

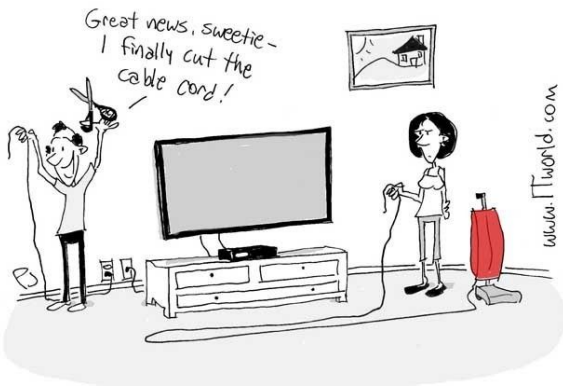


Understanding TV Pricing & How To Save Money



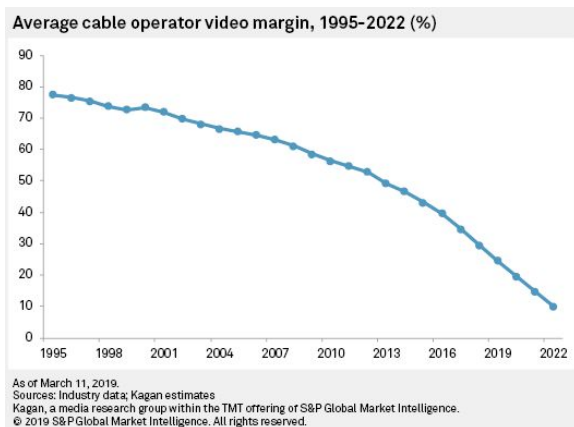
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Introduction

Did you know that your current TV provider doesn't actually want to sell you TV programming? That's right, they don't want to sell you TV programming because it is not very profitable for them. We know that this seems ludicrous but it is true. Take a look at the chart by the Kagen group, one of the leading analysis firms specializing in the television industry.



As you can see in the chart above, the profit margins on video have been in decline for a long time. But how can this be? If your TV prices have gone up every year, how is it possible for these companies to actually be making less profit per user

on TV every year? That is the trillion dollar question.

Who To Blame?

Of course, we don't want you to feel bad for these companies...their customer service has been awful and their services are prone to strange blackouts, but we think a little understanding will go a long way. These companies are raising your rates because of the rising cost of buying the programs from the people who create them. So, if you want to be angry at raising rates, then blame should first be laid at the feet of the content creators.

Who are the content creators you should be mad at? Here is a good list:

- Disney
- Time Warner
- AT&T
- News Corporation
- CBS
- Comcast
- Viacom
- Bertelsmann
- AT&T

This list of companies produces most of the shows you watch via broadcast and cable networks. These enormous media conglomerates charge more and more every year for their content and many smaller cable and satellite providers are often stuck in the middle. Your TV signal provider knows that you, the end customer, will not tolerate even larger rate hikes to cover the full cost of rising programming costs. Of course, it is no surprise that two of the largest cable companies and the largest satellite companies (Comcast, Time Warner and AT&T's DirecTV) are also in the TV show



creation business. Its more profitable if you make and sell the content yourself.



Getting Mad at Mickey

Since Disney is at the top of the list, you may be feeling bad for getting mad at Mickey Mouse for raising your TV bills every year. But make no mistake about it...Mickey Mouse does not like to lose money. He needs to keep Minnie in pearls. To understand the influence that Micky Mouse has on your cable prices, take a look at all these channels owned by Disney:

- ABC
- ESPN
- Disney Channel
- A&E
- Lifetime
- Vice
- FX
- Fox Sports
- freeForm
- Nat Geo
- History Channel

Have you ever wondered why you can't just subscribe to individual channels? The list above should give you a clear picture about how the industry works. Disney will rarely put a TV package together that does not contain all of these channels. And even

if you don't want all of these channels, you still need to pay for the ones you don't watch.

For example, let's say that you never watch sports, therefore ESPN is useless to you. However, if you want to watch Nat Geo or the History Channel, you will almost always be paying for ESPN. And guess what...ESPN is the single most expensive cable channel out there! Nearly \$8 of your monthly bill goes straight into Mickey's pockets. Now let's do the math on that:

84 million houses paying \$8 per month to Disney / ESPN = \$672M per month. That is about \$8 billion per year.

