

CEA 2003 HDTV SUMMIT

Beyond the Headlines

Moderator: Marge Costell - Editor, CE Online News

Panelists: Clark Becker - Senior VP, and Chief Technology Officer, Best Buy, Inc.
Bryan Burns - Vice President Strategic Business Planning and Development, ESPN, Inc.
Mark Coblitz - Senior Vice President, Strategic Planning, Comcast Corporation
Marty Franks - Executive Vice President, CBS Television
Glenn Oakley - Senior Vice President, Corporate Strategy and International, Showtime Networks, Inc.
Jonathan Takiff - Staff Writer, Philadelphia Daily News

GARY SHAPIRO (INTRO TO PANEL)

Our next panel will discuss the state of HDTV in terms of available content and consumer interest. Here to lead the discussion is Marge Costello, a 20-year veteran of the consumer electronics industry. Marge is the editor and publisher of the consumer electronics on line news. A subscription based trade publication she launched in 1996, if you don't get it, you should be getting it. It is an excellent publication. It is almost my number one source of information if it wasn't for Richard Doherty, providing me with information. Mr. Big Stuff. Marge's newsletter launched coincided with the start of the HDTV transition and the convergence of audio, video and PC's in the digital age. The latest HDTV developments, news trends and products continue to be among the major topics she covers. Please join me in welcoming industry journalist and veteran Marge Costello.

HDTV – BEYOND THE HEADLINES

MARGE COSTELLO – CONSUMER ELECTRONICS ONLINE NEWS

Let's welcome up our panel today for HDTV Behind the Headlines. I will introduce each one after they get up into the front. Just to give you some background on this panel, we are going to be looking at two main areas. What is the reality of HDTV and what is the disconnect between HDTV reality and some of the news reports that many of us read, agonize and get really annoyed about when we see them and email them to each other. We make comments and we have already had some conversations ourselves about this. We will start over here on my left. Each of you has a booklet that has details or bios of this gentleman. For instance, is this the Bryan Burns you know in second grade? But what it doesn't say is that today is Bryan's birthday, so we will all wish you a happy birthday. The first

gentleman to my left is representative from Best Buy, Clark Becker. Who is Senior Vice President, and Chief Technology Officer. One of the teams that Glenn leads works with manufactures to review and test new technologies and development. As many of you know, Best Buy is the nation's leading CE chain. It operates 548 stores in the United States and selling HDTV since 1999. It claims the leading market share in retail and DTV. According to the recently released financials for their fiscal year that just ended, digital television counts for 38% of TV sales at Best Buy's U.S. stores. And I say U.S. stores because Best Buys has moved international and has bought another AB chain in the United States. Best Buys parent company, Best Buy Company also sells HDTV through its other retail properties: 19 magnolia high-fi stores in the U.S., 8 Best Buy and 104 future shops in Canada. U.S. store expansion for this year calls for 60 new Best Buy stores, 4 new magnolia high-fi stores and one of the new Best Buy stores is coming to my neighborhood in Manhattan. The company also operates software chains: Sam Goody, Sun Coast and Media Play. So thank you for taking part in this panel and thank you very much Clark. Next to Clark is Bryan Burns, the birthday boy, who is Vice President of Strategic Business Planning and Development. In 20 days, Bryan and ESPN will launch ESPN HD. That will occur on March 20th with Major League Baseball when the world champion Anaheim Angels take on the Texas Rangers. ESPN will become the first 24-hour HDTV sports service. As Gary mentioned earlier, many people view this as a significant aspect of the DTV transmission part of the tipping point. ESPN HD variety will feature 100 live HDTV and telecast during its first year offered on cable and satellite. They include Major League Baseball, Woman's NCAA Basketball final four, NBA Basketball and NHL Hockey and many other events. Most of the shows including sports center will be added, more studio shows including sports center will be added in 2004 providing an additional 3700 hours of HDTV. Next to Bryan is Mark Coblitz, as Gary mentioned before was lead negotiator for the cable industry and the DTV plug and play and the ram and forge with the CE industry. Comcast, which required AT & T cable operation last year, is the nation's largest MSO with over 21 million subscribers. Today, HDTV is available to more than 11 million Comcast homes. And for those of you in the D.C. area know that it was launched within the past year. In addition, Com Cast Sports Net which is a regional sports network serving the Philadelphia, Washington/Baltimore markets is offering 200 professional games this year in HDTV. And it launched last month with hockey and basketball and baseball is also planned for later this year. Next to Mark is Mary Franks. Marty Franks is the number 2 person at CBS. And he is the person in charge of HDTV at CBS. As many of you know CBS is basically lead the networks in HDTV. It is in

