



## Entertainment & Media

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## “In the Land of the Blind, the One-Eyed Man is King”

### Valuing Entertainment Businesses and Assets - Reconciling FAS 157, Market Activities and Financial Theory

#### Introduction

In the current economic environment, the stock prices of a substantial number of public companies put their market capitalization below the book value of their assets. Similarly, as a result of declining stock prices (and implicit market multiples) in the public sector, many private companies have been advised that the goodwill on its balance sheet may be impaired due to its implicit fair value having drifted below its book value. In these cases an impairment loss may have occurred, and a write-down of goodwill may be required under FASB Statement No. 142 (“FAS 142”). Under FAS 142 goodwill must be tested for impairment at least annually and, in periods of declining stock market prices, perhaps more frequently. Testing for impairment is a two-step process that begins with an estimation of fair value in accordance with FASB Statement No. 157 (“FAS 157”).

Under FAS 157, the term “fair value” is intended to reflect the hypothetical price that would be received to sell an asset in an *orderly* transaction between market participants in the principal or most advantageous market for that asset. When markets are dislocated, it is critical to assess whether or not certain so-called “representative” market activities are in fact forced liquidations or distressed sales in order to gauge their relevance in determining fair value.

One important factor is the passage of time. For example, a longer period of declining market capitalization, coupled with an unfavorable future earnings outlook based on changes in consumer behavior and specific industry trends, may lead to a decline in fair value and a potential write-down of goodwill. Alternatively, a favorable assessment of the business fundamentals of the underlying investment, coupled with a holder’s intent and ability to retain the investment for a period of time sufficient to allow for an anticipated recovery in value, may warrant no (or a significantly less dramatic) reduction in fair value or a write-down of goodwill. As such, determining fair value in a recessionary period or dislocated market depends on the facts and circumstances and requires the use of significant judgment in order to consider the company’s specific plans, as well as general market activities and trends.

#### Reconciling Valuations in Historical “Bubble” Environments

The United States experienced its first known investment bubble when shares of common stock of *Bank of the United States* were issued on July 4, 1791, at \$25/share. The price of these shares rose on emotion and speculation to over \$300/share, only to then plummet in the first crash in American history on August 11, 1791. Alexander Hamilton commented that “these extravagant sallies of speculation do injury to the government and to the whole system of public credit”, while James Madison noted that “the stock-jobbers will become the praetorian head of the Government, at once its tool and its tyrant, bribed by its largesses.”

During the much more recent Internet bubble, market participants were also influenced by emotion and speculation. The incredible level of market activity was considered to be “orderly” at that time, as a herd mentality significantly influenced lending, valuation and accounting determinations (notwithstanding unsupportable valuation levels and numerous inconsistencies with financial theory and traditional valuation methodologies). **[continued on page 14]**

## Structured Finance Film Slate Performance

Much has been written in the press about the performance of film slates set up over the past five years. Shown below is the estimated performance of capital invested in various films through 13 selected film-slate structures through 2008, reflecting an estimated \$6 billion in capital invested. The Salter Group estimated performance levels as follows:

Publicly disclosed production cost, domestic and international box office levels, and DVD revenues;

Applied certain algorithms to estimate other revenue and costs for each film in each slate; and

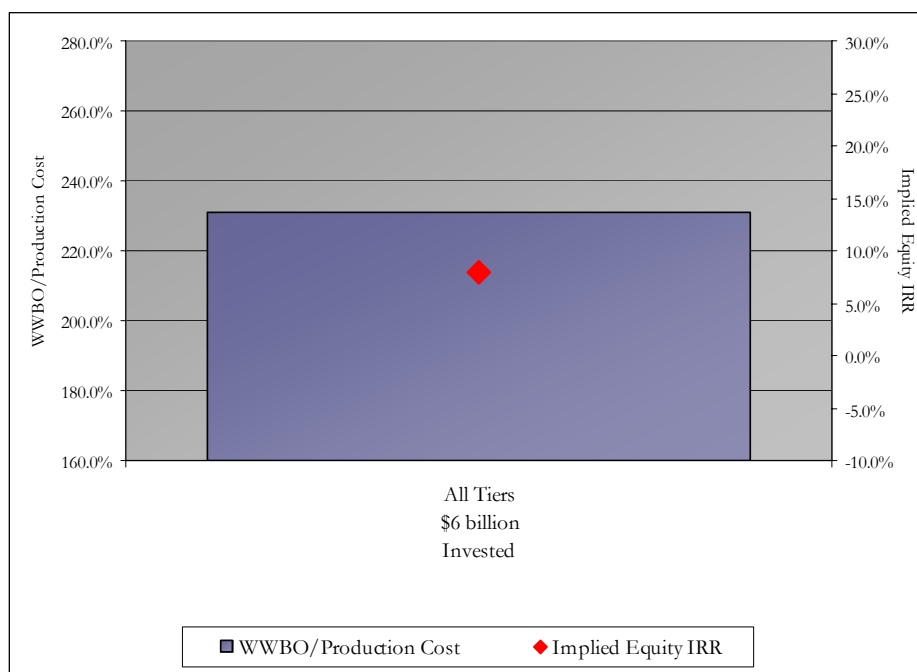
Applied uniform transaction assumptions, including:

- A. Distribution Fee - 10%
- B. Debt to Equity Ratio - 65% debt and 35% equity
- C. Cost of Senior Debt - 7.00%
- D. Effective Tax Rate - 28%
- E. Library Sale Date - End of the 5th Year based on the discounting of forecasted after tax cash flows

As shown below, the estimated aggregate Internal Rate of Return on the assumed equity levels across the \$6 Billion can be viewed with reasonable favor, particularly relative to other asset classes. This generally positive performance is due, in part, to, later slate structures benefitting from the lessons of the earlier structures. Regarding slate bank-loans being sold at discounts, in general these sales appear to be taking place due to the need by banks for liquidity vs. poor underlying slate performance. Equally problematic are FAS 157 mark-to-market analyses that misconstrue bank-loan sales as reflective of underlying value instead of discounts due to illiquid capital markets.

