BEAR STEARNS

Equity Research

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Entertainment Industry

A Longer Look at the Long Tail

- **TAIL WAGS THE DOG?** Our "Long Tail" thesis argues that digital technology and economics are loosening barriers to entry in video production. This augurs a material increase in video content supply from many sources, which could lead to slowing growth for incumbents and a shift in value from content creators to aggregators/packagers.
- **USER-GENERATED CONTENT (UGC) NOT LIKELY A FAD.** Text-based UGC (e.g., blogs/social networks) already accounts for at least 13% of Internet traffic and continues to grow unabated. Also, our online video survey finds that UGC is the No. 1 and No. 2 most popular content category among men aged 18-34 and all respondents, respectively.
- **"PARADOX OF CHOICE" SHIFTS VALUE TO MIDDLE OF SUPPLY CHAIN.** Increased video content supply could lead to lower user satisfaction, given cognitive dissonance due to regret, confusion, etc. Therefore, we submit that new aggregation vehicles will emerge to solve this conundrum, as search engines did in the text-based Web, which is where the vast majority of value accrued.
- **CONTENT ISN'T KING, *GREAT* CONTENT IS.** The problem with the "content is king" axiom is that no one company has proven capable of consistently creating *only* great content, as evidenced by fluctuations in TV ratings, box office per film, etc. In addition, while entertainment firms are focused on "digital," this revenue stream will likely remain small relative to overall sales for the foreseeable future. The risk is that, as with newspaper companies, strong digital revenues do not offset decelerating growth in core revenue streams.

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All pricing is as of the market close on June 5, 2007, unless otherwise indicated.

Executive Summary

In this report, we revisit our "Long Tail" thesis on the entertainment industry. As we wrote last year, digital technology and economics are loosening the barriers to entry in the video production business. In our view, this augurs a significant increase in supply of video content from many sources, which could lead to slowing growth for incumbents and a shift in value from content creators to aggregators/packagers of content in the middle of the supply chain that can best connect users' individual tastes with theoretically infinite choice. This report delves further into this theme and addresses key questions we have received from investors and industry contacts on this topic.

User-Generated Content (UGC) Is Not a Fad . . .

Some investors remain skeptical that UGC is more than a passing fad. However, in our recent online video survey, UGC is the No. 1 and No. 2 most popular content category among men aged 18-34 (M18-34) and among all respondents, respectively. Moreover, if we define UGC as page views only from sites such as Myspace.com, Facebook.com, Youtube.com, Wikipedia.org, Blogger.com, and Digg.com (which is quite conservative), we estimate that UGC now accounts for 13% of total U.S. Internet traffic, up from 0%-1% in 2004. Based on these statistics, we submit that UGC is here to stay.

. . . And It Can Be Monetized

Another investor concern is whether UGC can actually be monetized. We believe the answer is "yes." From a historical perspective, we note that much of the text-based UGC (like blogs and social networks) has been monetized through paid search. In a video-centric broadband world, we think targeted video advertisement could be one monetization mechanism. Our primary market research finds over one-third of respondents have no major complaints about pre-roll video ads, while only 10% of respondents stated that a ten- to 15-second commercial was too long to watch before the video.

"Paradox of Choice" Can Be Addressed by Content Aggregators . . .

Although much attention has been paid to UGC, the reality is that the digitization of media also opens the door for "semiprofessional" creators of content. In addition, new technology also allows other traditional media players such as newspaper, magazine, and radio companies, who, in the past, did not have access to finite video spectrum, to provide video content.

This increase in video content supply leads to the "paradox of choice," which argues that *too much choice can actually be detrimental,* leading to lower user satisfaction, given the cognitive dissonance associated with regret, opportunity cost, confusion, etc. Therefore, we submit that in an era of theoretically infinite video choice, the greatest value can be created not by producing content but by solving the "paradox of choice" and connecting users' individual interests with the vast supply of content.

This will likely lead to the rise of new aggregation/navigation vehicles for video content (read: search engines and central repositories for video). For example, according to our survey, the top three preferred methods for accessing and finding video content were search engines, forwarded content, and centralized video sites, such as YouTube, all ways that enhance navigation. What is somewhat troubling for media companies is that going to specific TV channels or movie Web sites (like ABC.com or MTV.com) ranked relatively low.

. . . Shifting Value to the Middle of the Supply Chain

In our opinion, this evolution would be consistent with the development of the text-based Web. As text-based content and information choices mushroomed on the Internet throughout the 1990s and early 2000s, consumers found a greater need for better navigation, which search engines like Google fulfilled. In turn, this usage was monetized, in part, through paid search, where much of the value accrued to the middle of the supply chain, i.e., the search engines versus creators of content.

For example, in 2006, Google (covered by Bear Stearns Internet analyst Robert Peck) generated more than $10 billion in gross advertising revenue. It shares part of its ad revenues with Web sites in the Google network. This portion (traffic acquisition cost [TAC]) totaled $3.3 billion in 2006. While a substantial amount of money, this figure was spread over “thousands” of affiliates in Google’s network. On the other hand, Google’s share of this $10 billion gross advertising figure was over $7 billion.

Content Isn’t King, Great *Content Is*

One of the counterarguments to our “context and aggregation are king” thesis is that, for as long as most can recall, the entertainment industry has lived by the axiom “content is king.” However, no one company has proven consistently capable of producing “great content,” as evidenced by volatility in TV ratings and box office per film for movie studios, given the inherent fickleness of consumer demand for entertainment goods.

Can Digital Initiatives Save the Day for Incumbents?

While we are encouraged by entertainment management’s focus on digital, this revenue stream remains small, or 2% of sales for the major media companies (excluding Time Warner and its AOL unit). Even assuming 20%-plus annual growth in this revenue stream over the next five years, this figure would rise to only about 7% of total sales. The risk is that core revenues decelerate faster, which is what has happened with newspaper companies. These firms have grown digital sales at a 34% CAGR (2000-06), while core advertising has declined 0.6% annually. This has led to flat overall revenues.

The So-What

These themes will likely play out over the long run and may not necessarily affect near-term estimates or operating fundamentals of the major media conglomerates. Still, we view these changes as important strategic challenges for the industry, which may influence investor sentiment and the terminal values. Should this occur, valuation multiples for media stocks could be affected even though the near-term earnings impact may be negligible. Consequently, we maintain our Market Weight rating on the U.S. entertainment industry.

WHAT IS THE LONG TAIL THESIS?

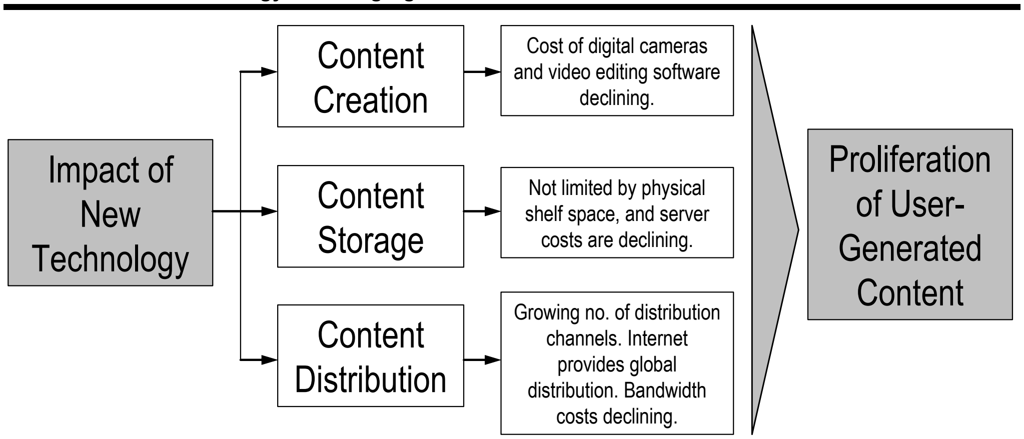
Technology Is Democratizing Content Creation

In late November 2006, we published "*The Long Tail: Aggregation and Context and Not (Necessarily) Content Are King*," a thematic report on the impact of new technology on content creators. We argued that technological changes such as mass market penetration of broadband and the advent of low-cost digital camcorders and video editing software are allowing the mass market to more freely create video content.

Also, in a digital world, providers of content are not limited by physical shelf space, while server, bandwidth, and other storage and distribution costs are declining. These trends are "democratizing" content creation, taking it out of the hands of just the traditional Hollywood players and TV networks, which is leading to the rise of user-generated content.

We see the emergence of UGC as an alternative and viable form of entertainment. If we are correct, this may augur, over time, for a significant increase in the supply of content available to consumers. Given constraints on leisure time and disposable income, both of which are finite, we think UGC will compete over the long run with content produced by the incumbent Hollywood studios and independent producers (although UGC is unlikely to be a perfect substitute given lower production values).

Exhibit 1. New Technology Is Changing Economics of Content Creation as Well

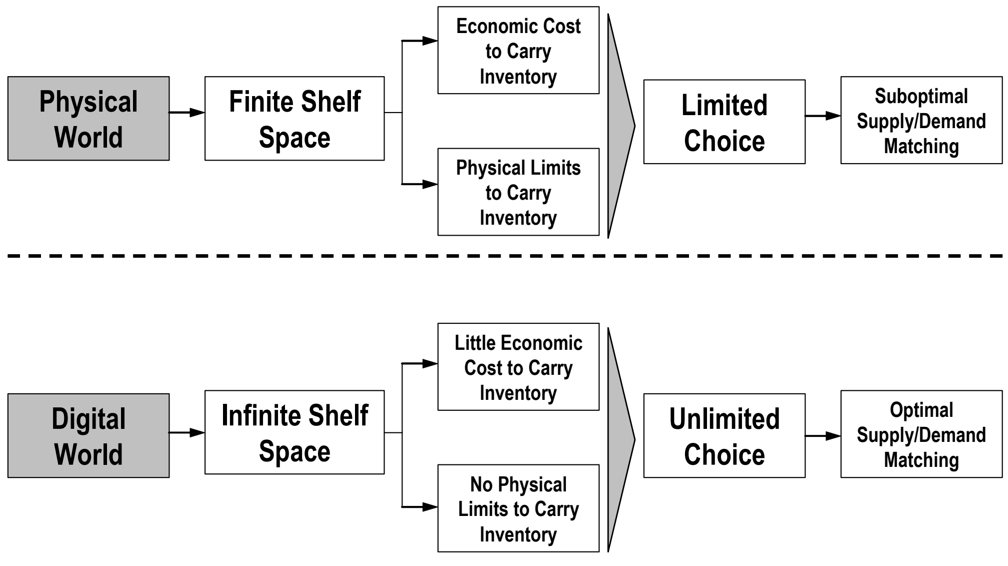


Source: Bear, Stearns & Co. Inc.

What This Means: The Long Tail Theory

This trend may portend the "Long Tail" economic theory espoused by Chris Anderson, editor-in-chief of *Wired* magazine and author of the book *The Long Tail*. This theory posits that the Internet and digital distribution eliminates the constraints of shelf space, which allows online services to carry unlimited inventory, leading to theoretically infinite consumer choice and an optimal matching of supply and demand.

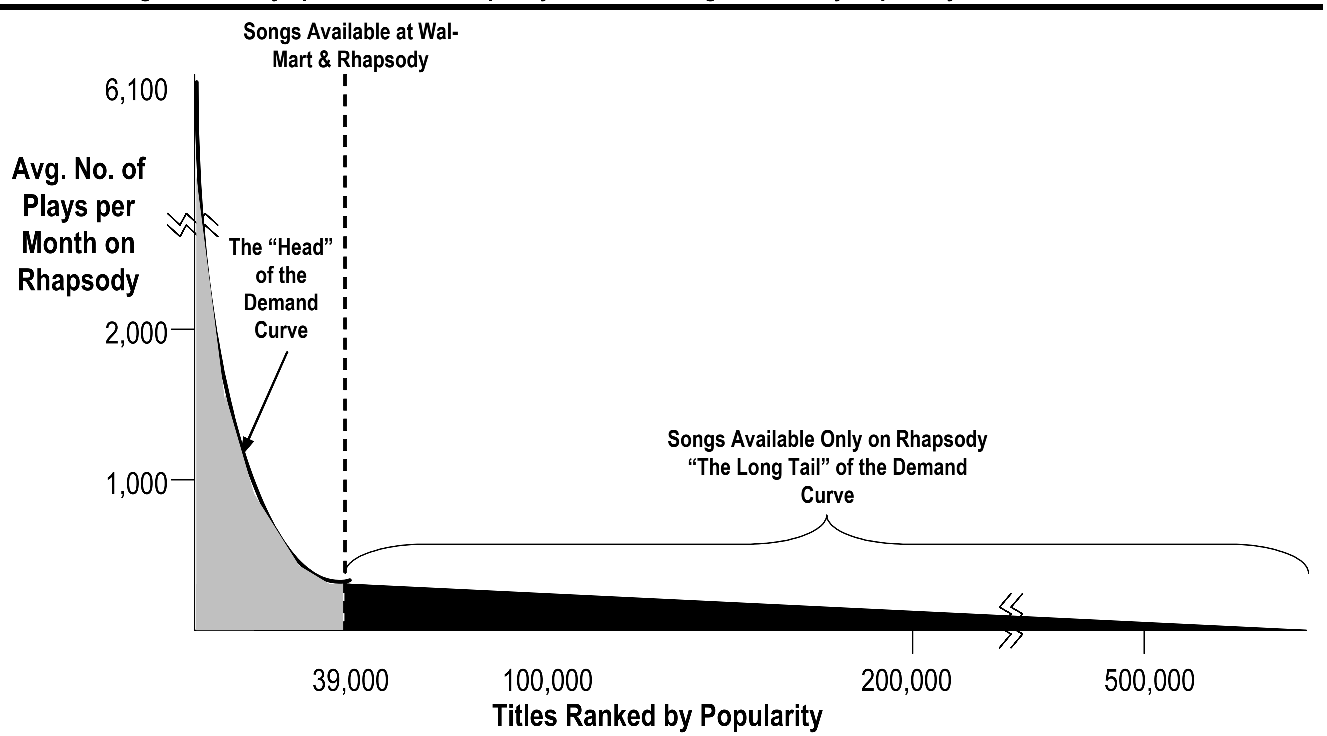
Exhibit 2. What Is the Long Tail?