its fourth year of offering the majority of its prime time in HDTV. CBS is also been actively involved in sports we mentioned previously. It broadcast the award shows in HDTV, which was the Grammys. And CBS's debut of 5.1 channel sound. When CBS offers the NCAA Basketball tournament for the fourth consecutive year, later this month in telecast will also be in 5.1 channels. For those of us who cover HDTV in people in retail and we also think the audio side is as important as well and apparently CBS agrees because it will be expanding 5.1. In addition to January's AFC playoffs, CBS carried college football and the Master's will be broadcast for the fourth time and this year CBS will provide coverage of all 18 holes. But the question is what about the protestors outside? We will be covering that too. Currently, 130 of CBS's owned and affiliated stations are broadcasting in digital covering 88% of the nation and I think that is going to be expanding to 98% by the end of the year. Next to Marty, is Glenn Oakley, Senior V.P. Corporate Strategy in International for Show Time. Glenn led the Show Time group that launched Show Time and HDTV in early 2000. Show Time and HDTV is available nationally to over 38.5 million households by a cable and satellite. This year Show Time will increase its HDTV programming airing six series both new and returning in HDTV. As part of the expansion Show Time last month offered its first live event in HDTV, which was a Tyson ATN Heavy Weight Match. The majority of Show Time movies will be airing in HDTV. Last year, Show Time became the first premium TV network to launch a series fully produced in end to end in HDTV odyssey 5. It was also the first programming service to launch Dolby digital 5.1 sound in conjunction with HDTV. That was back in 2000. Finally, fellow journalist, Jonathan Takiff is also on the panel. He is the staff writer for the Philadelphia Daily News. Jonathan serves at the paper's CE columnist and his articles are also syndicated on the Knight-Ridder News Wire. In addition, he also writes for magazines such as (???) and AV Interiors. When DTV launched back in 1998 many of us in the press were very impressed and envious of Jonathan because he lives in Philadelphia. Some of you may recall, Philadelphia and Washington, D.C. had the most channels than anywhere else in the air. So Jonathan was in a very good position to talk and write about HDTV and DTV. As a very early (???), Jonathan has some very early experiences he will share with us. He is definitely a child of TV. He has three HDTV sets running in his center, city of Philadelphia home. He does most of his karate testing in his HDTV show room. So, you can read the bios of the people but my first question to the panel is what is the most surprising aspect of your HDTV experience both positive and negative that you or both you and your company did not anticipate? Let's start with you, over here, Clark.

CLARK BECKER – BEST BUY

Ok, for Best Buy it's actually the adoption of the HDTV sets. We rapidly expanded our assortment and just about bought everything above 40 inch is all HD capable. I think we have only one or two sets that aren't. Really it's the big screen adoption, 16 x 9, being biased by the consumer is very important. The consumer reaction in general has been fantastic. Just in terms of what we are selling, both the price points in coming down as well as basically the entire assortment being HDTV capable. That pretty much tells where we are.

BRYAN BURNS – ESPN

I think the biggest thing for us has been the acceptance by everyone in the food chain that it is physically impossible for ESPN to close the analog store and bring it back up again fully out 24-7, and all produced on HDTV. Everybody along the way understands this undertaking that we are a little different from other program sources. What we do is going to be hard to do. Everybody along the way has said, just get started. Just bring it on. Start somewhere and go. You don't have to be pristine from the start and your plans are right on target, bring it on. That is one of the biggest surprises to me.

MARK COBLITZ - COMCAST

It's probably how dramatic 2002 was and what has been happening in HDTV and if we sat back and had all these discussions eight years ago, 2002 seemed to bring it all together. Weather or not it's the sets that are now in the marketplace or weather it's the content, which is starting to come quickly or the expansion of cable television has had or the deal we talked about earlier between the consumer electronics industry and the cable industry, weather it's the retail or partnering going on, we think that Best Buy and Com Cast have done this successfully. The broadcasters expanding the amount of content that is there. In 2002 there seemed to be this snowball. So that I think the term momentum was used earlier is really the most surprising thing, it really seems to turn the corner.

MARTY FRANKS - CBS

I think the biggest surprise we have been at this for almost five years is how much we are learning about producing in HD. I am glad that the first year or two we were producing that there weren't as many sets around so that people didn't see the mistakes we made. As I see new services coming on line, I see them making some of those same mistakes; it's different. The sports cameraman who has

been trained for 20 or 30 years to frame a 4 x 3 picture has a different experience when he is asked to frame a 16 x 9 picture. So there is just, well we think we are pretty good at television production, so I guess we are surprised with almost every show that we do weather it is prime time or sports, just how much we keep learning about how different it is to produce in HD. Some of that is a wonderful surprise because we get to learn what we get to do or can do that we couldn't do before.

GLENN OAKLEY - SHOWTIME

I think our biggest surprise is the passion and the enthusiasm that users and purchasers have for the product. They are willing to put up with an awful lot to get the product, weather its researching the equipment and buying the product that you need or getting these sets into their homes it can weigh upward to a quarter of a ton, finding the content in what is often a Swiss cheese arrangement. Consumers are very passionate and have to put up with an awful lot to get it.

JONATHAN TAKIFF - PHILADELPHIA DAILY NEWS

Very mixed message that I am getting from the broadcast community is the most interesting thing. I am old enough to remember the dawning of color television and how that was handled with retailers bringing in people for parties to watch color TV and the NBC peacock in frilling with "The following program was brought to you in color", I don't get that kind of full born commitment from broadcasters, I am getting a very mixed message from them, they don't say in color, they don't say in HDTV. I am not hearing that passion in their voice, I am not seeing ads on TV for HDTV's, I am not seeing, the worst thing I see about it is that the broadcasters are running this at a very low power, when it rains or snows, my broadcast locks up. I live seven miles from the antennas. That is a message to me that the broadcasters aren't really that committed because they are not really willing to crank up the power for their signals.

COSTELLO

What did the headlines in the beginning of January or February have to do with that subject? The cable industry and the broadcast industry took swipes at the issue of the Super Bowl when HDTV, the NAB charged that many of their viewers were not able to get it on cable. The cable industry said that there were not enough ABC stations supporting DTV. And also they charged that the broadcast industry was charging them fees they didn't want to pay to carry it. Could we have Mark and Marty

discuss the whole issue of local signal carriage and license fees for those that are not in the field. What has happened there? How come some cable systems don't have the local stations in HD even though they broadcast them and what kind of progress is being made in that area?