Looking ahead into the recession, the entertainment sectors counter-cyclicality is once again observed in record box office and TV audiences in the 1st Quarter thus far. This noted, new Major Studio title Home Entertainment revenues are under pressure as more fully covered on the next page, and reduced TV advertising is impacting TV Nets. New independent titles are experiencing increased revenue pressure, although strong films still perform (e.g., *Twilight*).

To offset these earnings pressures, Studios and independents have improved cost management, which has had the effect of reducing payments to above and below the line film elements.



## Home Entertainment Situation Overview

Recent newspaper articles and third party research regarding a slowdown in the Home Entertainment Industry may have led to some confusion about the overall performance and long-term prospects of this industry sector. In light of this, The Salter Group has prepared an in-depth study of the Home Entertainment Industry.

The following is a brief summary of our key observations.

**Ratio of Studio Home Entertainment Revenues to Box Office (index of initial retail purchases to distributor receipts for new Major Studio titles)** – As portrayed in the chart below, “Gross Sales” (based on initial shipments to retailers and estimated rental share measured by Adams Media Research) for new Major Studio theatrical titles released on DVD are indexed against “Net Sales” paid to distributors as determined by The Salter Group from film performance estimates (see page 3).

The index which measures all estimates as a percent of 2006 Gross Sales portrays Gross Sales declining nearly 20% between 2006 and 2008 (which followed a smaller drop from 2005). Despite the decline in Gross Sales, estimated receipts for Major Studio titles have declined to a lesser degree, with such declines accelerating in the second half of 2008, and estimated by The Salter Group to decline somewhat further in 2009, with increased stratification from title to title due to recessionary conditions.

We believe there are multiple factors that have led to these trends:

- A. The decline in gross sales to retailers is largely due to tighter inventory management controls initiated by both retailers and distributors over

the past several years. These actions follow several years of rapid DVD growth due to (i) consumers swiftly replacing their aging home-entertainment libraries (VHS, Beta and other formats) with DVDs, (ii) Major Studios and Independent distributors releasing new blockbuster, specialty or niche titles, and (iii) distributors actively mining their extensive film and television libraries as new DVD releases. During this cycle, there was a significant buildup of retail inventories initially aimed at meeting growing consumer demand between 1997 and 2006. Following the peak of the library-replacement cycle (2004), excess physical inventories and catalogue-distribution strategies were adjusted to reflect tempered consumer demand. **As such, a component of the Gross Sales trend above reflects an adjustment in distribution and inventory strategies as coordinated between distributors and retail/rental outlets.** [Continued on page 16]

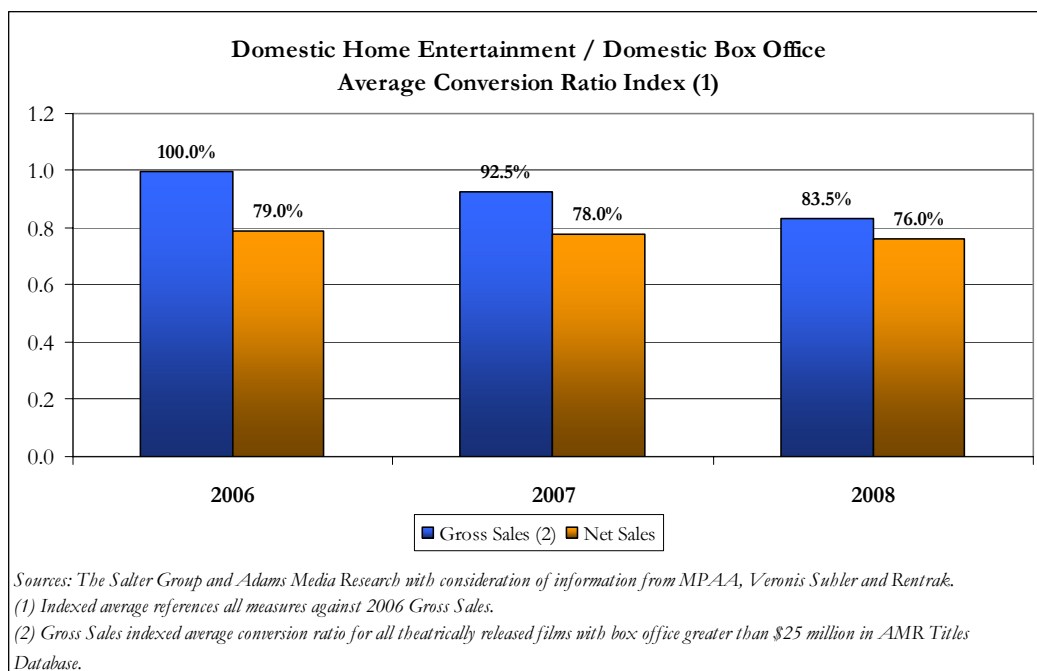
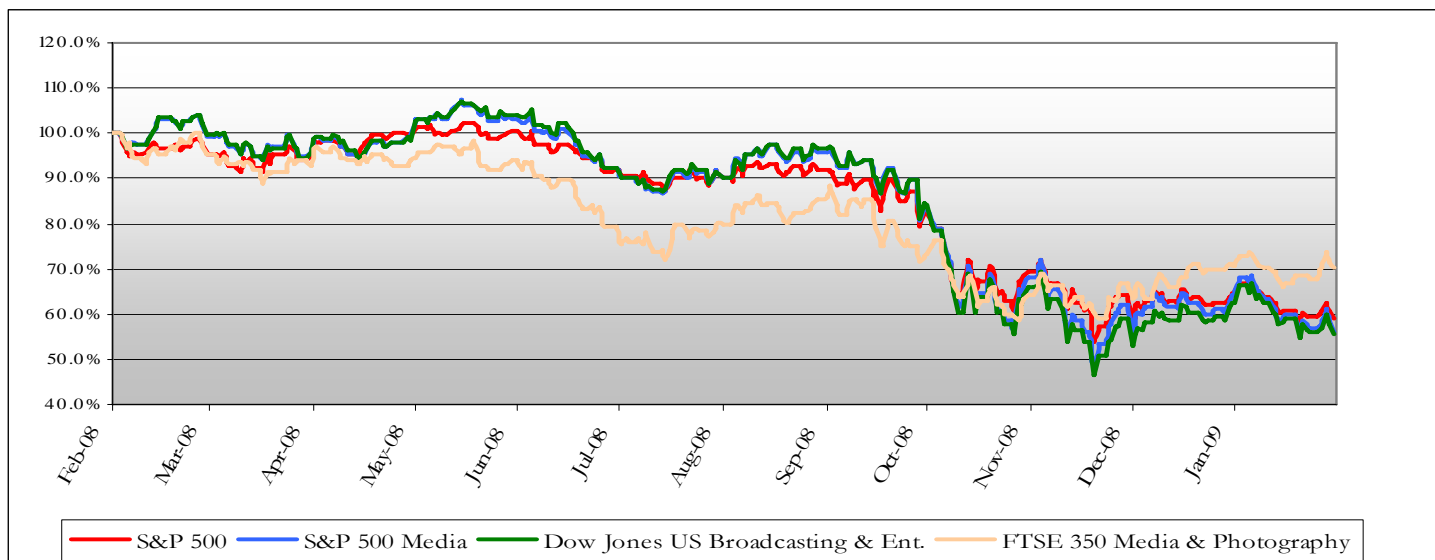