Source: *The Long Tail;* Bear, Stearns & Co. Inc.

As this occurs, consumers will move to the "tail" of the demand curve, creating new niche markets, and away from historical "hits" at the "head" of the demand curve. Moreover, while each niche will be small, Mr. Anderson argues that these niches will further fractionalize share for incumbents, and, cumulatively, the market for niches may exceed the size of the traditional business.

Exhibit 3. Average No. of Plays per Month on Rhapsody vs. No. of Songs Ranked by Popularity



Source: *The Long Tail.*

OUR HYPOTHESIS SO FAR

In our original report, we built upon the Long Tail theory and used the evolution of TV as an analogy to quantify and illustrate the potential implications of a vast increase in content supply and entertainment choices. More specifically, our parallel with TV found several main conclusions that we think will be a precursor to the following:

Exhibit 4. Technology Has Increased TV Viewing Choices over Time

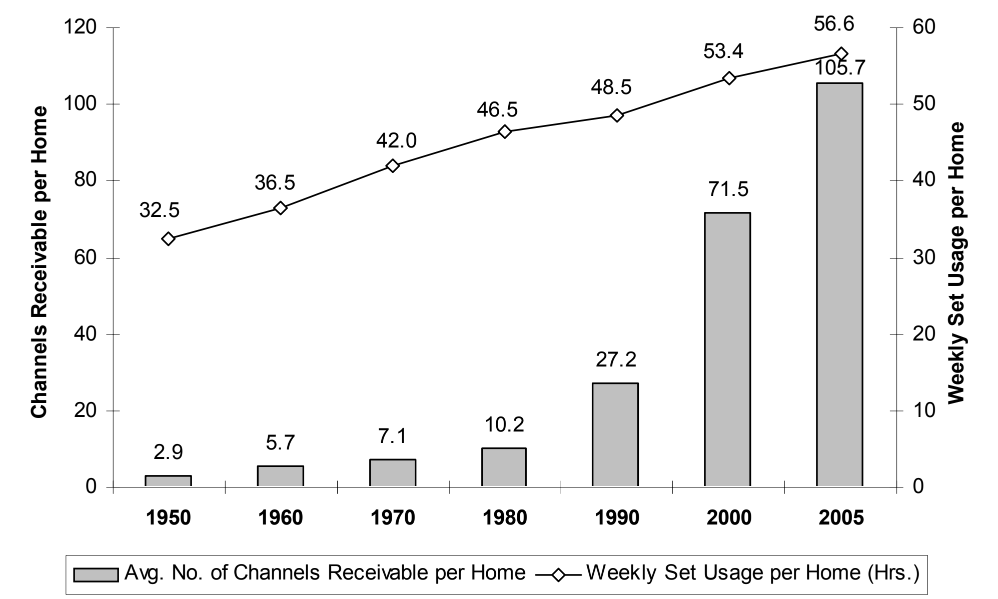
Video Distribution Technology	OTA[1] Broadcast	Analog Cable	DBS[2]/ Digital Cable	Increased Choice
Era of Dominance	1950s-1970s	1980s-Mid-'90s	Mid '90s-Today	
Avg. No. of Channels per Platform	3	35-40	100+	
Total No. of Channels Available	3	38-43	125+	

(1) OTA = Over the Air.
(2) DBS = Direct Broadcast Satellite.

Source: Bear, Stearns & Co. Inc.

- **Overall Entertainment Demand Will Increase . . .** As the number of TV channels increased, overall TV viewing rose at a 1% CAGR from 1950 to 2005, implying more choice led to a modest increase in demand.

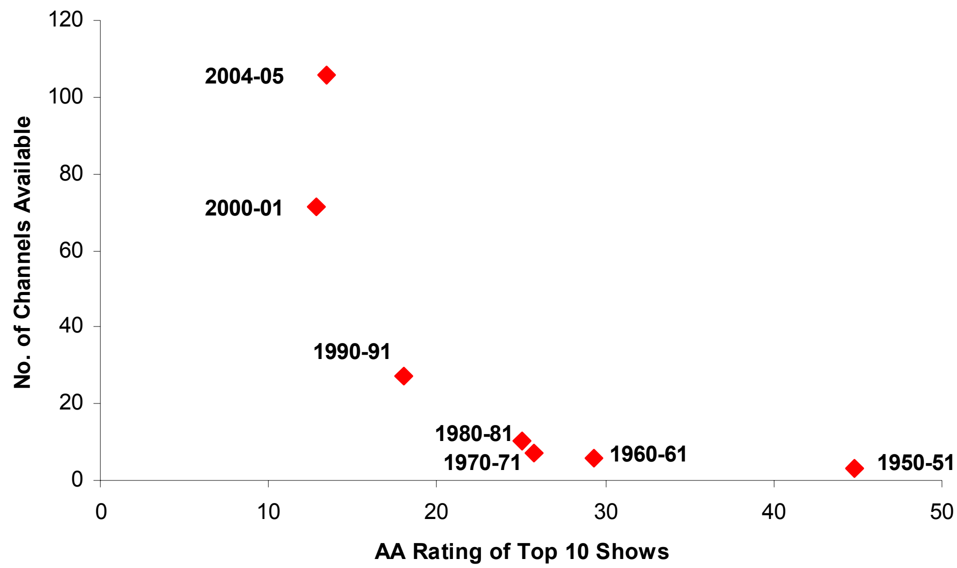
Exhibit 5. Increased Choice Drove Higher TV Usage



Source: Media Dynamics; Bear, Stearns & Co. Inc.

- **. . . But Hits Become Less Big.** However, TV viewing increased slower than TV channels, leading to fragmentation. The average top ten TV show in 1950, for instance, averaged a 44.8 rating versus 13.4 in 2005.

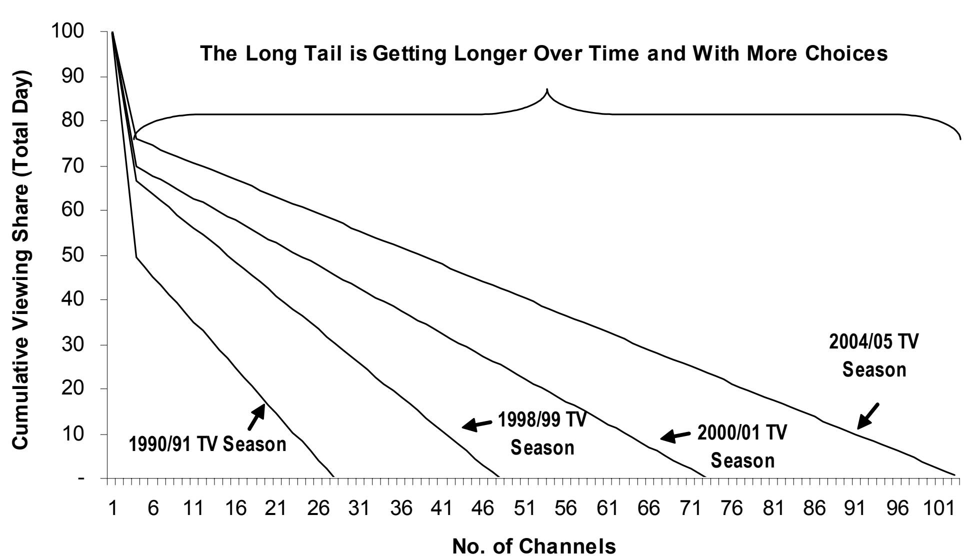
Exhibit 6. Hits Became Less Big



Source: Media Dynamics; Bear, Stearns & Co. Inc.

- **Demand Shifts Disproportionately to the Tail.** As TV channel capacity increased, new niche networks found an audience, albeit small. This led to lower viewing for incumbent broadcast networks at the "head" of the demand curve. *Moreover, we showed that the "tail" of the TV viewing demand curve (i.e., viewing for non-"Big 3" networks) grew over time with more TV channel choices.*

Exhibit 7. The Changing Shape of the TV Viewing Demand Curve

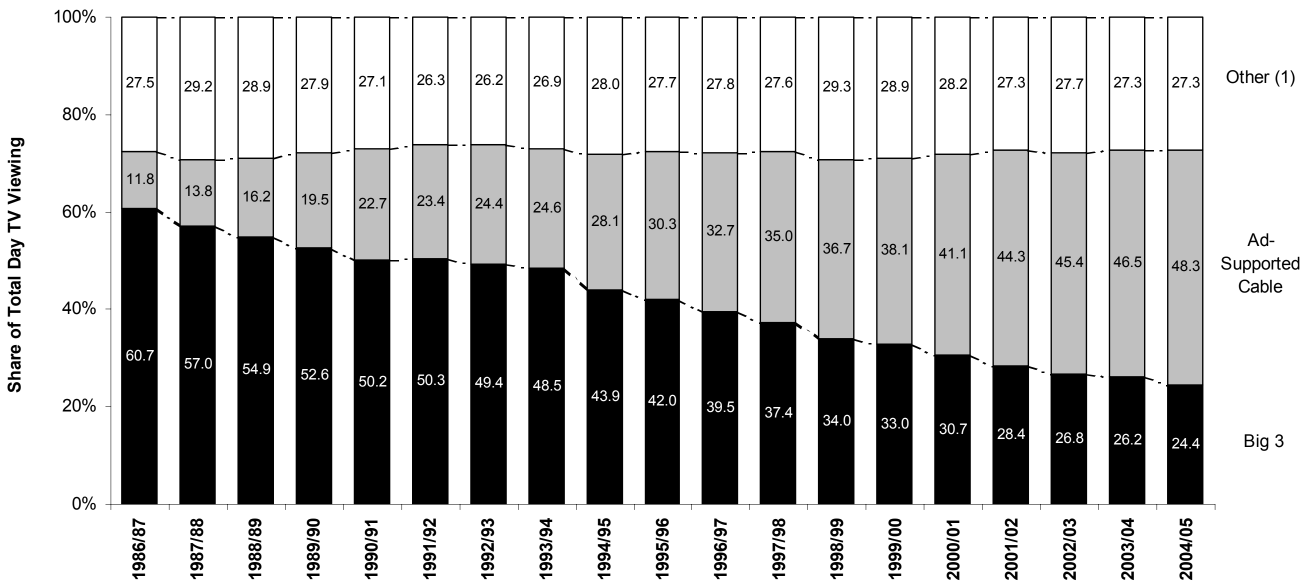


(1) Includes independents, pay cable, WB/UPN/PAX affiliates, PBS, and all other cable. All shares based on sum of total U.S. HH delivery (not HUT). Channels ranked by popularity.

Source: CAB; Media Dynamics; Bear, Stearns & Co. Inc. estimates.

- **Niche Market Not So Niche.** TV viewership for each new cable channel is (very) small; however, cumulatively, ad-supported cable's viewing share now dwarfs broadcast viewing on a total-day basis.

Exhibit 8. Individual Niche Networks Small, But Cumulatively Larger than Broadcast

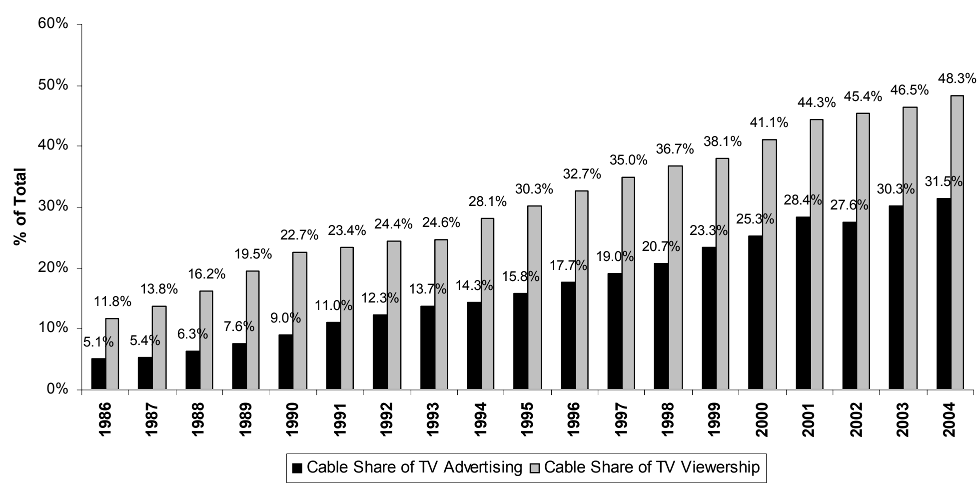


(1) Includes independents, pay cable, WB/UPN/PAX affiliates, PBS, and all other cable. All shares based on sum of total U.S. HH delivery (not HUT).

Source: CAB; Media Dynamics; Bear, Stearns & Co. Inc. estimates.

We do note that cable advertising's share of the ad pie is still lagging its share of TV viewing. This is due to several issues such as less mass market reach than broadcast (which affects audience duplication and the speed of viewership accumulation) and, in some cases, a more cluttered environment. As a result, advertisers still do not view cable as a perfect substitute (yet) for broadcast.

