultimately, much of the reason for higher programming costs has to do with the economics of the sports business.

- In recent years, following a series of work stoppages, NFL, MLB, NBA and NHL player salaries have all skyrocketed. With the introduction of free agency, top professional athletes are able to command hefty bonuses and long-term guaranteed contracts.

- Team owners are paying skyrocketing prices for teams and recouping their investment by passing the cost on to consumers, directly and indirectly.

- In order to remain competitive, team owners are caught in a spiral and forced to match the wages paid by other team owners.

- New stadiums and arenas, costing hundreds of millions of dollars and packed with expensive luxury loges and club seats are being partially funded by public sector infrastructure improvements.
- New stadiums and arenas are often financed, in part, by "personal seat licenses" (PSL) in which consumers pay for the mere right to purchase a season ticket package.

- Sports consumers fortunate enough to obtain individual unpackaged tickets are being compelled to pay much higher prices for tickets, food & beverage, and souvenirs than ever before.

- Cable TV sports programmers—both national and regional—are often at the mercy of teams and leagues. To remain competitive in the video marketplace, cable networks must extend or renew their TV rights to attractive sports programming.

- At the same time, cable operators and programmers bear the brunt of consumer backlash to rate hikes that are necessary to recoup their investment in programming.

- The typical cable TV regional sports network (RSN) recoups less than 30% of its total revenue from advertising. The vast majority of revenue comes from licensing fees paid by cable operators. In 1996, RSN's generated $265 mil. in advertising revenue, or only about 33 cents per subscriber per month.

- Cable operator affiliation fees to RSNs vary widely depending whether the RSN is a premium or basic programming service and the distance of the cable operator's market from the core city. Inner market affiliate fees for basic sports services range from $0.50/sub/month up to as much as $1.40. Premium rates tend to be 50% of the retail fee. Outer market rates are $0.15 to $0.50 per subscriber, per month.

- Even well-established mature national cable networks that carry sports programming, such as ESPN and TNT, recoup only 40-50% of their revenue from advertising. The rest comes from affiliate licensing fees, mostly paid by cable operators, who in turn recoup the cost from their customers.

PLAYER SALARIES

The average professional athlete, last year, was a millionaire. Payroll accounts for 46% to 81% of a typical team's total revenue.

MAJOR LEAGUE SPORTS ECONOMICS, 1996

League	Average Player Salary	Payroll/ Revenue	Payroll/ Oper. Exp.
NBA	$2,190,000	46.2%	64.3%
MLB	$1,280,000	61.9%	64.6%
NHL	$ 902,900	81.4%	95.8%
NFL	$ 795,000	68.1%	78.8%

NATIONAL OVER-THE-AIR AND CABLE TV NETWORK SPORTS RIGHTS FEES

Under the national TV and cable contracts with the major sports leagues signed in the early 1990's, annual TV-cable rights of the four major leagues totaled over $1.3 bil. per year. The current over-the-air and network TV contracts call for media payments to the leagues totaling nearly $1.8 bil. per year, a 32% increase.

ANNUAL NATIONAL OVER-THE-AIR TV AND CABLE NETWORK RIGHTS FEES ($mil.)

	Previous Contracts	Current Contracts	Percent Change
NFL	$ 912.5	$1,100.0	20.5%
NBA	218.8	278.0	27.1%
MLB	192.5	345.0	79.2%
NHL	13.5	44.0	225.9%
Total	$1,337.3	$1,767.0	32.1%

Source: © 1997 PKA estimates.

NATIONAL FOOTBALL LEAGUE

Under its current four-year national TV contracts with ABC, NBC, FOX, ESPN and TNT, the NFL is being paid $4.4 bil., or an average of $36.7 mil. per team per year. Media revenue accounts for nearly 60% of a NFL team's total revenue. The average team payroll has risen from $4.5 mil. a year in 1982-86 to about $32.6 mil. per team, or 89% of TV revenue. Over the past decade, TV revenue per team has risen 120%, while the average team payroll has risen 244%.

NATIONAL FOOTBALL LEAGUE ($000)

	Total TV Rights	TV Rev./ Team/Yr.	Payroll/ Team/Yr.	Payroll/ TV Rev.	Average Player Salary	Percent Salary Increase
1960-61	$ 600	$ 45	$ 675	1500%	$ 15	
1962-63	4,650	330	900	273%	20	33%
1964-65	28,200	1,000	945	95%	21	5%
1966-69	75,200	1,600	990	62%	22	5%
1970-73	185,000	1,800	1,035	58%	23	5%
1974-77	269,000	2,600	1,350	52%	30	30%
1978-81	646,000	5,800	2,700	47%	60	100%
1982-86	2,100,000	13,600	4,500	33%	100	67%
1987-89	1,428,000	16,700	9,495	57%	211	111%
1990-93	3,650,000	32,600	15,975	49%	355	68%
1994-97	4,400,000	36,670	32,625	89%	725	104%

Source: © 1997 PKA estimates

According to the National Football League Players Association, since 1987 the average player salary has risen even more—from $220,000 to $795,000, a total of 2,875% with starting players commanding an average of $1.39 mil. vs. $300,000 a decade ago.

NFL PLAYER SALARIES

Year	NFL Avg. Salary	NFL Avg. Starter
1983	$ 141,000	$ 170,000
1884	206,000	264,000
1985	217,000	264,000
1986	220,000	277,000
1987	220,000	300,000
1988	250,000	328,000
1989	319,000	346,000
1990	365,000	461,000
1991	425,000	539,000
1992	492,000	627,000
1993	683,000	1,008,000
1994	636,000	1,047,000
1995	714,000	1,192,000
1996	795,000	1,388,000

Source: NFLPA, USA Today, May 7, 1997.

Marquee players like Deion Sanders fare even better. His current contract is for $35.3 mil., including a record $13.0 mil. bonus. The average annual salary of starting quarterbacks last year averaged $2.39 mil., defensive lineman $1.22 mil. and linebackers $1.17 mil.

The major sports leagues, through collective bargaining, have adopted some form of team by team payroll controls, commonly called "salary caps" and/or limitations on rookie salaries and eligibility for free agency. These so-called caps, however, are very "soft," sometimes with the exceptions swallowing up the rule.

Salary caps are hardly a panacea. NFL teams are paying $44.7 mil. against their 1997 salary cap of $41.45 mil. per team for players no longer on their active rosters (referred to as ghost salaries). That is an average of $1.493 mil./team.

NATIONAL FOOTBALL LEAGUE

Team	Total Payroll 1994	1995	1996	Top 10 Players	Ghost Salary (000)	Avg. 1996 Salary
Philadelphia	$ 33,310	$ 35,150	$ 41,143	59.9%	$423	$ 721,800
Dallas	34,010	36,350	40,213	54.9%	277	693,331
Buffalo	32,990	34,550	39,374	51.7%	842	690,777
Detroit	33,810	35,820	38,573	55.7%	353	688,796
Pittsburgh	32,760	36,020	39,934	51.4%	359	688,513
Denver	32,680	34,700	36,490	54.0%	2,641	663,449
N.Y. Giants	32,910	35,050	39,758	46.5%	1,356	662,631
San Francisco	32,980	33,370	36,649	54.2%	1,240	654,437
Tampa Bay	29,990	35,680	38,594	51.6%	771	654,133
Kansas City	32,330	35,310	39,171	48.4%	286	652,848
Arizona	32,130	34,720	37,308	63.0%	1,762	643,244
New England	32,840	33,030	37,288	51.7%	1,372	642,896
New Orleans	32,210	32,110	39,848	53.5%	929	642,708
Minnesota	29,920	35,440	38,501	50.1%	1,977	641,681
Indianapolis	32,200	34,240	38,461	52.6%	1,906	641,013
Oakland	33,730	36,440	37,156	41.8%	1,933	640,624
Baltimore	32,180	30,070	35,208	54.1%	7,254	640,141
Cincinnati	29,860	36,030	37,122	49.6%	174	640,032
N.Y. Jets	33,120	32,140	37,044	51.3%	686	638,682
San Diego	32,200	34,770	37,601	57.1%	900	637,298
Green Bay	33,440	33,780	38,220	51.7%	949	637,005
Carolina		31,400	35,231	48.7%	892	629,117
Chicago	31,250	34,300	40,794	49.6%	727	627,603
Washington	33,350	35,440	38,894	53.4%	3,368	627,320
Houston	32,670	31,350	34,370	51.6%	1,331	624,910
Atlanta	32,390	35,910	35,477	53.2%	818	622,400
Jacksonville		29,220	36,060	50.1%	620	611,177
Seattle	33,920	35,460	38,094	47.5%	2,947	604,669
St. Louis	31,180	34,400	34,581	51.9%	685	586,120
Miami	32,220	35,050	31,547	54.5%	4,998	573,587
AVERAGE	32,449	34,243	37,623	52.2%	1,493	644,098
TOTAL	908,580	1,027,300	1,128,701		44,776	

Source: USA Today and © 1997 PKA estimates.