Exhibit 1.1—Entertainment & Media Indices



**Key Observations:**

The following pages provide significant information on the state and direction of the entertainment industry. The following points summarize the key observations on the following pages.

1. As noted above and the following pages, market values in the entertainment and media sector have dropped over 40% in the past 2 years, and 34% over past year.
2. At current market values, 5 of the 10 entertainment & media sectors have potential impairment issues based on aggregate sector Debt to Market Cap vs. Book Value.
3. Market multiples are significantly lower than one year ago driven by lower growth expectations and higher capital cost.
4. Continued market multiple declines following these January figures place business values at levels that are potentially appealing for private equity.
5. M&A Transaction volume has dropped significantly in the last several months due to tremendous value uncertainty and extremely limited senior debt availability.
6. Private equity and VC volume has dropped as well due to significant uncertainty, and significant redemption activity.
7. Debt and equity underwriting activity has dropped significantly, but appears poised for potential increases by large-cap companies issuing rated debt.
8. Strangely, underlying EBITDA to Debt indicates relatively favorable debt coverage for each of the 10 sectors.
9. Given the above, increases in share-for-share mergers look likely in the near term to enable enhanced economies of scale and operating synergies. Increased private equity acquisition activity can also be envisioned.

Exhibit 1.2—Change in Worldwide Public Company Enterprise Values

Enterprise Value	01/31/09	10/31/08	01/31/08	01/31/07
Advertising & Marketing	\$64,300	\$69,404	\$120,235	\$145,233
% Change	<i>n/a</i>	-7.4%	-46.5%	-55.7%
Production & Distribution	\$38,155	\$40,697	\$68,678	\$67,549
% Change	<i>n/a</i>	-6.2%	-44.4%	-43.5%
Integrated Media	239,026	269,940	364,156	423,736
% Change	<i>n/a</i>	-11.5%	-34.4%	-43.6%
Media Platforms	\$285,604	\$288,651	\$340,839	\$388,266
% Change	<i>n/a</i>	-1.1%	-16.2%	-26.4%
Media Technology	\$14,053	\$19,869	\$32,601	\$35,654
% Change	<i>n/a</i>	-29.3%	-56.9%	-60.6%
Networks	\$117,399	\$106,237	\$154,069	\$180,962
% Change	<i>n/a</i>	10.5%	-23.8%	-35.1%
Online Media	\$154,196	\$166,709	\$277,340	\$279,133
% Change	<i>n/a</i>	-7.5%	-44.4%	-44.8%
Other Services	\$6,695	\$6,608	\$9,693	\$9,987
% Change	<i>n/a</i>	1.3%	-30.9%	-33.0%
Publishing	\$197,209	\$212,955	\$327,866	\$363,417
% Change	<i>n/a</i>	-7.4%	-39.9%	-45.7%
Video Games	\$50,449	\$61,192	\$84,373	\$62,424
% Change	<i>n/a</i>	-17.6%	-40.2%	-19.2%
<b>Total</b>	<b>\$1,167,086</b>	<b>\$1,242,260</b>	<b>\$1,779,850</b>	<b>\$1,956,361</b>
% Change	<i>n/a</i>	-6.1%	-34.4%	-40.3%

Exhibit 1.3 - Debt to Market Cap vs. Book Value

	01/31/09	01/31/08	01/31/07	
<b>Aggregate Debt/Equity BV</b>				
Advertising & Marketing	55.9%	63.7%	58.9%	
Production & Distribution	108.8%	66.0%	65.0%	
Integrated Media	66.1%	50.8%	46.9%	
Media Platforms	229.8%	165.0%	153.1%	
Media Technology	13.2%	10.0%	4.2%	
Networks	132.6%	78.8%	63.5%	
Online Media	8.1%	8.2%	6.5%	
Other Services	67.5%	66.3%	65.7%	
Publishing	112.2%	100.0%	105.4%	
Video Games	4.7%	6.6%	7.2%	
<b>Aggregate Debt/Market Cap</b>				
Advertising & Marketing	58.2%	28.2%	17.9%	
Production & Distribution	92.3%	41.1%	36.7%	Possible Impairment
Integrated Media	66.8%	31.6%	23.3%	
Media Platforms	104.6%	63.8%	46.8%	Possible Impairment
Media Technology	6.6%	2.5%	1.0%	
Networks	181.1%	64.4%	39.0%	
Online Media	2.8%	1.5%	1.0%	Possible Impairment
Other Services	77.3%	44.2%	30.6%	
Publishing	94.7%	46.9%	32.6%	Possible Impairment
Video Games	2.5%	1.6%	2.0%	Possible Impairment

Source: Capital IQ

Exhibit 1.4 - EBITDA to Aggregate Sector Debt

EBITDA/Aggregate Debt	01/31/09	01/31/08	01/31/07
Advertising & Marketing	44.8%	39.7%	42.0%
Production & Distribution	24.5%	24.3%	21.7%
Integrated Media	45.4%	50.5%	47.3%
Media Platforms	30.3%	30.9%	25.9%
Media Technology	194.0%	218.2%	403.6%
Networks	5.1%	30.6%	31.2%
Online Media	326.6%	280.7%	330.7%
Other Services	26.1%	29.4%	29.8%
Publishing	30.9%	30.2%	30.0%
Video Games	529.4%	369.1%	250.2%

