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Seminar Transcript:

The Changing Economics of Broadcast and Cable and the Potential Impact of HDTV

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Colin: Tonight's topic is titled Changing Economics of Broadcasting and Cable and Potential Impact of High Definition Television. Obviously, much of the audience interest is in topic two but we want to try to examine and inter-relate both topics. The first, the Changing Economics, is probably reflected in the recent Television Digest lead story, titled "Cable Rising Higher Than Ever, After NCTA Convention". The story begins, "If anything the cable industry felt more powerful and influential after the convention than before it began, cable momentum seemed almost endless. The inroads in broadcasting became more apparent." Further indication of at least a perception that the competitive balance between broadcasting and cable, has significantly changed in the recent past, took place in March, in Washington at the Metzenbaum Antitrust Subcommittee hearings. Senator Metzenbaum voiced a concern about insuring a viable competition to cable, as opposed to the traditional concern for viable competition to broadcasting from cable. At the hearing, the chairman of Malrite argued the airwaves of 1988 belong to the cable industry, not the public, nor broadcasters, and William Finneran of this state's Cable Commission said that "by the year 2000, because of cable's strength, over the air broadcasting as a significant transmission medium to the population at large will be extinct, as much as the dinosaur."

Part of what we'll be discussing this evening is forgetting about high definition television, whether the growing strength of cable has or will start ebbing a little bit, or will continue till the point when over the air broadcasting is in fact, [illegible]. In the other part of our discussion we'll be asking what happens when you add high definition to the broadcast cable mix, what might the future of broadcasting and cable look like?

HDTV is of concern to both broadcasting and cable industry. Japan Broadcasting Company's Executive Director talks about an entirely new video culture being introduced in 1990. Ed Horowitz of HBO suggests without a stellar picture, to compete with high definition VCR, cable will have serious problems; broadcasters are talking about not being able to afford to transmit without high definition television. Richard Green of PBS and Technology, [illegible] HDTV "was destined to happen," while John Swanson of Cox Broadcasting [illegible] "it's probably is the wave of the future, but how far out that wave is, I don't know."

One of the things we'll try and examine is assuming high definition television is, in fact, inevitable, what kind of time frame are we talking about. Mike Scherlock of NBC says, "if broadcasters wait too long before making the transition, they may be out of business." Another thing we'll probably touch on is the appropriate role of government. At the recent House Telecommunications Subcommittee Hearings, Ed Markey discussed a "government responsibility to develop a climate in which high definition can fulfill its potential," given the incredible importance. Brenda Fox of the NCTA reminded the committee that the government's decision "will determine the fate of television well into the next century." As ATC's William Thompson says, "HDTV presents both opportunities and threats." What we'll be considering this evening are some of the opportunities, the dangers, and the variables that will affect the outcome of HDTV.

The format will have our three experts make an initial presentation, leading off with Tony Hoffman. We then may have some time for a roundtable discussion, and finally open it up to questions from the audience. We want to make sure we have time to get some of your questions, and thus may have to forego the roundtable.

Our lead-off speaker is Tony Hoffman. In 1985, when what Broadcasting magazine referred to as "a frenzy of mergers and takeovers," was taking place, Broadcasting did what was unusual at that time. It searched for a kind of a guru, in an intellectual guide sense, to discuss "the whole range of questions" concerning the "frenzy" which might interest its readers. The guru selected for a lengthy Q&A with its editors was Tony Hoffman. In selecting Tony, Broadcasting referred to him as "one of Wall Street's leading analysts in broadcasting, cable, entertainment stocks." Actually, he had been cited as the top analyst in the field by Institutional Investor several years previously.

Tony's guru status continues. He's just finished a major report for General Electric Capital Corporation. He is Managing

Director of the [illegible] Capital Group, which is involved in helping those interested in purchasing broadcasting and cable properties. His many years as an analyst on Wall Street included important positions at E.F. Hutton and Prudential. So Broadcasting made a very wise judgement in 1985 by picking Tony as its guru and he will be our leadoff guru this evening.

Hoffman: I think its significant to note that that was the last time Broadcasting quoted me. Its a pleasure to be here tonight.

I think its important in the understanding of the television industry, to put things in a historical perspective. We're going to talk about hopefully a wide range of issues tonight, and in a sense, where television is going — television meaning both broadcast and cable. I think its useful, or at least I found it useful to classify the history of television into three eras.

The first era began sometime around 1960 and ran through the mid seventies. I would call it the late childhood of the television industry. The major problems the industry was dealing with at that time were things like the cigarette advertising ban, and the Prime Time Access Rule, which hurt some, but has actually was a boon to the ABC network. The economy was growing at what everybody thought was a very respectable rate, with low inflation and all the good things. But the thing that's interesting about that period was ad buying declined by about 2.3% of GNP in 1960, to about 1.7% of GNP in 1975. And that tells you something about the then prevailing economy. It was a manufacturing economy; the basic materials to the manufacturing industry did not use television. It is the end products that use television advertising and indeed use any kind of advertising for that matter.

During this first era of television, you could say that advertising was in sort of an eclipse, and losing its share of the overall gross national product. And yet these were some of the best years for the medium. Television increased its share from 11.8% of total advertising to over 20% in 1978. So during this period of time, the industry had a very respectable growth rate. Interestingly in this environment, as everyone has been focusing on viewing, the average viewing time in the American household went up only about a half an hour, 5 and one half hours to 6 hours.

We had at that time something we've not had since, we had a strong regulatory environment in the broadcasting industry. I remember 15 years ago, telling those at the National Association of Broadcasters Convention that one of the great things about the broadcasting industry was it was regulated. And watching people go "Huh, what's he talking about?" And I went on to say that if the broadcasting industry ever got deregulated, there was disaster on the horizon for the established broadcast entities. Well, we deregulated it and guess what, the established broadcasting entities, starting with the networks and continuing to the stations are having problems.

At that time that regulatory environment effectively prevented cable television from being a competitive factor. Many people maintain the delay was technological and cable wasn't ready. It was ready. It was just that broadcasters were protected from cable competition. There were limitations on distant signal importation, meaning none, there were no superstations, there were no cable networks, there was no pay tv. Indeed, no one could even start a pay tv network because you were only allowed to show movies that either were less than three years or more than ten years old, which precluded anything.

After we passed through era one, starting in the mid 1970s we had what I would call the "adolescence of tv," and in many ways it was a time of turmoil for the American economy as well. We're all aware of the fact that we had an Arab oil embargo, the result of which was a rise in petroleum prices, which cascaded through the economy creating an enormous amount of high inflation. Indeed, from 1977 to 1980 the average rate of inflation was about 9%. This was a phenomenon that the American economy has still never really dealt with. The broadcasters, on the other hand, were the beneficiaries of this. The inflation in raw materials prices got cranked into final consumer prices and advertising budgets were set over those final prices. So that in fact, advertising accumulated very high inflation with very high growth rates.

