

*¡Encienda!*



# CINEGOCIO

**Electronic Contracts for the Media and Entertainment Industry**

**ENCIENDA S.L..**



May 2006

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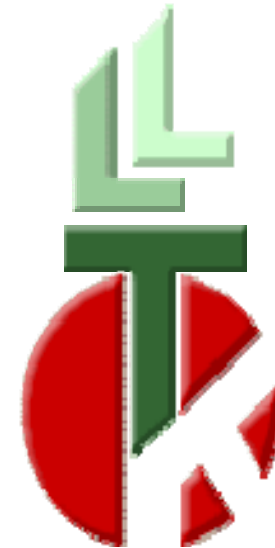
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# Agenda

- Company Overview
- Entertainment & Media Industry
- Industry Challenges & 1994 Media Distribution Success
- ISAN Overview
- Cinegocio & its Objectives
- Content Supply Chain & Electronic Contracts
- Sample Distribution Agreement (Paper & Electronic)
- Usage Reports & Observables
- Cinegocio SWOT
- Summary of Key Benefits
- Industry References

# Company Overview

- Grupo Llorens-Torres
  - Alicante, Spain (1992)
  - Legal and Financial Services
  - Intellectual Property
  - [www.llorens.org](http://www.llorens.org)
- Knowledge Systems Design
  - Los Angeles, California (1992)
  - Enterprise Reasoning Systems
  - Technology Consultants
  - [www.knowledgesys.com](http://www.knowledgesys.com)



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# Entertainment & Media Industry

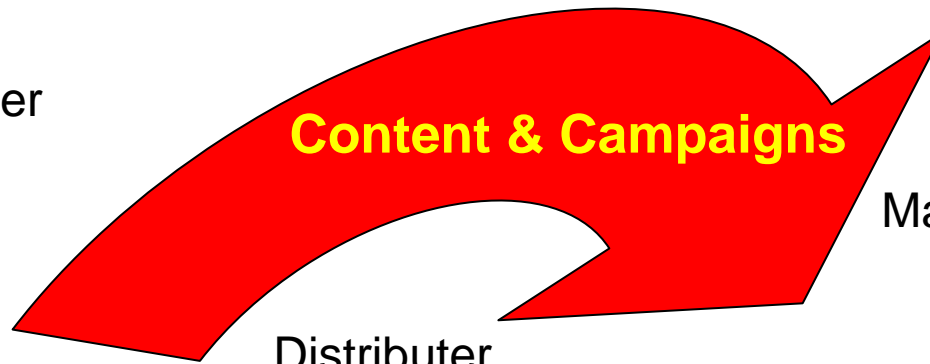
Studio/Financier



Producer

Actors / Directors

Technical



**Content & Campaigns**

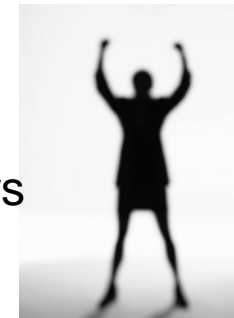
Marketing Agent

Distributer

Exhibitor

Sales Agents

Network Operators



Collection Society

Consumer

Cinema Theater

Home Video

Free & Pay Television

IP Streaming

Mobile Device

File Sharing (\*)



**Revenue & Reports**

# Industry Challenges

- *Entertainment and media companies are facing a host of challenges surrounding intellectual property rights, piracy, security and digital rights management (DRM). To effectively implement digital content distribution systems, entertainment and media companies need decision frameworks and operational processes that enable them to control their content. Companies need to implement advanced processes and methodologies that help them identify and quantify overpayment of royalties and mitigate risks due to non-compliance with contractual stipulations. - Pricewaterhouse Coopers (Global Entertainment and Media Industry Outlook 2005-2009)*

Key concepts: IP rights, Content control, Royalties management

## Media Distribution Success

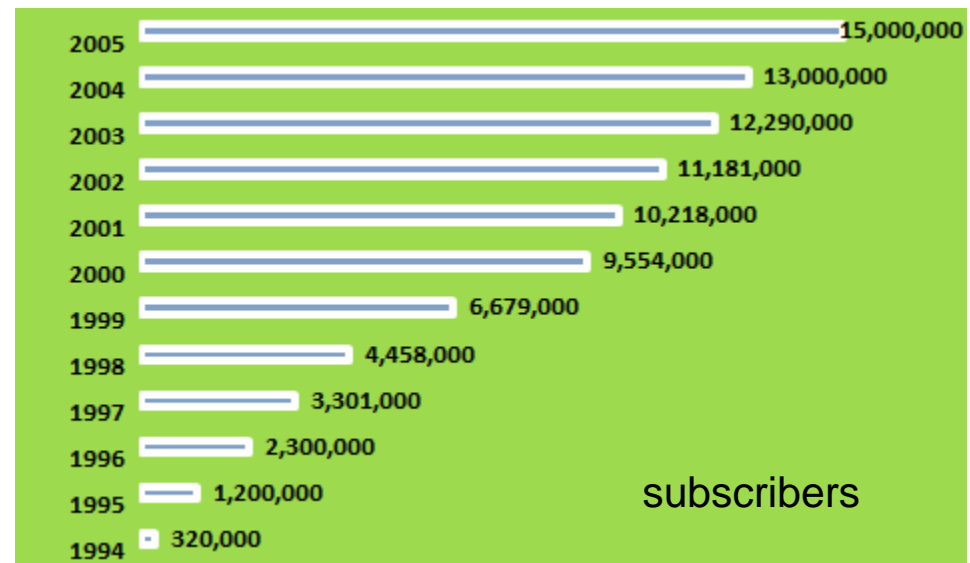
1994

First high-powered Direct Broadcast Satellite (DBS) system in North America.