Exhibit 1.5– Key Public Market Measures

	As of	
	01/31/09	01/31/08
<b>Enterprise Value</b>		
N. America	\$767,425	\$1,127,298
Europe	\$264,425	\$438,338
Asia Pacific	\$135,236	\$214,213
<b>Aggregate Debt</b>		
N. America	\$347,717	\$326,295
Europe	\$121,348	\$110,012
Asia Pacific	\$31,442	\$31,374
<b>Aggregate Net Sales</b>		
N. America	\$476,384	\$447,339
Europe	\$249,016	\$244,206
Asia Pacific	\$146,673	\$126,406

	As of	
	01/31/09	01/31/08
<b>EV/Net Sales</b>		
N. America	2.17 x	3.88 x
Europe	1.50 x	2.42 x
Asia Pacific	2.29 x	4.21 x
<b>EV/EBIT</b>		
N. America	11.10 x	17.67 x
Europe	8.57 x	13.13 x
Asia Pacific	10.04 x	16.76 x
<b>Cost of Equity</b>		
N. America	10.8%	9.5%
Europe	11.2%	11.4%
Asia Pacific	8.2%	8.4%
<b>Implied Earnings Growth</b>		
N. America	0.5%	2.8%
Europe	-1.9%	2.7%
Asia Pacific	-4.4%	1.3%

Source: Capital IQ

## Exhibit 2.1—M&amp;A Transaction Volume and Values (Through 1/09)

	2009	2008	2007	2006	2005
<b>M&amp;A Transaction Volume</b>					
Advertising & Mktg	5	113	224	159	118
Entertainment Prod./Dist.	3	86	105	87	59
Integrated Media	-	4	4	5	3
Media Platforms	1	22	20	24	23
Media Technology	1	28	42	38	52
Networks	7	98	125	109	99
Online Media	2	71	79	67	48
Other Services	3	24	41	25	25
Publishing	4	116	143	126	90
Video Games	-	23	24	21	27
<b>Total Deal Count</b>	<b>26</b>	<b>585</b>	<b>807</b>	<b>661</b>	<b>544</b>
<b>M&amp;A Transaction Values</b>					
Advertising & Mktg	\$6	\$7,611	\$19,346	\$4,776	\$8,974
Entertainment Prod./Dist.	\$28	\$2,929	\$6,863	\$9,455	\$9,884
Integrated Media	\$0	\$32,171	\$19,191	\$10,560	\$9,773
Media Platforms	\$24	\$27,593	\$12,280	\$38,638	\$10,996
Media Technology	\$2	\$720	\$2,087	\$1,882	\$2,066
Networks	\$79	\$10,170	\$26,561	\$12,622	\$12,654
Online Media	\$1,001	\$5,332	\$10,244	\$1,906	\$3,431
Other Services	\$579	\$2,474	\$4,634	\$1,552	\$1,873
Publishing	\$64	\$32,821	\$49,223	\$48,312	\$17,360
Video Games	\$0	\$712	\$430	\$2,363	\$1,008
<b>Total Deal Value</b>	<b>\$1,782</b>	<b>\$122,532</b>	<b>\$150,858</b>	<b>\$132,066</b>	<b>\$78,019</b>

## Exhibit 2.2—Key M&amp;A Multiples (Through 1/09)

	2009	2008	2007	2006	2005
<b>EV/EBIT:</b>					
Advertising & Mktg	N/A	15.94 x	39.33 x	18.88 x	29.39 x
Entertainment Prod./Dist.	N/A	12.83 x	21.94 x	24.63 x	N/A
Integrated Media	N/A	17.27 x	20.45 x	19.68 x	14.29 x
Media Platforms	N/A	20.44 x	44.13 x	N/A	18.82 x
Media Technology	N/A	N/A	15.64 x	47.67 x	24.06 x
Networks	N/A	11.02 x	24.24 x	14.30 x	16.52 x
Online Media	N/A	N/A	32.91 x	42.37 x	28.76 x
Other Services	N/A	13.90 x	37.06 x	6.35 x	N/A
Publishing	10.27 x	21.94 x	18.61 x	16.18 x	37.80 x
Video Games	N/A	11.35 x	11.44 x	6.01 x	27.73 x
<b>EV/EBITDA:</b>					
Advertising & Mktg	N/A	21.18 x	N/A	11.13 x	12.22 x
Entertainment Prod./Dist.	N/A	6.11 x	10.67 x	11.49 x	N/A
Integrated Media	N/A	12.93 x	16.75 x	15.21 x	11.81 x
Media Platforms	N/A	19.79 x	23.61 x	13.88 x	8.86 x
Media Technology	N/A	18.51 x	19.65 x	23.81 x	N/A
Networks	3.00 x	6.25 x	16.86 x	10.35 x	9.64 x
Online Media	N/A	N/A	24.86 x	28.17 x	N/A
Other Services	N/A	12.12 x	15.25 x	N/A	4.68 x
Publishing	N/A	15.25 x	13.80 x	12.79 x	20.68 x
Video Games	N/A	8.54 x	9.11 x	5.28 x	4.86 x