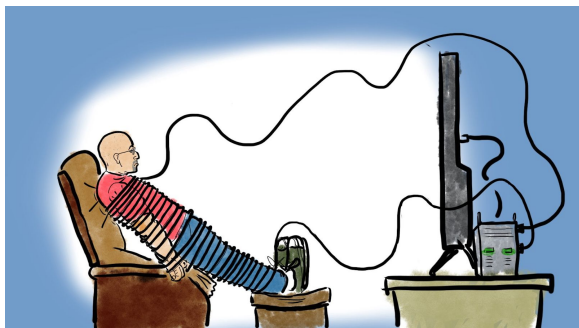
Keep in mind, this isn't profit for Disney. They still need to pay the actors and producers and musicians and the NCAA for the rights to broadcast college football. It ain't cheap to make high quality shows...but maybe it shouldn't be quite so expensive.

Americans Love TV

In the world of business there are few phrases more powerful than "captive audience." If you have never heard this phrase before, think about the price of beer in an airport. Since most people are nervous fliers, they often need some alcohol to give them courage. Once you go through security, you are highly unlikely to go back out through security, get in a taxi and go get a beer that is \$4 cheaper at Applebees 5 miles up the road. At the airport, you are a captive audience. Quite often you will pay \$10 for a beer and be relieved that it was available to you.



The same applies to TV. In most cases you have two obvious choices for TV in your area: cable or satellite. The programming lineups are basically the same and the rate increases are fairly congruent between the two due to rises in content prices that affect all suppliers of TV. Most consumers who have subscribed to one service or the other will switch at some point. They switch to take advantage of promotional deals because their rates with the other provider became ridiculous.



Of course, the best way to save money is to just stop watching TV. You could read free books from the library or volunteer at an animal shelter or the Red Cross. But that is not the case for us. We, as Americans, spend more time watching TV than in all other leisure activities combined. According to the Bureau of Labor Statistics Time Use Survey, “Americans still spend more time watching TV than all other leisure activities combined: Americans average 5.3 hours of leisure time per day (4.8 hours on weekdays and 6.5 hours on weekends and holidays) and over half that is spent in front of the television.”

So, if you have limited choices for your primary leisure activity and you still pay more and more every year to watch TV, then you are the very definition of a captive audience. Everybody knows that we will not stop watching TV. Why? Because TV is magical. It keeps us

informed about the world and allows us to witness, in real time, the extraordinary feats of the best athletes in the world. TV brings us incredible stories of courage and grit from around the world.

Quite often on TV we are able to see our feelings described in a way that we have never been able to articulate. TV is a magical story telling machine and we are storytelling creatures. We love stories. We think in stories. We are the stories we tell. And over the last ten years we have paid over \$1 trillion dollars to bear witness to these stories.

Many critics of TV will say that we are addicted to TV. For some, this may be true but it is also misleading. The creators of television shows are master storytellers and this resonates deeply with the way in which we interpret the world. In fact, we are telling you a story with these words right now. We are telling the story of TV in your life.

The Story of TV

Fascinating though it may be, we will not go way back in history to the invention of the first TV. You can read all about it on Wikipedia. However, we will start with mass adoption of TV and the growth of the cable industry as we know it.

TV was first commercialized on July 1st, 1941, just five months before our entry into WWII. With the advent of the war, development of TV ground to a halt. But after the war, the application for TV broadcast licenses increased dramatically and TV began to be a staple. At the start of the 1950's, there were about 3 million TV owners; by the end of it, there were 55



million, watching shows from 530 stations across the country.

All television programming was received over the air broadcasts from the local TV broadcast towers. There were no DVRs and no monthly payments. The viewer typically received 3 or 4 channels and everything was paid for with proceeds from commercials and sponsorships.

The History of Cable

Cable television originated in the United States almost simultaneously in Arkansas, Oregon and Pennsylvania in 1948 to enhance poor reception of over-the-air television signals in mountainous or geographically remote areas. "Community antennas" were erected on mountain tops or other high points, and homes were connected to the antenna* towers to receive the broadcast signals.

In the late 1950s, cable operators began to take advantage of their ability to pick up broadcast signals from hundreds of miles away. Access to these "distant signals" began to change the focus of cable's role from one of transmitting local broadcast signals to one of providing new programming choices.