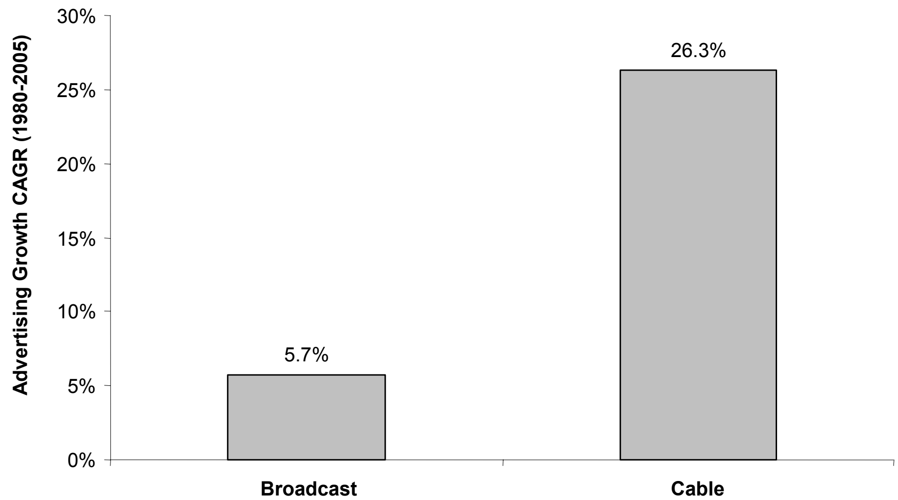
Exhibit 9. Cable TV Share of Total TV Advertising vs. Viewership, 1986-2004



Source: Universal McCann; Jack Myers Reports; Bear, Stearns & Co. Inc. estimates.

This suggests that the Long Tail market will take time to develop, but will indeed emerge. We also note that coming off of a low base will result in faster growth.

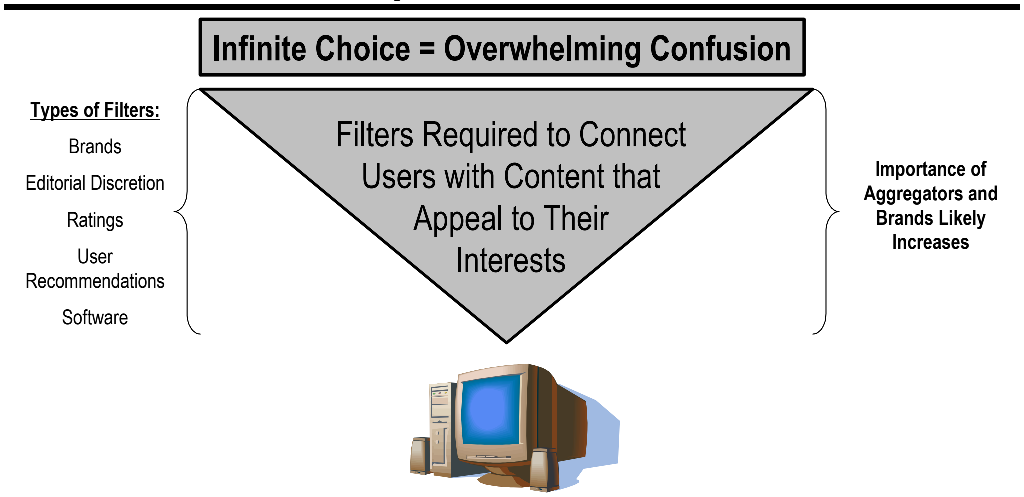
Exhibit 10. Compound Annual Growth Cable vs. Broadcast Advertising, 1980-2005



Source: Universal McCann; Jack Myers Reports; Bear, Stearns & Co. Inc. estimates.

- **Value Will Reside in the Middle of the Supply Chain.** If our thesis is correct, one major problem with infinite choice is the potential for overwhelming confusion. Said another way, how do consumers navigate a world of unlimited choice and find what they are looking for?

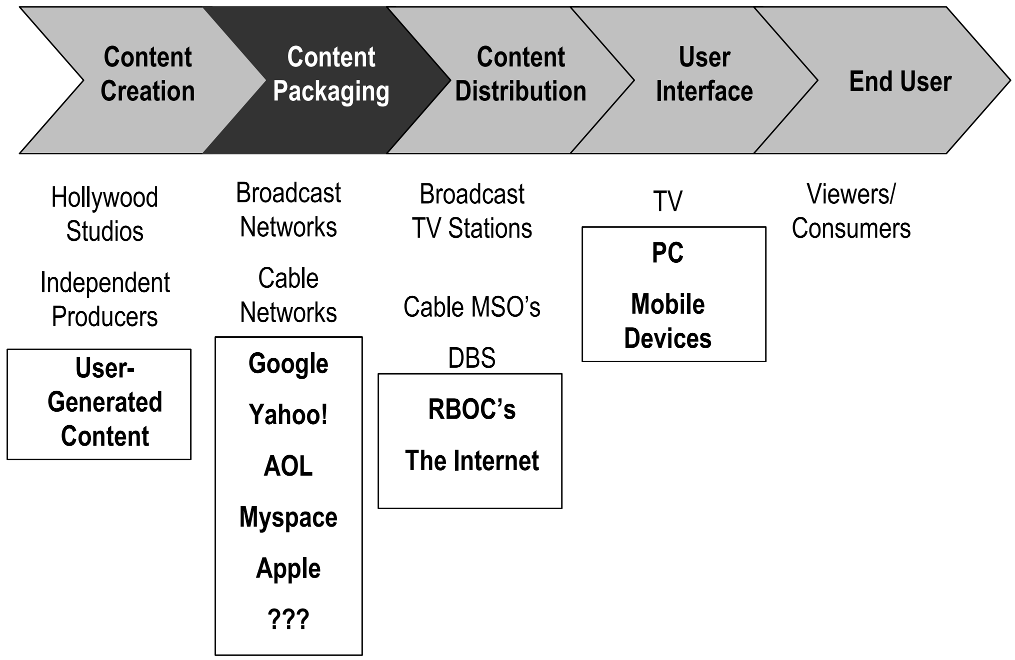
Exhibit 11. The Problem with the Long Tail



Source: Bear, Stearns & Co. Inc.

We think this conundrum (the "Paradox of Choice") will increase the value of "middlemen," or packagers of content that can appropriately *filter* out the noise and connect users with the content that appeals to their interests. This can be done through strong brands, editorial discretion, technology, and harnessing user recommendations.

Exhibit 12. The Sweet Spot May Be in the Middle of the Supply Chain



Source: Bear, Stearns & Co. Inc.

QUESTIONS FOR FURTHER EXPLORATION

Since we published our original Long Tail report last November, we have held numerous conversations with executives from public and private media companies, start-ups, industry contacts, and investors, discussing and debating our thesis. From these talks, it appears the most controversial points regarding our Long Tail thesis surround the following questions:

1. How much demand is there for user-generated content?

2. Can UGC actually be monetized?

3. Won't "content always remain king"?

4. How will traditional media firms cope with these technological changes?

5. Will new "digital" revenue streams for incumbent media owners be enough to offset degradation of traditional sales?

In our view, these are all valid questions that deserve further exploration. As a result, we will spend the balance of this report addressing these topics with quantitative analysis. As our work will (hopefully) show, we believe that there is more evidence that our thesis is directionally correct, and, as such, we have more conviction in our viewpoint.

LOOKING TO HISTORY AND PRIMARY MARKET RESEARCH

Similar to our original report, in assessing the impact of technological change on the media business, we believe it is useful to look through the prism of history as a guide. Recently, we had an insightful conversation with Dmitry Shapiro, CEO of Veoh.com, in which he posited that online video and broadband Internet would develop similar to the "text-based Web," i.e., the early days of the Internet pre-broadband. We found this notion interesting, and we will use this analogy and our recent primary market survey of more than 1,000 consumers[1] to further delve into our Long Tail thesis and to help quantify the impact of new technology on media industry economics.

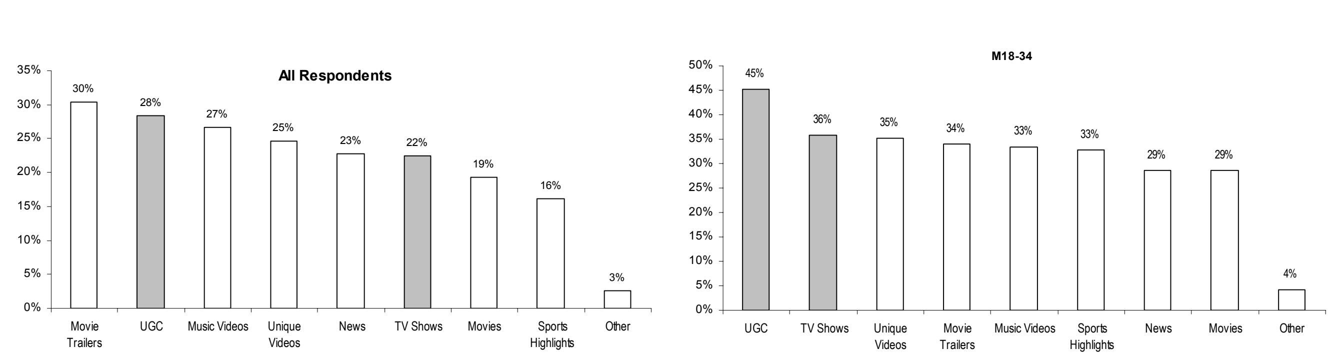
HOW MUCH DEMAND WILL THERE BE FOR USER-GENERATED CONTENT?

We Think Demand for UGC Will Only Rise . . .

The answer to this question, in two words, is, "a lot," in our view. Although most investors appear skeptical that there is high demand for essentially home videos (as opposed to professionally produced content), we note that this concept is not new. As we wrote last year, the show *America's Funniest Home Videos* has been a staple of TV for years. Also, new forms of content are generally unimpressive at first, but improve over time. For instance, in the early days, ESPN covered events like ultimate Frisbee competitions, while Ted Turner's CNN (dubbed the "Chicken Noodle Network" by skeptics) was met originally with the notion, "Who wants to watch news 24 hours a day?"

In our recent online video survey, one of the main conclusions is that consumers, especially the target market of M18-34, are highly interested in UGC. For example, when we queried, "What types of videos do you like to watch?," UGC ranked surprisingly high, as the second most popular content category across all respondents. In the target market of M18-34, UGC is the single most popular content category. This appears to debunk some investors' view that UGC is just a fad.

Exhibit 13. What Online Video Users Are Watching — "What Do You Like to Watch?"



Source: Bear Stearns Online Video Survey, April 2007.

1 For further details on our online video survey, please refer to our recent report, *"You Say You Want a Revolution?,"* dated April 20, 2007.

. . . But Don't Just Take Our Word for It

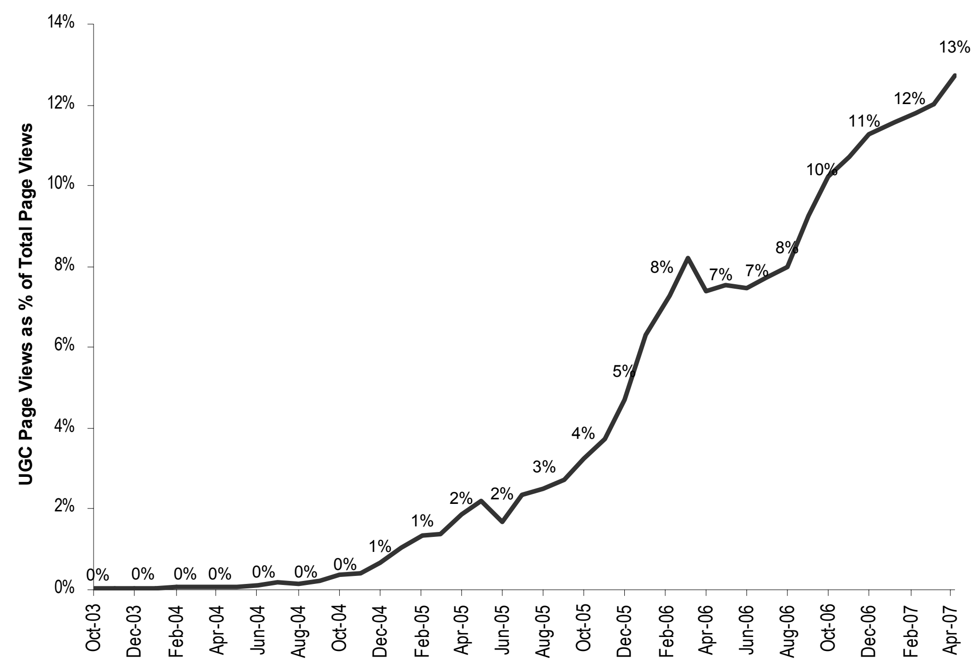
Moreover, we think there is historical quantitative evidence that UGC is more than a passing fad. For example, if we define user-generated content as only page views from specific sites such as Myspace.com, Facebook.com, Youtube.com, Wikipedia.org, Blogger.com, and Digg.com (which is quite conservative, in our view), we estimate that UGC now accounts for 13% of total U.S. Internet traffic, up from 0%-1% in 2004 (please refer to Exhibits 14 and 15).