The TV rights to broadcast NFL games have more than doubled between the 1982-86 and 1994-97 contracts, from $2.1 bil. to $4.4 bil. The next four-year TV contract for broadcast and cable rights to NFL games, covering the 1998-02 seasons, could be 40% to 50% higher than the current contract. That would raise the sports rights for NFL from $4.63 bil. from 1994-97 to nearly $7.0 bil.

NFL TV RIGHTS FEE ESTIMATES (mil.)

	-----Est. NFL Rights-----		%	-----Ad Sales-----		%
Network	1994-97	1998-02	Change	1995	1996	Change
ABC	$ 925	$1,700	83.8%	$ 328	$ 364	10.9%
FOX	1,590	1,800	13.2%	374	410	9.7%
NBC	868	1,300	49.8%	315	392	24.6%
TNT/ESPN	1,020	1,750	71.6%	n.a.	n.a.	n.a.
DIRECTV	$125-225	350	55.6%	40*	48*	20.0%

** Subscription fee; Ad sales are for calendar year; n.a.=not applicable due to subscription and ad revenue streams.*
Source: © 1997 Paul Kagan Associates, Inc. estimates.

Much of the speculation centers around how badly CBS wants back into the NFL fold and how aggressively Fox will bid for more. The thinking is that ABC currently has the best bargain, so it will likely bear the brunt of the NFL's price hikes. If ABC balks, CBS and Fox will be waiting in the wings.

Currently TNT carries NFL games on Sunday evenings for the first half of the season and ESPN has cable games for the second half of the year. Rather than splitting the Sunday Night package, one cable network might outbid the other for the entire package. Fox, which owns The Family Channel, FX, and cable RSNs, is also interested in a cable package.

ANNUAL CABLE AND TV RIGHTS FEES
(mil.)

Year	Cable	Fee	Broadcast	Fee
1987-89	ESPN	$ 51	ABC/CBS/NBC	$417
1990-93	ESPN/TNT	225	ABC/CBS/NBC	700
1994-97	ESPN/TNT	255	ABC/FOX/NBC	845

© 1997 Paul Kagan Associates, Inc. estimates

NATIONAL BASKETBALL ASSOCIATION

This is the final season of the NBA's four-year $750 mil. deal with NBC and its four-year $350 mil. deal with Turner Broadcasting. Both include profit sharing on top of a rights fee. The NBA, Nov. 12, announced new four year deals with NBC and TBS/TNT. The 1998-2001 NBC pact is for $1.75 billion (+133%) and the new TNT/TBS deal is for $890 mil. (+154%). That raises NBC's annualized fee from about $190 mil./season to $437.5 mil. and Turner's annual fee from $88 mil./yr. to $222.5 mil.

National media revenue for each NBA team will more than double from $9.3 mil./yr. to $22 mil. /yr. The annual network TV rights fee under the new contract is 937% higher than a decade ago and the cable rights fee is up 790%. Speaking at a PKA MEDIA SPORTS BUSINESS conference on Nov. 13, 1997, player agent Leigh Steinberg of Steinberg & Moorad said he expected the average NBA player's salary to double from $2.2 mil. to $4.4 mil. by the end of the new TV contracts.

Cable TV regional sports network rights fees have leaped as well, jumping from the $2 mil. to $3 mil. per year range to around $3 mil. to $5 mil. Last year, 26 NBA teams televised an average of 36 games on cable RSNs, with an average rating of 2.9.

NBA TV-CABLE RIGHTS FEE HISTORY
($mil.)

Year	Network	Fee/yr.
1980-81	CBS	$18.5
1982-85	CBS	22.0
1982-85	ESPN/USA/TBS	5.5
1986-89	CBS	43.3
1986-87	TBS	12.5
1988-89	TBS	25.0
1990-93	NBC	150.0
1990-93	TNT	68.8
1994-97	NBC	190.0
1994-97	TBS/TNT	88.0
1998-01	NBC	437.5
1998-01	TBS/TNT	222.5

Despite being the first league to adopt a salary cap, the NBA has been plagued by free agency and re-signing exceptions that appear to have swallowed up the rule. Recently, 21-year-old Kevin Garnett, who came to the NBA directly from high school in 1995, signed a record six-year extension with the Minnesota Timberwolves for $123 mil. It is the richest contract in professional sports. His contract is said to be worth $32 mil. more than owner Glen Taylor paid for the franchise in 1995.

TOP NBA PLAYER CONTRACTS

Player/Team	Years	Total (mil.)	Average (mil.)
Michael Jordan, Chicago	1	$35.0	$ 35.0
Kevin Garnett, Minnesota	6	123.0	20.5
Patrick Ewing, New York	4	70.0	17.5
Shaquille O'Neal, L.A. Lakers	7	120.0	17.1
Alonzo Mourning, Miami	7	105.0	15.0
Juwan Howard, Washington	7	105.0	15.0
Rasheed Wallace, Portland	6	80.0	13.3
Gary Payton, Seattle	7	88.0	12.6
Hakeem Olajuwon, Houston	5	60.0	12.0
Kikembe Mutombo, Atlanta	5	57.0	11.4
Bryant Reeves, Vancouver	6	65.0	10.8
Horace Grant, Orlando	5	50.0	10.0
David Robinson, San Antonio	6	60.0	10.0

The average National Basketball Association player salary has gone up more than four-fold over the last ten years, from $440,000 in 1986 to $2.2 mil. in 1996. After slowing from 1991-94, the NBA clubs experienced a 31.9% rise in payroll in 1995 followed by a 20.9% increase last season.

Year	NBA Avg. Salary	% Change
1982	$ 249,000	
1983	260,000	4.4%
1884	325,000	25.0%
1985	375,000	15.4%
1986	440,000	17.3%
1987	510,000	15.9%
1988	600,000	17.6%
1989	750,000	25.0%
1990	990,000	32.0%
1991	1,040,000	5.1%
1992	1,220,000	17.3%
1993	1,320,000	8.2%
1994	1,380,000	4.5%
1995	1,820,000	31.9%
1996	2,200,000	20.9%

NBA 1996 average salary from USA Today, Nov. 15, 1996. 1982-1995 from PKA estimates

Last season, the NBA champion Chicago Bulls had 10 players earning at least $1 mil., topped by Michael Jordan's $30 mil. and Dennis Rodman's $9 mil. The Bulls $58 mil. payroll is more than $13 mil. higher than the second highest team payroll—the Orlando Magic. NBA player salaries increased from $426.5 mil. in 1992-93 to $826,190 in 1996-97.

The salary cap increased from $24.3 mil. in 1995-96 to $25.6 mil. in 1996-97. The minimum salary for veterans is $247,500, for rookies it is $220,000.

NATIONAL BASKETBALL ASSN. PAYROLL
($000)

	1992-93 Payroll	1996-97 Payroll	% Change 1992-96
Chicago	$18,360	$58,270	217.4%
Orlando	13,550	45,110	232.9%
Indiana	15,240	40,930	168.6%
Phoenix	17,430	36,030	106.7%
Washington	14,540	34,560	137.7%
San Antonio	18,650	33,270	78.4%
Golden State	17,290	30,580	76.9%
Seattle	17,420	29,830	71.2%
Sacramento	14,510	29,180	101.1%
L.A. Lakers	16,560	29,080	75.6%
Detroit	16,780	27,460	63.6%
L.A. Clippers	17,160	26,040	51.7%
Boston	19,440	25,990	33.7%
New York	14,520	25,930	78.6%
Houston	14,810	25,780	74.1%
Atlanta	15,420	25,380	64.6%
New Jersey	16,620	25,320	52.3%
Portland	17,530	25,150	43.5%
Utah	15,530	25,110	61.7%
Denver	14,290	24,900	74.2%
Philadelphia	16,560	24,770	49.6%
Dallas	12,000	24,700	105.8%
Milwaukee	14,420	24,460	69.6%
Minnesota	12,870	24,350	89.2%
Miami	12,800	23,800	85.9%
Charlotte	12,600	22,430	78.0%
Cleveland	19,670	20,370	3.6%
Toronto		18,770	
Vancouver		18,640	
TOTAL	$426,570	$826,190	93.7%
AVERAGE	$15,799	$ 30,600	

Source: USA Today, Nov. 15, 1996 and © 1997 Paul Kagan Associates, Inc. estimates.