Source: Capital IQ

# Entertainment & Media

## M&A Summary - Noted Transactions

First Quarter 2009

### Exhibit 3 - Noted 2008 and January 2009 M&A Transactions

Group	Buyer	Target	Amount	Target Territory
Advertising & Mktg	Google Inc.	DoubleClick Inc.	\$3,109.7	N. America
	SC Media & Commerce Inc.	Jupiter Shop Channel Co. Ltd.	\$495.0	Asia Pacific
	Microsoft Corporation	Greenfield Online Inc.	\$486.3	N. America
Ent. Prod & Dist	Kaidoz AB	Zodiak Television AB	\$297.4	Europe
	Ticketmaster	TNOW Entertainment Group, Inc.	\$265.0	N. America
	Shine Limited	Reveille LLC	\$250.0	N. America
Integrated Media	Multiple	CC Media Holdings, Inc.	\$24,326.2	N. America
	Premiere AG	GIGA Digital Television GmbH	\$5,759.1	Europe
	Multiple	ProSiebenSat.1 Media AG	\$1,499.1	Europe
Media Platforms	Liberty Media Interactive	DIRECTV Group, Inc.	\$11,233.6	N. America
	Sirius Satellite Radio, Inc.	XM Satellite Radio Holdings Inc.	\$6,571.6	N. America
	Grupo Prisa SA	Sogetel SA	\$4,593.0	Europe
Media Technology	Fox Mobile Entertainment, Inc.	Jamba! GmbH	\$200.0	Europe
	Axway Inc.	Tumbleweed Communications Corp.	\$146.4	N. America
	Espial Group, Inc.	Kasenna, Inc.	\$79.9	N. America
Networks	Multiple	The Weather Channel, Inc.	\$3,500.0	N. America
	Providence Equity Partners LLC	Clear Channel Communications Inc.	\$1,200.0	N. America
	Local TV LLC	Fox Television Stations, Inc.	\$1,100.0	N. America
Online Media	CBS Corporation	CNET Networks Inc.	\$1,870.1	N. America
	Iliad SA	Liberty Surf Group, SA	\$1,136.8	Europe
	GMAC LLC	GMAC Bank	\$991.3	N. America
Other Services	N/A	Miami Dolphins Limited	\$550.0	N. America
	Speedway Motorsports Inc.	New Hampshire Motor Speedway	\$340.0	N. America
Publishing	Thomson Reuters Corporation	Thomson Reuters PLC	\$18,979.5	N. America
	Multiple	EMap plc	\$2,848.4	Europe
	Macrovision Solutions Corp.	Gemstar-TV Guide International Inc.	\$2,806.3	N. America
Video Games	N/A	Midway Games Inc.	\$195.9	N. America
	So-net Entertainment Corporation	Gamepot Inc.	\$82.8	Asia Pacific
	Serendipity Investment SAS	F4	\$78.1	Europe

Source: Capital IQ

Entertainment & Media  
Private Equity & VC Investment Summary

First Quarter 2009

Exhibit 4 - PE & VC Deals Count & Dollar Volume (Through 1/09)

	2009	2008	2007	2006	2005
<b>PE &amp; VC Transaction Volume</b>					
Advertising & Mktg	9	110	137	93	49
Entertainment Prod./Dist.	3	31	47	39	18
Integrated Media	-	-	-	-	-
Media Platforms	-	4	4	8	8
Media Technology	2	86	94	92	60
Networks	-	18	28	29	16
Online Media	18	273	284	162	64
Other Services	1	11	15	9	5
Publishing	7	39	42	24	25
Video Games	3	53	47	38	28
<b>Total Deal Count</b>	<b>43</b>	<b>625</b>	<b>698</b>	<b>494</b>	<b>273</b>
<b>PE &amp; VC Transaction Values</b>					
Advertising & Mktg	\$44	\$963	\$1,027	\$598	\$492
Entertainment Prod./Dist.	\$18	\$417	\$1,086	\$273	\$653
Integrated Media	\$0	\$0	\$0	\$0	\$0
Media Platforms	\$0	\$41	\$52	\$215	\$99
Media Technology	\$9	\$450	\$456	\$408	\$226
Networks	\$0	\$246	\$632	\$516	\$187
Online Media	\$81	\$1,461	\$2,151	\$1,112	\$323
Other Services	\$8	\$79	\$27	\$47	\$13
Publishing	\$5	\$207	\$617	\$537	\$355
Video Games	\$4	\$333	\$927	\$230	\$171
<b>Total Deal Value</b>	<b>\$168</b>	<b>\$4,197</b>	<b>\$6,975</b>	<b>\$3,937</b>	<b>\$2,520</b>

Source: Capital IQ

**Entertainment & Media**  
**Private Equity & VC Noted Transactions**

**First Quarter 2009**

**Exhibit 5- Noted 2008 and January 2009 Transactions**

Group	Buyer	Target	Amount	Target Territory
Advertising & Mktg	Multiple	Adconion UK Limited	\$80.0	Europe
	TA Associates, Inc.	e-Rewards, Inc.	\$60.0	N. America
	Multiple	Spot Runner, Inc.	\$51.0	N. America
Ent. Prod & Dist	Multiple	Boomerang Media, LLC	\$200.0	N. America
	N/A	Alcon Entertainment, LLC	\$60.0	N. America
	Econocom Group	Arts Alliance Media Limited	\$54.3	Europe
Media Platforms	N/A	Gateway Broadcast Services Limited	\$35.0	Europe
	Telecom Italia Media SpA	AirPlusTV Italy	\$6.3	Europe
Media Technology	Multiple	Automatic, Inc.	\$29.5	N. America
	Multiple	Milestone Systems A/S	\$27.0	Europe
	Multiple	Finjan, Inc.	\$22.0	N. America
Networks	NBC Universal, Inc.	NDTV Networks Plc	\$150.0	Europe
	Multiple	Veoh Networks, Inc.	\$30.0	N. America
	3i Group plc	Unión Radio Digital, S.A.	\$27.3	Europe
Online Media	N/A	Facebook, Inc.	\$120.0	N. America
	Multiple	The Active Network Inc.	\$80.0	N. America
	Multiple	Slide, Inc.	\$50.0	N. America
Other Services	Multiple	Petty Enterprises, LLC	\$40.0	N. America
	N/A	Charlton Athletic plc	\$20.0	Europe
	Oak Investment Partners	Major League Gaming, Inc.	\$7.5	N. America
Publishing	Stodir Invest	Nyhedsavisen	\$59.3	Europe
	Multiple	Best of Media S.A.	\$28.4	Europe
	Bessemer Venture Partners	Ziff Davis Enterprise, Inc.	\$20.0	N. America
Video Games	Multiple	Big Fish Games, Inc.	\$83.3	N. America
	Multiple	Trion World Network, Inc.	\$70.0	N. America
	Multiple	Real Time Worlds Ltd.	\$50.0	Europe

Source: Capital IQ

Entertainment & Media  
Debt & Equity Underwriting Summary

First Quarter 2009

Exhibit 6– Debt & Equity Underwriting Activity (Through 1/09)