By 1962, almost 800 cable systems serving 850,000 subscribers were in business. The growth of cable through the importation of distant signals was viewed as competition by local television stations. Responding to broadcast industry concerns, the Federal Communications Commission (FCC) expanded its jurisdiction and placed restrictions on the ability of cable systems to import distant television signals. As a result of these restrictions, there was a "freeze" effect on the development of cable systems in major markets, lasting into the early '70s.

The freeze on cable's development lasted until 1972, when a policy of gradual cable deregulation led to, among other things, modified restrictions on the importation of distant signals. The clamp on growth had adverse financial effects, especially on access to capital. Money for cable growth and expansion all but dried up for several years. By the end of the decade, growth had resumed, and nearly 16 million households were cable subscribers.

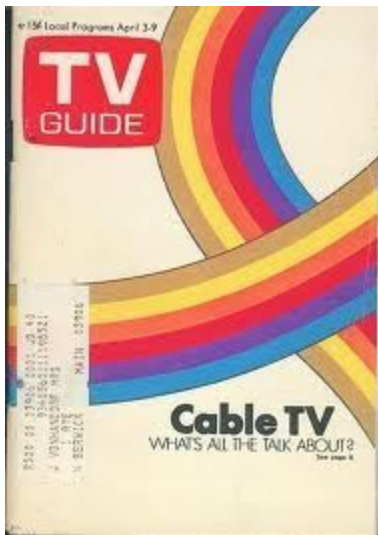


The 1984 Cable Act established a more favorable regulatory framework for the industry, stimulating investment in cable plant and programming on an unprecedented level. Deregulation provided by the 1984 Act had a strong



positive effect on the rapid growth of cable services. **From 1984 through 1992, the industry spent more than \$15 billion on the wiring of America, and billions more on program development.* This was the largest private construction project since World War II.**

By the end of the decade, nearly 53 million households subscribed to cable, and cable program networks had increased from 28 in 1980 to 79 by 1989. Some of this growth, however, was accompanied by rising prices for consumers, incurring growing concern among policy makers.

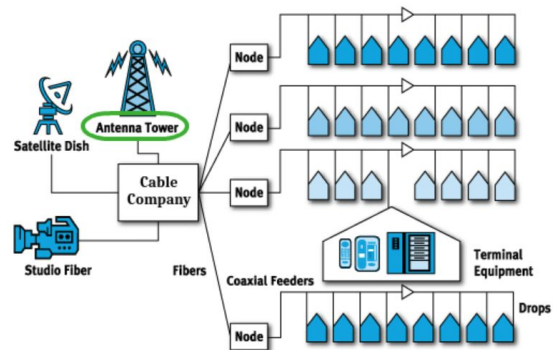


In 1992, Congress responded to cable price increases and other market factors with legislation that once again hampered cable growth and opened heretofore “exclusive” cable programming to other competitive distribution technologies such as “wireless cable” and the emerging direct satellite broadcast (DBS) business. By the spring of 1998, the number of national cable video networks had grown to 171. And at the end of the decade, approximately 7 in 10 television households, more than 65 million, had opted to subscribe to cable.

Arrival of the new millennium brought with it hopes and plans for acceleration of advanced services over cable’s broadband networks. **In 2001, partly in response to demands for more complicated services, AT&T agreed to fold its cable systems with those of Comcast Corp., creating the largest ever cable operator with more than 22 million customers.**

Cable Companies Use Antennas?

Until quite recently, cable companies actually had giant antennas in their facilities. They would capture local broadcast channels and feed them into their cable services.



In order to package these antenna signals into their cable channel lineups, cable companies are required to pay “retransmission fees” to ABC, CBS, FOX, NBC and many other networks that broadcast locally. These retransmission fees range between \$13 and \$25 per month per household depending on the market power of your provider. The larger the company that provides TV the less your retransmission fees.



Can I Use an Antenna and Avoid Paying Retransmission Fees?

Absolutely. The FCC guarantees your right to access publicly available broadcasts and your HOA cannot prevent you from putting up an antenna. This is federal law. Keep in mind, the FCC doesn't care if you watch Jeopardy, Dr. Phil, the local news or infomercials at 2:00am. They do care about public safety and national defense. By supporting free access to public broadcasts, the FCC is ensuring that the highest number of people in the largest population centers will have access to the emergency broadcast systems no matter their economic status.