MAJOR LEAGUE BASEBALL

Major League Baseball clubs paid players over $1 bil. for the 1997 season. Club payrolls at the beginning of the season ranged from $9.1 mil. (Pittsburgh) to $58.5 mil. (N.Y. Yankees) and by the end of the season from an estimated $16.0 mil. (Pittsburgh Pirates) to $66 mil. (N.Y Yankees). Between the 1993 and 1997 Major League Baseball seasons, the average team payroll increased from $31 mil. to $44.5 mil., a rise of 43%.

Two years after baseball's longest labor shutdown in history, salaries have increased to their highest levels ever. The baseball millionaire club, once a rarity, is now the norm. As of Opening Day 1997, 280 players reached the seven-figure-salary level, up 17.2% from 1996.

MAJOR LEAGUE BASEBALL PAYROLL DATA: 1993-97
($000)

	1993	1995	1996	Est. 1997	% Change 1993-97
N.Y. Yankees	$ 46,736	$ 54,890	$ 52,190	$ 66,000	41.2%
Baltimore	29,164	46,440	48,730	63,000	116.0%
Cleveland	15,783	39,100	45,320	60,000	280.2%
Atlanta	43,956	46,420	47,930	58,000	32.0%
Florida	20,973	22,780	30,080	55,000	162.2%
Chicago White Sox	39,368	36,430	41,930	54,000	37.2%
Texas	35,657	35,600	35,860	53,000	48.6%
Cincinnati	39,803	46,760	40,720	53,000	33.2%
Toronto	48,169	41,830	28,500	53,000	10.0%
St. Louis	21,263	27,460	38,740	52,000	144.6%
Seattle	30,533	36,820	39,220	50,000	63.8%
Los Angeles	36,079	36,480	34,640	50,000	38.6%
Colorado	14,276	37,960	37,860	48,000	236.2%
N.Y. Mets	40,841	13,040	23,460	48,000	17.5%
Boston	46,165	37,000	39,430	46,000	-0.4%
San Francisco	36,156	33,660	34,600	43,000	18.9%
Chicago Cubs	35,171	33,730	30,950	43,000	22.3%
San Diego	10,952	24,800	27,130	42,000	283.5%
Anaheim	24,676	33,800	26,890	40,000	62.1%
Minnesota	26,803	14,510	21,960	40,000	49.2%
Houston	30,075	33,540	26,890	39,000	29.7%
Philadelphia	31,203	29,580	29,470	38,000	21.8%
Kansas City	38,082	28,110	18,480	37,000	-2.8%
Milwaukee	23,467	17,060	20,480	31,000	32.1%
Montreal	14,616	12,950	15,410	25,000	71.0%
Oakland	32,751	31,370	19,400	23,000	-29.8%
Detroit	37,929	28,320	21,940	21,000	-44.6%
Pittsburgh	20,475	17,380	21,250	16,000	-21.9%
TOTAL	$871,122	$897,820	$899,460	$1,247,000	43.1%
AVERAGE	$ 31,112	$ 32,065	$ 32,124	$ 44,536	43.1%

Source: MLB, MLBPA, USA Today and © 1997 PKA estimates.

Since 1994-95, when Major League Baseball took its rights in-house and established a joint venture with ABC and NBC, national over-the-air TV network rights fees paid by FOX and NBC have risen to $210 mil./yr., up 40%. In 1994-1995, ESPN rights were only $42.5 mil. due mainly to the baseball work stoppage. Since then, national cable network rights fee payments from ESPN and FX have risen to over $135 mil. per season.

Rights fees paid by cable TV regional sports networks (RSN) range widely from about $30,000 per game televised in a small TV market to over $270,000 for a New York Yankees game carried by Madison Square Garden Network. Five years ago, the going rate for a typical RSN baseball carriage rights fee deal was in the neighborhood of $40,000 to $50,000 per game. In new contracts, the average cost per game is estimated to approach $100,000.

MAJOR LEAGUE BASEBALL TV AND CABLE RIGHTS FEES
($Mil.)

1973-75	ABC/NBC	$43.0
1976-79	ABC/NBC	52.0
1980-83	ABC/NBC	96.7
1984-89	ABC/NBC	183.3
1990-94	CBS	265.0
1990-93	ESPN	100.8
1994-95	ABC/NBC/TBN	150.0
1994-95	ESPN	42.5
1996-00	FOX/NBC	210.0
1996-00	ESPN	90.0
1997-00	FX	45.0

NATIONAL HOCKEY LEAGUE

Between the 1993-94 and 1996-97 National Hockey League seasons, the average player salary has increased 82%, from nearly $500,000 to more than $900,000. In September, 1997, Colorado Avalanche star Joe Sakic re-signed with the Avalanche for a $15 mil. bonus after being offered a $21 mil. bonus by the New York Rangers. That bonus is equivalent to two times the franchise's entire payroll four years ago, when the team was located in Quebec.

NATIONAL HOCKEY LEAGUE AVERAGE SALARIES

	1993-94	1995-96	1996-97	4-Year Change
Colorado	$ 341,923	$ 857,000	$ 1,073,100	213.8%
Vancouver	433,478	954,000	1,097,200	153.1%
Phoenix	389,500	793,000	895,700	130.0%
San Jose	351,154	653,000	800,000	127.8%
N.Y. Rangers	723,200	1,140,000	1,602,600	121.6%
Edmonton	320,833	463,000	709,100	121.0%
Florida	364,444	678,000	761,400	108.9%
Ottawa	293,462	466,000	607,700	107.1%
Philadelphia	543,913	734,000	1,116,500	105.3%
Detroit	600,400	1,140,000	1,213,500	102.1%
Toronto	422,593	810,000	849,500	101.0%
Anaheim	334,348	518,000	669,200	100.2%
New Jersey	512,500	782,000	1,023,500	99.7%
St. Louis	634,783	915,000	1,227,700	93.4%
Montreal	435,000	679,000	793,300	82.4%
Tampa Bay	406,000	577,000	739,600	82.2%
Chicago	531,154	807,000	931,700	75.4%
Dallas	534,167	672,000	924,300	73.0%
Pittsburgh	740,800	902,000	1,254,400	69.3%
Washington	607,273	691,000	921,700	51.8%
Hartford	525,926	746,000	779,600	48.2%
Calgary	461,923	516,000	661,200	43.1%
Buffalo	640,000	695,000	862,000	34.7%
Boston	505,600	729,000	664,900	31.5%
Los Angeles	714,762	971,000	739,700	3.5%
N.Y. Islanders	546,400	614,000	555,400	1.6%
AVERAGE	496,751	750,077	902,865	81.8%

In the past, the NHL has relied upon cable for exposure. In 1994, however, the FOX network signed a six-year contract for $31 mil. per year. When its contract expires, ESPN is likely to experience a significant increase in the rights fees it pays for NHL games.

Cable RSNs carry 20 hockey teams and televise an average of 50 games per season. In most cases, rights fees are in the $3 mil. to $4 mil. range. A few major market teams can command over $10 mil.

NATIONAL HOCKEY LEAGUE TV CABLE RIGHTS FEES
(Mil.)

1982-84	USA	$3.9
1985-87	ESPN	8.0
1988-90	SportsChannel America	17.0
1991	SportsChannel America	5.5
1992-93	ESPN	13.5
1994-98	ESPN	13.0
1994-99	FOX*	31.0

** Broadcast TV rights*

RECENT FRANCHISE SALES

Within the past three years, the prices being paid for major league teams have resulted in purchasers charging not only higher ticket prices but demanding higher media rights payments. The recent purchase of the Los Angeles Dodgers by News Corp. for a reported $311 mil., 80% more than the previous record payment for a baseball franchise—the Baltimore Orioles in 1993. Less than two years ago, the St. Louis Cardinals were sold for $150 mil.