A lot of people got very used to these very high growth rates. We had high interest rates, and we had, finally, the beginnings of the expansion of cable television. The expansion of cable meant bringing into the home more than just over-the-air broadcast signals. We began transmitting pay television via cable for the first time, in 1974. We started HBO, we had satellites, the beginning of networks of all kinds like USA Network and others. We heard talk about Blue Sky services from cable, including home security, mediated home shopping, the list is endless. And we had new phenomena the broadcasting industry had never dealt with before, called the "superstation." Started by Ted Turner and emulated by others, but not as successfully.

1976 was the first year in which vcr was introduced by the Japanese to the American consumer. Initial consumers were buying vcrs, as they say, to watch x-rated movies. Now, that is a very, very small percentage of the business, it's now a business based on general movie viewing. Where do you watch movies? Do you watch it in a theater, do you watch it in a cable window, or do you watch it on your VCR?

Interestingly, during this adolescent period, the '75-85 period tv viewing increased by a rate which had not been seen before, from 6 hrs a day to over 7 hours a day. 7 hours and 8 minutes to be exact, by 1985. The increased amount of pay tv, the increased ability to use the television to view the VCR tapes were responsible for a proportion of this growth. But the fact is that commercial television is enjoying a reduced share of this increase of viewing time, particularly the networks. We now, of course, have over 50% VCR penetration, and, if current estimates [illegible] 985 and 1990 hold true, the sales penetration will be at 75% in two and a half years.

There was also during this period an unbelievable amount of enthusiasm for operating broadcasting stations. It was believed with double digit growth rates, i.e., 15% high growth rates overall, that all you had to do was get a broadcasting license and you'd make money. Many, many people went to the FCC and applied for the UHF licenses and put independent television stations on the air. During this period of time the total number of commercial TV stations rose from 700 stations to 920. Of those, 180 started out being UHF but by the time we were through, we had 405 UHF stations in 1985. The big gains were in independent television stations. There were 84 in 1976, and 280 in 1986, a dramatic expansion. This expansion was carrying independent television signals into markets that had never had their own stations before.

Those of you who've followed the history of cable know that the most valuable services it provided during this period of time was the importation of distant signals. In most cases, the importation involved independent television stations from the nearest major market. Stations operating in the very big markets where the independents are concentrated, were given a bonus audience, if you will, out of market. They were in most cases unable to translate that into additional advertising prices, but some buyers were willing to call it "the x factor" and add a little bit to the price they'd be willing to pay on a cost per [illegible] the independent.

Also, during this period of time, starting in 1976, we had a flow of research on independent television vs. network affiliate television. For many years the independents were second class citizens. They were the blue collar programmers, and the professionals were all watching network television. Well, the research, which was exhaustive, proved otherwise. In fact, the audience for independent television stations was not really significantly different than the network television audience. Indeed, if there was any difference in the audience, that of the ladies actually showed a little bit upscale.

All of a sudden, broadcasters found themselves with an interesting situation. Independents that were regarded as [illegible] in business suddenly became very, very interesting to the sophisticated media buyer. Please remember the sophisticated media buyer was spending a lot of money on network television and that audience delivery was going out via major market network affiliates. Then they went out and bought spot advertising on affiliates stations, thereby reaching for the same audience they were reaching on the network. When the media department of the major agencies read the research and found out that, in fact, the audience of independent stations are not second class, the media departments began recommending strongly that the major advertisers buy their spot programs predominantly on independents. Anyone that was watching an independent, by definition, was not watching network shows and therefore, it was and increased "reach," which is the name of the game in markets.

So the independents enjoyed a tremendous resurgence in [illegible] on their stations and, as you might suspect, this laid the groundwork for what followed — a tremendous increase in program prices, which I'll get into in a minute. The independent share of total time sales in the station industry was [illegible]% in 1975. By 1985 it was 24.3%, a trend that is being [illegible] slightly each year as we go. Obviously, if they were taking share of market, they were taking from someone, i.e., network affiliates. This scrubbed a point or two off the growth rate of the network affiliates and put it onto the independents. This just enhanced the idea of getting an independent television license. Some of the people who obtained independent licenses have or soon will go out of business.

During this period of time we also saw a major change in the economy. This economy changed from being a manufacturing economy to being a service and non-durable economy. This was good for advertising because service industries and non-durables are predominantly undifferentiated (hard-to-distinguish differences between products). Therefore, the only product difference to most consumers, is the television advertising. There was very, very high growth in television advertising during the mid '70s to mid '80s. In fact, it as a whole grew just shy of 13% a year. Very few industries in the entire time, even for a two or three year period, can boast of that kind of growth rate. And this industry averaged it over a whole decade. Amazing. During this period advertising gained a share of ... went from 1.76 in 1975 to 2.0 again in 1985, the same numbers it had in 1960.

In the 1975-1985 decade we gained all that we had lost in share in the previous decade. TV share of advertising during this period, strangely enough, grew very slowly, very slowly. About 20% to 21%. TV was coasting on growth of total advertising, but was not growing in total, and one of the reasons for that was the fact that the industry itself was going through a major shift in its components. Television had always been regarded as the networks and stations, those were the only two components. Within them was national advertising, which is distributed between the networks and stations, and national spot buys, in which local advertising from local advertisers, all went to the stations.

During the period 1975-1985 the cable television industry discovered that it had audiences. Cable networks made advertising time available for local cable systems to sell. The systems discovered their market was easy to sell because the prices they were charging for a minute of time were considerably less than that of the commercial broadcasters, and there were a number of advertisers who wished to be on television but couldn't afford the prices on commercial television.

The cable people realized very quickly that the barrier to getting on tv was commercial itself and they went out and helped the local advertisers produce their own commercials so they could get on air. In fact, they built themselves a hell of a business. The commercial broadcasters, meanwhile, starting in 1985, began to panic. We are now in the current era. Commercial broadcasters suddenly were waking up to the fact that cable had come in and taken a big bite of something they considered theirs. And maybe began to try to do anything that they could to enhance their growth rate. They had just experienced a period where 15% a year was higher than normal, 20% plus was a good year, and, god forbid, 12% was a disaster. Commercial Broadcasters entered the mid 1980s expecting double digit growth, it was only a question of whether it was going to be 20 percent, 15 percent or something lower. Because they allowed their expenses to increase to an abnormally high rate they were subject to stiff competition from the cable and independent networks.