First use of a

**Visual Contract Language**

to analyze transactions and allocate consumer revenue to Suppliers. (30-day pay cycle)

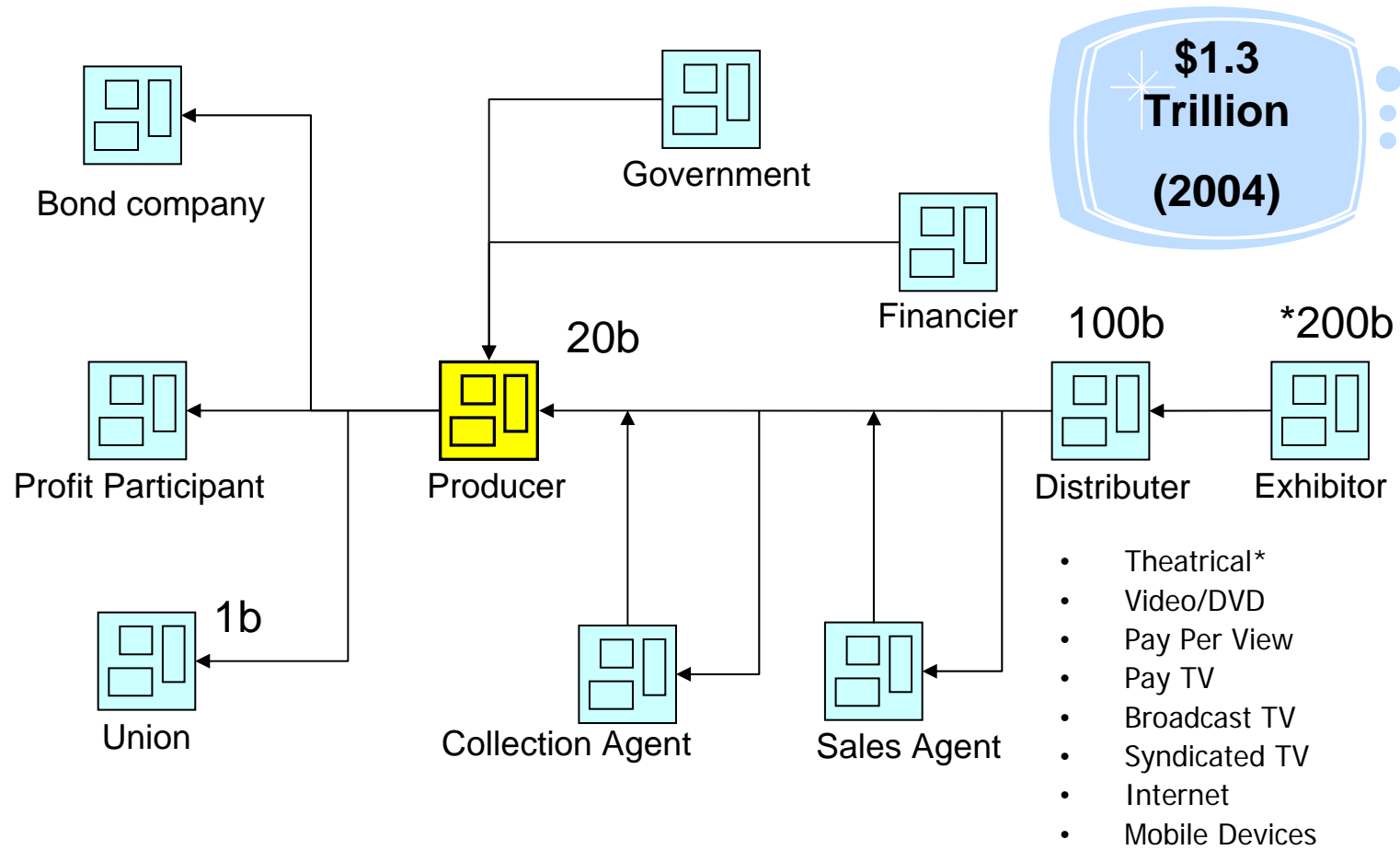


1994: 40 contracts (5 finance personnel)

2006: 400+ contracts (20 finance personnel)