The Carolina Panthers and Jacksonville Jaguars each paid $140 mil. expansion fees to the NFL and agreed to forego two years of their share of national TV revenue. The Tampa Bay Buccaneers were purchased for $192 mil., 30% of the St. Louis Rams for $60 mil., and minority stakes in the Baltimore Ravens were acquired by managing partner Art Modell for $73 mil. The typical NBA franchise is worth $115 mil. to $150 mil. The Florida Panthers NHL franchise was effectively valued at $154 mil. when 49% of the club was sold to the public for $77 mil. More recently, an agreement was announced for the purchase of the NHL New York Islanders for $150 mil.

TICKET PRICES

The NFL ticket spiral continued its upward climb in 1997, increasing to just over $38, up 6.8% from 1996. In 1996, three clubs averaged over $40/seat; in 1997 10 teams have broken the $40 barrier. Surprisingly, 40% of all non-premium seats are over $40, compared to only 2% a year ago.

According to Team Marketing Report's annual survey, Washington has climbed to the top of the NFL seat price ladder, up from 9th place in '96. The 48.3% price hike is directly related to the team's move from RFK Stadium to the $180 mil., 80,116 seat Jack Kent Cooke Stadium this fall.

Seeing a N.Y. Jets game is the NFL's cheapest ticket ($30.16), despite a 19% jump over 1996. By comparison, attending a Giants game ($40.59) runs 35% more.

<u>Overall, the 16 teams registering higher ticket prices in 1997 raised them by an average of 13%</u>. Only Seattle posted any significant ticket price drop (-4.4%). Eleven clubs held the line on ticket prices this season.

<u>Nineteen of 28 MLB teams increased prices in 1997, averaging an 11.2% jump per team</u>. St. Louis registered the biggest one-season percentage price hike, raising tickets by

nearly 25% from 1996. Five of 29 NBA teams have broken the $40 ticket barrier and 12 of 26 NHL teams now charge more than $40/ticket.

Since 1997, the average cost of a ticket to attend a major league sports game has risen 24.6% from $24.51 to $30.55.

AVERAGE TICKET PRICES

League	1994	1995	1996	1997	% Change 1994-97
NFL	$30.79	$33.63	$35.67	$38.09	23.7%
NHL	29.48	33.49	34.82	38.04	29.0%
NBA	27.32	28.82	31.56	34.08	24.7%
MLB	10.45	10.55	11.18	11.98	14.6%
Average	$24.51	$26.62	$28.31	$30.55	24.6%

Source: © 1997 Paul Kagan Associates, Inc. analysis of Team Marketing Report data.

STADIUM ARENA CONSTRUCTION

There are currently 43 stadiums and 17 arenas in various stages of construction planning and financing. The collective cost of these facilities is on the order of $13 bil. By threatening to move to a different city, a team owner has political leverage to procure favorable terms from state and local government for infrastructure improvements, tax abatement and deferral, and favorable municipal bond financing.

Team owners also retain management rights and increasingly have favorable lease agreements allowing the team to retain most of the revenue from concessions, merchandise sales, parking, naming rights, club seats, luxury suites and other revenue streams. After new stadiums and arenas are built, prices appear to increase across the board.

In Cincinnati, Detroit, and Seattle, two stadiums are being built and in San Francisco-Oakland, three are being built or upgraded. Within the past three years, 39 of 113 NFL, MLB, NBA and NHL franchises have voiced dissatisfaction with their current facilities or threatened to move.

HOW THE SUPPLY/DEMAND EQUATION IMPACTS ENTERTAINMENT COSTS

The entertainment industry may be the ultimate test of the dynamics of the supply/demand equation, an underlying principle of the free enterprise system and free market economy.

In the entertainment market, the difference between success and failure is often measured by a single scoring or rating point and the rewards for winning can often be measured in the tens and hundreds of millions of dollars.

The potential agents of success, whether they are bankable movie actors and directors, the producer of a hit TV series, a superstar athlete or a winning coach, have tremendous bargaining and negotiating leverage.

Given that there are often only a handful of superstars in the market at any one time guarantees a nearly permanent supply shortage, while the number of competitors--be they broadcast networks, cable networks, movie and TV producers or pro sports teams--is relatively large, generating continuous high demand. Coupled with a long-term demand on the part of both advertisers and consumers for entertainment product, the classic supply/demand equation remains almost constantly (imbalance) in favor of the limited supply.

Further, it is not only the amounts paid to the top performers that drives the cost of entertainment programming at rates that have historically been multiples of the rate of inflation--it is the impact these contracts have on the second tier performers. The old saying of "a rising tide lifts all boats" applies here. Unlike the tide, however, entertainment pricing levels rarely fall back from their high water marks.

Here are some examples of how entertainment costs have been growing:

- In 1986 the cost to produce and release a major motion picture in the U.S. was $24 mil. Ten years later, in 1996, the comparable figure had more than doubled to $60 mil. and is likely to approach $70 mil. this year.

- A total of 16 films were released during the summer or 1997 alone with production costs in excess of $80 mil. and several had combined production/releasing costs that may have exceeded $150 mil. 1997's release, *Titanic* had a production budget that reportedly has exceeded $200 mil., which would make it the most expensive movie ever made.

- The total investment in movie production and releasing costs by the major movie studios quadrupled between 1986 and 1996, from $3.2 bil. to $13 bil.

- The prices being paid by the broadcast networks to air hit movies have increased very significantly. For instance, NBC paid a reported $25 mil. for the rights to air Steven Spielberg's widely acclaimed *Schindler's List* in 1996. This year, while Spielberg's latest blockbuster--*The Lost World*--was still playing in the theaters, Fox Television agreed to pay $80 mil. to air the movie on its network after the movie has been released to home video.

- The per-episode costs to license off-network hour series for cable runs have more than quadrupled, and in some cases gone up twenty-fold, in the last ten years. In 1987, for instance, series such as *Falcon Crest* got $40,000 per episode, *Cagney and Lacey* got some $115,000 per episode and series such as *Remington Steele* and *The New Mike*

Hammer were being acquired by cable networks for fees of around $140,000 per episode. Ten years later, cable networks are having to pay a reported $600,000 for series such as The *X-Files* and *Ellen*, $725,000 for *Walker, Texas Ranger* and $800,000 for the cable rights to *ER*.

- Just two years ago the top movie actors were commanding fees of around $12 mil.-15 mil. per movie. Fees for many top actors and even supporting talent have gone up 100% to 150% since then. Actors such as Jim Carrey have received $20 mil. for roles in 1997 movies such as *The Cable Guy* and Arnold Schwarzenegger earned a reported $25 mil. to appear in the latest *Batman* sequel.

- Talent costs for hit TV series have seen some of the largest increases of any media in the last two years, with some ensemble casts receiving four-fold increases. Supporting cast members on the hit sitcom *Seinfeld*, who were receiving some $125,000 per episode, reportedly demanded increases to $1 million per episode and wound up negotiating new contracts for $600,000 per episode. Tim Allen, star of the *Home Improvement* sitcom, negotiated a raise from $750,000 to $1.25 mil. per episode--equal to an estimated $27 mil. per season--making him the highest paid TV sitcom actor.

- Television stars with proven track records are able to command premium salaries even for brand new series with unproven potential. CBS is paying Bill Cosby a reported $1 mil. Per episode for an unprecedented, two-season, 44-episode commitment to produce a new series which premiered this fall.

- Our analysis of ABC, CBS and NBC show an increase in commercial spot rates measured in cost-per-thousand viewers reached (CPM) of 44.6% from an average of $7.23 in the first three quarters of 1994 to $10.45 for the same period in 1997, a compound annual growth rate of 13.1%. We expect broadcast network CPMs will continue to rise in the next season by approximately 10%-15%.

- Similar increases have been hitting the TV syndication market. In 1991 the sitcom *Married...With Children* got an estimated $1.5 mil. per episode in off-network syndication, while *Murphy Brown* got an estimated $900,000 per episode in 1992. This year the syndication rights to *Friends* are estimated to have sold for more than $4 mil. per episode and syndication rights to *3rd Rock From The Sun* are expected to hit $2.8 mil. per episode.

- The TV rights to the *1996 Summer Olympic Games* in Atlanta were $456 mil. The rights to the 2000 Games in Sydney have already been negotiated at $715 mil., a 57% increase.