Network strategy for combatting competition demonstrated a lack of understanding of basic economic principles. There's something called a supply and demand curve. Which apparently, the networks had never seen one of those. For example, they decided that doubling inventory was a good way to increase revenue. Well, there's an unfortunate problem with that. A 15 second commercial has proven by endless research, to be only 70% as effective as a 30 second commercial. The networks were charging 50% for it. You don't have to be a rocket scientist to figure out that this leads to the loss of substantial percentages of your total ad budget. In effect, you cancel your part of your budget and get the same advertising rate against the consumer.

The networks found that by adding 15 second commercials they had cut their own throats. Independent station expansion, of course, created enormous inventory. As most of you know, independent television sells all of its own ad times. In contrast, the network affiliate has a much smaller inventory time available for sale because all of the time programmed by the network is difficult to sell. The networks sell the time and get the revenues, the stations sell the time for station breaks and get the revenues but the inventory they have to sell is much smaller. So the networks have now got themselves into a bit of a pickle. There are now three categories of network television advertising: broadcast network, cable network, and barter syndication.

As if that wasn't bad enough, the networks are now faced with the question of what to do with people meters. Those who've read the articles understand that people meters now automatically select people who are watching in the home, but people punch in and out of the room, a supposed improvement over writing in diaries. Network audiences have all been overreported by the diaries, because the diaries were always filled out after broadcast day was over and people were trying to remember what they watched and were embarrassed to say they forgot what they watched so they put down the most memorable shows and, as a result, create [illegible] for the network. So with people meters, we've got a very dramatic change in the industry's ratings that impacted on the networks negatively.

Just when you thought "Okay, what could they possibly do to on next," we have the entire issue of high definition television. High definition television has gotten considerable attention lately. It's a beautiful phenomenon, as we've seen in demonstrations, it has very beautiful pitures. The problem with high definition television is that it requires, in its present state, more bandwidth than commercial broadcasters have available to them to produce.

There are several interesting things going on in high definition which I think you must consider. The first is that you have to have a lead time in order to get a high defintion product on the air, which means that you have to produce stuff well in advance before you're going to show it on the air, which is particularly important to the syndication people. You put a show on network television and after it's five or four year run, you expect to get revenues from its sale to independent and network affiliates with tv stations around the country. The entire country can't convert overnight to high definition television, but if they didn't produce stuff 5 years ago, they're not going to have anything to put on the air. So the production community has gotten very hyper about this and they have gone out and they have adopted a production standard of 1125 lines, compared with the 525 line system that we have now. They are in fact manufacturing equipment to produce shows in high definition television because the aspect ratio of 16:9. Such products are now being produced on a sporadic basis in high definition.

There are two important aspects here. First of all, there now a time when the industry was expected to convert to tape, because tape was so easy to work with. You could view and edit it as soon as it was shot instead of waiting for a feedback from the processing lab. The problem with tape was that it did not have the quality or the resolution of 35 millimeter film, but high definition television does. Secondly, it was not shot in a wide aspect ratio, therefore it was unsuitable for viewing on screens in movie theaters. High definition television is shot in a wide aspect ratio and it can easily be converted to film for release in theaters. For the first time you have a tape medium which allows you to work in accordance with the economies of production, speed of production, the availability of electronic editing, and it can also be released in theaters. It's a triple threat, because you can put it on videotape, in theaters, or on television at any time.

It all sounds wonderful; the problem is that we've got a technology which requires more bandwidth than broadcasters have. The cable industry conceptually could say, "Yes, we have the bandwidth, all we have to do is rejuggle a channels and we've got plenty of bandwidth. It doesn't matter how wide a channel is, we can use it." To a certain extent, the FCC could relax some of their adjacent channel standards on UHF. Since, adjacent UHF channels allocated in any market, they could conceivably use wider bandwidth to accommodate high definition television. Commercial broadcasters viewing UHF cannot make such an adjustment because they only have 6 megahertz bandwidth. You will find, as you go across the country, that you have adjacent channels allocated in a different market and they're just aren't any holes. There are no VHF channels to speak of left.

What are we to do? Well, one of the approaches is to take the approach of the Japanese, and that is to come out with something akin to high definition, not quite thousand-line quality, but close. Some call it advanced television and the Japanese have figured out a way to do it on 6 megahertz. The cable industry, I suspect, will not be interested in allocating anywhere from 9 megahertz to 12 megahertz to each channel because it will require an enormous change in their programming. They too, I suspect, would be happy to live within a 6 megahertz bandwidth if we could find a way of doing that. VCR people don't care, they got bandwidth to spare, they have no problems. They have whatever they need to get a high definition signal. The basic problem we have here is, "What does the American consumer think?" This is where the dissapointment comes in. The American consumer looks at high definition television and yawns. It's certainly a wide aspect ratio picture. In order to take advantage of a wide aspect ratio picture you've got to have a projection television system. A direct-view, high deifinition television system would be enormous, heavy, and very expensive.

I think, the Japanese are going to win the equipment battle, as much as the Americans would like to. The Japanese are going to adopt high definition in their own country, like it or not. Then they're going to adopt this new technology for us and then outpace the equipment side of the market. Broadcasting is going to be forced into going into high definition, the same way they were forced to convert to color, even though there was not a huge penetration of color sets. Each and every television station will probably be faced with a million, maybe as much as $2 million worth of capital expenditure to accommodate the change. And all for what? All for serving a small percentage of the residential population who will have these sets. They might do it for the same reason that they adapted to color: the research on color TV said that people would watch a second rate product with color rather than watch a superior piece of product in black and white. Those people who have invested thousands of dollars in the high definition television system are not going to allow themselves to watch the old 525 lines signals, they're going to chase after the high definition signal. And they, like their color counterparts, will watch stuff that they ordinarily would not watch just because it's in high definition.

So, the payoff to the broadcaster cable operators and everyone else will be to the people who have bought these things and who are, presumably, demographically upscale. They are the kind of people that some advertisers are going to want to watch, and as a result, the industry is going to convert to high definition. The consumer's going to lag, and its going to take a long time to come up to that level. There are many schools of thought on that and I'll end my comments right here and let these other folks share their thoughts on these issues. Thank you.

Cole: Thank you, Tony. I will make my introduction to Kay Koplovitz brief but I want to emphasize the tremendous success she has had. USA network, as you know, proudly proclaims itself as the nation's most widely watched cable network. Sometimes, you become number one because the competition is weak and you've got far superior resources. This was not the case in terms of USA Network. In fact, although I don't know what Kay's own feelings were at that time, I think it's fair to say that when USA was started in 1980, the experts weren't even sure which cable networks were going to survive, let alone which would be number one. Sometimes, you find it difficult to identify the individual most responsible for attaining number one status. In this case, it's easy to link the success of USA Network with Kay Koplovitz. She was the first and only head of the network. She not only helped create the network in 1980, but it was her previous success with UA-Columbia, and Madison Square Garden Network, which made it possible for USA to get started in 1980. Her list of achievements and awards are tremendous. One of my favorite awards she's achieved, given by Sara Lee, is the Women Who Run the World Award.