Exhibit 14. UGC Page Views as a Percentage of Total Page Views, January 2006-April 2007

	Jan-06	Feb-06	Mar-06	Apr-06	May-06	Jun-06	Jul-06	Aug-06	Sep-06	Oct-06	Nov-06	Dec-06	Jan-07	Feb-07	Mar-07	Apr-07
Youtube.com	94	139	283	276	550	613	661	1,055	1,326	1,530	1,578	1,933	2,002	2,297	2,539	2,618
+ Facebook.com	5,018	5,506	7,557	7,135	6,530	6,093	6,108	6,463	7,161	9,437	9,039	9,064	10,360	10,779	12,179	14,997
+ Myspace.com	23,125	23,566	28,808	27,457	29,403	30,187	30,911	32,912	34,988	37,919	38,727	40,947	39,856	42,289	43,723	44,057
+ Wikipedia.org	104	211	265	358	408	376	368	447	453	490	588	568	571	591	691	808
+ Blogger.com				217	229	208	204	242	255	217	226	202	218	206	244	264
+ Digg.com	2	2	3	4	5	4	3	4	3	6	6	8	8	7	11	14
= UGC Index Pg. Views	**28,248**	**29,285**	**36,633**	**35,171**	**36,575**	**36,868**	**37,594**	**40,068**	**42,860**	**48,069**	**48,586**	**50,789**	**51,013**	**53,872**	**56,848**	**60,140**
/ Total Internet Pg. Views	447,296	403,185	446,502	475,365	484,616	492,975	487,353	501,260	462,186	469,359	454,212	451,044	441,144	456,035	473,502	471,849
= UGC / Total Internet	**6%**	**7%**	**8%**	**7%**	**8%**	**7%**	**8%**	**8%**	**9%**	**10%**	**11%**	**11%**	**12%**	**12%**	**12%**	**13%**

Source: ComScore and Bear Stearns calculations.

Exhibit 15. UGC Page Views as a Percentage of Total Page Views, October 2003-April 2007



Source: ComScore and Bear Stearns calculations.

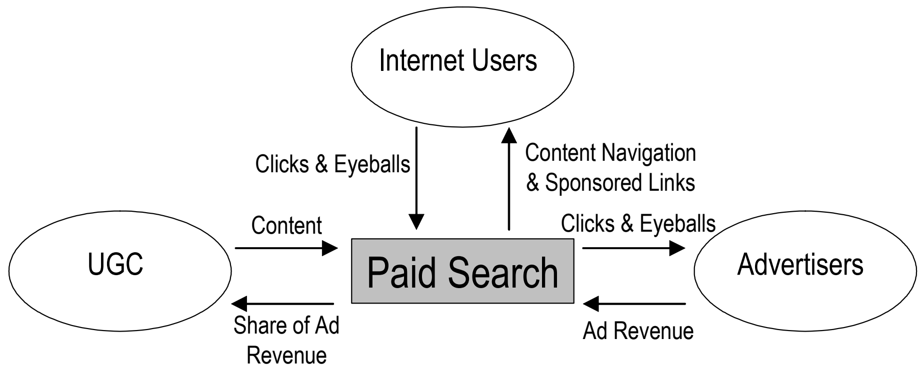
CAN UGC ACTUALLY BE MONETIZED?

History Shows that UGC Can Be Monetized

Although it is one thing to believe that UGC is a sustainable content category, another major investor concern is whether UGC can actually be monetized. The conventional view is that UGC is of low quality for which advertisers will have little interest in being associated with. We respectfully disagree with this notion. Firstly, returning to our historical perspective, we note that much of the text-based user-generated content (like blogs and social networks) has been monetized through the mechanism of paid search.

As illustrated in Exhibit 16, as text content proliferated on the Web, finding the relevant information became increasingly difficult, leading to the rise of paid search from companies such as Google and Yahoo!. In return for providing content navigation, these firms monetized their traffic through sponsored links and delivering targeted and relevant ads to Internet users who generated ad revenue for Google and Yahoo!, which were split with content providers (UGC or otherwise).

Exhibit 16. Monetizing UGC in the Text-Based Web



Source: Bear, Stearns & Co. Inc.

Initially, traditional large advertisers were reluctant and slow to adopt paid search and text-based UGC. However, the low-cost, targetability, accountability, and ease of use led small and medium-sized businesses to embrace paid search. With *Fortune* 500 advertisers now joining the paid search "party," this category of advertising has enjoyed startling growth. For instance, according to Universal McCann, paid search has grown at an 88% CAGR since 2002, and now represents $15 billion in spending on a global basis.

Exhibit 17. Importance of Video Aggregation

	2002	2003	2004	2005	2006	CAGR
U.S. Online Search Advertising	$902	$2,555	$3,850	$5,732	$8,084	73%
% YOY Growth		*183%*	*51%*	*49%*	*41%*	
+ Int'l Online Search Advertising	$269	$1,044	$1,896	$3,513	$6,614	123%
% YOY Growth		*288%*	*82%*	*85%*	*88%*	
= Global Online Search	**$1,171**	**$3,599**	**$5,746**	**$9,245**	**$14,698**	**88%**
% YOY Growth		*207%*	*60%*	*61%*	*59%*	

Source: Universal McCann; Bear, Stearns & Co. Inc.

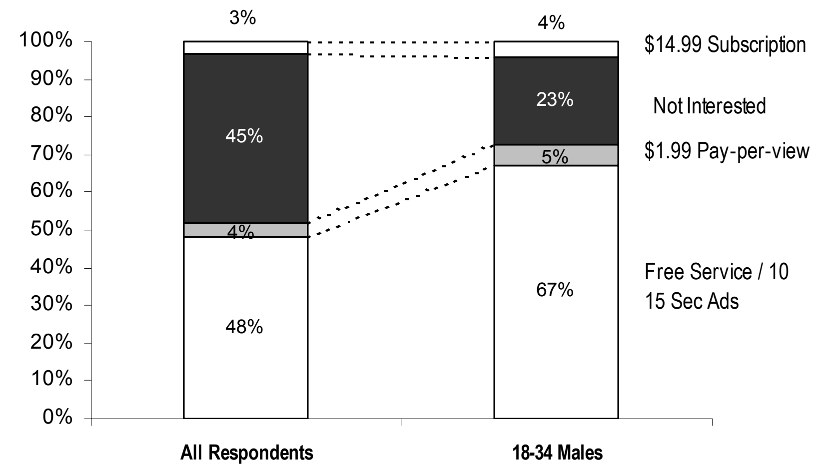
As video content proliferates on the Internet, we believe a similar dynamic could arise. In theory, one added benefit of broadband video content is the ability to monetize eyeballs and clicks with video ads that incorporate the "emotive power" and visual and audio qualities of traditional TV advertisement (albeit likely shorter in length).

Pre-Roll Ads Could Be One Answer to Monetizing UGC in Online Video

We acknowledge that many are skeptical that consumers are willing to sit through video ads before watching their video content (i.e., "pre-roll" ads). However, we submit that consumers don't necessarily hate all advertising. In our view, consumers dislike advertising that is irrelevant to them and/or intrusive.

This view is supported by research from our online survey. While, not surprisingly, many users prefer free online video with no advertisements, contrary to popular perception, consumers are not completely adverse to short pre-roll ads. Among all respondents and M18-34, 48% and 67%, respectively, prefer a free, ad-supported service with ten- to 15-second commercials. À la carte fees, such as paying $1.99 per video or a $14.99 monthly subscription fee, do not appear compelling to users with only 7%-9% of respondents indicating a preference for these types of offerings.

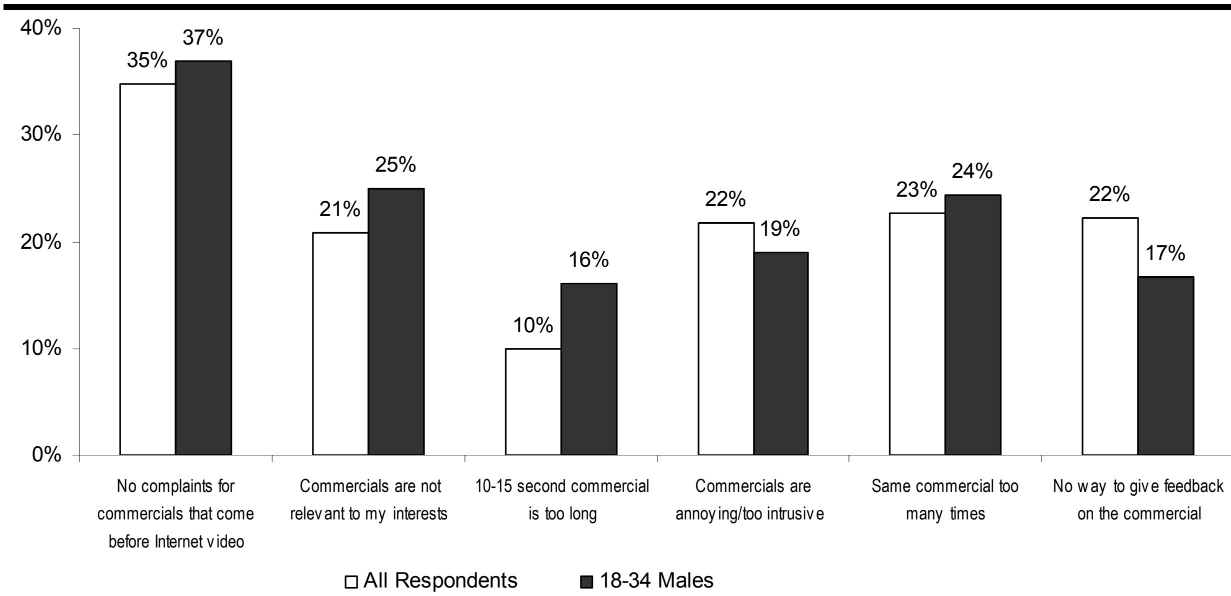
Exhibit 18. How Online Video Can Be Monetized



Source: Bear Stearns Online Video Survey, April 2007.

Drilling deeper into user attitudes toward video ads, our research finds that over one-third of respondents have no major complaints about pre-roll ads. Only 10% of respondents stated that a ten- to 15-second commercial was too long to watch before the video. Our survey finds that online video providers can monetize and improve consumer attitudes toward advertisements by focusing on targeted, relevant ads, reducing frequency (i.e., a user seeing the same ad too many times), and creating less-intrusive ads.

Exhibit 19. Consumer Attitudes Toward Online Video Pre-Roll Ads



Source: Bear Stearns Online Video Survey, April 2007.

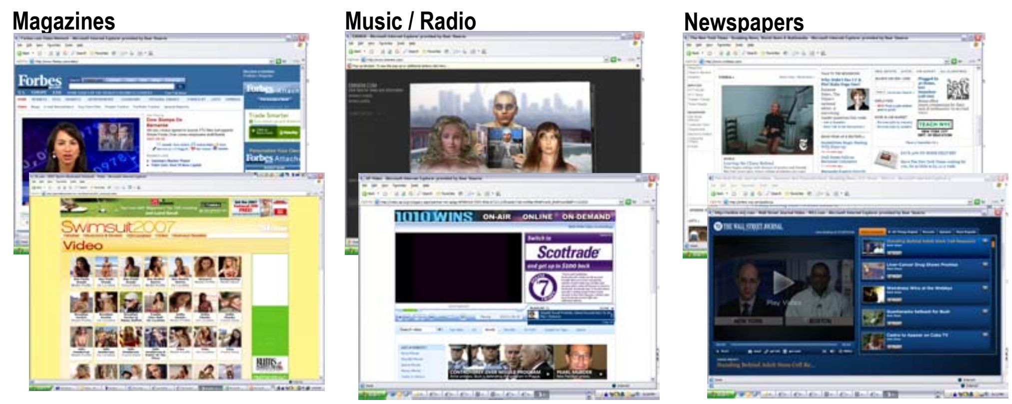
Why Will Value Shift from Content Producers to Content Aggregators?

"The Paradox of Choice"

Another of our key tenets is that, as these technological changes occur, value will increasingly shift from incumbent producers of content (read: traditional entertainment/Hollywood companies) to aggregators/navigators of content in the middle of the supply chain. Said another way, as supply of video content rises over time with new technology, *the main problem will not be access to or availability of content, but, rather, too many content choices. In this world, context and aggregation are king, as we wrote last year.*

While we have focused much of our discussion regarding proliferation of content choices on UGC, we believe that the digitization of media also opens the door for "semiprofessional" creators of content, which today have limited TV distribution. In addition, new technology also allows other traditional media players, such as newspaper, magazine, and radio companies, who, in the past, did not have access to finite video spectrum, to provide video content. For instance, today, traditional print players such as *The Wall Street Journal*, *Sports Illustrated*, and the radio station 1010 Wins incorporate video into their Web sites.

Exhibit 20. Examples of Traditional Media Incorporating Broadband Video



Source: Company Web site.