THE IMPACT ON CABLE PROGRAMMING:

- Between 1986 and 1997, basic cable network programming budgets increased from <u>$482 million to $4.031 billion, a seven-fold increase</u>.

- The quality and breadth of cable network programming has risen apace with the increased spending. Cable has successfully bid for the rights to off-network series ranging from *Murder, She Wrote* to *Law & Order* to *E.R.* It has also invested heavily to create original programming, including critically acclaimed series such as A&E's *Biography*, The Discovery Channel's *Wild Discovery* and CNN's *Larry King Live*.

THE RISING COST OF MOVIE-MAKING

The major movie studios, represented by the members of the Motion Picture Association of America (MPAA), have not only significantly increased their expenditures on making and releasing movies, they have also increased the total number of movies premiered each year in the U.S.

In 1988 MPAA members released 133 movies; in 1996 the figure had increased to 216, a rise of 62%.

Over the same period, the production budgets (sometimes referred to as "negative costs") more than doubled, from $17.4 mil. to $39.8 mil. The U.S. marketing budgets for these films (known in the industry as "prints & ads") tripled between 1986 and 1996, from $6.7 mil. to $19.8 mil. This means that in the ten year time span between 1986 and 1996, the cost to produce and release a major studio movie rose from $24 mil. to $60 mil., a 150% increase.

However, given the significant rise in total movies released, coupled with the rise in costs, it means the major movie studios production/releasing expenditures have quadrupled, from $3.2 bil. in 1986 to $13 bil. in 1996.

MAJOR MOVIE TREND ANALYSIS
($Mil.)

	Total MPAA new Releases	Average Movie Releasing Costs	Average Movie Production Costs	Combined Production & Releasing Costs	Total Cost
1996	216	$19.8	$39.8	$59.7	$12,889.5
1995	212	17.7	36.4	54.1	11,470.6
1994	166	16.1	34.3	50.3	8,357.8
1993	156	14.1	29.9	44.0	6,860.3
1992	141	13.5	28.9	42.3	5,966.3
1991	150	12.1	26.1	38.2	5,729.9
1990	158	12.0	26.8	38.8	6,122.5
1989	157	9.2	23.5	32.7	5,134.1
1988	153	8.5	18.1	26.6	4,065.3
1987	122	8.3	20.1	28.3	3,453.5
1986	133	6.7	17.5	24.1	3,209.0
1985	138	6.5	16.8	23.2	3,206.2
1984	152	6.7	14.4	21.1	3,201.7
1983	166	5.2	11.9	17.1	2,836.9
1982	150	4.9	11.8	16.8	2,517.8
1981	145	4.4	11.3	15.7	2,282.7
1980	134	4.3	9.4	13.7	1,837.3
Total Growth '80-'96	61.2%	358.3%	324.6%	335.2%	601.5%
CAGR '91-'96*	7.6%	10.5%	8.8%	9.3%	17.6%
CAGR '86-'96*	5.0%	11.5%	8.6%	9.5%	14.9%
CAGR '80-'96*	3.0%	10.0%	9.5%	9.6%	12.9%

** Compound annual growth rate.*

Talent costs for sports superstars have been matched or even exceeded by their Hollywood counterparts. For instance, as noted earlier, for his role as Mr. Freeze *in Batman & Robin*, Arnold Schwarzenegger reportedly received $25 mil., which, after profit participation and perks are factored in, could have driven his total earnings to $35 mil. That figure is matched by what Michael Jordan reportedly is receiving from the Chicago Bulls to play in the 1997-98 basketball season.

Although actor fees in the early to mid 1990s had stabilized around $15 mil. for "A" list stars, the pricing structure was escalated a quantum level in 1995 when Columbia/TriStar offered Jim Carrey a then-record $20 mil. to star in *The Cable Guy*. In contrast, Carrey had received a reported $7 mil. to star in *The Mask*. The Hollywood talent price bar continues to be raised. John Travolta is said to demand a minimum salary of $17 mil. per picture plus travel expenses in his personal jet and fees for a dozen personal assistants. For the recently-released *Conspiracy Theory*, Mel Gibson reportedly received $20 mil. plus 15% of the film's adjusted gross, while co-star Julia Roberts got an $11 mil. payday. Demi Moore received a reported $12 mil. for *Striptease* and may have matched or exceeded that amount for her role as a female Navy Seal in this year's *G.I. Jane*.

The increases at the top have migrated down the list of acting talent. Jennifer Lopez, who earned $350,000 for her part in *Money Train* in 1995, received $1 mil. for *Selena*, released in 1997. In the aftermath of *Selena*, which grossed $35 mil. at the domestic box office, Lopez reportedly asked for $5 mil. to act in *Out of Sight* but eventually settled for a reported $2 mil.

The following chart summarizes some of the reported acting fees for recent movie releases:

BENCHMARK STAR SALARIES

ACTOR*	STUDIO	FILM	REPORTED SALARY ($mil.)
Arnold Schwarzenegger #	Warner	Batman & Robin	25.0
Jim Carrey	Columbia/Tri-Star	The Cable Guy	20.0
Sylvester Stallone	Carolco	Rambo III	16.0
Eddie Murphy	Paramount	Beverly Hills Cop 3	15.0
Arnold Schwarzenegger	Carolco	Terminator 2	14.0
Michael Douglas	Carolco	Basic Instinct	10.5
Dustin Hoffman	MGM/UA	Rain Man	10.0
Bruce Willis	Fox	Die Hard 2	9.0
Tom Cruise	Paramount	Days of Thunder	9.0
Kevin Costner	Warner	Robin Hood	8.5
Bill Murray	Disney	What About Bob?	8.0
Jack Nicholson	Warner	Batman	8.0

** Many of these stars reportedly received $12-$15 mil. in subsequent roles. # With backend participation and perks, Schwarzenegger's remuneration may total $35 mil.*

BROADCAST NETWORKS PAY UP TO RENEW HIT SERIES

Over the last forty years Americans have gone from huddling around seven-inch TV sets with fuzzy B&W pictures to being able to point remote controls at 60-inch screens from the comfort of recliners. But one factor has remained a constant--a fierce competition for viewers--with the last 15 years being witness to at least a thirty-fold expansion in the number of TV program services. The 1970s saw the early expansion in the independent television station market and the launch of pay television, the 1980s witnessed the birth of not only over 60 basic cable networks but a new national broadcast network—FOX; and the 1990s have seen further growth of competition from cable and broadcast, including multiplexed premium services and the creation of two more national broadcast networks, WB and UPN. A household served by advanced cable or direct broadcast satellite services now has access to more than 150 channels. As the 1990s draw to a close, an increasingly text, graphics and video-enriched Internet has begun to compete for TV viewer attention.

This acceleration in competition has increased the "demand" half of the programming cost equation, while the "supply" side for top rated hit programs, has remained relatively static. This has been reflected not only in escalating production costs but the fees charged to license these hits when they come off their network runs into syndication.

As the following table shows, ABC/CBS/NBC network affiliates—which had a 70% share of the audience in 1983—fell below 50% for the first time in 1995. Their share stood at 44% at the end of 1996 and had fallen to 43% at the end of the second quarter 1997.

The new broadcast viewing season which began in late September shows no reversal of this trend, and we expect big three network affiliates will continue to lose share to cable.

TELEVISION VIEWING SHARE TRENDS (1983-1996)

	Calendar Year Average															
	83	*84*	*85*	*86*	*87*	*88*	*89*	*90*	*91*	*92*	*93*	*94*	*95*	*96*	*83-96*	*95-96*
ALL TV HOMES																
Netwk. affils.	70	68	66	66	63	60	57	55	54	54	52	51	46	44	(37%)	(3%)
Independents*	18	19	19	18	19	20	20	20	20	20	20	22	22	21	15	(2)
Cable networks	7	10	11	11	14	15	18	21	24	25	26	26	32	34	366	7
Pay services	5	6	6	5	6	7	6	7	6	6	6	6	6	6	20	4
Public stations	3	3	3	3	4	3	3	3	3	3	4	4	3	4	12	17
ALL CABLE HOMES																
Netwk. affils.	59	58	55	56	52	51	49	47	46	47	46	44	40	40	(33%)	0
Independents*	18	17	17	17	17	17	16	16	16	16	17	18	17	17	(5)	1%
Cable networks	15	18	19	20	24	25	29	32	35	36	37	38	43	44	202	4
Pay services	11	11	11	9	10	11	10	10	9	8	8	8	8	8	(32)	(3)
Public stations	3	3	3	3	3	3	3	3	2	3	3	4	3	3	11	18

Notes: Shares in some cases add to more than 100% due to viewing in multi-set homes. * Historical superstation shares are split equally between cable networks and independent stations. FOX affiliates included in independent total.