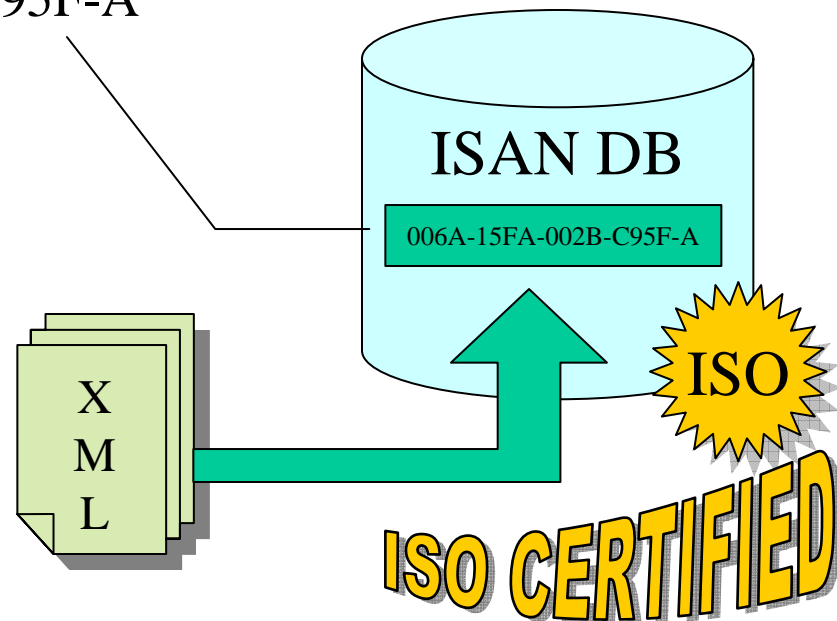
Supplier Management System currently processes almost \$1b (\$60 x 15m) monthly.

## Entertainment & Media Industry



# ISAN Overview

- International Standard Audiovisual Number (2004)
- For Audiovisual Works (Movies, TV, Games)
- 16 Hex Digits (+ 8 Hex Digits for Versions)
  - ISAN 006A-15FA-002B-C95F-A
- Metadata (sample)
  - Title(s)
  - Year of Reference
  - Publication Date
  - Producer(s)
  - Duration
  - Cast Member(s)
  - Director(s)



# What is Cinegocio?

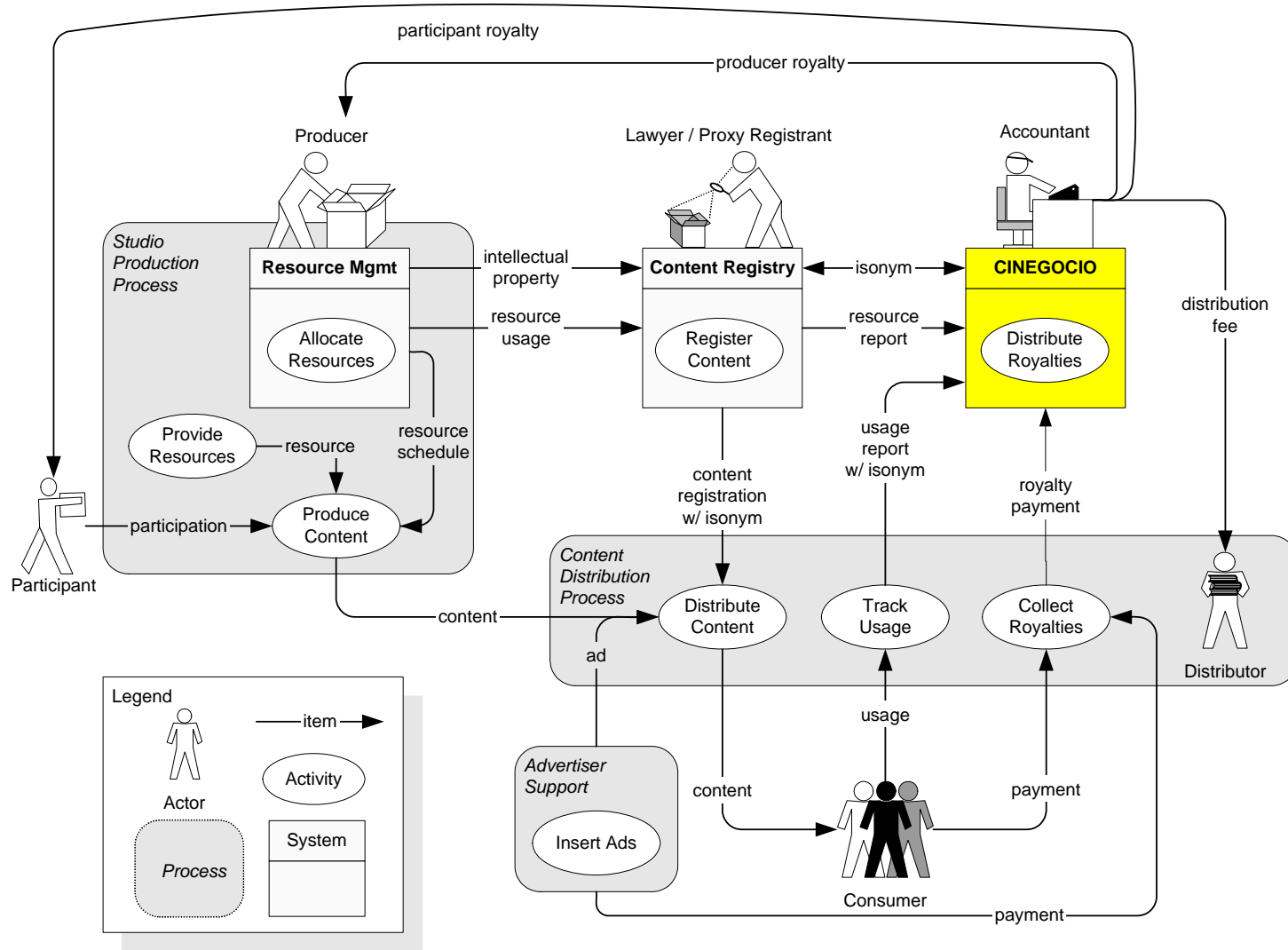
- Decision-Support Framework
- Business Rules Modeling System
- Visual Contract Simulation System
- Contract Execution System
- Royalties Management System
- Console to Control Digital Content
- Real-time Reporting System