FRANKS

For several years, I attended meetings where I heard the cable industry say that their two largest business problems were in the digital tier and their competitive pressure from satellite. I have said to them for four years that we have a product that will help them on both scores and that we have compelling programming for their digital tier because most of it is sold as a buy through on their digital tier that it ought to reduce that churn and secondly because as successful as satellite has been with HD they are never going to have the bandwidth offer local stations in HD and I thought cable had an advantage in that regard. The path was not beaten to our door until very recently and even recently there are still a number of problems where a number of operators wanted to gray the signal. We are not anxious to allow them to do that. A number of operators I don't think are as appreciate the value were trying to bring to the equation. Were making progress, there are all kinds of discussions going on. I think there will be great progress through out the year. But its, I should add it to one of my surprises in the sense that given the value that the final four might add or the Master's might add, I am a little surprised at the pace of the discussion.

COBLITZ

First, I don't negotiate these deals with Comcast. So I'll make some comments but I can't go too deep. But it is safe to say that there are many and complicated agendas that many people have as we go through with these companies. There is Comcast for example that is carrying NBC and ABC, PBS as well as Show Time and HBO. We don't at all step back from what Marty said about the value of having high definition television. But there are slightly more complicated things that have to go into this.

BURNS

No scoops today, I will tell you that we have affiliation agreements that are signed. We are going to announce the variety of them but not today. It will be before March 30th.

OAKLEY

We are trying to get there. We are trying to track them down as quickly as we find out one of them.

COSTELLO

I can get the sound from Show Time HD. My cable system is about to go HDTV. For those of you in programming this RCN cable in NYC, there the ultimate supplier to Time-Warner. They serve a lot of co-ops and condos. I can hear, Show Time in HD but I can't see it until I get my box in a few weeks. The other main topic, and we will go back to the other issue of retailing. The other main issue we want to explore here is the disconnect between HDTV reality and HDTV reports in the news media. This was in a newspaper in NY yesterday. Customers unconverted to HDTV. Now if you read the article, it is sort of half full, problematic. He says prices are coming down but he doesn't really talk about it. If you open up the newspapers in NY, it will say you can get a 42" wide screen HDTV from a brand name for under \$1500.00. He doesn't really mention some of the things cable is bringing in terms of Time-Warner are excellent. He does mention the channels Time-Warner is carrying. But he doesn't mention that you can't get them over the air in NY because of the World Trade Center. There is a lot of misreporting, the pricing, availability channels; he doesn't really talk about a lot of other positive things about HDTV. He overlooks the programming in prime time. I would like to have each person from his point of view, why do you think the general media has in many cases has decided to base HDTV? Is just a case of throwing inexperienced reporters in a case of a complicated subject? Are there other agendas that we don't know about? Can we start with Jonathan, because you are a CE reporter?

TAKIFF

I've been in the entertainment part of my newspaper and sat across the street, the way across from the TV writer, so I am kind of getting a feel for what is going on. Often times these stories are written by business writers who are actually cover consumer electronics or the television. They do their market research by going to a store or two and find out from a salesman or two on the floor, yeah well, you don't really want to buy this TV yet because they haven't established all the standards and who knows if you buy the set if you will be able to receive encoded programming in the future. That puts a scare in them. Truthfully the 10% rate of HDTV receivers in the home as opposed to HDTV ready sets. That is something that would put a lot of people at pause. Wondering how this thing is doing. Back to

my issue before, this broadcast thing not really getting the point across. If you look in the TV grid, you will see, what you won't see is a little indication that this show is in HD. Why does Gem Star get away with their guide plus numbers in newspaper grids virtually from day one and you still do not see from every newspaper and HD bug.

FRANKS

And that's the broadcaster's fault?

TAKIFF

Excuse me. You know, who got the Gem Star numbers in the TV guide?

FRANKS

Well, they paid a lot of money.

TAKIFF

They bought the company. Have you seen the new guide?

FRANKS

Give me a break. Now I know why most of the newspapers get it wrong. We have tried for years. Through the hard work of Zenith got the bugs to where we are today. Those listings are controlled by listings services. The government had a hard time and is an enormous task. To cite that out as broadcasters is entirely wrong.

TAKIFF

Your saying somebody did spend some money though. And others should be doing the say thing. I am explaining why journalists are not aware. If you are not in the forest, you will not hear the trees fall. Unless, you have information crossing your desk, and you don't own an HDTV set and you don't subscribe to HDTV magazine online. Which I would think that would be another good thing that when people get the magazine they can see just how many shows are in HD. They are not getting the information. The information does go to the TV writers, 95% of the TV writers don't give a hoot about HDTV. They are worried about reality shows, is ah, Sopranos coming back next year?

Newspaper journalists don't make enough money to be able to afford HDTV.

COSTELLO

You mentioned another subject, which seem to come up a lot in the cards. When CBS parent company, Viacom filed its comments with the FCC on digital broadcast protection. They said that unless there is an agreement on a broadcast flag, CBS would cease all HDTV programming. What is an update on that timetable? If it wasn't finalized by the summer you were going to cease the 2003-2004 season. Could you give us the status on that? Are you really going to pull the plug on HDTV Marty?

FRANKS

Absolutely, we are optimistic that there will be progress at the commission. We felt after several years after promises and deadlines were kept by some but not by all. I want to make that important distinction so that I don't paint with too broad a brush. We felt that we were being waltzed around the negotiating table and that something had to be done to get people's attention. We weren't going to aid in the napsterization of our own business. There have been lots written, you can't send an HD picture out on the Internet now. But you will be able to in several years. If we keep aiding in the selling of equipment, then when that is possible we are aiding in the napsterization of our own business. The broadcast flag is a very elegant and simple proposal. It doesn't do anything to inhibit someone from recording at home. It inhibits college students in their dorms putting those same things out on the Internet. I respect fair use. We want people to record at home. We want them to be able to send it around on a home network. People don't email VHS cassettes at the moment. There is going to be a time in the not distant future where the whole back end of our business could be canablized and we are not going to help do that. The good news is, is that, I don't think we are going to have to follow through on the threat from the record I see there is no reason that we are going to have to enact the flag.