Koplovitz: I'll say what I have to say, and then take issue with Tony. I represent sort of the view from the bottom, if you will. Cable television industry is an industry that's come up from down up, really. Although, there have been people in our industry for 30 years. Most of them have provided community antenna systems, literally antenna towns and villages around the country that couldn't get television signals and were lucky to have such an antenna on the mountaintop. I would say that those are certainly the pioneers, and I'm happy to say the pioneers club rejected my application. I'm very pleased because I don't exactly belong to the generation of that type of cable television. I belong to the generation that started, in Tony's speech, in 1975. In fact, I joined the industry in 1973.

I take a little issue with what Tony had to say with regard to what changed television in the mid 1970s in that, yes, it was a very heavily regulated industry, too heavily regulated, and Tony and I have known each other since that time. When there was a great deal of regulation and I started getting franchises for cable television companies and went from town to village around the country. I went to public hearings every night until midnight and competed with worthy foes like Chuck Dillon who also were successful in getting many franchises. At the time I was with UA/Columbia, which was also very successful in obtaining franchises. But, it was a battle that was in the regulatory environment. There was a lot of regulation at that time. But the reason I actually got into the business was not that, although it was a great training ground because I learned a lot about the business of people from having to represent the company in regulatory hearings. This process that went on for a number of years while we were trying to achieve licences.

The reason I got into the business was because I felt satellite technology was going to change the face of the communications business. And in 1977, it was nothing but a big gamble because the geosynchronous orbiting satellites that we see today were certainly available since 1965, but the heavy regulation of government wasn't going to make it possible for companies to use them, at least for domestic uses other than military until 1975. When I got into the business, satellites had not yet been introduced but it was my strong belief that they would be and when they were, they would change the distribution systems.

While regulation was strict, it didn't prevent cable from doing a lot of things. There certainly was no product developed at that time, probably because there was no opportunity to distribute it. In my opinion, the introduction of satellite technology in 1975 was the outstanding factor that changed the entire environment for cable television and began to make it a viable product in the urban centers around the country. So I have a slightly different point of view, which is from the bottom up. I have spent my entire career in the trenches, in hand-to-hand guerrilla combat. That's our specialty in the cable industry. When we deliver our product into the home, we aren't competing with one or two independent stations or just signals, but with as many as 50 in the environment. We have to find our audience among very heavy traffic, so, there are so many channels to choose from. And I think cable television is a prime example it's a trend that has been occurring and will be more more prevalent in the 1990s than it is today. I think that programming is taking on individualistic characteristics: because we all have VCRs, 50 channels, and a plethora of other ways of getting entertainment, news, information, etc., we're all becoming our own little Fred Silvermans. I remember saying in speeches as long ago as 1980 that the television industry had changed, that it was never going to be the same. But that wasn't sad to most people at that time. Five years ago, it was not that apparent to people that the business of television had changed. Yet, for those of us who were in the trenches, who were in hand-to-hand combat, who were really trying to make changes in the business so that we would have a business, we saw the changes coming. Even in the last 3 years, the television business has changed enormously. They was talking about the independents and the tremendous increase in issuance licences by the FCC: there are twice as many independent stations today as there were 4 or 5 years ago. What people don't realise is when the FCC makes it possible to get a licence, they don't guarantee you success. I don't think a lot of people who bought those independent licences, or who got them issued, didn't realise that. It seemed clear to me in 1984 that many of those stations would not be successful because they would not be able to generate the kind of audiences they needed, ergo, the revenues they needed, just to service their own debt. I think John Kluge probably is the most outstanding example of an extremely intelligent man who got in and then got out when he got the right fish. He divided his television stations, made great profits on them, and gladly left the market. So, these events are easy to see happening in retrospect.

But I wanted to make some comments about one of the other points before getting into HDTV, to give you a context for my response. There's an assumption that the height of the broadcast industry's concern over cable's potential dominance of the marketplace is coming at a time when the growth curve of cable, audience penetration, revenues, numbers, cable networks, etc., is actually subsiding, and will soon begin to stabilize. I'll speak about that because I don't believe that's true; the data doesn't substantiate that. There was a period of time, in 1985 and 1986 when fewer networks were introduced. Back in the early 80s cable used to be like "a network of the week" phenomenon, networks were just coming out of the woodwork. And then we went through a period of time where our advertising revenues were not forthcoming, and we could not develop the sales forces and a strong enough answer to really warrant the ratings and the audience delivery that we had. There was a slowness of growth in that period of time. More recently we've seen a lot of start-up operations, some of them successful: the home shopping networks, Discovery Channel, the Fashion Channel, etc. Many have started up, and many more were announced just last week. Many will not succeed, but I don't think we're in a waning period.

We've been through a period of stabilization, but its not the case anymore. Cable penetration has passed 50% of American household. There are now [illegible] million homes subscribing to cable in this country. One out of every [illegible] homes is a subscriber to cable television. Advertising revenues last year passed the billion dollar mark, which is only one tenth of the revenues through broadcast networks, but still a substantial amount of money. This year, I believe we have a very good shot at passing the 1.5 billion dollar mark in cable television advertising, a 50% improvement, on both the national and local levels. I think a 50% improvement over a one year period is enormous. The average increase this year thus far for cable networks is somewhere around the [illegible]% mark in advertising revenues. Our company, USA Network, is pacing at about 40% over the last year's performance in the year to date.

So I think that there has been tremendous growth and I'm looking at a landscape that is rapidly changing. We are still getting only 50 cents on the dollar CPM compared to broadcast TV, but we're learning ways to improve that by reaching 70% of broadcasting TVs instead of the 30% we reached three and four years ago. We are becoming a part of regular business in the advertising community, as opposed to a part of the experimental five, where GM will drop half a million dollars on you and then split it. Now it's a large buy, which requires serious planning [illegible], into the schedule, and this alone is, and will continue to change the scope of our business. Audiences to cable television are growing, while audiences to other programming sources are falling every month. In the last two years, monthly viewership in cable programs have set new audience levels, without exception. It is more than just a momentary phenomenon. I think it is clearly a broad-based trend.

Still, cable's dual revenue sources are even more important than the strong trends I've just discussed. We derive revenue not only from advertising, but also from subscribers fees. While these subscriber fees may not seem terribly significant when expressed as 10 cents per month per subscriber, 40 or 50 million subscribers -- can remind you that Ma Bell made a fortune on nickle telephone calls. There is a growing significant revenue industry from that side of our business.