# Cinegocio's Objectives

- Increase international co-productions
- Reduce risks of distributing **Content** globally
- Provide a secure **Contract Management System**
- Champion the use of *interactive* **Digital Contracts**
- Eradicate “Hollywood Accounting”

*“The aim of the European Audiovisual Observatory shall be to improve the transfer of information within the audiovisual industry, to promote a clearer view of the market and a greater transparency. In doing so, the Observatory shall pay particular attention to ensuring reliability, comparability and compatability of information.”* – **Statute of the European Audiovisual Observatory, Appendix to Resolution (92)70**

## Content Supply Chain



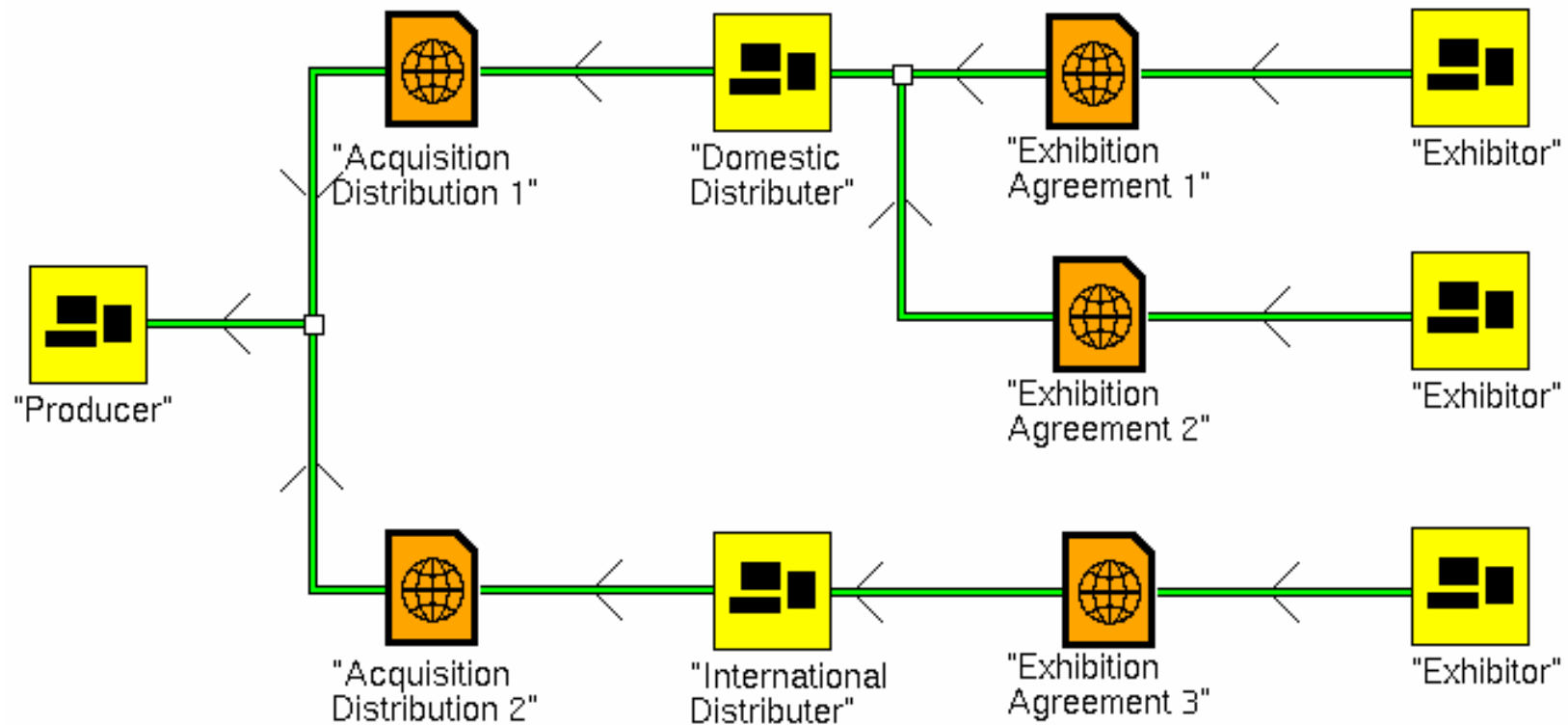
# Electronic Contracts

- Contract
  - “a mutually agreeable arrangement of rules among mutually suspicious parties so they may cooperate with limited risks to each other’s mischief.” (source: [www.erights.org](http://www.erights.org))