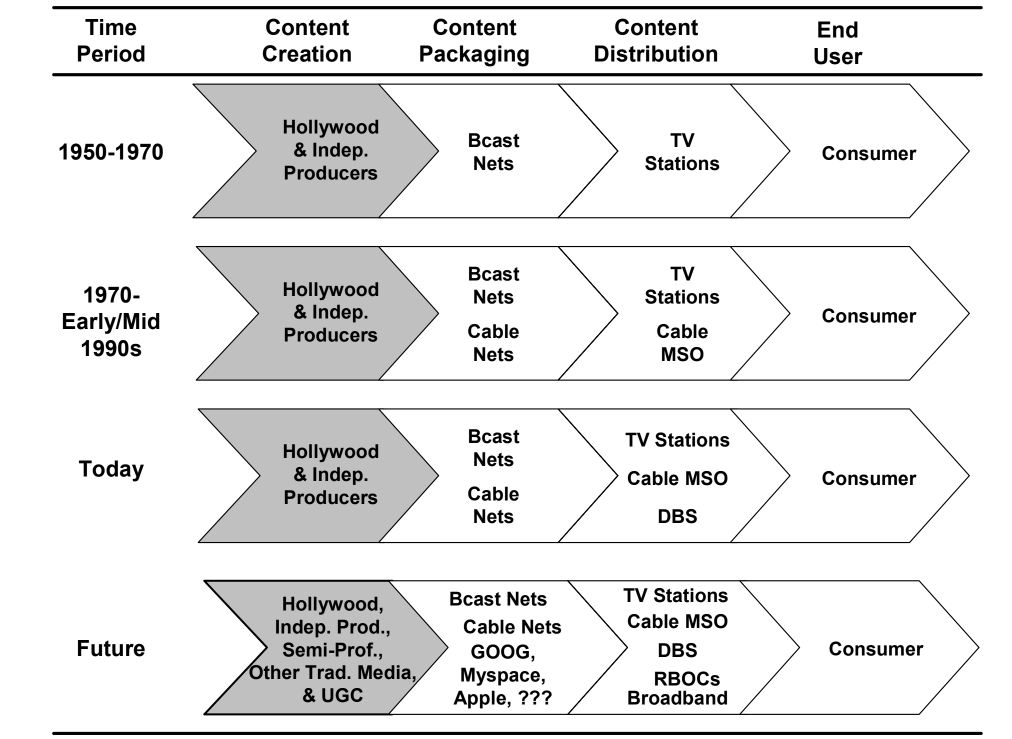
Therefore, as barriers to entry in video production fall, we see several new sources of video content supply, including newspaper, magazine, and radio companies, semiprofessional content, and user-generated content.

Exhibit 21. New Producers of Video Content

Producers of Video Content	Past/Present	Future
Incumbents	TWX, DIS, NWS, CBS, VIAB, Indep. Producers	TWX, DIS, NWS, CBS, VIAB, Indep. Producers
Other Traditional Media	Local TV Stations	Local TV Stations, Newspapers, Magazines, Radio Stations
New Producers		Semi-Professional Content, UGC

Source: Bear, Stearns & Co. Inc.

Exhibit 22. Evolution of Video Supply Chain

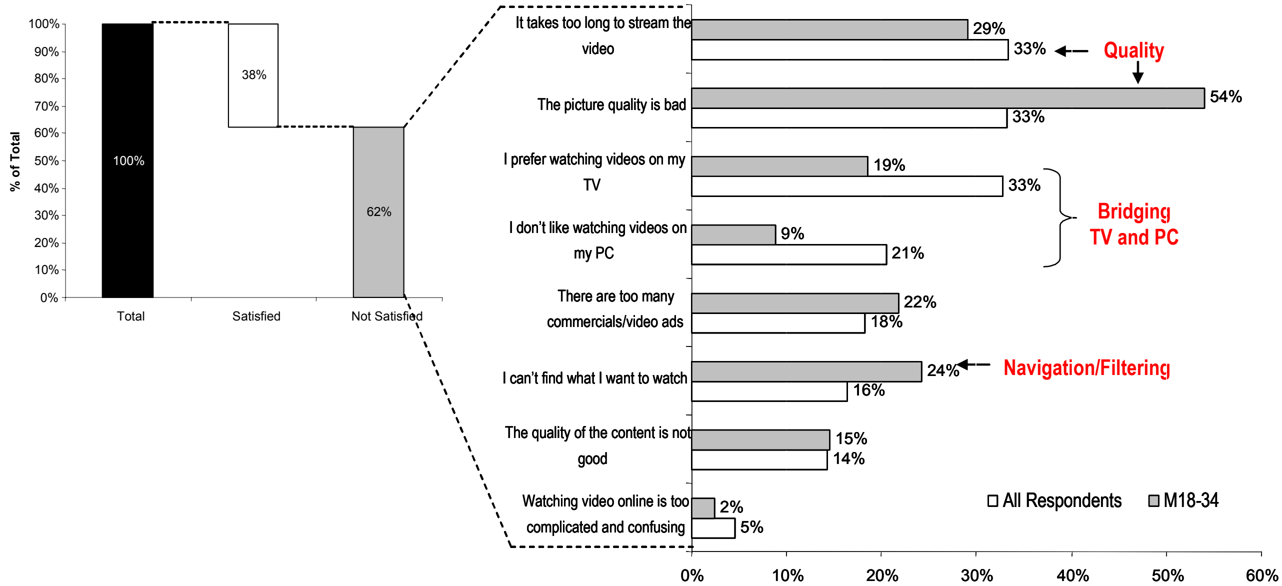


Source: Bear, Stearns & Co. Inc.

This increase in video content supply leads to the so-called “Paradox of Choice.” This school of thought (which we obviously concur with) argues that while “freedom of choice” is generally regarded positively, *too much choice can actually be detrimental,* leading to lower user satisfaction, given the cognitive dissonance associated with regret, opportunity cost, confusion, etc.

Therefore, we submit that in an era of theoretically infinite video choice, the greatest value can be created not by producing content but by solving the “paradox of choice” and connecting users’ individual interests with the vast supply of content. The need for this type of aggregation/navigation is highlighted by findings from our online video survey — e.g., among users not fully satisfied with online video, one-quarter of the target demo (M18-34) cited difficulty in finding what they want to watch.

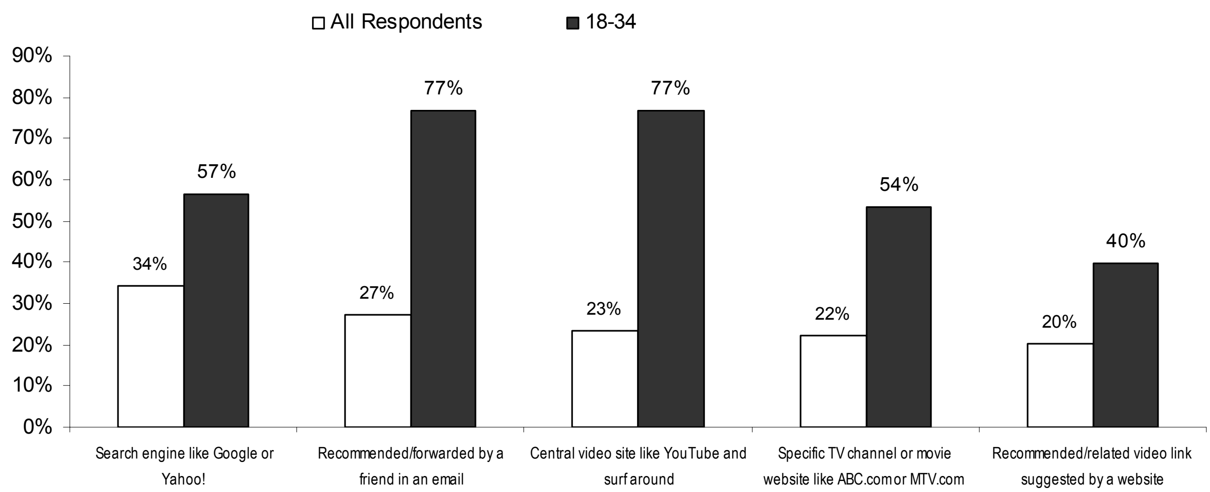
Exhibit 23. Percentage of Online Video Users Satisfied and Complaints About Online Video



Source: Bear Stearns Online Video Survey, April 2007.

In addition, according to our survey, the top three preferred methods for accessing and finding video content were search engines, forwarded content, and centralized video sites, such as YouTube, all ways that enhance navigation. What is somewhat troubling for media companies is that going to specific TV channels or movie Web sites (like ABC.com or MTV.com) ranked relatively low.

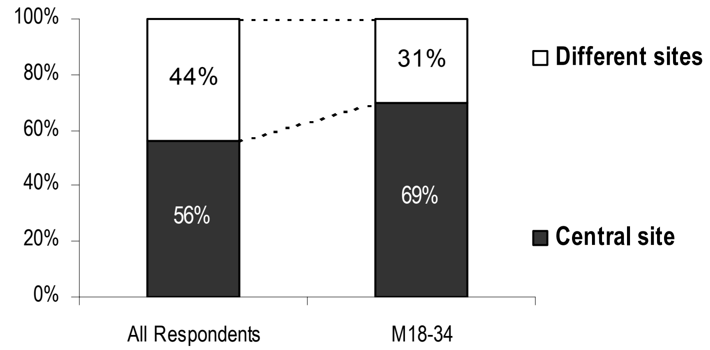
Exhibit 24. How Users Access and Find Video Content



Source: Bear Stearns Online Video Survey, April 2007.

We believe this reflects the value consumers place on convenience as much as choice. Our survey found that more than half of all viewers, 56%, prefer a centralized online video destination (like YouTube), where content is aggregated, as compared to searching for video content among their favorite individually branded sites (i.e., ESPN.com or MTV.com). This figure jumps to 69% for M18-34.

Exhibit 25. Importance of Video Aggregation



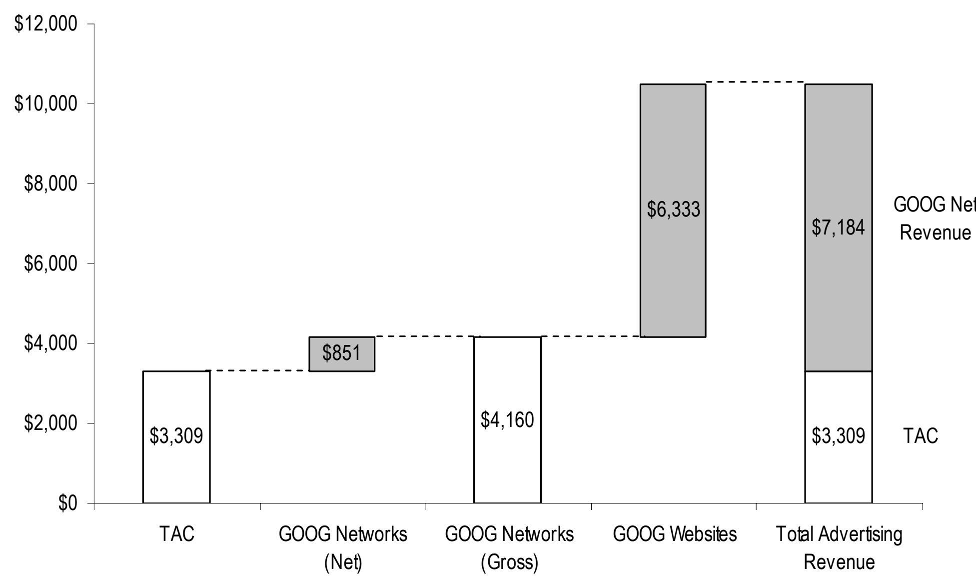
Source: Bear Stearns Online Video Survey, April 2007.

In our opinion, this would be consistent with the development of the text-based Web. As we discussed earlier, as text-based content and information choices mushroomed on the Internet through the 1990s and early 2000s, consumers found a greater need for better navigation, which search engines like Google fulfilled.

In turn, this traffic and usage was monetized, in part, through paid search. As we examine the evolution of the paid search marketplace, it appears that much of the value has accrued to the middle of the supply chain, i.e., the search engines as opposed to the creators of content.

For example, the market leader in paid search is Google (covered by Bear Stearns Internet analyst Robert Peck). In 2006, Google generated more than $10 billion in gross advertising revenue. It shares part of its ad revenues with Web sites in the Google network. This portion (TAC) totaled $3.3 billion in 2006. While a substantial amount of money, this figure was spread over “thousands” of affiliates in Google’s network. On the other hand, Google’s share of this $10 billion gross advertising figure was more than $7 billion.

Exhibit 26. Google Advertising Breakdown, 2006 ($ in millions)



Source: Company reports. Note: Google is covered by Bear Stearns Internet analyst Robert Peck.

On this basis, Google's $7 billion in net advertising revenues accounted for nearly 50% of the global online search marketplace. In our view, this supports our thesis, as content supply increases, this will increase the need for context and content aggregation and navigation (as opposed to content creation) and that value will shift from the top of the supply chain to the middle.

Exhibit 27. Google Share of Global Search Market, 2006 ($ in millions)

GOOG Networks (Net)	$850.9
+ GOOG Websites	$6,333.0
= GOOG Net Ad Revenue	**$7,183.9**
/ Worldwide Online Search Advertising	$14,698
= Market Share	**48.9%**

Note: Google is covered by Bear Stearns Internet analyst Robert Peck.

Source: Company reports.

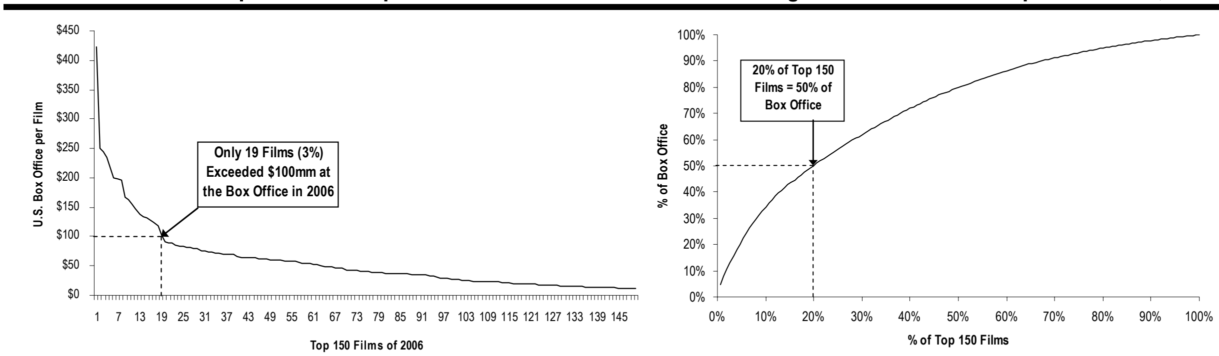
BUT ISN'T CONTENT KING?!