Let me give you a few other things to consider in the growth of our side of the business that might be important in thinking about the future. Cable subscriber growth in A&B counties is the greatest. Between 1981 and 1987, subscriber growth has been 110% in A counties, 98% in B counties, 42% in C counties, and 56% in D counties. The highest growth, obviously, is coming out of the urban/suburban marketplace, which is showing up in our record growth numbers. By the way, there were predictions, 2 and 3 and 4 years ago, which said that cable's growth would slow to four or five or six percent but I'm not seeing that, I'm certainly not seeing that at USA, we grew by six and a half million subscribers. This year, the average industry pace is set at 8% but I'm seeing double digit growth well into the teens this year at USA Network. I think we are now seeing the ability of cable operators to push penetration past the mythical glass wall of

10%. Cable operators have said I don't know we can get 50% of homes we have to subscribe, but the ones who reach 53 or 54%, seem to do it in these A and B systems. This is the case for more nontypical systems, ones that aren't located out in the areas where cable television was their means of distribution for 25 years. We are seeing systems penetrate the 80 and 85% levels of homes passed in certain areas, and we're going to be seeing more of this because the programming offered by cable networks has improved so dramatically

We've come light years in the last five years, even in the last two years. It's my firm belief that we have seen nothing compared to the next five years. Programming is the key, it has improved dramatically across the board in cable television but, you ain't seen nothin' yet. There are a couple of other things I just wanted to mention with regard to viewership. I won't recite all the numbers about the declining viewership at the 3 broadcast networks, you all read them in the trades press. I would say something that has really struck me as being almost phenomenal in regard to last year's season: these three broadcast networks lost 9% of their viewership, three times more than the year before. Some people would attribute this to people meters. I agree with Tony's assessment that the previous methods were inaccurate. But, the cable business was on meters before, and so I think the issue is dated and not so heavily under attack as the methods of previous years. A few comments about HDTV.

I have a vision of 1995 having very different perspective from today's thinking on television; I see a focus throughout the country on marketing techniques used by cable systems, at least of the aggressive systems. Children today don't see any difference between NBC and USA. They know what they like to watch on one or another but they don't know the difference between broadcast networks and cable. Nickleodeon is another network to them. So is MTV or the SPN or PBS.

It won't be long before those of us who grew up on the broadcast networks will be in the minority in our way of thinking about television. I think in the mid 1990s because I think you are going to see a continual closing of the gap of the revenue streams between the three broadcast networks and some of the more successful cable television networks in the 1990s, and because of the selection process, the way people choose what they watch, I think you're going to be seeing a more nearly level playing field by then. I'm not sure I would have predicted occurrences so soon if you had asked me two years ago. I would have said "past the year 2000." In my opinion, the world is moving faster than even I had thought before.

I would summarize what I know about HDTV at the moment by saying that I think it's a great technology, but I agree with Tony that the consumer, at this moment, does not understand or have a reason to want to be a part of HDTV. It is a part of the phenomenon of the technology of our business. Some of these technologies are developed by the Japanese manufacturers who control the world market and, no question about it, are going to push HDTV in Japan, many European nations are ahead of the United States on this. At this time, Washington is struggling with policy issues regarding to changing technologies, trying to determine how much influence or participation the government have in the development of new fiberoptic technologies, that may facilitate HDTV particularly. Perhaps the government will take a philosophical approach to the marketplace in order to get American manufacturers involved in HDTV technology.

The Japanese have the other marketplace today. You can't purchase consumer electronics goods in the television field,... made in the United States. There are none manufactured here. I think there's concern about that. I don't know what will come out of the hearings regarding policy issues, but I have read some of the research reports coming out of the commissions. All the arguments in these reports are technology driven, none are consumer driven. If the future is HDTV, I think we will have to come up with more convincing marketing strategems. So far, the consumer sees no inherent value in HDTV at its current price. All of the studies or articles you're reading today give the impression that HDTV will arrive in September, but I don't think that's possible. Maybe two years from now there will be video cassette machines with HDTV cassettes. The cassettes will probably have created the market for these machines. Yes, it may take ten years before digital sound can be coupled with HDTV. I realized this when I wrote a master's thesis on satellite technology in 198[illegible]. This technology was available then but it wasn't widely used until 1975.

I thought that direct broadcasting would have been commonplace long ago in this field. Although the future may not come as quickly as we expect, it will come. Thank you.

Cole: Burton Staniar, the CEO of Westinghouse and a good friend to this university and our Center, was called out to Los Angeles for an important press conference officially announcing Derk Zimmerman as the new head of Group W. Productions. Burt is greatly interested in this subject and is on the FCC's HDTV advisory committee.

I know all of us have experienced a situation in which the speaker can't make it, and we wonder about the knowledge of his or her replacement. What's extremely fortunate about this situation is that the organization in question is Westinghouse Broadcasting, an industry leader, with truly excellent people in senior management.

Tom Goodgame, the number two man at Westinghouse Broadcasting and President of the Group W TV Station Group, has developed an outstanding nationwide reputation in his own right. He has been station manager of four local television stations, first Little Rock then Baltimore's WJT, Pittsburgh's KDKA and, finally, Boston's WPZ. I would then emphasize that at the last two stations (Group W), Pittsburgh and Boston, while Tom was station manager each station received the coveted Gabriel Award as the outstanding television station in the United States. On a national level Tom has been the Chairman of the ABC Affiliate Board, has served on the NBC affiliate board, and is now a member of the NAB TV Board. In short, Westinghouse and Columbia are very fortunate to have Tom Goodgame backing up Burt Staniar.

Tom: I really don't have time to talk to you, I have to go out and sell two million dollars worth of television sets. [Laughter] It's amazing because we're an industry under attack, we always have been. We never were going to make it, and once we did we developed a bad thing, we had too much violence, too much sex, too much bad programming, and we have too many competitors now and we have HDTV coming in, it's a world disaster.

I don't want to be cocky because we are an industry under attack for a lot of different reasons. Most of which are valid. What Kay says about children growing up is accurate, I think one of the problems our industry faces is that you all know what CBS, ABC, and NBC are and how they relate to the rest of the world, but the younger you get, the less you know about it. I am somewhat reminded, sitting here listening to Tony and Kay, of the book Jonathan Livingston Seagull, written by Richard Bach. My favorite book by Richard Bach is called Illusions. While reading it, every once in a while you get a little sort of thrill, because what the caterpillar sees as death God sees as the butterfly. And I think we're on the verge of becoming a butterfly.

Yes, cable viewership is up tremendously, but the highest rated cable show last year, would have finished 84 in a list of broadcast television shows. There were only 85 of them so there would have only displaced one show on primetime network television. You're arguing the tremendous growth in cable, most of that growth today is coming from the expansion in the unwired metropolitan markets.