  - a construct of clauses that document an agreement between two or more parties. Each clause is itself a construct of definitions, declarations, obligations, permissions, and prohibitions.
- Electronic Contracts
  - A software program encoded with contract logic such that execution of the program enforces the terms of the contract through event monitoring and messaging.



# Electronic Contracts

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# Sample Distribution Agreement

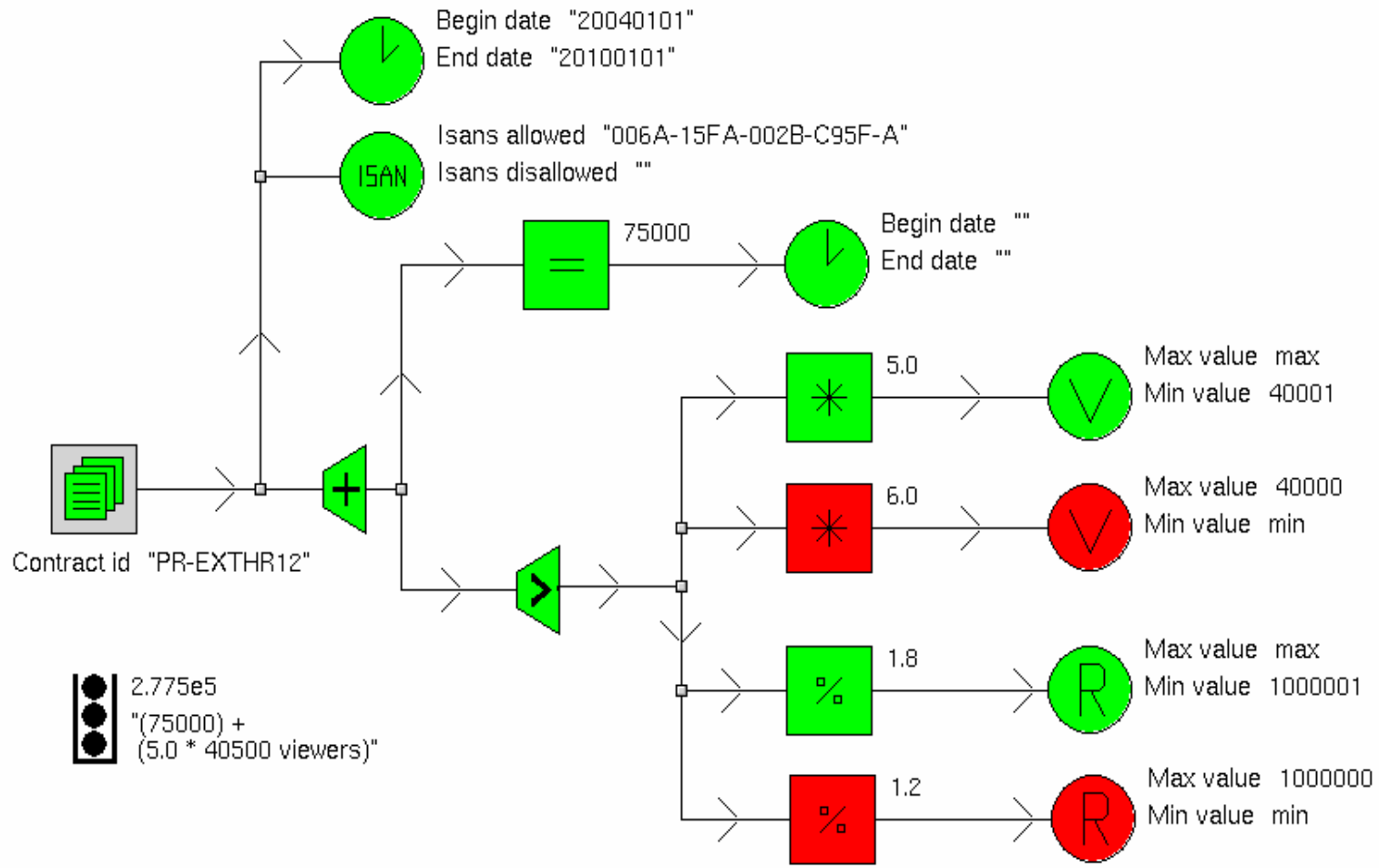
Contract: PR-EXTHR12

Starting in 2004, the license fee payable to the Producer by the Distributer for content identified by ISAN 006A-15FA-002B-C95F-A shall be the sum of 75000 (seventy-five thousand) EUR plus the maximum amount of the fees calculated according to Sections 3.1 and 4.2.