Content Isn't King, Great *Content Is King . . .*

One of the counterarguments to our "context and aggregation are king" thesis is that, for as long as most can recall, the entertainment industry has lived by the axiom "content is king." However, this, in our view, is an oversimplification. We agree with the view that consumers will always enjoy "blockbuster" event films and hit TV shows like the *Harry Potter* franchise or *Grey's Anatomy* on TV.

However, the reality is that creating "hit" content is very difficult given the inherently fickle nature of consumer demand for entertainment goods. As illustrated in Exhibit 28, very few films generate substantial box office with only 19 films out of 599 new film releases (3%) in 2006 exceeding the $100 million mark. From another perspective, 20% of the top 150 movies accounted for 50% of the corresponding box office. In other words, no firm sets out to deliberately make a "bad" movie or TV show. Nonetheless, the fact of the matter is that predicting demand in a business of "hits" is inherently challenging.

Exhibit 28. Box Office per Film of Top 150 Movies and Cumulative Percentage of Box Office for Top 150 Movies, 2006

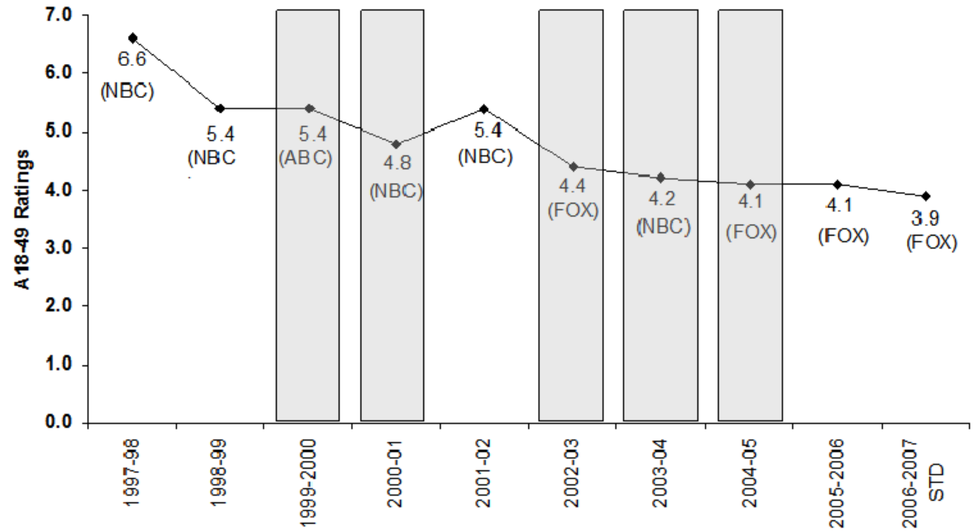


Source: MPAA; Boxofficemojo.com.

. . . But Nobody Bats 1.000

In addition, the other problem with the "great content" theory is that very few (if any) companies have proven capable of consistently churning out the most popular content for an extended period of time. For example, over the past ten years, the No. 1 TV network has changed hands five times (notwithstanding Fox's recent *American Idol*-driven dominance).

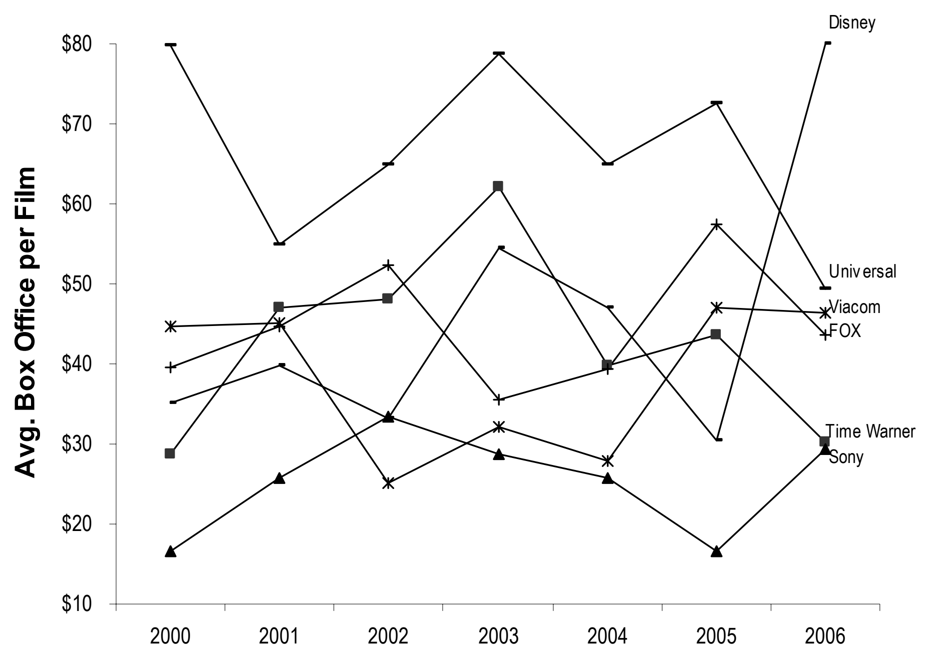
Exhibit 29. Top TV Network Has Changed Hands Five Times in the Last Ten Years



Source: Nielsen Media Research.

As another example, in the hit-driven film business, all the major studios experience significant volatility in box office per film on a year-to-year basis. In other words, depending on which films resonate with consumers, a studio's box office per film can swing dramatically from one year to the next. If a studio is able to consistently churn out great films, there should theoretically be more stability in box office per film.

Exhibit 30. Average U.S. Box Office per Film for Major Studios, 2000-06



Source: MPAA; boxofficemojo.com; Bear, Stearns & Co. Inc.

HOW WILL TRADITIONAL MEDIA FIRMS RESPOND TO THESE CHANGES?

The Frienemy of my Frienemy Is My Frienemy

If our theory on the evolution of video content is accurate, this clearly suggests that major changes are afoot. As such, the next logical question is, "how can traditional media firms cope and respond to these changes?" Strategically, we think there are three basic choices for entertainment companies as they assess their digital initiatives: 1) build it organically, 2) buy (read: acquire) a presence, and/or 3) partner with other players via joint ventures.

Exhibit 31. Strategic Alternatives

Strategic Alternatives	Pros	Cons
Build	100% Control, Likely More Capital Prudent	
Buy	Enhances speed to market, can acquire management talent	May negatively impact ROIC, potential for culture clash
Partner/JV	Enhances speed to market, resources can be pooled	Execution risk, most media JV's have not been successful

Source: Bear, Stearns & Co., Inc.

- **Buy.** News Corp. and, to a lesser extent, Viacom and Time Warner have been acquiring Internet properties over the past several years in order to bulk up their online presence, as shown in the exhibit below.

Exhibit 32. Recent Digital Media Acquisitions by Traditional Media

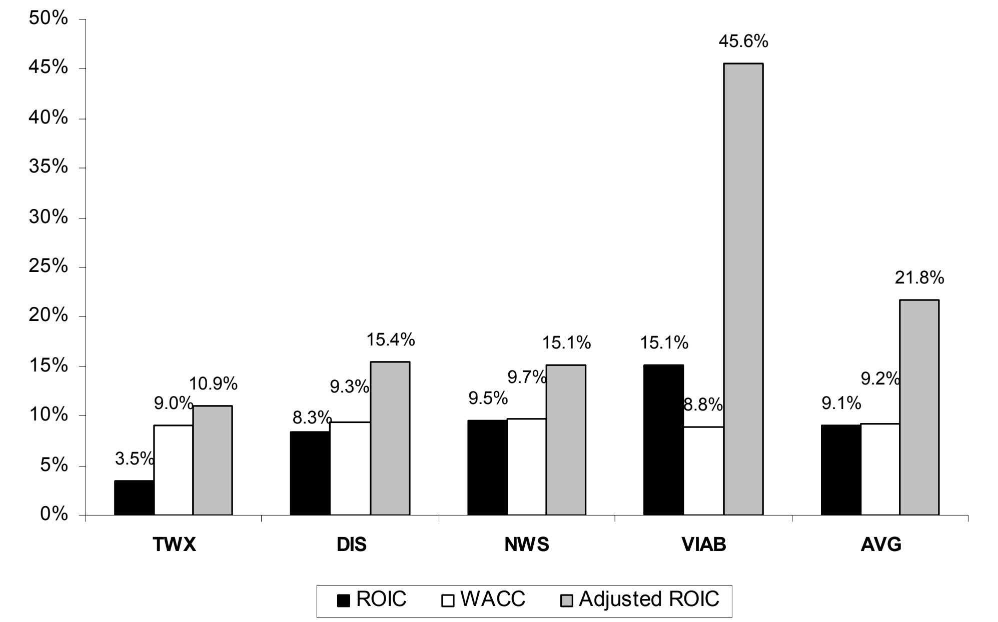
Company	Digital Property	Type	Purchase Price
TWX	AdTech	Ad Serving	
	Advertising.com	Ad Network	
	SingingFish	Video Search	
	Truveo	Video Search	
VIAB	Atom Films	Online Content	
	iFilms	Online Content	
	Game Trailers	Videogame Trailers	
	Harmonix (Guitar Hero)	Music-based Gaming	
	NeoPets	Pet Animation / Games	
	Quizilla	Polls / Quizzes / Tags	
	Xfire	Gaming Community Site	
	Y2M	Youth Media and Marketing	
NWS	MySpace	Social Networking	$580MM
	Scout	Online Sporting Site	N/A
	IGN	Entertainment / Gaming Site	$650MM

Source: Company press releases; Bear, Stearns & Co. Inc. estimates.

The benefit of this strategy is that this allows the traditional media companies to more quickly develop a sizable online presence and enhances speed to market. Acquisitions also allow the entertainment firms to acquire management with expertise in new media, assuming they can be retained.

However, one drawback of this strategy is that integrating acquisitions has been difficult for some media firms (read: AOL/Time Warner). As a result, culture clash could negatively affect execution and integration of acquisitions. In addition, acquisitions could pressure intermediate-term return on invested capital (ROIC). Historically, entertainment companies have overpaid for acquisitions, which has resulted in low ROIC (i.e., generally below the industry's weighted average cost of capital [WACC]). For example, if we exclude acquisition-related goodwill, adjusted ROIC well exceeds WACC, implying that the underlying returns of media businesses are satisfactory but that entertainment companies overpay for acquisitions.

Exhibit 33. Comparison of Return on Invested Capital, 2006



Source: Company Reported Data; Bear Stearns & Co, Inc. estimates.

- **Partner/Joint Venture.** Another tactic media companies could use is to partner with other players. For example, News Corp. and Universal have created a joint venture to pool their content online and to distribute it across major portals such as AOL, Yahoo! and MSN.

  Partnering with others can aid with pooling resources and, in the case, of the News Corp./Universal JV, creating a central destination for online content. However, we view execution as major risk factor in media JVs given the large number (and large egos) of players involved. For instance, we were hard-pressed to identify one major media joint venture that has been particularly successful in the past (see Exhibit 34).

Exhibit 34. Historical Media Joint Ventures

Business Name	Partners	Launched	Purpose	Outcome
MovieLink	Sony, Paramount, BMG, Warner Bros. and Universal Studios	2002	Movie on demand service with prices ranging from $1.99 to $4.99 per film.	Anti-trust investigation opened and closed. Blockbuster reportedly in talks to acquire.
PressPlay	Sony Music Entertainment, Universal Music; (Licensing agreement with BMI)	2001	Downloadable music service meant to compete against Napster	Failure
MusicNet	Began as a JV between Real Networks and a number of Music Labels	2001	Downloadable music service meant to compete against Napster	DOJ investigation was opened and closed; now owned by private equity
ShopLocal.com **Topix.net**	Gannett Co., Inc., The McClatchy Company, and Tribune Company	2001 2004	Attempt by the big newspaper companies to address the advanced local capabilities of the top search engines.	Late to the game with limited success
Classified Ventures: Apartments.com Cars.com HomeGain	Belo Corporation, Gannett Company, The McClatchy Company, Tribune Company and The Washington Post Company	1997	Effort to leverage the classifieds of 5 major newspaper companies to compete with online search and agent services	Limited success
MSNBC	Microsoft, NBC Universal	1996	50/50 cable venture	Moved under NBC U control last year
CareerBuilder.com	Launched as a standalone, IPO'd in 1999 and acquired in 2002 by Gannett Co., Inc., The McClatchy Company, and Tribune Company	1995	Competitor to Monster	The site has become the leader in job classifieds. While run as a JV, its success likely has much to do with its standalone status at launch
Showtime Networks, Inc.	Viacom, Warner-Amex Satellite	1983	Compete with HBO by combining Showtime and the Movie Chanel into one division	Warner-Amex Satellite dissolved in 1984 and Warner Communications sold its 50% stake to Viacom in 1985. Showtime remains a distant #2
Satellite News Channel	ABC and Group W Westinghouse	1980	Competitor to Turner's CNN	Business failed in '83 and was sold to Turner for $25 million
Warner-Amex Cable **Warner-Amex Satellite**	Warner Communications and American Express	1979	Purpose was to invest heavily in programming to fill the cable and satellite channels becoming available	Amex sold their satellite interest to Warner Cable in 1984 and cable interest to Warner in 1985

Source: Bear Stearns & Co, Inc.

- **Build.** Some entertainment companies (such as Disney) are primarily focused on building their digital initiatives organically. The benefit, in our view, of this strategy is that the company can retain 100% control and, with no JV partners, this helps to streamline the decision-making process.

  That being said, the challenges of building digital businesses organically for traditional media firms is that technology is not necessarily a core competency for entertainment companies. Generally speaking, media companies have historically been slow to adopt new technologies such as VCRs and even television, for fear of cannibalization. Moreover, even without JV partners, strategic planning and organizational responses for media companies (and many firms in general outside of media) tend to be relatively measured and slow. Said another way, it may not be in the "DNA" of media companies to move quickly and innovate rapidly. This may be due in part to the "innovator's dilemma."