	2009	2008	2007	2006	2005
<b>Underwriting Volume</b>					
Advertising & Mktg	-	5	8	4	8
Entertainment Prod./Dist.	-	4	9	9	12
Integrated Media	-	1	3	2	-
Media Platforms	-	7	2	14	12
Media Technology	-	1	3	8	4
Networks	-	-	6	7	3
Online Media	-	-	14	17	13
Other Services	-	1	-	3	1
Publishing	3	4	7	6	15
Video Games	-	1	2	8	9
<b>Total Deal Count</b>	<b>3</b>	<b>24</b>	<b>54</b>	<b>78</b>	<b>77</b>
<b>Underwriting Value</b>					
Advertising & Mktg	\$0	\$142	\$1,178	\$1,291	\$970
Entertainment Prod./Dist.	\$0	\$200	\$1,338	\$5,345	\$741
Integrated Media	\$0	\$990	\$1,493	\$4,744	\$0
Media Platforms	\$0	\$8,968	\$3,543	\$9,084	\$6,288
Media Technology	\$0	\$3	\$49	\$205	\$98
Networks	\$0	\$0	\$1,729	\$668	\$334
Online Media	\$0	\$0	\$774	\$2,775	\$5,270
Other Services	\$0	\$27	\$0	\$208	\$220
Publishing	\$1,893	\$1,751	\$2,362	\$2,683	\$3,660
Video Games	\$0	\$9	\$89	\$73	\$268
<b>Total Deal Value</b>	<b>\$1,893</b>	<b>\$12,090</b>	<b>\$12,556</b>	<b>\$27,075</b>	<b>\$17,848</b>
<b>Security Type</b>					
Equity	\$0	\$395	\$5,828	\$7,027	\$10,811
Debt	\$1,893	\$11,695	\$6,728	\$20,049	\$7,038
<b>Total Value</b>	<b>\$1,893</b>	<b>\$12,090</b>	<b>\$12,556</b>	<b>\$27,075</b>	<b>\$17,848</b>

Source: Capital IQ

Entertainment & Media  
Debt & Equity Underwriting Noted Transactions

First Quarter 2009

Exhibit 7- Noted 2008 and January 2009 Transactions

Group	Issuer	Net Amount	Issuer Territory
Advertising & Mktg	Constant Contact, Inc.	\$68.6	N. America
	SinoMedia Holding Ltd.	\$45.6	Asia Pacific
	Tri-Stage Inc.	\$16.1	Asia Pacific
Ent. Prod & Dist	RHI Entertainment, Inc.	\$175.8	N. America
	Axel Mark, Inc.	\$9.7	Asia Pacific
Integrated Media	Walt Disney Co.	\$986.8	N. America
Media Platforms	Time Warner Cable Inc.	\$1,989.3	N. America
	Time Warner Cable Inc.	\$1,491.6	N. America
	Time Warner Cable Inc.	\$1,482.5	N. America
Media Technology	Netyear Group Corporation	\$3.0	Asia Pacific
Other Services	Fluid Music, Inc. (nka: Fluid Music Canada, Inc.)	\$25.0	N. America
Publishing	Thomson Reuters Corporation	\$985.8	N. America
	Thomson Reuters Corporation	\$743.2	N. America
	New Media Group Holdings Limited	\$12.7	Asia Pacific
Video Games	Primeworks Corp.	\$8.1	Asia Pacific

Source: Capital IQ

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## Valuing Entertainment Businesses and Assets - Reconciling FAS 157, Market Activities and Financial Theory (Continued From Page 2)

We believe that the current recessionary environment is another situation where a herd mentality may be leading some companies to incur impairment charges without an adequate assessment of their business fundamentals, forecasts and prospects. The failure to assess these key drivers of value, timing issues and the rationality of market activities, among other factors, may result in an unwarranted determination of fair value by, in effect, concluding that all current market activities are orderly transactions.

In determining whether an impairment charge is warranted (and the magnitude thereof), it is important to consider that declines in values may be attributable to a number of factors, some of which may reflect real economic losses (such as the decline in value of a debt security due to the credit worthiness of the obligor) and others of which may not (such as an additional, and perhaps temporary, “liquidity discount” because the debt security would be saleable only at a deep discount, even though the investor’s business model is to hold such securities to maturity). In assessing a company’s financial condition in the midst of an investment bubble, a stable market or a recession, a determination of fair value requires the use of significant judgment to look beyond conventional thinking by gaining a thorough understanding of business fundamentals, relevant and non-relevant market activities and traditional financial valuation practices.

### **The Current Recessionary Environment – Valuation Considerations**

The current business climate is somewhat unique. For example, notwithstanding the appearance of low cost capital as reflected in Treasury yields and LIBOR, Federal Funds and Prime rates, the actual availability of debt financing for business growth and re-financing transactions has been negatively impacted due to the sub-prime crisis and other factors. This has led to a circular breakdown in the debt markets as lenders are unable to provide financing due to underlying asset value uncertainty...and asset values are perceived to be diminishing due to a general lack of debt financing in certain industry sectors (thereby resulting in potentially higher costs of capital in certain transactions).

While financial theory (Modigliani and Miller) suggests that the weighted average cost of capital used in an income-approach model (DCF or Gordon Growth) is generally indifferent to the mix of debt and equity, actual earnings growth cannot occur without financing. While growth (and the risk of achieving growth) have historically been key factors behind market multiples (like P/E multiples), financial theory may break down when the key risk is the availability of any capital. The result is a dislocated market, and such conditions must therefore be considered in determining *fair value* based on a hypothetical *orderly* transaction. We have observed in many goodwill impairment exercises that a company’s business fundamentals and forecasts can not easily be reconciled with the emotion and speculation-driven debt and equity market values in this *down-bubble* environment.

### **A “Fairer” Valuation – Envisioning Orderly Transactions**

The application of FAS 157 by accounting and valuation firms can vary considerably, with some concluding that all current market activities represent orderly transactions, even though a significant subset of this activity may be a result of forced liquidations and distressed sales.