If you watch a lot of television you're not too interested in whether it's done by cable or over the air. You might say the regulatory climate in which cable developed was restricted. The cable industry grew up in a regulating climate. It's true cable operators had to carry our signal. It's also true that without us they wouldn't have a business. And it's also true that they didn't have to pay for those signals, yet they made a lot of money off of them. Now that deregulation is here, the money and the value that has been accumulated in the cable industry are used to compete for viewers with the free broadcast network programs.

From a broadcaster's perspective, when we need the help in fending off things that are damaging our business, we have none. And when we didn't need the help, cable, who has, to its credit, one of the most effective lobbies in Washington, is able to absolutely put itself in a position of being Mom and Pop, the little cable operator in Oklahoma, who needs our help. We let that happen to us, and we still let things like that happen to us everyday. We're still only 25% as effective in defending ourselves and in trying to get ourselves positions for the future. We have a long way to go.

I would like for you to envision a world without the over the air cable commercial television, meaning you'll pay for everything, including the staples of any business, whether it's USA, ESPN, news, information, however you want to classify it. Movies play a role in that. I remember when I was in Tulsa Oklahoma in 1970 when then the most sophisticated cable system in the United States featured 35 channels, but only had about ten channels worth of programming to offer. I can remember the brochures describing all the things that cable was going to bring me. I wish I had saved them. They were magnificent, new, and different. Those promises are still basically unfulfilled.

What the cable industry is going after is the World Series and things of that nature. Granted, in a competitive, open marketplace, we should be subjected to that kind of competition. I won't argue that for a minute, but we too, would like a level playing field. For instance, with must-carry. Cable didn't have to pay for carrying us, and now it doesn't have to carry us, so cable owners can go out in the marketplace, with the money they've earned, partially off of us, partially deserved, to compete with us in an open, free marketplace with their product. And what is their important product? You're going to get what you got before, and yes, you have to pay as a subscriber. You may think you will receive this program free via the advertiser but they aren't going to deliver it.

It is interesting to me that we live in an age in which deregulation causes things like this to happen. It's not an even playing field. I don't want to cry and moan about that, if we lose, we lose. But we're smarter now and we're a little bit sharper and we're not quite as fat. (That is not a personal statement.) The truth of the matter is that we are leaner and we're learning to operate better and our industry grew like ?. There was a time when if we were ready to start a new show, we went out and hired six new producers and two new talents and another director without paying attention to what we already had on staff. Didn't matter. You can't look at the double digits increases in cable but you can look at high single digits right now and if you're awfully smart, maybe you can keep that going.

There are only 82 viable cable networks, HBO is obviously the most watched. The net impact is about a rating point on the total spectrum of households for any one of those services. HBO would be about 2 points. That is hardly a business that clamors for the kinds of attention its getting. Cable has been very smart, ESPN being the classic example last year. We live in a cost per thousand world. We built this track to last a long time, for ourselves. ESPN went out and sold a five-dollar cost per thousand over the phone and they got the rights to gauge last year. That wasn't five dollars per thousand viewers or for a specific demographic category. It was five dollars per thousand subscribers, that was a very smart move. Newspapers don't sell you the ads on the basis of who reads the sports section, the ads cost the same whether its in the front section or not. Everybody knows the sports section is read by 50% of the subscribers but the ad costs the same. The delivery was a 45 dollar cost per thousand.

In television over the air broadcast charges, are hardly a bargain. We in broadcasting have to get a little bit smarter and we have to talk about sales. We must get away from cost per thousand and find a way to talk about who can sell products in the marketplace. I subscribe to you that there is only one method for reaching a vast market today. 50% or more of the viewership of cable systems still watch network television, and I've already talked about how fractured the other viewership is. We're still a horse, we will remain a horse for some time to come. We can discuss that all day, but there is this new thing called HDTV running around. I think we all should be more interested in what you'd like to know than what we're telling you.

HDTV is a spectacular thing: you go to a demonstration of it, and it's fascinating. But you're never going to get into the home unless it will be via one of the Bell operating companies, which we have absolutely ignored in this. These companies represent as tremendous a threat to cable as cable is to broadcast networks.

HDTV is a misnomer, since we're really talking about advanced definition television. It is better theoretically because you have more latitude. If you go with the technical experts, the ratio for which you view a television set, is the height of the picture times 8. If you have a 12 inch height to your picture and you're sitting 8 feet back, you have a high definition television picture. You're eye can't perceive any more than that. So what we're really talking about is how wide the picture is. Now from the naked eye, in the 9 by 12ft average American living rooms, that doesn't mean a damn thing. It only becomes significant if somebody can give you a five foot wide television screen in your living room.

HDTV is a production standard that can do almost anything. But you've got to give the public something that will justify our changing every television set in America, every piece of tv equipment. We're running cost analyses on 5 television stations in Boston, Philadelphia, San Francisco, Pittsburgh and Baltimore. It will cost us 100 million dollars before we're through, changing everything we have at our current estimate of cost. Still, this is probably abnormal, you can't price something that hasn't been invented yet. There are things out there that we're going to have to have to create. I don't know how we advertise that capital expense for something that were not sure that the public wants. Here Kay and I are in total agreement.

Koplovitz: Thank God. At Last.

Goodgame: I was looking to get closer to her before this was over. But the truth of the matter is that High Definition Television is a product of Japanese ingenuity, and why? Because the Japanese are damn good at future planning. They saw the day when the Koreans, the Taiwanese, and other countries would develop the ability to produce the products that they were selling cheaper than Japan could as its economy rose. So they planned ahead. We have to have something new. That new is HDTV. That's their technology. Were talking about dollars and trade. Wait till the American people shell out the money for the technology, then the television industry of all forms, cable or anybody else, will spend their money buying HDTV equipment from Japan to transmit the US signals. As a result, American people will have to spend one heck of a lot of money replacing one or two sets, or four sets.

The truth of the matter is that it is Japanese-incorporated. I'm not condemning this mind you, we should be so smart, but HDTV is a Japanese-incorporated, technologically-driven effort to maintain market share, increase their economy, and prohibit competition. Lets define it for what it is. That doesn't make it bad. It only is stating the truth. At this moment there has been no research of any consequence which has occurred

in this country in a long time. The CBS labs are gone, the David Sarnoff Lab is trying to stay alive, and its inventing a jerry rigged nine megahertz, ultimately compatible to six megahertz system. They have an advanced television tube which is not compatible and takes more bandwith. You have others working on six megahertz compatible system. These developments have really attracted the Japanese's attention and no one believes that given today's smart people, Japanese and otherwise, that you can't have a six megahertz compatible system that'll fit into the first box and give you the caliber of picture that you want. We know that the world is smart enough to do it, it's just going to take some hard work. Until, NBC made it's announcement that it was going to pursue this course, the Japanese didn't care. All of a sudden, they really do care. It matters, and I predict that it will happen.

