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CATHOLIC TELECOMMUNICATIONS NETWORK OF AMERICA, INC.: DIOCESAN IMPLICATIONS

JAMES W. GIDDENS, ESQUIRE

A great deal of concern for policy and tax issues led to the decision that CTNA would be a for-profit corporation. In a legal sense, it is no different in structure than General Motors or Ford Motor Company. It is a Delaware corporation with a board of twenty-one directors whose principal fiduciary duty is to provide services for the benefit of its sole shareholder, the United States Catholic Conference. In order to ensure continuity, the board has its members classified into three classes so that each director will be elected for a 3-year term. The relationship in a legal sense is one of independence. The management of the corporation is solely the prerogative of the board of directors; however, the ability to control the composition of the board, and indirectly its policies, rests solely with the shareholder. Indeed, there is a provision that permits a shareholder to remove a director with or without cause at his discretion.

The chairman of CTNA is the president of the United States Catholic Conference or his designee. The chief operating officer of the corporation responsible for implementing the policies of the board is also the president. The remainder of the structure is that of an ordinary for-profit corporation. The mandate of the corporation in its charter is to promote and to develop the telecommunications efforts of the Church in the United States of America. The legal structure is intended to facilitate, and not to elevate form over substance in achieving that objective.

You will soon be receiving the affiliates agreement which is not an onerous contract of any sort. In comparison to the type of affiliation agreement that would be required by ABC, NBC, or CBS, it is almost

nonbinding, apart from the payment of certain modest fees. This premise should be borne in mind. The affiliation provides the expertise of CTNA for administrative and consultive services in local telecommunications projects to those electing to join the network. It also provides very substantial financial benefits through the centralized purchasing of telecommunications equipment. Financing will be available for those who wish to purchase the equipment necessary to create a local station, receiving the signal from the satellite. In addition, affiliates will be entitled to levels of programming on a weekly basis pursuant to certain terms. Also, as CTNA expands into other areas, additional subscription services may be elected. All of these services are entirely voluntary.

The term of the affiliation agreement initially will be for 2 years. The choice of 2 years corresponds to the funding term of CTNA through June, 1984. It will continue thereafter on a year-to-year basis unless either party elects to terminate. At the end of a yearly term, if for some reason the United States Catholic Conference made the decision to terminate it, that could be done on 30-days notice. Again, this is simply another indication that the terms will not be burdensome or onerous. Certain obligations, however, are imposed. Affiliation does require adherence to certain legal requirements to avoid copyright infringement. I might comment here that in general the goal of CTNA will be to acquire rights in perpetuity to distribute programs. For example, if they acquire rights to distribute a film, unless they were the producers of the film or funded the cost of production of the film, it is unlikely CTNA would have the right to exhibit the film in all or many different capacities. It may be that the film could be shown once on the network and that would be it. The so-called station purchase agreement is optional. This would be used by an affiliate wishing to purchase it for cash on an outright basis, or, alternatively, to do it through purchase on installments under a lease, with an option to purchase the station at the conclusion of the lease. CTNA has negotiated arrangements that will be set forth in detail in the papers many of you will receive in due course that will explain what these options are.

CTNA will provide the administrative services necessary to supervise the construction and installation of an earth station, including site designation which is very important in connection with the quality of reception that can be achieved. CTNA will assist the affiliate in connection with any licensing requirements relating to the site and reception, and will also provide training for the affiliates' personnel and will provide services in connection with station repair, maintenance and frequency protection. Again, the obligations of the affiliate are clearly spelled out but principally they involve selecting five sites within the diocese or within the area which are available and acceptable, and securing proper access to the site for the eventual construction. The selection of the ultimate site,

is in the discretion of CTNA. If the CTNA selection is not acceptable, however, the contract provides that the diocese may designate another site but with a recognition that it will lead to waivers on the quality of performance and reception.

I will not take your time at this point to describe in detail all of the provisions of the agreements. They will impress you as being somewhat comprehensive but I think they are written in fairly clear language. In some respects they follow a typical construction contract, adequately protecting all of the parties involved.