## Valuing Entertainment Businesses and Assets - Reconciling FAS 157, Market Activities and Financial Theory (Continued From Page 14)

While recommending a greater goodwill impairment charge may expedite an audit or valuation process, and may also be “justified” as means to avoid having to defend a valuation opinion in an unstable economic environment where the expected turnaround has yet to be determined with any confidence, a proper determination of *fair value* depends on a full understanding of the underlying facts and circumstances, and requires the use of significant judgment about a number of relevant factors, such as whether a market is in fact “active” and particular transactions are forced or distressed.

The level of analyses required to develop a more thoughtful and defensible opinion of fair value can not be understated. For example, if an active market does not exist, “market” quotes may not necessarily be determinative of fair value. In addition, if an impairment of an asset or investment is only temporary, the fair value determination can be affected because an assessment of the nature of the underlying investment and the probability of recovery, along with the intent and ability of the holder to retain an investment for a period of time sufficient to allow for any anticipated recovery in market value (among many other factors), can be considered by the valuation expert.

In today’s financial environment, the SEC and the FASB have noted the importance of judgment in assessing various sources of information to determine fair value, understanding markets to determine if they are active, and analyzing sale transactions to determine if they are liquidations. The Salter Group’s extensive experience in developing forecasts for companies in disposition and other transactions, assessing a target company’s forecasts in M&A and secured lending transactions, and performing assessments of a company’s economic potential and viability based on a range of risk/return characteristics in equity investment transactions, enhances the value of our analyses and opinions in situations where fair value questions and goodwill impairment issues arise.

We believe, then, that the benefit of *judgment* is best secured by engaging the services of professionals with the requisite combination of academic qualifications, expert witness credentials and real world transactional experience in order to reconcile fair value determinations under applicable accounting rules with market conditions and principle-based valuation methodologies and financial theory.

## Home Entertainment Situation Overview (Continued From Page 4)

- B. Electronic distribution sales (reflecting download-to-own and electronic rental) are not reflected in the Gross Sales figures above. Electronic distribution has begun to demonstrate favorable financial results and is forecasted to grow more rapidly as currently younger consumers grow to become primary consumers. Such growth is currently observable through increasing revenues from digital sell-through and rental services (iTunes, Amazon VOD, Netflix Watch it Now and others). **As such, a component of the electronic distribution trend above reflects increased use of various forms of electronic distribution.**
- C. We believe the recession is primarily responsible for the more recent declines in Home Entertainment expenditures at the consumer level. While the DVD format has not been around long enough to study performance during significant and prolonged economic downturns, generally, consumers seek lower cost entertainment options during recessionary periods – and arguably video rental can be considered one of the most economical forms of entertainment. **As such, the severity of this recession has had an impact and will continue to impact the sell-through side of the Home Entertainment business in particular in the near to mid-term.**
- D. The Home Entertainment industry is currently in a transition period, with format shifting from standard to high definition and from physical to electronic delivery.

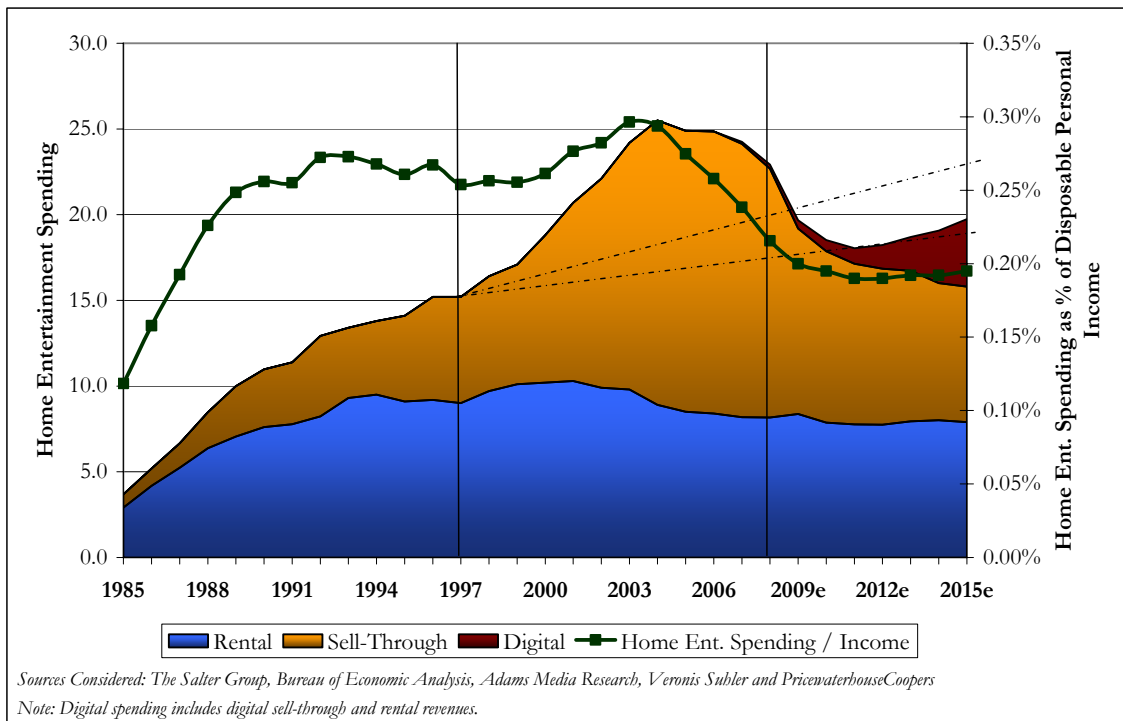
**Overall Home Entertainment Industry Performance** - As portrayed in the chart below, following the introduction of the DVD format in 1997, aggregate Home Entertainment revenues increased to levels that reflected a combination of (i) consumers replacing existing in-home VHS (and other format) libraries with DVDs, and (ii) regular base-line consumption. Recent declines in aggregate Home Entertainment expenditures were anticipated as the home-library replacement bubble was in its tail end following its peak in 2004. Contrary to often mischaracterized news reports regarding the DVD performance, the overall Home Entertainment market remains strong, although it is currently impacted by overall recessionary factors, particularly in the physical sell-through market.