The rule (47 C.F.R. Section 1.4000) has been in effect since October 1996, and it prohibits restrictions that impair the installation, maintenance or use of antennas used to receive video programming. The rule applies to video antennas including direct-to-home satellite dishes that are less than one meter (39.37") in diameter (or of any size in Alaska), TV antennas, and wireless cable antennas. The rule prohibits most restrictions that: (1) unreasonably delay or prevent installation, maintenance or use; (2) unreasonably increase the cost of installation, maintenance or use; or (3) preclude reception of an acceptable quality signal.

Effective January 22, 1999, the Commission amended the rule so that it also applies to rental property where the renter has an exclusive use area, such as a balcony or patio.

In fact, 85% of all homes in the United States can receive at least one channel via an antenna. With a properly installed antenna, most of these homes can receive anywhere from 20 to 70 channels for free over the antenna.

June 12 2009

This was the date when TV access changed forever. On this date all full power OTA stations in the U.S. by law either transmitted their broadcasts digitally, or shut down. This means that all signals broadcast from the major networks (ABC, NBC, CBS, FOX, CW) were transmitted in high definition. These digital broadcasts were also more reliable than previous analog broadcasts and capable of reaching even more homes.

Free Forever

As long as the FCC mandate from congress to ensure public safety is in effect, then you will be able to access the major broadcast networks for free with an antenna. It is that simple. It would take a major congressional initiative to block you from getting free HD television signals. Congress would need to overturn nearly 100 years of precedent started with the Communications Act of 1934. And the likelihood of this happening is minimal because the Department of Defense and Department of Homeland Security would be vehemently opposed. The giant telecommunications company might try to lobby for limiting your rights to access



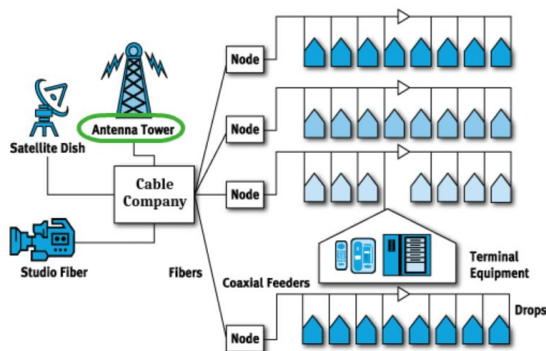
free signals but that is not a fight they think they can win.

Free Broadcast + Paid Cable Channels

From the brief history we outlined earlier, you can see that there is a difference between broadcast networks (ABC, CBS, NBC, FOX, CW) and cable networks (ESPN, Fox News, Lifetime, MSNBC, CNN, TNT, HGTV etc). An antenna will not get you cable networks because those networks are considered remote, or outside of your market.

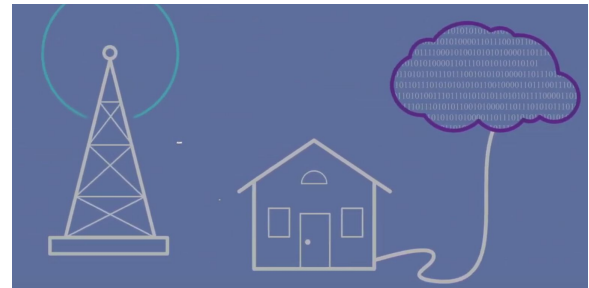
So the question is this: **how do you get both free broadcast channels and cable networks?** Ten years ago, you could not answer this question because there was no way to do it. You could get all the channels on the antenna but you could not get cable networks.

Now, with high speed data and a revolution in consumer electronics you can combine antenna signals and digital feeds in your own home. You don't need the cable company. Remember our graphic from before that explains how a cable company gets signals into your home.



Think about all the costs the cable company needs to cover. They need to pay all those people to call you and annoy you about late bills. They call you to sell you bundled services that you don't need. For example, they sell you a home phone line because they say it is cheaper to get TV when you have a home phone line. And don't forget that they need to pay their lobbyists and their CEOs, some of whom make over \$35M per year.