WILL "DIGITAL" INITIATIVES OFFSET EROSION IN THE CORE BUSINESS?

Waking the Sleeping Giants

The good news for investors, in our view, is that entertainment companies are not standing still with respect to technological changes. We argued in early 2006 that the managements of the large-cap entertainment companies were beginning to take a more proactive approach to managing technological change. As such, major media companies have unveiled a flurry of announcements tied to new technology over the past 18 months.

Exhibit 35. Recent Digital Initiatives of Large-Cap Entertainment Companies

Company	Build	Buy	Partner
TWX	AOL's new free strategy, Warner Bros. licenses TV shows to AOL	AdTech Advertising.com	AOL is a distribution partner in NWS/Uni JV
VIAB	Greater emphasis on "digital" initiatives, YouTube lawsuit	Atom Films, iFilms, Xfire, Harmonix, Y2M, etc.	Distribution deals with Joost, Gofish, etc.
DIS	Providing TV and film content to iTunes, relaunch of Disney. com	N/A	N/A
NWS	Integrating Fox content into MySpace	MySpace Scout IGN	NWS/Universal online video joint venture

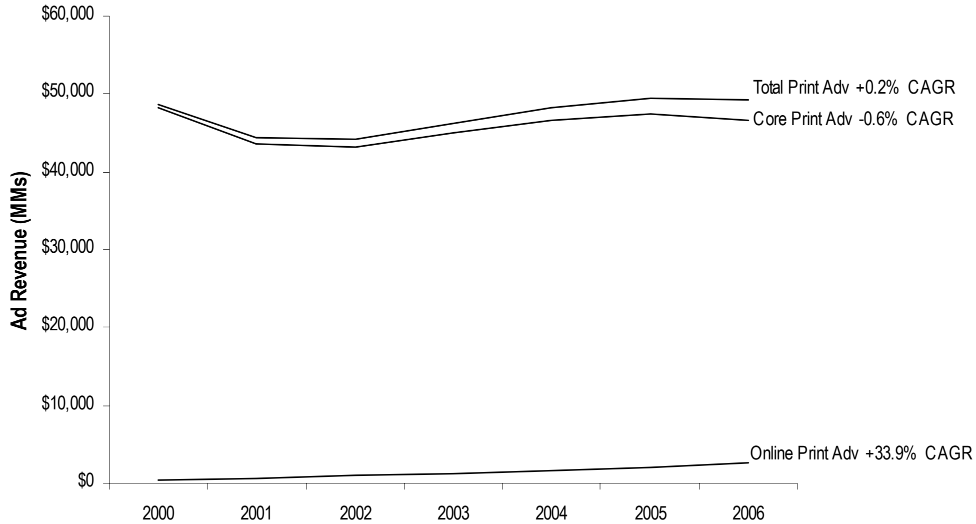
Source: Bear, Stearns & Co Inc.

Running to Stand Still?

As management priorities have shifted and irrespective of how the competitive strategies are structured from a deal perspective, another common question from the investment community has been, "will these digital initiatives of the entertainment companies be able to offset slowing growth in their core businesses?"

We think the answer is, "unlikely." First, continuing with our print parallel, a historical analysis finds that as newspaper companies have been successful in growing their "digital" revenue base (+34% CAGR from 2000 to 2006), this has not been enough to offset erosion in their core print advertising business. For example, over the same time period, core print advertising has declined at an 0.6% annual rate. Therefore, strong growth in online ad revenue has only allowed total revenues to remain effectively flat over this time frame.

Exhibit 36. Print Advertising Breakout — Core vs. Online, 2000-06



Note: CAGRs are calculated over a six-year period from 2000 to 2006.

Source: Newspaper Association of America; Bear, Stearns & Co. Inc. estimates.

Law of Large Numbers Works Against Incumbents

Second, looking at the current revenue composition of the entertainment conglomerates, "digital" revenues remain very small relative to the overall sales base and appear unlikely to be a "needle-mover" for the foreseeable future. To date, the primary strategy for incumbents has been to repurpose existing and library content on the Web. While this strategy has fueled strong growth in "digital" sales for the incumbent, given the large base of legacy revenues, this has not materially changed the top-line growth rate.

For example, in fiscal 2006, on average, digital revenue as a percentage of total sales for the Big 4 entertainment companies amounted to about 8.3%. Excluding Time Warner's AOL division, this figure is approximately 2.4%. Even assuming 20%-plus compound annual growth in digital for the next five years, we project that this latter figure will grow to a still modest 7.4% of total revenues for the industry.

This analysis implies that total revenues for the entertainment companies can increase at a 5%-6% annual rate over the next five years, with non-digital revenues growing about 4% per annum, while digital increases 20%-plus. The risk, in our opinion, is that as digital revenues increase, core revenues for entertainment companies decelerate more rapidly than we currently expect.

Exhibit 37. Digital Revenue as a Percentage of Total, 2006-12E ($ in millions)

	2006	2007E	2008E	2009E	2010E	2011E	2012E	07E-'12E CAGR
VIAB								
Digital Revenue	$250	$500	$650	$845	$1,099	$1,373	$1,648	26.9%
/ Total Revenue	$11,467	$12,100	$12,837	$13,907	$14,962	$16,129	$16,870	6.9%
= % of Total	**2.2%**	**4.1%**	**5.1%**	**6.1%**	**7.3%**	**8.5%**	**9.8%**	**18.8%**
DIS								
Digital Revenue	$1,160	$1,508	$1,856	$2,289	$2,786	$3,343	$4,012	21.6%
/ Total Revenue	$34,285	$36,542	$38,594	$40,478	$42,281	$44,601	$47,107	5.2%
= % of Total	**3.4%**	**4.1%**	**4.8%**	**5.7%**	**6.6%**	**7.5%**	**8.5%**	**15.6%**
NWS								
FIM Revenue	$300	$602	$915	$1,146	$1,414	$1,666	$1,887	25.7%
/ Total Revenue	$25,327	$28,061	$29,967	$31,822	$33,819	$36,075	$37,924	6.2%
= % of Total	**1.2%**	**2.1%**	**3.1%**	**3.6%**	**4.2%**	**4.6%**	**5.0%**	**18.3%**
TWX								
AOL Revenue	$7,786	$5,102	$3,691	$3,811	$4,060	$4,335	$4,649	-1.8%
/ Total Revenue	$43,690	$46,891	$48,853	$52,135	$55,380	$58,674	$62,001	5.7%
= % of Total	**17.8%**	**10.9%**	**7.6%**	**7.3%**	**7.3%**	**7.4%**	**7.5%**	**-7.2%**
Avg.								
Digital Revenue	$9,496	$7,712	$7,112	$8,090	$9,358	$10,717	$12,195	9.6%
/ Total Revenue	$114,769	$123,594	$130,251	$138,341	$146,442	$155,480	$163,902	5.8%
= % of Total	**8.3%**	**6.2%**	**5.5%**	**5.8%**	**6.4%**	**6.9%**	**7.4%**	**3.6%**
Avg. x-TWX								
Digital Revenue	$1,710	$2,610	$3,421	$4,280	$5,298	$6,382	$7,546	23.7%
/ Total Revenue	$71,079	$76,703	$81,399	$86,207	$91,063	$96,805	$101,901	5.8%
= % of Total	**2.4%**	**3.4%**	**4.2%**	**5.0%**	**5.8%**	**6.6%**	**7.4%**	**16.8%**

Source: Company reports; Bear, Stearns & Co. Inc. estimates.

Investment Conclusion

CHANGES ARE AFOOT

Overall, our research finds several key conclusions, which we summarize in Exhibit 38 below. First, we remain firm in our belief that user-generated content is here to stay. Moreover, lessons from the text-based Web suggest that UGC can be monetized in the form of search, while our online video survey suggests that in a broadband world, online video can be monetized through video advertisements. Third, it is apparent to us that as supply of video content rises, value will shift from content producers to aggregators and packagers of content that can best aid users in finding content that fits their specific interests. Although we think consumers will still want "great content," the challenge for incumbents is that no one company has shown an ability to create this on a consistent basis. In addition, while we applaud incumbents for renewed focus on digital initiatives, it does not appear that this revenue stream will be a material driver of overall top-line growth over the next five years. This is similar to the evolution of the newspaper companies as "text-based" Web developed.

Exhibit 38. Summary of Key Investment Conclusions

Key Questions	Hypothesis	Supporting Evidence
Will there be demand for UGC?	Yes	Survey findings argue for strong UGC demand and at least 13% of online traffic is UGC today
Can UGC be monetized?	Yes	Search monetized text-based UGC and survey findings suggest consumers are not adverse to video ads
Where will value shift to along the supply chain?	Value will shift to aggregators/packagers of content	As video content supply increases, value of navigation/aggregation increases as it did in text-based web (see Google)
Will content remain king?	Great content still king, but very difficult to institutionalize great content creation	No one company consistently creates great content hence variability in No. 1 network and box office per film figures
Will digital initiatives be enough for incumbents?	Probably not	Digital revenues very small as % of total sales. Digital sales for newspaper companies have only offset erosion in core ad business

Source: Bear Stearns & Co, Inc.

CAUGHT BETWEEN A ROCK AND A HARD PLACE?

Net-net, our work finds that technology changes pose a threat to the incumbent entertainment companies. To be clear, we are not calling for the demise of traditional media any time soon. However, we can certainly envision these changes leading to slowing growth and the rise of a new class of media companies just as the text-based Web spawned powerful new competitors such as Yahoo! and Google. As broadband Internet continues to evolve, it seems fairly probable that other, as-yet-to-be-determined companies will emerge from out of nowhere to play a role, as YouTube did.

We note that these themes will likely play out over the long run and may not necessarily affect near-term estimates or operating fundamentals of the major media conglomerates. Still, we view these changes as important strategic issues for the industry. In addition, these issues may influence investor sentiment and the terminal values that the investment community award entertainment stocks. Should this occur, valuation multiples for media stocks could be affected even though the near-term earnings impact may be negligible.

Consequently, we maintain our Market Weight rating on the U.S. entertainment industry. While we think near-term fundamentals are on track and we do not foresee any major earnings shortfalls on the horizon, our enthusiasm is tempered by our longer-term view of the sector and the challenges presented by falling barriers to entry in the core video business. As a result, we are fairly selective in our stock recommendations and favor companies with cheaper relative valuations, such as Viacom and Time Warner, both rated Outperform.

Exhibit 39. EV/EBITDA, 2007E and 2008E ($ in millions, except per share data)

	DIS		TWX		Non-Cable TWX		VIAB		NWS	
	2007E	2008E	2007E	2008E	2007E	2008E	2007E	2008E	2007E	2008E
Stock Price	$35.27	$35.27	$21.10	$21.10	$11.64	$11.64	$43.55	$43.55	$24.15	$24.11
x Shares Outstanding	2,107.4	2,005.5	3,813.2	3,660.6	3,813.2	3,660.6	679.3	623.8	2,611.9	2,516.3
= Equity Market Cap	**$74,327.8**	**$70,732.8**	**$80,458.9**	**$77,238.5**	**$44,382.1**	**$42,605.7**	**$29,582.2**	**$27,165.4**	**$63,077.0**	**$60,668.5**
+ Net Debt	11,534.8	10,966.9	35,843.8	36,741.1	22,047.6	24,787.6	8,127.2	8,436.4	6,576.6	5,560.4
+ Preferred Stock	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
+ Other Adjustments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
= Adjusted Enterprise Value	**85,862.6**	**81,699.7**	**116,302.7**	**113,979.6**	**66,429.7**	**67,393.3**	**37,709.3**	**35,601.8**	**69,653.6**	**66,228.9**
- Off Balance Sheet Assets	(8,746.9)	(9,465.6)	(3,866.6)	(3,866.6)	(500.0)	(500.0)	(330.2)	(330.2)	(11,435.1)	(11,435.1)
+ Minority Interest	6,343.5	7,123.5	7,346.2	7,346.2	702.9	702.9	41.4	41.4	351.8	426.2
= Enterprise Value	**83,459.3**	**79,357.6**	**119,782.3**	**117,459.3**	**66,632.7**	**67,596.3**	**37,420.6**	**35,313.0**	**58,570.4**	**55,220.0**
/ Fiscal Year EBITDA	8,771.0	9,183.3	13,113.6	14,410.6	7,211.0	7,696.7	3,479.0	3,767.1	5,398.0	6,283.1
= EV/EBITDA Multiple	**9.5x**	**8.6x**	**9.1x**	**8.2x**	**9.2x**	**8.8x**	**10.8x**	**9.4x**	**10.9x**	**8.8x**

Source: Bear, Stearns & Co. Inc. estimates.

Exhibit 40. P/E, 2007E and 2008E ($ in millions, except per share data)

	DIS		TWX		Non-Cable TWX		VIAB		NWS	
	2007E	2008E	2007E	2008E	2007E	2008E	2007E	2008E	2007E	2008E
Stock Price	$35.27	$35.27	$21.10	$21.10	$11.64	$11.64	$43.55	$43.55	$24.15	$24.15
/ EPS	$1.84	$2.04	$0.96	$1.14	$0.72	$0.69	$2.33	$2.81	$0.99	$1.20
= P/E	**19.2x**	**17.3x**	**22.0x**	**18.5x**	**16.2x**	**16.9x**	**18.7x**	**15.5x**	**24.4x**	**20.1x**
/ 5 Year Growth Rate	12.8%	12.8%	15.3%	15.3%	7.2%	7.2%	18.4%	18.4%	14.2%	14.2%
= PEG	**1.5x**	**1.4x**	**1.4x**	**1.2x**	**2.2x**	**2.3x**	**1.0x**	**0.8x**	**1.7x**	**1.4x**
P/E	19.2x	17.3x	22.0x	18.5x	16.2x	16.9x	18.7x	15.5x	24.4x	20.1x
/ Market Multiple	16.9x	16.2x	16.9x	16.2x	16.9x	16.2x	16.9x	16.2x	16.9x	16.2x
-1	1	1	1	1	1	1	1	1	1	1
= Premium (Discount) to Market	**13.6%**	**6.6%**	**30.3%**	**14.0%**	**-4.4%**	**3.9%**	**10.7%**	**-4.5%**	**44.2%**	**23.7%**

Source: Bear, Stearns & Co. Inc. estimates.