COSTELLO

Taking you position in the retail industry Clark, when stories like this pier, let's say they can't come to an agreement and the headlines start running. CBS to NHDTV, we are hoping that doesn't happen but what could theses stories do on the front lines when consumers read articles, do they get confused.

What can you do as a retailer to overcome these problems? Can you share any stories that happened at your company?

BECKER

Definitely, the more there is confusion out there, the more the pace will slow in terms of adoption on broadcast. Specifically, the retailers got quite a challenge here. Not only do you have to sell the set, you have to sell the tuner, the content and the broadcast. With each one of them there are standards issues, consumer impacts to the standards that are chosen at each level. You need simple space messages and the content to come on line. The sets are selling great but to agree that there are any standards confusion out there, the adoption right will slow them.

BECKER

Sure, on the cable side, there is some complexity. I've seen cables offered regionally based as well as Best Buy being a national retailer. You want to get leverage with national advertising, maybe a Sunday insert. A lot of trials from the pilots that we have done are proving out the back end elements. You need to be able to get down to the address level where it is available. Get the story out to the cable operator to know what channels are available so for us it is getting the back end mechanics ready. Getting the message ready by market that the cable is available. It is getting the resale up and running.

COBLITZ

We're all involved, that is why we go to broadband. Let me put that in context. We have been working closely with Best Buy. What one might call a trial, which all the Best Buy stores are in Philadelphia, there is advertising about high definition television. We have worked not in the sale of the set topic itself. But in trying to remove the friction for the consumer trying to come in and saying can I buy this television set and will it work on my cable, and what content will I have. If effect, packaged together. They walk out of the store with a box, not a set top box. In a way to connect up and some one goes to their home and makes sure that this entire works. It has been successful and I think Best Buy would say. We are providing this service to the consumer. We are both happy and making money. We are looking forward to the expansion of this and does effect the question of how you handle the backend issues when you start doing it very broadly. The cable industry has put

together something in the high-speed data business called go to broadband. That is free for people to affiliate to. It allows them to get access through this one data base structure to get at many cable companies so you can put in an address. In its first version, high-speed data was available there. That is being expanded to do high speed television and will be expanded as far as the plug and plate deal to include those areas that support plug and plate devices as they come on line. We are working hard with companies like Clark's. We are finding a way to integrate that to make it really easy for consumers to by high definition television sets. One other version of that is Phoenix, where Cox is selling set top boxes and we will see how that goes.

BURNS

Marge, can I address your question from before. I noticed the friskiness from the panel earlier here. We have not experienced that yet. I think that content conquers all. There are a lot of folks that have done a lot of nice things. I read today about our entry into ESPN HD. But our reaction so far has been from consumer to retailer, to journalist. Bring this on, this is what we need, let's go. I have not have any negative reaction in six months. The journalistic community has embraced what we are doing and why we are doing it. What we are doing and what we are not doing, so on and so forth. I haven't experienced that frisky nature that I get in Washington sometimes. It's been very good for us around the country and consumers have been saying bring it on.

COSTELLO

I've gotten a number of cards from people asking the same question of you Bryan. That question you have already declined to answer they want to know how much people are going to be charged, are you going to charge cable MSOs, they want to know what deals there will be with DirectTV Ad, Echostar, local cable systems....you said you are not making any announcements. However, for those people who are not as plugged into the way cable operates with its affiliates, can you give some scenarios of how possibly this could be priced

BURNS

I understand, those decisions are ones the distributors make. It's for Mark and people to make their own calls, they are the retailers. I would think it is fair to say that over some time, is a HDTV technical tier. Included with other HDTV signals to the consumer that wants to buy that kind of a tier.

That is a retailer decision to make, we are the wholesaler here. That is for our distributors, how they want the package to go to market.

BURNS

I often said that the first year is the on ramp to ESP & HD. What ESP & HD really become apparent about a year from now? We have built a 120,000-foot center in our Bristol, CT facility. It is built, heated and cool but it is empty. We are now starting at the NAB to start the process of buying and putting it out. When it is done about a year from now, we think it will be the largest facility in the world. When we turn over the keys to our studio production folks, a year from now, we will then light up 3,700 hours of natively studio produced programming including Sports Center in high-def. In the interim, what I call the on ramp; we will use the dreaded U word. We will up-convert ESPN to 720 high progressive scan formats for the first year until we can convert over to our digital center. We went to our customers, our retailers; about a year ago and said what would you like from us? Would you like to have an occasional event in high-def. Or do you want something 24/7. While they didn't use the word plug and play at that time, they did use the phrase, set it and forget it. They want to simply have something come from us all the time and so they do not have to go to the head engineer every time we do a basketball game and twist the dials. We have chosen to do, with their support, is to start in a 24/7 up converted mode and then a year from now we move to digital center, and then the world changes. We will be producing thousands of hours of natively produced programs in our highest rated programs. Our strategy has been what we call a big event strategy. We are going after our very highest level of programs. The national football league, major league baseball, the NHL, the NBA, the Woman's Final Four, etc. It is actually a marathon, but we are going to sprint the first three miles because what we are doing is in a very fast track. When we are in Anaheim to do the opening game, 20 days from today. We are going to role a second truck and do our baseball tonight show from there. Then we are taking that truck to Atlanta and doing our pre-in between shows, the Woman's Final Four and both semi's and final game. We are not treating this lightly we are going full boar. And that is the only way to come out of the box.