Then, Kay and I and all of our cousins and friends will slug it out to see who gets the honor. Really all we are, what Kay is, what we are, all VCRs are, are transmission systems. Two important aspects of this issue are firstly, programming and the advertisers, then what we call a consumer. We also have, multiple systems that take the product and the programming and deliver it to the consumer. All we are is something in-between. The consumer probably doesn't care too much about how he gets it as long as he gets the program. So the challenge for us as the transmitters of these signals, and yes, in many instances the producers of the programming, is to find the product, the opportunity to give the American public the things they expect from us.

I submit to you the number of television and local television stations will be around for a long time because we're the only ones who have the public picture of things. We're the only ones that must provide you with a public service announcer, the information, local programming, and local news. We really are the driving forces of our industry. Networks spend a lot of money on news and lose a lot of money doing it, and now they have many problems associated with that. I submit to you the local television stations also spend a lot of money on the news; its the most profitable thing they're doing. Suddenly they're very quiet because the audience is there to appreciate interesting programs.

When we talk about programming and the need for good things, you can see erosion from network television and over the air commercial television. If you look at the top 15 television shows on the air today, whether they're good or not is subjective, the ratings of most shows today are comparable, and I mean almost identical to the top shows on television 10 years ago. The audience loss when people switch to the cable channel has been for those shows that people don't care that much about. The challenge for us is to produce high quality programming that people will watch. But we can't have people constantly slicing at the pie without a response. The head of the ABC television station in the eastern half of the United States made an interesting observation, that "we used to deliver 20 ratings in our news and we charged $2000 for 30 points," and he said, "now, you know we deliver a 12 or 13 rating and we're charging $5000 for 30 points." So, I'm not too panic stricken. Yes there is a law of attrition, yes, it can reach the point where it's bad, but I don't think I'll be around when it happens. Thank you.

Cole: Given the reality of time constraints, I think it's best to forego a roundtable discussion segment, and move directly to questions from our expert audience.

Question: In terms of regulation, what is it broadcasters require in terms of a level playing field?

Goodgame: All you need to do is insure that the material on cable systems must carry all perspectives. The threats to our industry comes from local cable operators who, from a broadcaster's standpoint, uses the signal of an individual network affiliate and sends that signal out, charges for it going to a satellite dish without a copyright fee other than the mandatory compulsory copyright subpoena, and does not pay anybody for the services -- the production crew, the Hollywood community, the New York community or whomever. Cable can get that signal and you put it anyplace in the country. Can they do it legally? That's yet to be determined. How long will it be before a cable operator says, "ok, I've KDKA and MTV in Pittsburgh, CBS channel 2, I'll switch the CBS signal into the box with another tv and I'll go out and I'll hire some local anchor people who went to KDKA and MTV and I'll build my own newscasts and you, the public, will lose. And that's our local affiliate. I think we have too many things cable should be dependent on, but remember it is an unregulated industry, and I'm not talking about the people who provide programming for it, I'm talking about the cable operators, who have an exclusive franchise, with 50 channels and who have no competition within the area of concern.

Question: Obviously the driving force in mass electronic communications is advertising, we haven't yet tapped into other significant sources of revenue. Advertising revenue in broadcasting comes from universal, ubiquitous penetration in over 95% of all homes using electricity. When is cable, if ever, going to establish a lifeline rate that will bring in basic services at some lower rate for the poor and the disadvantaged and those that are difficult to sell? The telephone industry had finally gotten back lifeline service, print media used free circulation or give-away circulation to get mass coverage. And never is advertising impact comparable to broadcasting.

Koplovitz: I really don't think that cable systems are about to take off the three broadcast networks or any of the strong signals in their marketplace. I don't think that's in their own self-interest. I think where the debate really looms is on the fringes, in these fourth and fifth and sixth independent stations, in marketplaces that really have no viewing share, and only after have duplicative programming. In my view, they have no more right to be there than I or, CNN, or Nickelodeon, or the Weather Channel or some other networks that are adding differentiated programs for the marketplace. I think that's where the battle is: it's not really whether we're going to carry broadcast network affiliates or strong independents in the marketplace.

About the universal delivery of services in cable television, I think that will come, but not overnight and not freely from the cable operator because it's not cost adjusted for the cable operator to do it. Yes, the operator does have 80% of the television homes in the U.S. CableVision tried that experiment in Boston and bought some of the $2 universal services. It doesn't work with the cost of programming that they do support and which we use to build revenues. On the programming side, we can't match the budgets of television programming of the three broadcast networks if we're to rely solely on advertising revenues. That's why the dual revenue stream is very important on our side of the business.

I do think the issue of the telcos, which is alive and getting a great amount of attention in discussion in Washington these days, the major trust of fiber optics that being put into place by the telephone company are the major issues now. I think, at some juncture, the cable operators are going to have to decide if their generation of equipment is also going to be fiber optics, which can carry many more signals. The telecos are not now allowed to provide the service but since they are going to almost every home with telephone service, they could also provide video service. There's no question that they're poised and ready to provide that service with fiber optics. I don't think they'll do it in open warfare, something else will happen in the jockeying for position.

Since TCI came along, things are not as it used to be. Malone is seen as the Darth Vader of the industry with 18% of all cable subscribers in the U.S. under his direct influence in one form or another. He was talking about a monopoly marketplace of the highway going into the home. In my view telcos and the cable operators must decide who will best provide the highway into the homes, and under what conditions will the telcos, if they enter the business, have to separate the profit margins from their other operations or from their operations in the video industry. If they don't, they will overtake the cable industry over night.

There are numerous policy issues that must be resolved. But I think you will see us marching towards some kind of resolution in the next five years because the next generation of equipment is being installed in the trunk line (or main line), by the telephone company. This new equipment can also be installed by the cable operator to the home with the branchline, which would be very expensive for the telephone companies to do, so they aren't going to do it on speculation. The telephone industry is very conservative, but the technologies are poised and ready. I don't think you'll see universal service until perhaps 8-10 years down the road.

Question: Perhaps Tony could comment on Europe, where the interests and ownership of the television broadcast industry, telecommunications industry, and government are a little closer.

Hoffman: Well, they're very different, there's really no parallel between the American broadcasting system and systems there. Europe is a totally different situation because its mostly a state owned operation. I was lucky enough be the wrap up speaker at a cable convention in London about six or seven years ago just after the official government report on cable came out, authorizing the franchises of major areas of England. I received a short course in cable from one of the people who lived over there the night before my presentation, and I was trying out some of the comments I was going to make the next day on him and I started going into the economics of cable industry in view of this country. He pointed out that I made one wrong assumption: that in the U.S. you have one cable down the street and in Great Britain you see all the communications go down both sides of the street because you can't cross over. The reason you can't cross over is that the sewer is in the middle. The comment that I made was that the answer to the economics in British cable was to put the cable in the sewer and then the ... cable would be in an appropriate place.