Problematic for the networks and further exacerbating the "demand" side of the cost equation has been the fact that while their audience is declining, license fees paid to acquire programming rights are headed upwards. Although UPN and WB have prime-time ratings which are less than one-third those of the Big Three, they still must pay a license fee competitive with the other networks to attract new shows.

BROADCAST NETWORK PRIME-TIME LICENSE FEE SUMMARY, 1995/96-1997/98

	# of Programs			# of Hours			Estimated License Fee: Fees/Week			Estimated License Fee: Fees/Hour		
Network	*'95-'96*	*'96-'97*	*'97-'98*	*'95-'96*	*'96-'97*	*'97-'98*	*'95-'96 (000)*	*'96-'97 (000)*	*'97-'98 (000)*	*'95-'96 (000)*	*'96-'97 (000)*	*'97-'98 (000)*
ABC	23	25	22	16.0	18.0	16.0	$18,100	$22,805	$20,200	$1,131	$1,267	$1,263
CBS	23	23	25	18.0	18.0	20.0	19,727	21,485	25,785	1,096	1,194	1,289
FOX	17	18	16	13.0	13.0	13.0	12,795	14,257	14,210	984	1,097	1,093
NBC	26	25	29	18.0	18.0	20.0	20,056	22,500	29,330	1,114	1,250	1,467
UPN	4	9	10	4.0	6.0	6.0	3,700	5,875	6,275	925	979	1,046
WB	9	12	14	4.5	7.0	9.0	4,425	7,125	9,185	983	1,018	1,021
Tot./Avg.	102	112	116	73.5	80.0	84.0	$78,803	$94,047	$104,985	$1,072	$1,176	$1,250

Est. do not include costs for a number of programs that were ordered but do not appear on the Sept. prime-time schedule. The above chart does not include movies, specials, interim shows or mid-season replacements.

The chart shows that the average broadcast network prime-time license fee per hour was up 9.7% for the 1996/1997 season and up 6.3% for 1997/1998. In fact, the cost of established shows is much higher—the average is weighted down by new shows which replace canceled shows and have much lower license fees.

In addition, the networks have been able to keep costs from entering the double digit range by producing more and more news shows (like *Dateline* and *20/20*) which are cheaper than sitcoms or dramas. This strategy, however, is not without its costs. These news shows have traditionally garnered much lower ratings than sitcoms and dramas and have little value as rerun programming.

Hit shows which "anchor" prime time schedules like *Home Improvement, Friends, Frasier* and *Seinfeld* may have license fees of $3-$4 mil. per half hour.

Most of the recent escalation is due to increased talent cost, which has trickled all the way down from the $1 mil. or more salary the stars of some of these shows command, to increases in the salary of supporting cast which were unheard of just a few years ago.

For instance, following the news that Jerry Seinfeld was being offered $1 mil. per episode to renew *Seinfeld* for its ninth season, co-stars Jason Alexander, Julia Louis-Dreyfus and Michael Richards fought a protracted battle in an attempt to gain a pay raise from $150K an episode to $1 mil. per episode.

The trio won a 300% pay raise to an estimated $600K an episode—resulting in an increased expense of nearly $40 mil. for the 22 episode order. The cast of *Friends* fought a similar battle, demanding a reported 150% increase from $40K to $100K per episode, which was eventually negotiated to $75K per episode along with staggered increases to $120K when Courtney Cox, Jennifer Aniston, Matt LeBlanc, David Schwimmer, Mathew Perry and Lisa Kudrow agreed to sign for a total of six seasons.

This dilemma is an every day situation for networks, which must contend with spiraling talent costs and flat or declining ratings. The networks continue to vie for top shows—not only entering in bidding wars which have recently resulted in several shows changing networks—but even licensing cable shows—when cable networks can't afford to meet rising costs. *Politically Incorrect* and *Dream On* both successfully made the conversion.

While series prices have been escalating for years, a more recent trend is the large increase in license fees networks are paying for rights to run theatrically released movies—in large part due to competition from cable.

NBC, for instance, in July, 1997 reportedly paid $50 mil. for the rights to the mega-blockbuster *Men In Black* for five years after it comes off its pay television window, while Fox, in June 1997, paid a reported $80 mil. to license *The Lost World: Jurassic Park* for ten runs over ten years and in the process bought out the pay TV window.

NOTABLE MOVIE RIGHTS ACQUISITIONS BY CABLE AND BROADCAST NETWORKS

Distributor	Lead Film/Package	Domestic B.O. Gross (mil.)	Network	Est. Lic. Fee (mil.)
Universal	Lost World#	$223	FOX	$80
Warner	15 films incl. Batman & Robin, Contact	n/a	TBS/CBS	60
Sony	13 films incl. Air Force One (1)	n/a	ABC	50*
Sony	Men in Black	194	NBC	50
Warner	Twister#	292	NBC	21
Paramount	Mission: Impossible (2)	181	ABC	20
Warner	9 films, incl. Sleepers & Tin Cup	n/a	ABC	20
Warner	12 films (3)	n/a	Turner	20
Paramount	Howard Stern's Private Parts	41	USA	7

*n/a = Not applicable. * Total pkg. Price could escalate depending on total domestic b.o. gross for Air Force One. # Still in theatrical release; domestic b.o. gross as of 7/26. (1) 13-film pkg. Includes: Fifth Element, Buddy, Mary Reilly, Matilda and My Best Friend's Wedding. (2) Total Mission pkg. Is $80 mil., split between CBS and ABC, and includes Star Trek: Generations, Escape from L.A., The Phantom, and Harriet the Spy. (3) The 12 films include: Space Jam, Mars Attacks!, Michael, Striptease, Ghosts of Mississippi, The Spitfire Grill, Lone Star and Extreme Measures.*

COST OF OFF-NETWORK SYNDICATION PRODUCT CONTINUES TO RISE

The impact of competition on program pricing hit the off-network sitcom syndication market in the 1980s and has continued throughout the 1990s. Competition between broadcasters for a relatively small number of off-network sitcoms created fierce bidding for series such as *"Who's The Boss"* and *"The Cosby Show"* in the late 1980s, with per episode prices reported in the $2.5 mil. to $4 mil. range.

The market for off-net sitcoms began to heat up again in the mid 1990s as a series of highly successful network shows began to enter the syndication market--and prices returned again to the benchmark $2 mil. to $4 mil. per episode range.

OFF NETWORK REPRESENTATIVE SYNDICATION SALES

Program	Off-net Launch	Cash lic. fee/episode ($ mil.)
Friends	1998	4.000
Frasier	1997	2.200
Mad About You	1996	1.526
Home Improvement	1995	2.500
The Simpsons	1994	1.800
Empty Nest	1993	0.650
Roseanne	1992	1.800
Full House	1991	1.500
Golden Girls	1990	1.400

COMPETITIVE FORCES IMPACTING CABLE NETWORKS

Cable programmers must not only operate within this environment of ever-spiraling costs for talent and hit product but face their own unique set of supply/demand forces--i.e., the steady growth of competitors, not only within the cable market but within the TV programming market at large. The national broadcast networks and national cable networks compete head-on for viewers and advertising budgets.

In 1980 there was a single basic cable network--TBS--which was carried in more than half of all cable households. By 1987 that figure had hit 16 and by 1997 the comparable figure had hit 32, which means there are now twice as many widely-carried basic networks competing for programming. By year-end 1998, we anticipate the number of basic networks carried in a majority of cable households will increase another 12.5%, to 36.

BASIC CABLE NETWORKS CARRIED IN MAJORITY OF CABLE HOUSEHOLDS

Year	# of networks
1980	1
1981	3
1982	5
1983	6
1984	9
1985	9
1986	13
1987	16
1988	15
1989	17
1990	20
1991	21
1992	22
1993	24
1994	25
1995	27
1996	30
1997	32
1998P	36

P = projected.

While the number of widely carried basic cable networks was rapidly increasing, competition from broadcast was growing as well. The 1980s saw the launch of a new broadcast network--Fox--and in the 1990s two more national prime time networks were created--UPN and The WB.