COSTELLO

In your first year, what % of your schedule will be up converted and what % will be original?

BURNS

To use the phrase of hours really defeats the purpose. It takes quality out of the equation. Our highest rated and highest viewed events will be in high definition television.

COSTELLO

Will it be a 5.1 channel? One of the ways HDTV could expand its presence is that if the advertising community demanded more shows, local news be shot in HD, more advertising be made available in HDTV. I was wondering Marty, at CBS, have you seen any hard evidence, research or antidotal information that viewers make their choices and go for an HDTV show because they want to watch HDTV instead of another show which they may like more but they go HD because they like the programming. Anything you could tell us about advertising?

FRANKS

There are two different questions there. Let's do the one about advertising first. We have been talking to the agencies for three years. Asking them to send us their ads in HD. We would insert the ads into HD stream in high definition. They have been remarkably slow to do so. Add that to my surprise list. For those of you who watch the Super Bowl in HD or the Grammys in HD, a lot of the movie ads and theatrical trailers were in HD and blew people away. When you look at the stories of the Super Bowl ads the morning after, in the general press, it was which was the funniest. In all of the technical press and the message boards, did you see the ad for the Matrix 2? It continues to amaze me that not only the agencies but the advertisers themselves aren't sending the stuff in HD when we are not charging them any extra and we have been out soliciting it. I suspect the movie companies will come along pretty quickly. The CE companies have already pretty clever in that regard. Here's hoping. We get an enormous amount of antidotal information from people who say I've never watched CBS before. But now I watch it because of HD. Or I never watched a particular show. It's good news and bad news. When we were kind of out there, it was kind of lonely for a while. CBS questioned our judgment about our early commitment about HD. When ABC and NBC came along and now ESPN, and my cousins at Show Time, there is now a much greater competition than there used to be. It is not a bad thing; it is helping the transition along. We get an awful lot of mail from people who say that there are more than one show in HD that I want to watch. I think it is all part of the natural evolution, as people get to see more HD, then they revert to their original choices. The research that we have

done, and made a commitment to this investment is that back in the good old days, when there were three or four channels, networks didn't have to work very hard to win people or to make money. In a 200 SV channel universe, there is not much differentiates, my kids, CBS is just another channel on the dial in terms the fourth food network. Part of what excites us, is that we are selling HD too much and we are not selling digital enough. HD we think, differentiates our product again and makes us unique and special and different from the fourth food channel. I think that does show up in the research and will lead to broadcasters and any other programmers who go the HD route benefiting in the HD wars.

BURNS

We are less concerned about running ads in HD than we are about having relationships with sponsored companies. We will soon announce a major national retailer and a major set manufacturer as sponsors of ESP and HD. They will get their bank for the buck on ESPN 1, 2; classic news, ESPN.com, ESPN radio and I could go on. That message would support them in what they do but also spread the word. We are going to hit every one of them. In conjunction with our sponsor partners. But their bank for the buck will not be on ESPN HD per say, you will see it on a show that runs in standard def., promos that will run for Women's Final Four that we will carry and mention ESP HD. That spot will run on classic news and so forth. We are going to spread the word very widely in conjunction with our sponsor partners.

COSTELLO

So this is going to be advertising on your regular channel, your going to announce with an HD set top TV maker and a set top retail chain or is it going to be on ESPN HDTV?

FRANKS

Yes, it will be everywhere.

COSTELLO

One of the other realities that I have to bring up, I went to watch HDTV on CBS last week, all of these new reality shows. I heard that the networks like these shows because instead of showing re-runs. Marty, if you have to have reality shows, I guess you prefer to watch them in HDTV. Do you

anticipate that the reality shows will be in HDTV? Right now it kind of cuts down on the total programming lineup in HD because there seems to be so many reality shows.

FRANKS

The reality shows seem to have no back end, no syndication value. If you're looking at making incremental investment in the production value and it's a one off. There is not a lot of value to make it in HD. Secondly, some of the shows have editing difficulties making their deadlines in SD. Until, HD editing is less expensive and more spread, I don't think you will see much more reality. Last but not least, we have looked at doing Survivor in HD, but two things, by the end of the run of the show, I am not sure how much people want to see people in HD. They are in the middle in the Amazon, it is not like they can run down to Sony and pick up a replacement. We are much more interested in sports before we do a lot of reality. Reality doesn't have the potential power that sports do. I applaud what Bryan is doing, welcome to the party. The real goal for us isn't to do a game a week in HD. This is really going to take off not when we can do one or two games in HD but when we can do all the NFL games in HD. That is when there is a lot of money to be made.

BECKER

The TV set side, specifically; the cell rate has been good. The economy has been soft. The sales numbers have been up, but just the switch to digital in general in consumer electronics has been significant for us in a growth area. Just in the last year we have moved from 19% of the electronics mix including TV and camcorder alike. It has moved to 25% being digital based. The shift is definitely coming. It is definitely a growth area for Best Buy. Those are the kinds of moves that will hold the sales up overall.

OAKLEY

I think with the early adopters who have been signing up over the last couple of years, a lot of those were the video files that already had Show Time. What were seeing now and what we will expect more of is that when HD becomes more of a mass market that including in our Show Time unlimited package will be and what will help drive subscriptions there. That is our revenue model going forward.

As a subscription it isn't subject to the wild swings of advertising. But it has taken a toll, yes.