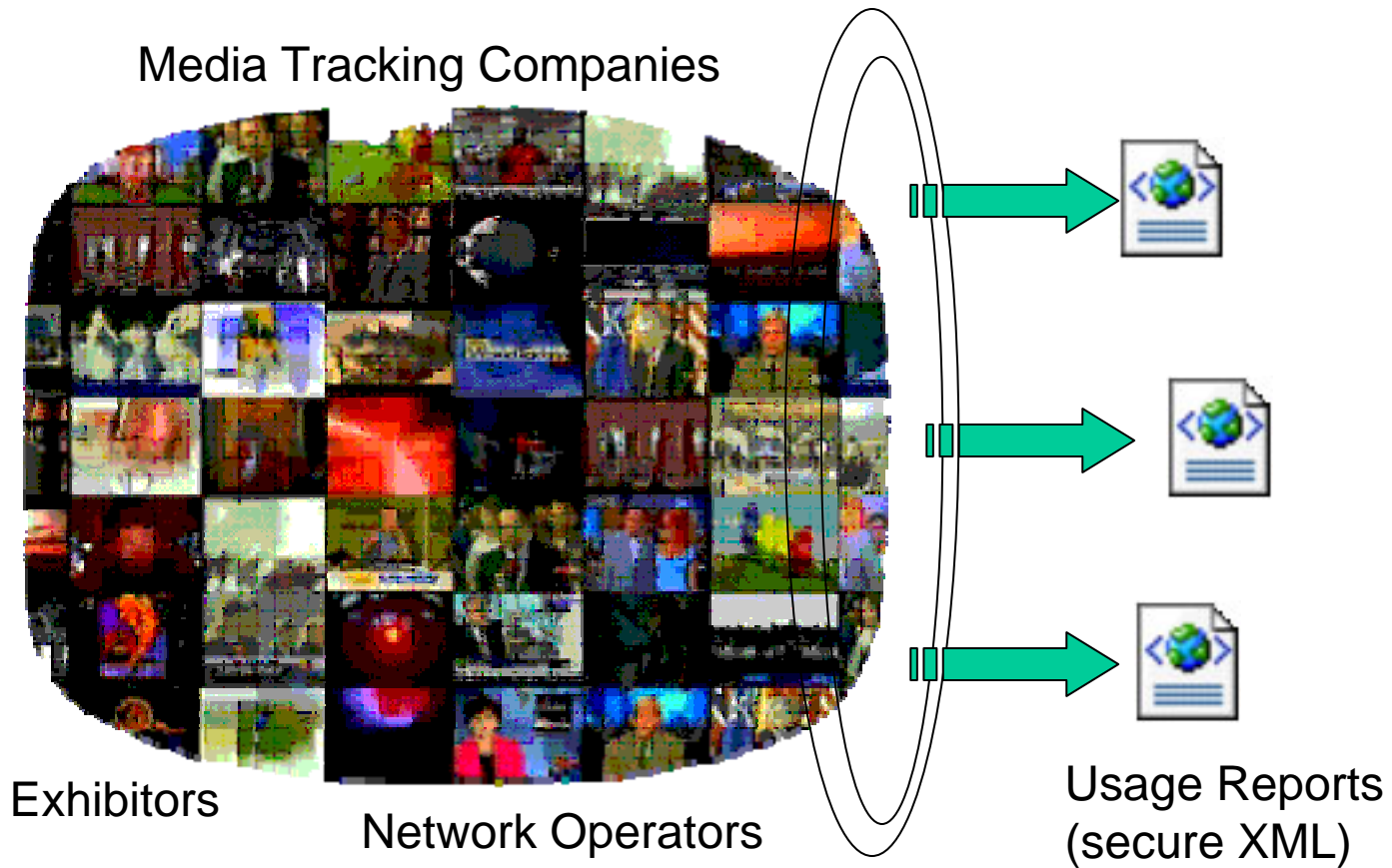
3.1 The fee shall be 5 (five) EUR per subscriber if the average subscriber volume is greater than 40000 (forty-thousand) and 6 (six) EUR per subscriber otherwise. Average subscriber volume is calculated by adding the Monthly Beginning subscriber count to the Monthly Ending subscriber count and dividing the sum by two (2).

4.2 The fee shall be 1.8% of the Adjusted Gross Receipts when the Adjusted Gross Receipts is over 1.000.000 (one million) EUR and 1.2% of the Adjusted Gross Revenue otherwise. See attached Exhibit A for a detailed definition of Adjusted Gross Receipts.