The emergence of competitive multi-channel technologies, notably direct broadcast satellites, have been a double-edged sword for cable networks. While they have provided additional distribution--and have been the main source of revenue growth for the premium services--the greater channel capacity of DBS means they have also added a significant number of new networks, creating more competition for incumbents.

In premium TV households--often the most desirable demographically--the competition for viewers is even fiercer and is growing. Not only do basic networks compete with services such as HBO, Showtime, Starz! and Disney but, increasingly, these premium services are being "multiplexed". There are now, for instance, seven "screens" of HBO and another three of Cinemax. Added together, in technologically advanced systems, there can be nearly 30 premium TV screens of 24-hour movies and entertainment programming available.

A new generation of basic, premium and pay-per-view programming is being created for the digital cable set top boxes being rolled out across the country. In addition to a dozen or more digital "basic" channels and the aforementioned 30 multiplexed premium screens, the technology allows for 25 to 50 channels of PPV movies, sports, events and time-shifted services such as Your Choice TV.

The cost of acquiring competitive programming by basic cable networks has tracked steadily upward, with benchmark prices for top product rising from the $100,000-400,000 per episode range in the late 1980s upwards to the $400,000-600,000 range in the mid 1990s and then into the $600,000-800,000 per episode range over the last 24 months. The chart below tracks some representative cable network licensing deal estimates.

REPRESENTATIVE OFF NETWORK LICENSING DEALS BY BASIC CABLE NETWORKS

Network	Program	Year	Est. price per episode $000
TBS/TNT	ER*	1996	800
USA	Walker, Texas Ranger	1996	725
LIFE	Ellen	1996	600
fX	The X-Files	1996	600
LIFE	Chicago Hope	1996	475
LIFE	Homicide	1996	425
fX	NYPD Blue	1995	400
TNT	Lois & Clark	1995	275
USA	New York Undercover	1995	275
FAM	Evening Shade	1994	300
LIFE	Designing Women	1994	100
BRAVO	Brooklyn Bridge	1994	75
BET	Roc	1994	50
USA	Wings	1993	565
TBS	Head of the Class	1993	80
LIFE	Sisters	1993	55
BRAVO	Twin Peaks	1993	40
USA	Major Dad	1992	575
FAM	Life Goes On	1992	65
LIFE	Anything But Love	1992	65
LIFE	Unsolved Mysteries	1991	180
LIFE	China Beach	1991	125
LIFE	thirysomething	1991	60
LIFE	My Two Dads	1990	210
FAM	Beauty & the Beast	1990	100
FAM	Young Riders	1990	60
USA	L.A. Law	1989	200
LIFE	Moonlighting	1989	160
FAM	Scarecrow & Mrs. King	1989	100
USA	Murder She Wrote	1988	475
LIFE	Spencer: For Hire	1988	140
LIFE	Molly Dodd	1988	100
USA	Miami Vice	1987	285
FAM	Remington Steele	1987	140
USA	Mike Hammer	1987	140
FAM	Crazy Like A Fox	1987	140
LIFE	Cagney & Lacey	1987	105

**For a reported $1.2 mil./episode cable and syndication (cable component estimated at $800K/episode)*

The combination of competitive market forces--both externally from broadcasters and intramurally between cable networks--coupled with the continual pressure on the cost to create and license entertainment programming is expected to continue driving programming costs at the basic cable network level.

Basic cable network program expenses have increased $3.5 bil. between 1986 and 1997, from $482 million to $4.031 billion, an eight-fold increase.

BASIC CABLE NETWORK PROGRAMMING BUDGETS

Year	(mil.)	% chg.
1986	$482	-----
1987	551	14.3%
1988	712	29.2%
1989	929	30.5%
1990	1,353	45.6%
1991	1,710	26.4%
1992	1,978	15.7%
1993	2,238	13.1%
1994	2,613	16.8%
1995	2,960	13.3%
1996	3,447	16.5%
1997	4,031	16.9%

CONCLUSION

When it comes to the cost of TV programming, the last high water benchmark attained is usually the starting point for the next negotiation. Market forces drive the cost of entertainment--a relative scarcity of top talent coupled with a growing proliferation of entertainment distribution systems and venues—and leads to constant upward pressure on prices at the wholesale level. These continuing increases eventually get passed on to the consumer in the form of higher direct entertainment prices for tickets and subscription services, and higher indirect costs-advertising, marketing and promotion-built into virtually all goods and services.

KAGAN MEDIA APPRAISALS, INC.

Kagan Media Appraisals Inc. specializes in the analysis, valuation and appraisal of U.S. and international media and communications properties, companies and markets. Over the past 28 years, Mr. Kagan and his staff have appraised over $30 billion worth of media properties on contract assignment as well as serving in an expert witness capacity in numerous matters of litigation in the media industry. In addition, the Kagan Newsletters have analyzed public and private companies, on at least a quarterly basis, totaling hundreds of billions of dollars. Mr. Kagan and his analyst team have, for the past 25 years conducted seminars for corporate executives and public officials on communications and media topics.

The following summarizes the professional credentials of the key members of the team involved in the preparation of this report:

PROFESSIONAL CREDENTIALS

Paul F. Kagan is a financial analyst, consultant, investment manager and publisher of appraisal commentaries and analytical newsletters serving the communications and entertainment industries.

He has been engaged in this business since February 1969, when he formed Paul Kagan Associates, Inc., in Rockville Centre, New York. Offices were moved to Carmel, CA, in 1978. The Kagan group of companies includes Paul Kagan Associates, Inc. (publishing), Kagan Seminars Inc. (seminars), Kagan Capital Management, Inc. (investment management), Kagan Media Appraisals, Inc. (U.S. media consulting and valuations) and Kagan World Media, Inc. (research services, seminars, consulting and valuations round the world outside the U.S.).

Prior to forming PKA, Paul Kagan was a security analyst specializing in broadcasting and cable TV for E.F. Hutton & Co. in New York. He has contributed numerous articles on investments and finance to Barron's, the Dow Jones financial weekly. Earlier, he was employed in executive positions with CBS, Inc., and WOR-FM in New York.

Mr. Kagan is a fellow of the Financial Analysts Federation, a member of the New York Society of Security Analysts and an associate member of the Broadcast Financial Management Association.

PKA publishes over 40 newsletters on various communications and media disciplines, including MOTION PICTURE INVESTOR, TV PROGRAM INVESTOR AND INTERACTIVE MULTIMEDIA INVESTOR. Paul Kagan was the first to publish a continuing strategic investment analysis of the U.S. cable TV industry when he introduced CABLE TV INVESTOR in November 1969.

For more than 28 years, Mr. Kagan and his staff have appraised over $28 billion worth of media properties on contract assignment. In addition, the Kagan Newsletters have analyzed public and private companies, on at least a quarterly basis over a number of years, totaling hundreds of billions of dollars.

Mr. Kagan is a graduate of Hunter College of the City University of New York, where he majored in communications. He also studied accounting at the New York University Graduate School of Business Administration.

Mr. Kagan and his analyst team have, for the past 25 years, conducted seminars for corporate executives and public officials on communications and media topics.

Larry Gerbrandt is a Senior Vice President of Paul Kagan Associates, Inc. and is responsible for the company's entertainment industry research and special report division. Mr. Gerbrandt has been tracking the development of cable program networks since 1984. He is Senior Analyst on 12 of the 33 Kagan newsletters, including *CABLE TV PROGRAMMING, CABLE TV ADVERTISING, CABELE NETWORK INVESTOR, TV PROGRAM INVESTOR* and *THE PAY TV NEWSLETTER.* In addition, Mr. Gerbrandt serves as a consultant to Kagan Media Appraisals, Inc., where he specializes in the appraisal of cable networks and programming libraries, as well as acting as a strategic consultant in these areas. Mr. Gerbrandt's broad knowledge of television, film and cable programming trends has made him a frequently quoted source in such national publications *as Time Magazine, Newsweek, The New York Times and The Wall Street Journal*, as well as being sought after for appearances on such national TV shows as *Cable News Network, Financial News Network* and ABC's *Good Morning America.* Mr. Gerbrandt's other duties include moderating at the nationally and internationally renown Kagan Seminars, Inc. in seminars covering such topics as pay-per-view, cable programming trends, digital television, and motion picture and television program finance.