With the consumer electronics and high speed data revolution, your TV access can look like this:



Essentially, you become your own cable provider. With an antenna to pick up the free forever signals and a high speed internet connection you can get all the same channels for drastically lower prices. ABC, CBS, NBC, FOX, CW and PBS will be free forever because of the FCC mandates around public safety, national defense and national emergencies. You just need to pay for cable networks like ESPN, Fox News, HGTV, MSNBC, CNN, History channel etc.



How Do I Become My Own Cable Provider?

There are countless ways to do this but the most effective way for long term savings is to invest in the right equipment and internet service. If you want a fully immersive experience with the most options and the most channels you need all of the following:

- High quality antenna, properly mounted and tuned - \$99 retail cost
- Cable modem - \$59 retail cost
- Whole Home coverage of WiFi - \$150 retail cost
- Streaming Media Player for each TV - \$49 per TV retail cost
- WiFi Network Tuner / DVR - \$249 retail cost
- High Speed Internet of at least 40MBPS - \$45 - \$55 per month
- Cable streaming service - \$30 per month

If you are hooking up 2 TVs, all this equipment that turns you into your own TV provider will cost you ~\$650. If you make this investment, then you will end up paying ~\$75 - \$85 per month for internet service and over 100 channels including all the broadcast networks and the most popular cable channels.

And here is the beauty. If you want to save additional money, you can cancel the cable streaming service at any time because there are no contracts. Remember, you will still have uninterrupted access to the free broadcast networks. In the end, once you make the initial investment, you will be able to

regulate how much you pay for TV on a monthly basis. Of course, you will need to pay your internet bill every month.

Can I Do It Myself?

Absolutely. But keep in mind, it is not easy. At freeTVee we can install all of this in less than four hours but we have done this thousands of times. We have the right tools and plenty of networking knowledge. If you have never done this before, we estimate it will take you about forty very frustrating hours. Just make sure you are not afraid of heights.



What About YouTubeTV and Hulu Live?

This is the hardest thing to explain but very important to understand. You can get 70 channels from these services including



four local broadcast channels. But remember those pesky retransmission fees we discussed earlier? Those are built into the \$50+ per month subscription costs.

And these services are not yet profitable because they are selling this content to you below cost. Once these services get to a certain number of subscribers the costs will go up. In fact, they have both increased their costs by 25% over the last two years to try and stop the bleeding. In just a few years time you will be paying exactly what you are now paying for cable because the content costs keep going up. Only an antenna will keep your costs down.

To put this in perspective let's take a look at PlayStation Vue (PSV), which recently stopped service. PSV offered local stations plus a decent selection of cable channels via their streaming app. This service was owned by Sony, one of 100 largest companies in the world. At its peak, PSV had over 500,000 subscribers all paying \$50 a month. That is \$300M per year in revenue and they shut it down. Think about that for a second: Sony, one of the largest companies in the world, shut down a service that generated \$300M a year in revenue. Why? Because they could not make any profit.

Price

The number one reason people get rid of cable and satellite is to save money. The number one objection people have to becoming their own cable provider and saving lots of money is the upfront cost. So, let's follow that logic or lack of logic through to its conclusion.

- If you have a \$200 TV / Internet bill, it will go up. Next year you will have a \$215 bill
- The total you spend this year will be \$2400 (\$200 * 12)
- The total you spend next year will be \$2580 (\$215 * 12)
- In two years, you will have spent \$4980 (\$2400 + \$2580)
- On the other hand, if you invested in becoming your own cable provider (cutting the cord) you would spend \$650 on equipment
- After two years post cutting the cord / becoming your own TV provider, you would have paid \$2690 (\$650 in equipment fees + \$2040 in internet and cable channel fees). A savings of \$2290.

So the only question you really need to ask yourself is this: ***do I want to do this myself or hire a professional to do it?***

freeTVee - The TV Money Savers

It's a no brainer to cut the cord. Your cable company is happy to keep you as a high speed internet customer but they want you to stop subscribing to TV so they can stop the bleeding. As one pro in the cable industry told us: "providing high speed data is like printing money. TV is barely profitable."

freeTVee exists because people want to save money on TV but they don't have the know how to do it themselves. We charge fair market prices for the equipment and the installation services we provide. We don't charge monthly fees. We do offer an



annual service plan that entitles you to discounted service calls and discounts on equipment.