COSTELLO

Jonathan, in your coverage of HDTV, do you get letters to the editor? Have the type of questions that you are getting asked have changed in the last year or so?

TAKIFF

As more people get sets, you get more feedback, obviously. Has awareness has risen; people keep asking me when are the sets going to be \$500.00 because that is what they want to spend for them. As more people sign up for cable, I get more complaints about the quality of the install job. The installer doesn't bring them digital cables to connect, they just put conventional RCA analog audio cables on their TV sets so they don't know that they are getting digital surround sound. I get a lot of complaints that video and surround sound are out of sync. On television stations in Philadelphia far too often. When I was talking before about the mixed messages and the feeling that broadcasters don't have their heart in it, I have gone into broadcasting facilities in Philadelphia and the facilities master control room is separate from the HD facility and there is nobody watching and listening the HD feed. They are in another room and don't know the picture and the sound are out of sync. I watched two of the three broadcasters had their picture and sound out of sync. This is just unacceptable. The other issues they want to know is when is it safe to buy an HD set. When are they sure that the set that they will buy will have everything and that they are not going to get locked out, they are not going to get orphaned. Early adopters are very p.o.'ed. They are very concerned that one of these days their picture is going to go black on them or they are going to get their signals downgraded to 480 p because they don't have DVI with copy protection or the next generation of DVI. There is serious concern that they shouldn't buy a set until everything is resolved. The cable interoperability issues. Inferior results but there are still loose ends there that haven't been resolved. This stops people in their tracks. I am sorry to have gone off so hard on you Marty because it is not just your problem. It is also the set manufactures problems. They should be stepping up to the plate more actively in their advertising. When I talked about the old days of color TV, when there were ads on your set in black and white. How do you sell someone a TV when they are looking at the black and white. There were extra little elements of color even if you were looking at it in black and white. It was a pincushion. It told you that there were extra bits of pieces of information that was being transmitting. I think that there is a way that television set manufacturers in their ads on TV, could intimate these extra things you could be

getting if you had an HDTV by zooming in on the corner of the screen. By zooming in the analog on one side and the digital on the other. It is blurry on the one side and clear on the other side. We could have the picture 4 x 3 and then suddenly it gets wider and you get extra information that is going off on the sides of the picture that you weren't getting if you were only watching it on 4 x 3. This is something that I would like to see the broadcasters do to television shows. At the beginning of the show, they say this picture is being brought to you by HDTV and the picture gets wider. You couldn't get the surround sound but you could do a q sound and make the room tingle. Stop and smell the roses. This is something broadcasters and equipment makers could do as advertising on television. So it is just not your problem Marty.

FRANKS

At the risk of shocking Jonathan by agreeing with him. I do agree probably nothing drives me crazier: a. Broadcasters bitching and moaning about having to do this transition when seven or eight years ago they were feeling they were going to get left behind as an analog arcapellago in a digital ocean. But now that we are there, the lack of quality control is a real problem and I am intimately with the problem because it usually ends up on my desk because some viewer emails me. Out of sync. is a problem. Not throwing the switch on time is a problem and Jonathan, I am thinking of flying you around the country to talk to some of our affiliates to get them on board. Having said that let me disagree with you. Clearly we could always do more on promotion and advertising. I welcome anyone who wants to do advertising on the CBS network or any other subject, but at the beginning of each prime time program that we do in HDTV for four years we put a banner up that said this is in HD.

TAKIFF

But it is silent.

FRANKS

It's called television not radio, Jonathan. It's got pictures.

TAKIFF

People are doing a lot of other things while watching television. They don't always have their head right in front of the screen. They are doing other things. They are often walking to the set as the

programming is starting, they are reading a magazine, they are playing with their kids, and they are doing other things besides constantly eyeballing that screen. It used to be a vocal in color.]

I think you are giving the set manufacturers a bum rap. The ones that are in the room, I frequently beat on them that they are not buying enough advertising on the CBS television network. But at a time when a whole lot of other parts of the transition, where some of them are in the room didn't step up to the plate and some of the manufacturers who are partners with CBS did step up to the plate. Had Bob Perry not wandered into Black Rock five years ago with an idea about how to get our prime time on, it would not have been on in HD.

MARK COBLITZ

I understand that people want to know that but we are not going to negotiate in public. No I will not say yes or no.

MARK COBLITZ

Well, most of the United States by next year will be upgraded. Certainly for our company that number is way north of 90%. For those of you who haven't followed us, we have completed this for what was Com Cast for the AT & T broadband properties. Two-thirds of what needed to be rebuilt is being done this year and the rest is being done sometime in 2004. Which will put most of our plan and a lot of the other operators who are represented here, Time-Warner and Cox and others have already done those kinds of upgrades. As with most things, it's a more complicated question than what kind of capacity is there. If every channel that we were carrying was turned into HD and HD was at some data rate that it is today, the answer is no. No, we don't have enough capacity to carry every channel that way. That isn't going to happen. So we have lots of ways in which we can gradually work to get more carrying capacity. We started doing this digital already. You saw the statistics with pay per view using 40 digital channels with pay per view, doesn't sell a lot of pay per view. Using four channels of video on demand sells more. So, one of the things we are doing is moving into the video on demand world. As Com Cast moves into high definition simultaneously we are moving into video on demand. Close to half of the homes past by Com Cast not only will be passed by high definition television will also by video on demand which were the two top things on that list. For the kinds of things that we are talking about right now, the kinds of channels that are being brought to us we have the capacity to do that and

we just have to work over time. As we add more and more high definition television. Obviously, there is a point in time where the government is going to switch from analog to digital. Cable has the capability to switch from analog to digital as well. There is usually a massive amount of capacity. 60 channels sometimes 70. 80 channels worth of analog, which are there. Way more than what we are using on digital. So there is a lot of capacity there as we are looking as to how this entire world transitions. There are other things we are looking at to expand channel capacity. We don't think looking at channel capacity is an issue for people who are on cable either for the national kinds of products or the programming products or the local products. In the short run, we are being careful to make sure that we are getting at much as we can.