The Salter Group has developed the estimates shown on the following page of future Home Entertainment consumer spending giving consideration to a combination of factors, including: (i) top down Home Entertainment forecasts expressed as a percentage of aggregate US Disposable Personal Income, population growth (lower dashed line in chart on next page) and CPI growth (upper dashed line in chart on next page) from the year that VHS transitioned to DVD, and (ii) consideration of bottom up sell-through, rental and digital (electronic sell-through and rentals).

The near term market implications may vary depending on the type of Home Entertainment product:

- A. For older title-catalogues, DVD format maturation (tail end of bubble) has led to fewer unreleased catalogue titles by the Major Studios and independent distributors, compounded by fewer titles purchased by consumers largely due to the economic crisis. As catalogues mature and tighter inventory management controls are instituted, distributors may continue to release fewer deep catalogue titles on DVD and focus on high value catalogue titles (i.e., star driven, franchise and perennial titles).

## Home Entertainment Situation Overview (Continued From Page 16)



- B. New theatrical releases will remain a core focus for the Studios and Independent distributors. However, in any given year there are numerous variables which relate to the number of releases and quality of titles released. We anticipate an increasing stratification of home video performance in the near-term driven by a new title's theatrical performance and corresponding marketing campaigns.
- C. US Independent Features are also segmented into both catalogue and new theatrical titles and have experienced dynamics similar to Major Studio Features. For Independent product, key performance metrics in the near term pertain to access to adequate shelf space and the ability of the Independents to support releases with well funded marketing campaigns. We expect increasing stratification of independent titles, not only with respect to Major Studio features but within this market segment as well.
- D. The Direct to Video, TV Series and Specials, and Special Interest, Foreign Language and Other Programs are all experiencing recessionary impact, with stratified purchasing and transitional physical-to-digital purchasing activity varying by type and program.

Longer term, the overall Home Entertainment market is envisioned to grow as consumers migrate toward electronic distribution. Although electronic distribution growth to date has been impressive, a broad base digital production and distribution business looks to be beyond the near term.

For further detail on The Salter Group's study of the Home Entertainment Industry, please contact Patrick Russo at 310-552-3774 or via email at [prusso@saltergroup.com](mailto:prusso@saltergroup.com).

## Entertainment & Media - Selected 2008 Highlights


First Quarter 2009

- In 2008, The Salter Group valued and advised on over 155 entertainment and media projects representing nearly \$30 billion in asset value.
- Based on the number of deals completed worldwide in 2008, The Salter Group was ranked as a # 1 financial advisor for motion pictures and audio visual transactions and as a # 16 advisor for motion pictures, audio visual, publishing, cable and other media transactions.







Worldwide Number of Deals* Motion Pictures, Audio Visual	
Rank	Financial Advisor
1	KPMG
1	RBS
1	<b>The Salter Group</b>
1	Rothschild
5	Somerley Ltd
5	Ernst & Young LLP
5	Goldman Sachs & Co
8	Deloitte & Touche
8	Bank of America Merrill Lynch
8	ANZ Banking Group
8	Optima Capital Ltd
8	Dowgate Capital PLC
8	Credit Suisse
8	Investec
8	JP Morgan

Worldwide Number of Deals* Motion Pictures, Audio Visual, Publishing, Cable and Other	
Rank	Financial Advisor
1	JP Morgan
1	Goldman Sachs & Co
3	Rothschild
3	RBC Capital Markets
3	Bank of America Merrill Lynch
6	UBS
6	Morgan Stanley
8	Credit Suisse
8	Deloitte & Touche
10	KPMG
10	Barclays Capital
10	Citi
10	PricewaterhouseCoopers
10	Mizuho Financial Group
10	Deutsche Bank AG
16	Houlihan Lokey Howard & Zukin
16	RBS
16	<b>The Salter Group</b>
16	Banco Espirito Santo SA
16	Ernst & Young LLP
21	M&A International
21	Evercore Partners
21	IMAP
21	Global M&A
21	goetzpartners Corp Finance

### Financial Opinion & Valuation Clients

 Financial Opinion	 Fairness Opinion	 Fairness Opinion
 Collateral Valuation Opinion	 Valuation Opinion	 Valuation Opinion

### Financial & Strategic Advisory Clients

 Forecasting & Transaction Support	 <i>Has Acquired Alliance Atlantis International Distribution From Goldman Sachs Capital Partners</i> ATLANTIS Advisory & Valuation Services	 Advisory Services
 Advisory Services	 Advisory Services	 Advisory Services

### Capital Market Support Clients

 Advisory & Valuation Services	 Advisory & Valuation Services	 Advisory & Valuation Services
 Advisory & Valuation Services	 Advisory & Valuation Services	 Advisory Services

\*Source: Thomson Financial

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## The Salter Group

The Salter Group is known for its outstanding capabilities in rendering independent valuation opinions to acquirers, investors and lenders in a variety of financing and M&A transactions. The Salter Group has distinguished itself as a leading independent financial and strategic advisory firm with a specialty in business and intangible asset valuations, financial opinions, economic analysis, forecasting and transaction support. The breadth of our global practice includes a broad range of industries, companies, intellectual property assets and transactions.

Our extensive experience in developing asset and business forecasts, and assessing a company's value and viability in light of current industry trends and global market conditions, enhances the value of our transaction opinions (fairness, solvency and collateral valuation opinions), financial opinions (goodwill impairment and portfolio valuation opinions), tax-related opinions, financial and strategic analyses and transaction support services.

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*Sources of information utilized in the preparation of this newsletter include Capital IQ, Adams Media Research, MPAA, Veronis Subler, Price Waterhouse, Thompson Financial and Morningstar. 'EV' and 'Entp Val' mean 'Enterprise Value' which is obtained from Capital IQ. 'Net Revenue' or 'Net Sales' are computed as last twelve months' figures derived from filed financial statements. 'EBIT' means earnings before interest and taxes and also are calculated on a last twelve months' basis. 'EV/Sales' and 'EV/EBIT' are calculated as enterprise value divided by Net Revenue and EBIT, respectively. Cost of Equity is calculated using the capital asset pricing model ("CAPM") with the variables calculated as follows: the market risk premium was determined based on information from Morningstar,  $\beta$  is calculated using stock price information from Capital IQ over a two-year period relative to the native country's major index and adjusted for prospective expectations, and the risk free rate is calculated from the yield of a 10-year generic treasury bond in each country.*

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