## Sample Visual Contract



# Usage Reports



# Multiple Usage Reporting Levels

- Exhibitor to Distributer
  - daily report, per theater
- Network Operator to Distributer
  - per download, per channel,
- Distributer to Producer
  - per territory, per market
- Producer to Talent
  - per movie



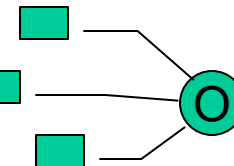
## XML Usage Report

- <report name="Enciende Distribution Report" created="2004-08-01T09:55:00 UTC">
- <party name="Enciende" role="distributor">
- <identifier authority="ES-CIF">B1234567E</identifier>
- <identifier authority="US-EIN">12-1234567</identifier>
- </party>
- <content type="movie" isonym="tconlww">
- <id type="isdn">006A-15FA-002B-C95F-A</id>
- <id type="ad-Id">13321</id>
- <observables>
- <period type="MONTHLY" startDate="20040101" endDate="20040131">
- <territory>ES</territory>
- <window>PayTV</window>
- <revenue currency="EUR">121910,69</revenue>
- <volumes>24431</volumes>
- <base>96807</base>
- <runs>50</runs>
- <spend>58000</spend>
- </period>
- </observables>
- </content>
- </report>

ISAN

Accounting Period

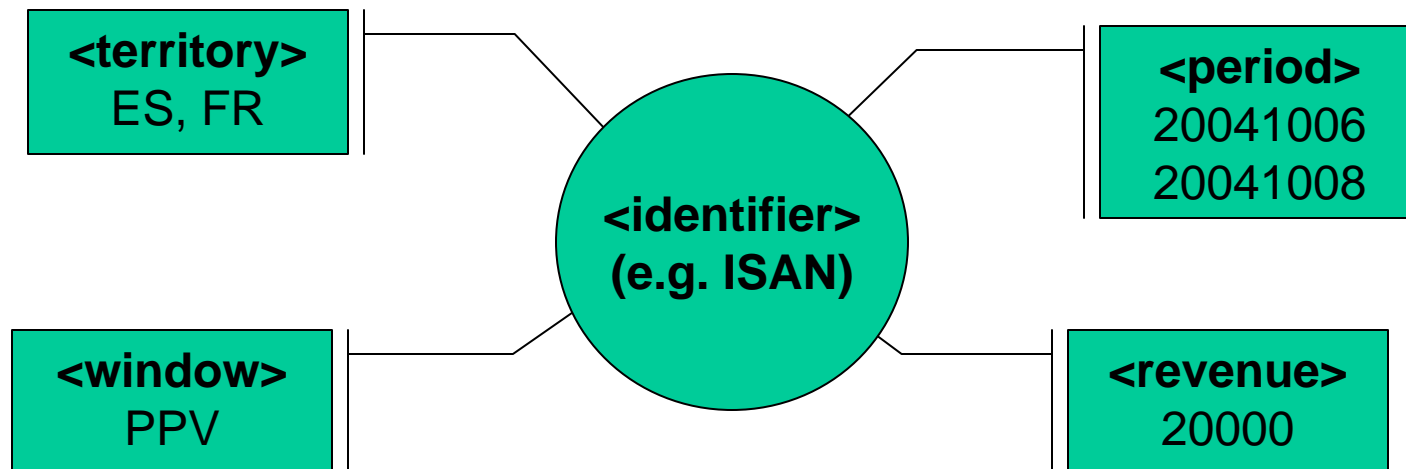
Gross Receipts



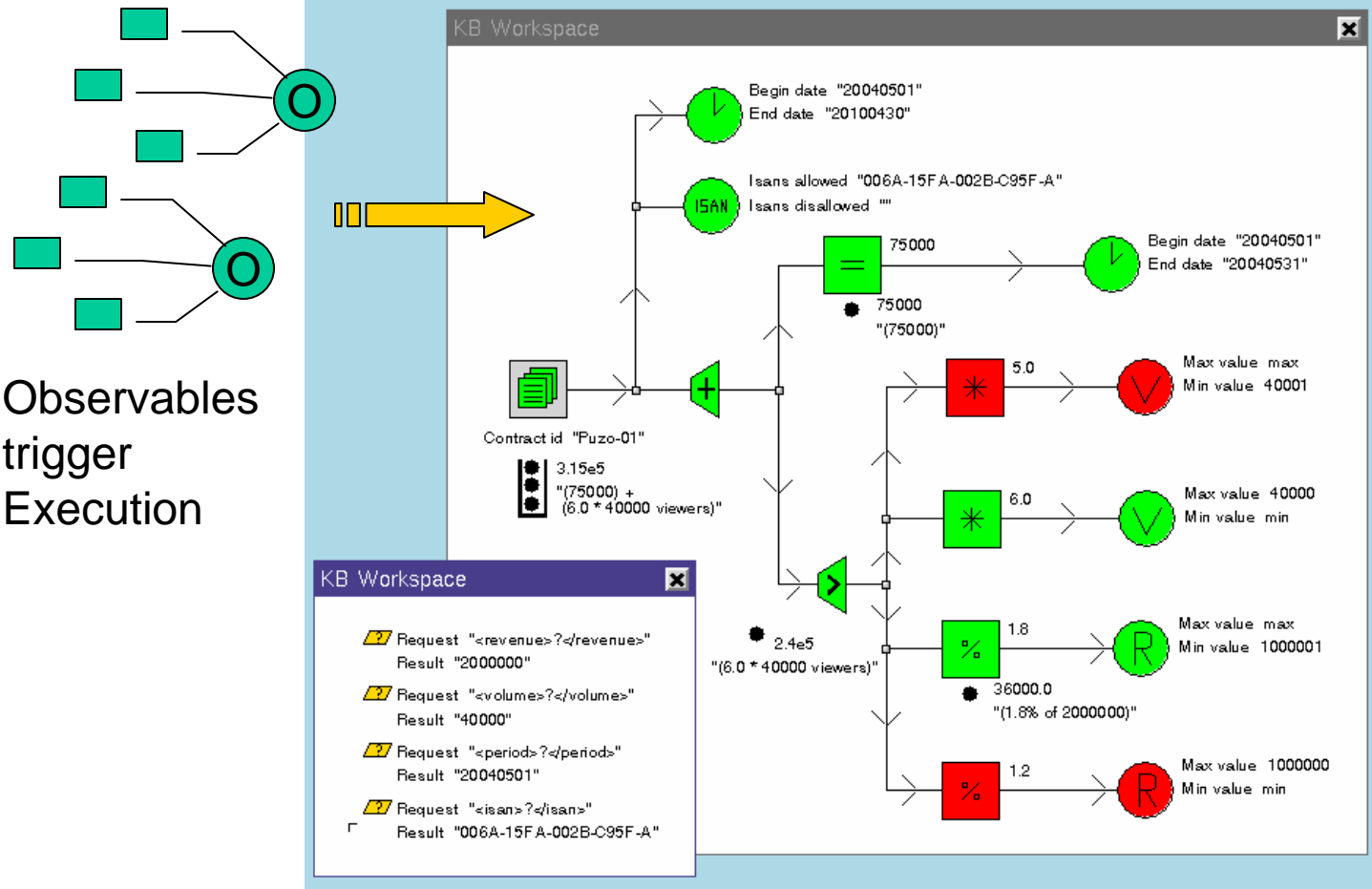
Parse XML to get "Observables"

# Observables

- represent “identified” content and their associated “observed” attributes



## Contract Logic Diagram



# Summary of Key Benefits

- Improved accuracy of Royalties information.
- Real-time assessment of Contract status through continuous event monitoring and internal auditing reduces corporate exposure to contract penalties. Avoids costly litigation.
- Rapid determination of payables and receivables within a single accounting period.
- Automatic royalties adjustments and true-ups if incorrect (or estimated) data was processed in prior periods.
- Visual Language for Contracts (VLC) increases understanding between parties that speak different languages.
- Contract Modeling and Simulation gives a negotiating advantage.

# Cinegocio SWOT

## Strengths

- Proven technology handling \$1b monthly
- Entertainment Technology provider