They didn't take that very kindly but, I think they have not yet proved there is demand for cable over there, because of viewing habits, and because of state owned television which develops dreadful product. You view some of the programs coming over from the BBC and you'll say, "Boy, isn't that great." - Yes, it's very good stuff, but it's on PBS, and you love to watch those low rated shows. The fact of the matter is the ratings for Laverne and Shirley in it's 5th rerun equals that kind of stuff, and the British people have never had much of the kind of television that we have here, so they're not hooked on television the way the American public is. Bringing cable into that kind of environment makes them yawn. They can't see why they need ten channels, let alone forty.

Koplovitz: The Japanese truly rule the world in technology and consumer electronics, but American producers absolutely rule the world in product.

Goodgame: Those of us old enough to remember the role of the network in developing programs for the over-the-air networks know that if we alter the distribution system, with cable and satellites and get a significant change, the likelihood is that the networks are going to utilize those new systems. If there is a market that will support them.

Koplovitz: Well, I hold what I'm sure is quite a minority view on that. I know that changing distribution systems or any kind of patterns that are in place is very difficult. In my view, one of the three broadcast networks or Fox may be the first US broadcaster of DBS. People in our industry share this opinion. I think it may be one of the three broadcast networks because of the fight for the viewer. This is simply the distribution systems we're talking about. The product is what counts and a broadcast company may be the first to realize that reaching the consumer is paramount. You can go to a lab today and a satellite receiving dish inside your tv set receiving signals directly from satellite broadcast. That may be the most efficient way of reaching the consumer and for broadcast network, which has been greatly challenged by preemptions, by Star Trek, and USA Today. The affiliated stations today are preempting more shows than ever before in the station lineup when they don't like the way their local ratings go. They're selecting something from the first-run marketplace that they think is going to technically play better in their marketplace. ABC may be the number three broadcast network but may be the first to realize that the way to prevent preemption is to go directly to the home. NBC is clearly best equipped to do that. Watch them - they will be very interesting.

Goodgame: Right now if there were no new admissions out there, ABC could still deliver a satellite signal to your home, no question. They have more transponders networks than anybody, more satellites up in the sky.

Koplovitz: What are those 214 affiliates of NBC to do when they do that?

Goodgame: Well, the thing you have to remember is the network profit margin. Those stations may hold other profit centers they've got to protect, and when they start distributing they haven't changed the economics of the network. What people don't know is that there's been a lot of lobbying involved in local broadcasts and reporters. A local broadcast station can buy a satellite that can distribute about a 300 mile footprint. There's so many things happening, you can open up a technology magazine and it'll drive you crazy. Because what was in last month's issue is wrong and whatever it is it costs a hundred thousand dollars minimum.

Hoffman: Let me just add a postscript. Two of the three networks, within ten years, are going to be owned by their affiliates, not by a company that is just broadcasting poorly. The first one to go will be CBS, probably within the next 5 years...Bob Wright has publicly said that he would like find a way, he doesn't know the way and I don't think any of them do know the way, where, let's say in the case of a Philadelphia station...that they would own 3% of whatever share of the network NBC would like to give away. He has publicly stated he'd like to. Why? Because he wants you to have a vested interest in carrying <u>his</u> programs and he doesn't want Star Trek to preempt that show. The smart network affiliate today, and there are not many out there, is not dealing with the network as the same network. Yes, you've got to go to the phone and order first run media, and go into this network and get it ready to go, and cover the programming aspect of it. Why are people watching tv? Because the average network hour costs a billion dollars. That's the problem today that Kay and the cable operators have, they do not yet have, though someday they will, the ability to go out and produce high quality television shows. But in the meantime on their salary you're programming four hours a day. You've got the billion dollar economy that cable has and maybe a billion and a half or two billion. We're talking about peanuts in terms of profits on television, and they don't even have a news department to worry about.

Question: What made me and a lot of other people suspicious about the whole operation was the way in which superstations like WTBS, a pure winner from absolutely every single aspect. Why do they stay where they are? Why don't more programmers, who are already developing direct broadcast medium, make it a priority - putting legal pressure on anybody to make and support an alternative.

Koplovitz: We derive money from advertising, and superstations don't have any license fees that they charge to the cable operator. I think that the stations are a different case in point than the copyright cable networks, which are most of us. Since that C-band marketplace is growing, it is a source of revenue for us and so, I think, a raw approach to the marketplace is to accept the revenue stream for our product from the cable subscriber but not from the broadcaster. To us it's another home, it's another revenue source. It's also feeding on profits to pay for the programming, which, as we were just mentioning, may be a billion and a half this year from that side of the advertising market but it could be a billion dollars evenly in revenues from cable operators as well. So the significant revenue stream is growing every year and that's why we are interested.

You might be interested to know that one out of two black boxes sold to tv are illegal, chips that can break the inscription code so they don't have to pay for signals. They are really being stolen from the sellers of the signals who have bothered to scramble the signal like we have. There are a lot of problems in the marketplace but, basically, we pay for our copyright page programming. We, in turn, charge the people who receive it something for it, because we think that we should not discriminate in the marketplace. You also have to look to the stations who made these direct satellites to the homes in a much more convenient method than C-band - not a market that I would ignore.

Hoffman: If you ask people to pay directly for programming or even to pay indirectly for programming through their cable system, you net more money from the viewers than you will if you do it in advertising. The benchmark of $10 cost per capita right now on primetime for 30 seconds of commercial is close enough to reality to use for the purposes of this discussion. Then all you have is a penny per commercial per household, that will stimulate a lot of audience delivery in a lot of households to accumulate dollars. You can get the same dollar by charging money to the cable operator, who in turn passes it on to a higher base rate, so it isn't directly linked to that particular source. It's a much more expedient way of getting money out of the subscribers. If you are going to do that you have to scramble the signal to keep it out of the hands of the people who are not paying for it.

Now the cable industry is engaged in an attempt to figure out which programming people will pay directly for using pay-per-view (i.e. prize fights, rock concerts, etc.). Then there's a sustaining force of movies which make up the bulk of the programming on HBO, Showtime, Movie Channel and so forth. The problem is that when you get beyond those types of programming, you do not find things that the consumer is willing to pay for directly. The consumer is not willing to identify a specific payment for a specific program or a specific series. The only way that you can get direct payments is to get it indirectly by charging an overall fee to the cable operator, who then passes it on in the basic rate. That's the way the industry works.

Goodgame: I would like to say one thing that is that the word superstation drives me crazy. WTBS is a channel in Atlanta; a Mickey Mouse television station, that's all it is.