BURNS

I'll take the first part of that and give you what we are doing. You can expect that when we do, for example, major league baseball, you will see John Miller and Joe Morgan turn to a 16 x 90 broadcast booth and say look at this. This game is also tonight in this format. You will see that on standard definition television. That is the mass media for today. We are going to use it to try to help do what we can to make consumers aware of what it is and what it does.

COBLITZ

Let me add something to that too, first of all, we are advertising high definition television. You will see more and more of it as we get more. But I think the partnerships that we are starting to make with retailers like Best Buy is another way to start handling that confusion because people want to know when they walk into a store. I go into these stores just as people do and Jonathan does. People go in all the time. I spend a lot of time watching people interacting with our products or our competitors products and with the television sets and I am a consumer myself so it is a good way to get educated. I think the teaming together to make sure that when the consumers get something they know that it is going to work is extremely important. I think that is one of the reasons why we are working extremely hard with the retailers and why we plan to do so and continue to expand that as we move into the plug and play world. It is a natural thing for people to say, yes, this thing is going to work the way I buy it.

BECKER

Consumers don't go into a Best Buy store and ask about cable. They go into a Best Buy store and ask about television. If you walk into a Best Buy store it is hard to miss high definition television. The issue is not the cable's lead. They are really excited about high definition television. Then at the end they say, how do I hook this up to my cable? Then, the guy at Best Buy picks up a box and says here's Com Cast and it happens.

COSTELLO

I hear consumers go into and they stand there say can I get HD by cable? People will say can I get HD through cable?

COBLITZ

We have done this in Philadelphia, it was extremely successful. Watch for more.

COSTELLO

I really wanted Clark to answer this one.

BECKER

Going into the store, I think they are really taken by display. So we run HD loops against HD sets so really it is getting the set and picture quality out and showing them the main difference. Usually, there is some kind of discussion about how they will receive a signal today. Are they satellite customers, are they cable customers and then you go down the various paths. You not only have to answer the questions at the set level, 4 x 3, 16 x 9, the resolution rates 1080 I v. 720 b, that is all on the set side. Then you have to answer the same questions, how do I get access to the programming I want. If they are movie buffs or sports buffs then it is going to be different than by cable and satellite in terms of what customers can get. Usually it starts with the experience of seeing it, the quality difference in the HD attract loops that we are running. That gets into how do you get your signal today. Leading down to a path of how do I get this running in my home? You have to go through a set dialogue, you have to go through how you get the signal to your house and the content questions and simplicity and messages and partnering with our suppliers and getting the messages is very crisp around cable, satellite and that gets you the pull through. The other thing that we are seeing is the sets themselves, customers are going for the movie content. DVD is pushing on the set side as well. It is not a full

1080-I quality signal that the set is receiving, that is the experience that they are starting to get used to and when they see that in broadcast side they are sort of conditioned to want that. That is kind of the experience that Best Buy sees in the store.

Training there is definitely a lot of time spent, folks trying to get the story right. There are also the partnerships as mentioned before, Comcast and others. Where we bundle together where the messaging is very crisp. Best Buy is trying to get the visual right and have the monitors up. We are also trying to make sure that the customer doesn't need to know all the difference between all the different standards in trying to make a decision. Trying to make sure they see the experience, trying to see which channels are being provided by which different organizations. Trying to get them to understand all the differences between the different signals is not the thing. It is showing them the experience, trying to get to show them what is on line and get them signed up.

TAKIFF

I don't know, I am the last person to be asked this question. I am thrilled that ESPN and Com Cast are jumping into the tray. The newspapers are not going high definition, I can tell you that right now. So rest easy guys, you have this gig to yourselves.

OAKLEY

One of the things we're looking forward to this year is that research has found that there is a lot more appointment viewing. People are seeking out the content and seeking out specific programming. We announced that we are doing six of our original series in high definition and they are going into production. Two are going into production this month, one aired for the first time and our second series aired for the first time a week and a half ago. Three more go into production in March. So we are looking to increase the production of those things, the original series that we have. One of the most surprising things of high definition as well as standard has been the enthusiasm for 5.1 and we now carry it on all 32 of our digital feeds for Show Time, The Movie Channel flicks and Sun Dance Channel. It has been incredibly powerful on HDTV. The two feeds of HD we have as well. It is not just 5.1, we are getting the feeds from the studios, and we are hoping to deliver a theatre experience with high definition, the sound that you would get, commercial free, to deliver a theater like experience. We are trying to wrap up the movie going experience with the originals as well.

FRANKS

We're pretty comfortable with where we are in prime time. We are in a 52-week every day business in prime time in HD. That is where we would like to get in sports. All of our premier sports events have been on HD for quit a while. I too, am glad that ESPN is coming but some of us have been putting on premier sports for a while. We learned on the college football deal with Samsung and Sears that having the weekend and week out, we were on Labor Day through Christmas, which is a pretty good selling season. It drove store traffic for Sears and drove sales for Samsung and we hit gaps post Masters. We have a lot of golf we would love to do in HD but until we can figure out some of the production problems in doing our regular golf as opposed to our premier golf in HD, that is probably our biggest challenge. We would like to be a 52 weekend a year sports network in HD and that is our biggest challenge over the next year or two.