Prior to joining PKA, Mr. Gerbrandt held executive positions with the cable division of Orion Broadcast Group and Brimstone Films, a Dallas, TX-based TV and film production company he helped found in 1980. While at Brimstone, Mr. Gerbrandt was an award-winning producer of television commercials, industrial films, museum documentaries and live television events. Mr. Gerbrandt attended Colorado State University and holds a Bachelor of Arts degree in Business Administration from Loretto Heights College in Denver, Colorado.

Derek C. W. Baine is Director, Market Valuations/Analyst at Paul Kagan Associates, Inc., and a primary contributor to various newsletters covering the programming sector including *CABLE NETWORK INVESTOR, THE DBS REPORT, NEWSPAPER INVESTOR, INTERACTIVE MULTIMEDIA INVESTOR, MEDIA MERGERS AND ACQUISITIONS, MOTION PICTURE INVESTOR, TV PROGRAM INVESTOR,* and *VIDEO INVESTOR.* In addition, Mr. Baine serves as a consultant to Kagan Media Appraisals, Inc. Mr. Baine's knowledge of the value of film, television and video libraries and trends affecting these companies has made him a frequently quoted source in such national publications as *The Wall Street Journal*, *Time Magazine, Newsweek*, and *Video Store Magazine.*

Prior to joining Paul Kagan Associates in February of 1994, Mr. Baine held the position of Senior Accountant with Hillside Coffee of California where he was responsible for budgeting, forecasting and analysis of economic and competitive trends. Mr. Baine has more than ten years experience in Accounting and Finance. Prior to his employment at Hillside, Mr. Baine served as a consultant for Recycling By Nature.

John Mansell, Jr., J.D., began his association with PKA in 1975. He is Senior Analyst for *WIRELESS CABLE INVESTOR*, the only continuing publication dedicated to the financial aspects of wireless cable for the past 24 years. Mr. Mansell is also Senior Analyst on *MEDIA SPORTS BUSINESS, PRIVATE CABLE INVESTOR, CABLE TV TECHNOLOGY,* and *CABLE TV LAW REPORTER.*

In addition, Mr. Mansell is organizer and moderator of several Kagan seminars, including Telecom Law Reform. Mr. Mansell holds a bachelor's degree in economics from the University of Michigan and a J.D. from the Thomas M. Cooley Law School.

Bill Marchetti is an analyst at Paul Kagan Associates, Inc. and a major contributor to *THE PAY TV NEWSLETTER, CABLE TV ADVERTISING, CABLE TV PROGRAMMING, MARKETING NEW MEDIA* and *CABLE NETWORK INVESTOR* newsletters.

Mr. Marchetti also contributes to PKA special reports in the areas of cable advertising and European cable programming. He holds a bachelor's degree in journalism from Northern Illinois University.

Jeffrey A. Flathers is an associate analyst at Paul Kagan Associates, Inc. and is a contributor to various financial newsletters including *MOTION PICTURE INVESTOR, VIDEO INVESTOR, CABLE NETWORK INVESTOR, TV PROGRAM INVESTOR, TV PROGRAM STATS and MEDIA MERGERS & ACQUISITIONS.* In addition, Mr. Flathers serves as a consultant to Kagan Media Appraisals. Commenting on economic trends in the entertainment sector, Mr. Flathers has frequently been quoted in such national publications as *USA Today, The Washington Post, TV Guide*, *Broadcast & Cable* and *Electronic Media.*

Prior to joining Paul Kagan Associates in 1995, Mr. Flathers served a tour as a military intelligence analyst and linguist in the U.S. Army with an emphasis on the Pacific Theater. He holds a Master of International Management degree from the American Graduate School of International Management in Glendale, AZ and a Bachelor of Arts in Spanish from Carleton College in Northfield, MN.

ATTACHMENTS

ATHLETES WHO EARNED MOST IN 1996

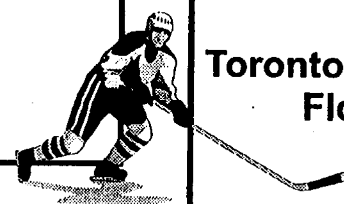
The 40 athletes who earned the most in 1996, as estimated by Forbes in its Dec. 16 issue. The salary/winnings figure includes salary, prize money and earned incentive bonuses. Endorsements include licensing money and appearance and exhibition fees. Income from side businesses and equity partnerships Is not counted. The magazine does not say how it treats deferred compensation. Figures are in millions.

Rank	Athlete	Sport	Salary	Endorsements	Total
1	Mike Tyson	Boxing	$75.0	$0.0	$75.0
2	Michael Jordan	Basketball	12.6	40.0	52.6
3	Michael Schumacher	Auto Racing	25.0	8.0	33.0
4	Shaquille O'Neal	Basketball	7.4	17.0	24.4
5	Emmitt Smith	Football	13.0	3.5	16.5
6	Evander Holyfield	Boxing	15.0	0.5	15.5
7	Andre Agassi	Tennis	2.2	13.0	15.2
8	Arnold Palmer	Golf	0.1	15.0	15.1
9	Dennis Rodman	Basketball	3.9	9.0	12.9
10	Patrick Ewing	Basketball	10.9	1.5	12.4
11	Cal Ripken Jr.	Baseball	6.0	6.0	12.0
12	Roy Jones Jr.	Boxing	12.0	0.0	12.0
13	Dan Marino	Football	9.2	2.5	11.7
14	Wayne Gretzky	Ice Hockey	6.0	5.5	11.5
15	Riddik Bowe	Boxing	11.5	0.0	11.5
16	Pete Sampras	Tennis	3.3	8.0	11.3
17	Oscar De La Hoya	Boxing	10.8	0.5	11.3
18	Grant Hill	Basketball	4.3	6.5	10.8
19	Ken Griffey Jr.	Baseball	8.0	2.8	10.8
20	Dale Earnhardt	Auto Racing	2.5	8.0	10.5
21	David Robinson	Basketball	7.4	2.0	9.4
22	Hakeem Olajuwon	Basketball	6.8	2.5	9.3
23	Clyde Drexler	Basketball	8.9	0.3	9.2
24	Michael Chang	Tennis	2.5	6.5	9.0
25	Julio Cesar Chavez	Boxing	9.0	0.0	9.0
26	Tiger Woods	Golf	0.8	8.0	8.8
27	John Elway	Football	6.8	2.0	8.8
28	Neil O'Donnell	Football	8.5	0.3	8.8
29	Steve Young	Football	4.5	4.0	8.5
30	Frank Thomas	Baseball	7.2	1.2	8.4
31	Mario Lemieux	Ice Hockey	7.5	0.8	8.3
32	Barry Bonds	Baseball	8.0	0.3	8.3
33	Jack Nicklaus	Golf	0.4	7.8	8.2
34	Damon Hill	Auto Racing	7.5	0.7	8.2
35	Troy Aikman	Football	4.9	3.2	8.1
36	George Foreman	Boxing	3.0	5.0	8.0
37	Charles Barkley	Basketball	4.5	3.5	8.0
38	Greg Norman	Golf	0.9	7.0	7.9
39	Cecil Fielder	Baseball	7.4	0.2	7.6
40	Gerhard Berger	Auto Racing	7.0	0.5	7.5

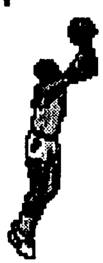
Source: Forbes, December 16, 1997

Recent Franchise Sales

NFL Team	Price
ampa Bay Buccaneers	$192 Mil.
St. Louis Rams (30%)	60
Carolina Panthers	140
Jacksonville Jaguars	140
Baltimore Ravens (57%)	73



NHL Team	Price
Winnipeg Jets	$ 68 Mil.
Colorado Avalanche	75
Dallas Stars	84
Philadelphia Flyers	100
Los Angeles Kings	119
Toronto Maple Leafs (12.5%)	16
Florida Panthers (49%)	77
New York Islanders	150
New York Rangers	180



NBA Team	Price
Minnesota Timberwolves (5%)	$ 4 Mil.
Golden State Warriors	115
Toronto Raptors	125
Vancouver Grizzlies	125
Philadelphia 76ers	125
Dallas Mavericks (67%)	125
in Antonio Spurs (31.8%)	40
New York Knicks	220

MLB Team	Price
California Angels (25%)	$ 30 Mil.
San Diego Padres	80
Oakland A's	85
Pittsburgh Pirates	85
Tampa Bay Devil Rays	130
Arizona Diamondbacks	130
St. Louis Cardinals	150
Los Angeles Dodgers	350