Exhibit 41. P/FCF, 2007E and 2008E ($ in millions, except per share data)

	DIS		TWX		Non-Cable TWX		VIAB		NWS	
	2007E	2008E	2007E	2008E	2007E	2008E	2007E	2008E	2007E	2008E
Net Income	$4,496	$4,089	$3,987	$4,177	$2,746	$2,528	$1,581	$1,753	$3,095	$3,668
+ D&A	1,497.4	1,562.9	4,458.5	4,741.7	1,565.3	1,603.3	409.4	428.6	877.2	910.1
+ Other Non-Cash Charges	323.1	330.8	2,901.6	3,639.7	2,936.4	3,646.2	7.9	8.0	(658.0)	(703.1)
+ Changes in Working Cap	(659.0)	(92.2)	(3,389.1)	(3,165.2)	(3,273.9)	(3,276.7)	(52.4)	(182.6)	(282.2)	(326.7)
= C/F from Ops	**5,657.7**	**5,890.0**	**7,957.9**	**9,393.3**	**3,973.6**	**4,501.1**	**1,945.7**	**2,007.1**	**3,032.1**	**3,547.9**
- CAPEX	1,657.2	1,780.6	4,573.9	4,586.8	1,147.3	1,206.2	225.6	242.9	1,253.3	1,112.2
- Preferred Dividend	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
= Levered FCF	**4,000.5**	**4,109.4**	**3,383.9**	**4,806.5**	**2,826.3**	**3,294.9**	**1,720.0**	**1,764.2**	**1,778.8**	**2,435.7**
/ EBITDA	8,771.0	9,183.3	13,113.6	14,410.6	7,211.0	7,696.7	3,479.0	3,767.1	5,398.0	6,283.1
= LFCF/EBITDA Conversion	**45.6%**	**44.7%**	**25.8%**	**33.4%**	**39.2%**	**42.8%**	**49.4%**	**46.8%**	**33.0%**	**38.8%**
Levered Free Cash Flow	$4,000.5	$4,109.4	$3,383.9	$4,806.5	$2,826.3	$3,294.9	$1,720.0	$1,764.2	$1,778.8	$2,435.7
/ Shares Outstanding	2,107.4	2,005.5	3,813.2	3,660.6	3,813.2	3,660.6	679.3	623.8	2,611.9	2,516.3
= Free Cash Flow per Share	**$1.90**	**$2.05**	**$0.89**	**$1.31**	**$0.74**	**$0.90**	**$2.53**	**$2.83**	**$0.68**	**$0.97**
Stock Price	$35.27	$35.27	$21.10	$21.10	$11.64	$11.64	$43.55	$43.55	$24.15	$24.15
/ Free Cash Flow per Share	$1.90	$2.05	$0.89	$1.31	$0.74	$0.90	$2.53	$2.83	$0.68	$0.97
= P/FCF Multiple	**18.6x**	**17.2x**	**23.8x**	**16.1x**	**15.7x**	**12.9x**	**17.2x**	**15.4x**	**35.5x**	**24.9x**
1	1	1	1	1	1	1	1	1	1	1
/ P/FCF Multiple	18.6x	17.2x	23.8x	16.1x	15.7x	12.9x	17.2x	15.4x	35.5x	24.9x
= FCF Yield	**5.4%**	**5.8%**	**4.2%**	**6.2%**	**6.4%**	**7.7%**	**5.8%**	**6.5%**	**2.8%**	**4.0%**

Source: Bear, Stearns & Co. Inc. estimates.

Appendix I: Online Video Survey Sample

Exhibit 42. Online Video Survey Sample Overview

	Survey	U.S. Census
Avg Household Income	$48,018	$42,257
Median Household Income	N/A	$56,675
Average Age	**43.4**	**35.2**
18-24	13%	13%
25-34	19%	19%
35-44	22%	22%
45-54	18%	18%
55-64	12%	12%
65 or older	16%	16%
Geographic Dispersion		
Northeast	20%	20%
South	31%	31%
Midwest	24%	24%
West	25%	25%
Male	48%	48%
Female	52%	52%

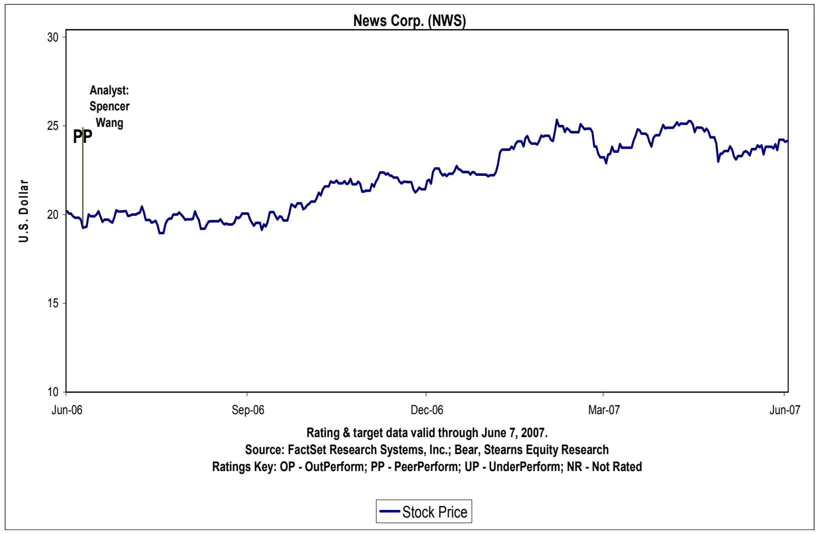
Source: Bear Stearns Online Video Survey, April 2007.

Companies mentioned under coverage:

News Corp. (NWS-24; Peer Perform)
Time Warner Inc. (TWX-21; Outperform)
Viacom (VIAB-44; Outperform)
Walt Disney Co. (DIS-35; Peer Perform)

Addendum

Important Disclosures



BSC Recommendation History since June 6, 2006 for:
News Corp. (NWS) - U.S. Dollar

Date	Stock Price	Rating	Target / Horizon
**Analyst: Spencer Wang			
15-Jun-06	19.32	PEER PERFORM	--

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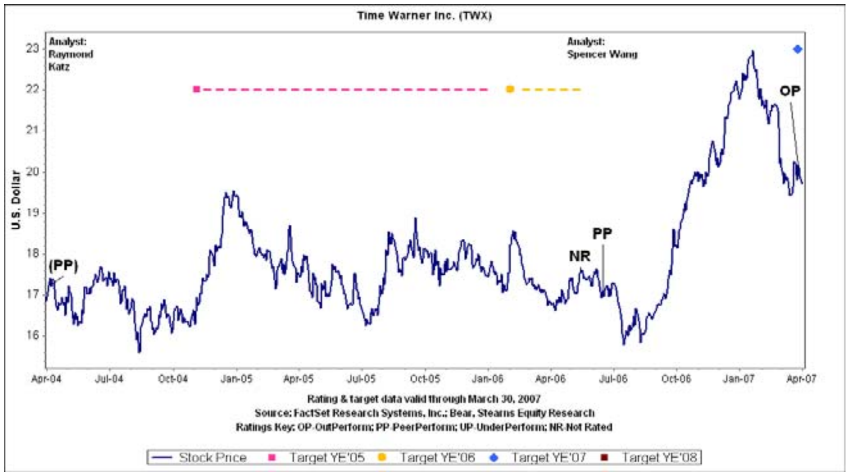

BSC Recommendation History since April 02, 2007 for:

Time Warner Inc. (TWX)		TWX	2712165
Date	Stock Price	Rating	Target / Horizon
**Analyst: Raymond Katz			
02-Jun-2004	17.03	PEER PERFORM	22.00 / 2004
04-Nov-2004	16.59	PEER PERFORM	22.00 / 2005
30-Jan-2006	17.29	PEER PERFORM	22.00 / 2005
02-Feb-2006	18.22	PEER PERFORM	22.00 / 2006
15-May-2006	17.50	NOT RATED	22.00 / 2005
**Analyst: Spencer Wang			
15-Jun-2006	16.97	PEER PERFORM	22.00 / 2005
26-Mar-2007	19.80	OUTPERFORM	23.00 / 2007

Addendum

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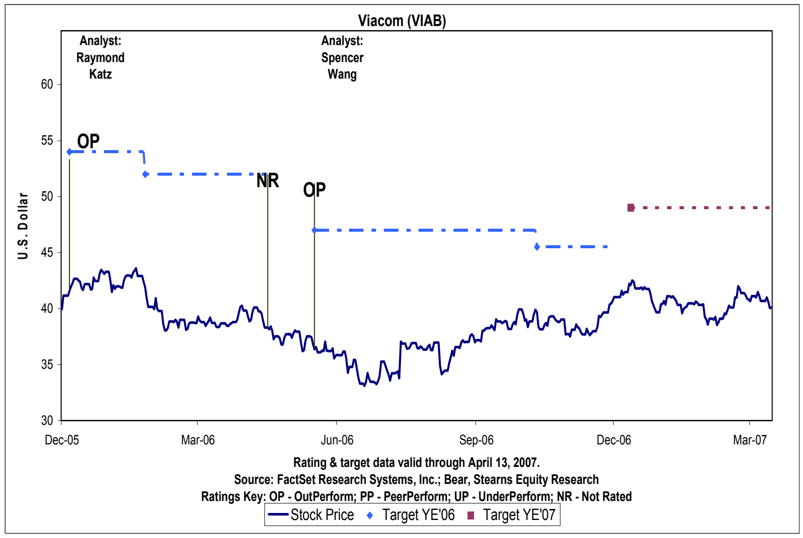

BSC Recommendation History since December 30, 2005 for:
Viacom (VIAB) - U.S. Dollar

Date	Stock Price	Rating	Target / Horizon
**Analyst: Raymond Katz			
04-Jan-06	41.59	OUTPERFORM	54 / 2006
23-Feb-06	41.90	OUTPERFORM	52 / 2006
15-May-06	38.31	NOT RATED	52 / 2006
**Analyst: Spencer Wang			
15-Jun-06	36.36	OUTPERFORM	47 / 2006
09-Nov-06	39.67	OUTPERFORM	45.5 / 2006
10-Jan-07	42.10	OUTPERFORM	49 / 2007

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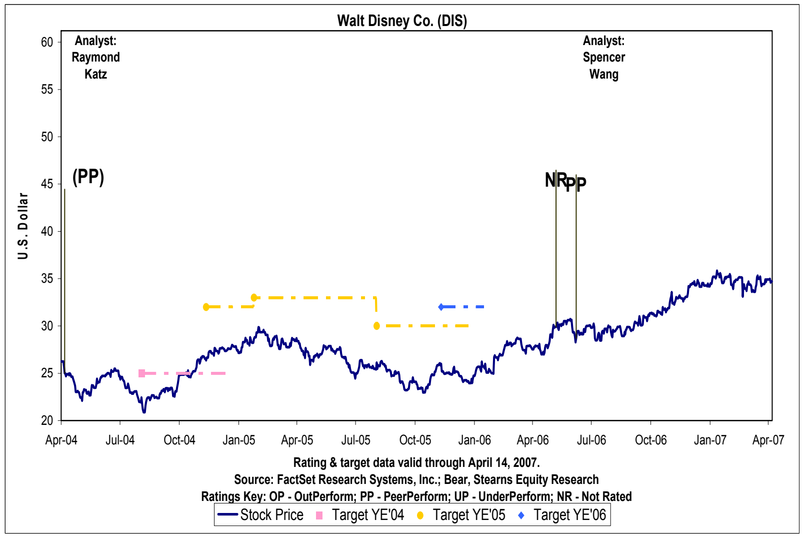

BSC Recommendation History since April 9, 2004 for:
Walt Disney Co. (DIS) - U.S. Dollar

Date	Stock Price	Rating	Target / Horizon
**Analyst: Raymond Katz			
02-Jun-04	23.84	PEER PERFORM	25 / 2004
13-Jul-04	24.35	PEER PERFORM	25 / 2004
11-Aug-04	22.44	PEER PERFORM	25 / 2004
19-Nov-04	26.37	PEER PERFORM	32 / 2005
13-Jan-05	27.72	PEER PERFORM	32 / 2005
01-Feb-05	28.63	PEER PERFORM	33 / 2005
10-Aug-05	26.14	PEER PERFORM	30 / 2005
18-Nov-05	25.99	PEER PERFORM	32 / 2006
24-Jan-06	25.52	PEER PERFORM	32 / 2006
15-May-06	29.90	NOT RATED	32 / 2006
**Analyst: Spencer Wang			
15-Jun-06	28.69	PEER PERFORM	--

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Peer Perform (P) — Stock is projected to perform approximately in line with analyst's industry coverage universe over the next 12 months.

Underperform (U) — Stock is projected to underperform analyst's industry coverage universe over the next 12 months.

<u>Ratings for Sectors (vs. regional broader market index)</u>
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