COSTELLO

Was there anything announced with David Letterman in HD yet?

FRANKS

Nothing officially announced, but I would say that it is highly likely that he will be on in HD in the fall. If we knew that he was going to be out sick for a week it would have helped us get him on sooner because part of the problem is that we need to figure out learn how we can convert the theater while he is still living in it.

COSTELLO

Another network, ABC, is going to be doing the Academy Awards this month . What about the Tony's? Will they be in HDTV on CBS?

FRANKS

It is highly unlikely. The Tony's is a wonderful broadcast and we are happy to do it, it is a good thing to do for NYC. But it doesn't have the kind of audience appeal that certainly the Grammy's or for that matter the Oscar's have. I think it is more likely that we would do the country music awards before we would do the Tony's.

COSTELLO

And Mark, what is on tap for Comcast for the rest of this year?

COBLITZ

I think you are going to see a lot more marketing in push for high definition television in the number of homes we pass for high definition. Our target is to be short of just 50% of the homes we pass and the total homes past today is 39 million. You can do the math. I think you are going to see much more of our involvement with retail.

BURNS

I think our production plans I'll say what they are going to be. I'll see what is going to happen next year when we get out into the field and we get into this from a production standpoint. It really focuses around what I call a rectangle. In the four corners of the box, our distributor partners, like Com Cast, and in another corner, companies like Best Buy, and a third corner, Phillips and in the fourth corner, and suddenly you put those things together and work them in concert, in tandem, and it is sort of a magical thing. To push the understanding in the country along and how this is going to work. I think our biggest surprises or biggest things we are going to focus on this year will be marketing and moving it along. I have great confidence in our production guys to do their thing and they will do it very, very well. Once we get on the air, we turn to marketing and push this thing as far as it has ever gone before.

BECKER

You are going to see us leverage our Sunday ad insert primarily. We have already done a tremendous amount of featuring of HD capable sets on the front cover. You see it more and more often coming from Best Buy. You will also see as we get reseller agreements set up working together.

COSTELLO

The front cover of Best Buy is a shark; I don't really understand the shark. But inside the cover it shows a lot of TV's and you get a chair I noticed.

BECKER

Well, it is just a promotion that comes with the HD sets. The reseller agreement on the subscription side, we are constantly beefing up our capability to offer and resell subscriptions in the store. That is part of what makes this click, is trying to get the subscription signed up and the resell agreements done. Featuring the product on a Sunday ad is very powerful for us.

COSTELLO

From your perspective as a retailer, do you see a magic price point, \$1699 HD level, rear screen projection TV that you say, a major brand, do you have a magic price for that? That would really bring people in the store. Or is it going to be an event like the Oscars?

BECKER

I think the price points have come down phenomenally, so we saw statistics up there in the earlier presentation. \$1,200 sets with rear projection. We are actually seeing a lot of sets in terms of plasma and LCD as well. Carrying about a dozen skews in the plasma and LCD space. The myth of plasma being a \$30,000 purchase has been broken. Best Buy is selling a lot of \$10,000 and \$5,000 now coming in plasma and LCD. Price point wise, I think the consumer is going to get a great store if they want that flat panel in their home. Price points are really coming in line. I think in the rear projection, front projection magnolia is hot. Rear projection is basically the standard stable product in the store.

COSTELLO

Jonathan...any points you would like to add?

TAKIFF

Please, please, several. Number one, I am in Com Cast land and they are doing a very good job of promoting on the air. They are taking the time to push HDTV. They are doing a good job. Number two; I have probably watched more CBS TV in the last three years than I have in the previous twenty.

FRANKS

It's because you are aging.... (laughter from the audience and panel)

TAKIFF

It's true but you are scaring me. Number three, for the retailers; get rid of the Sencore Boxes. That is making your retail sales people bored as heck looking at those same loops over and over again. Put an antenna on your roof, put a satellite, cable feed, HD net, Show Time, HBO, give me 24 hour 7 channels in the stores. So the sales people aren't bored. So the consumers have some really cool stuff to look at and so they don't see the same thing every time they come back to the stores. What is the biggest show thing at CBS? Those show theatre boxes they set up. People line up for an hour to get into a dedicated room with surround sound. I want to carve out a corner of your store and get a blow your socks off demonstration. On the digital audio front, I was shocked and amazed to find out that also at CES, DVD entertainment group event, they shared information. The number one reason for people to upgrade from VHS to DVD was sound. So I think you guys are dropping the ball everyone's dropping the ball if they don't promote that 5.1 potential as an element of DTV.

COSTELLO

Anyone else?

COBLITZ

This is CEA, and they are not on this panel. But I think the group to get into and make this happen is all these manufacturers that have made alot of sets, lots of choice, brought down cost. You can see some of them sitting out here, and we wouldn't be talking here if that weren't there. So I think we owe all of them a great load of thanks. I think one of the reasons the cable industry did the deal we did was to get some of that research and development focused on us. The second thing that I would like to do is make a plug for the 2003 NCTA show in Chicago where the centerpiece will be high definition television.

TAKIFF

I want to talk Clark into stop doing supplements in the Philadelphia news on Sunday. Many of my set-manufacturing colleagues have heard me give this speech. I still don't understand the virtue of trying to sell a 40 or 50 inch, 16 x 9 television set in the newspaper ad that is that big.

BECKER

I think for Best Buy, all our products are advertised in a similar way. But getting the word out about HDTV is really the main mission. So for us, you will see some in store changes. Partnership agreements come out and I think this store is going to be pretty bright in the upcoming year.

GARY SHAPIRO

Thank you Marge, and thank you to the panelists.