- Bi-lingual IP & Entertainment Lawyers
- Executive-Level Relationships
- Visual Language for Contracts (VLC)
- Transparent Operations and Secure Data

## Weaknesses

- Lack of Personnel (CEO, CMO)
- Inability to execute Global Marketing Strategy
- No market presence without local reps
- No international standard data interchange format for the Entertainment Industry
- Technology Company in Spain\*

\* hopefully will be a strength in upcoming years

## Opportunities

- European Media and Entertainment sector is fragmented. Lack of cohesive production & distribution infrastructure
- ISAN for Games (announced at NAB 2006)
- Alicante, Spain – Movies & EU Trademark
- European Funding Programs (Media & IST)
- 20 official languages and lack of harmonisation of the European legal system

## Threats

- “Hollywood Accounting”
- Collection Societies tendency for statistics
- Fear of sharing contract information
- IT departments rolling internal solutions
- “Buy-out” Licenses (no observables required)
- Media Conglomerates that do not (nor have a need to) conform to industry standards.\*

\* unless, of course, the Media Conglomerate becomes a client

# Industry References

- Francisco Aguilera (ES)\*
  - President, ISAN Int’l Agency
  - Director, SGAE
- Marlene Dermer (US)
  - Founder, LA International Latino Film Festival
- Jose Ferrandiz (ES)\*
  - Director, Aguamarga Ciudad de la Luz
- Blair Harrison (US)
  - CEO, MTV iFilm
- Fred Hasson (UK)
  - CEO, TIGA (The Independent Game Developers Association)
- Jesus Hernandez (ES)\*
  - Director, Mediadesk Spain
- ◆ Beverley Kite (US)
  - CTO, Screen Actors Guild
- ◆ Francesca Lindley (US)
  - CFO, Walden Media
- ◆ Maarten Melchior (NL)
  - Lawyer, Fintage House
- ◆ Moises Moya (ES)
  - Director, Fundacion Comunidad Valenciana Región Europea
- ◆ Frank Palase (US)
  - VP IT, DIRECTV
- ◆ Glyn Powell-Evans (UK)
  - CEO, Ideas Unlimited TV
- ◆ Vicente Tamarit (ES)\*
  - President, Federation of Valencian Audiovisual Associations (FEVA)

\* Encienda Board of Advisors