SUBSCRIPTION SERVICES FOR CATV

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MR. HENRY HARRIS: Good morning. Welcome -- unofficial welcome -- to the home of Mickey Mouse and movies, and that's what we will be talking about this morning.

To introduce you to the panel this morning, starting on my far right is Gary Christensen, former NCTA General Counsel and now with the firm of Hogan & Hartson.

Next to him is Frank Cooper, head of Gridtronics, the Warner Communications subscription service subsidiary.

Next to him is Gerry Levin, with Home Box Office, part of Sterling Communications in New York.

Next to him is Bill Butters with Trans-World Communications, subsidiary of Columbia Pictures.

On my far left is Jim Ragan, President of Athena Communications Corporation and involved in subscription cable through a project they call Indicode.

And next to Jim is Dick Lubic, who is President of Home Theatre Network, another subscription service for cable television.

I think you will be quite interested in what these gentlemen have to offer, because we have got probably as much experience as this industry has got represented on this stage.

So, without further ado, I would like to start with Gary Christensen, who will sort of set the regulatory tone for the environment in which this business now operates and, beyond that, we will just swing around the table, and end with Jim, and each of you speak in turn. Thank you.

Gary.

MR. GARY CHRISTENSEN: Thank you very much. It's a pleasure to be here and see all your shining faces this early in the morning.

The regulatory atmosphere for pay TV is controlled solely at the federal level; in other words, the regulation of pay television has been pre-empted by the Federal Government, so that all state and local regulations which are contrary to federal regulations are void. So when we consider CATV and pay TV on CATV as a mode of distribution, what we have to consider is the federal regulatory picture.

The present federal regulations are relatively simple, although in their application they may well become and have become somewhat complicated.

There are three elements that we have to consider when we talk about pay television, because what we are talking about here is the software rather than the hardware of the pay television system.

The three elements are feature films, sports events, and series programs. Very briefly, the federal rules provide that feature films which are more than two years old or less than ten years old are not allowed to be shown on pay TV. Now, there are occasional exceptions, but, for purposes of simplicity and so that we can get into a general picture of the program, we won't go into those exceptions.

Sports events which have been available on broadcast television, that is, in quotes, free TV, for the last two years are not allowed to be shown on pay television by CATV.

Lastly, series programs are not allowed to be shown on pay television. Series programs are those which have a central character or a central plot or a continuing type of program. I'm sure all of you are familiar with a layman's definition of a series program.

There is presently pending before the FCC a rule making docket in which the FCC asks questions as to whether these rules should remain the same, whether they should be strengthened or increased, or whether they should be lessened or softened, so that pay television via cable has a better economic chance of providing service to the public.

It is the position of some people in the industry that all regulations of pay TV ought to be eliminated, not only because they are unjust in a free and competitive market place, but because there are some modes of pay television or some future modes of pay television which will not be under these same kinds of strictures.

If the pay television regulations on CATV are not lifted or eliminated in their entirety, then there have been suggestions made to the Federal Communications Commission that the times involved in the showing of movies should be reduced, so that, for example, one of the suggestions was, the two to ten-year prohibition should should be changed to provide that only movies which are more than five years old would not be shown on pay TV if those movies were not available to a broadcast television station serving a CATV community.

With respect to sports there have been suggestions that the entire sports rule be eliminated.

And, lastly, the series programs. Because the practical marketing aspects of series programs to pay television distribution methods do not lend themselves to the siphoning of these series programs from broadcast television there have been suggestions that those series program restrictions should be eliminated altogether.

In essence, the CATV industry's position before the Federal Communications Commission is that the CATV industry only asks the right to compete with other entertainment forms on an equal basis and that a free and unregulated market place is the best approach.

Of course, the free television, again in quotes, the broadcast television, interests are attempting to have the nature of the rules strengthened so that fewer programs would be available to pay television.

This particular rule making will not be concluded until late July, which means that, at the very earliest, any changes in the rules will be considered in late August. And if the FCC runs true to form, it is unlikely that any changes in the rules, either for the better or for the worse, will be made until perhaps early winter.

That is generally the regulatory atmosphere within which this new form of entertainment has to operate.

And, with that, I will turn it over to Frank Cooper.

MR. FRANK COOPER: Thank you, Henry. Thank you, Gary. Good morning.

Exactly four years ago when this Convention last assembled in California, Warner Cable Corporation, then known as TVC, proposed the Gridtronic Diversity Plan now known as pay cable. When we proposed it, the idea was treated in many quarters as amusingly naive. And now we frequently hear it described as the salvation of CATV. The truth, of course, is somewhere in between.

Pay cable is no joke and it is not salvation.

Obviously, pay cable is capable of increasing revenue but is not a substitute for good system practice. And if a system is inefficient, pay cable will not suddenly render it viable.

Furthermore, the razzle-dazzle technology of 2001 which is implied in the promises made by some of pay cable's proponents serves only to confuse the issue, which is what role can premium services play in a CATV system and for whose benefit?

Perhaps a brief description of the experience of Warner's subsidiary, Gridtronics, Inc., would be helpful.

Beginning last February, we supplied a movie channel, the Star Channel, to four company-owned systems. At this point in time seven systems carry the Star Channel, and by September there will be ten. These systems reach from New York to Florida to Oregon.

The software consists of new motion pictures which have never been seen on TV before. There are no interruptions during the cablecast. The films are shown in color and are repeated four times daily.

The subscriber costs vary from $5 to $6 per month. During that period eight different movies are shown. The titles range from epics such as "Nicholas and Alexandra" to thrillers like "The French Connection" to outdoor themes such as "Living Free."

We practice no editing whatsoever.

From the outset we committed ourselves to a monthly charge for service as opposed to a per-picture or per-program charge. We felt that our tender young marketing plan needed every advantage. Our marketing assumption was that the subscriber was already familiar with cable TV and had developed a friendly attitude towards it and confidence in it.

Since he had accepted the idea of a monthly service for a monthly fee, it appeared only logical that additional monthly service would carry an additional monthly fee. By way of contrast, there was ample historical evidence of public hostility to the per-program charge.

We have, of course, introduced a horn of plenty. If a subscriber misses a given showing in a given week, he has innumerable opportunities to see it later, repeatedly even, at no extra charge. But this cornucopia does not represent a lost charge, as some of our critics claim; actually it is the seed of sales success. It inspires confidence in the value of our offering.

Most importantly, we have based our decision on operating realism, on what we perceive to be the industry's state of the art and on the public's state of mind. We are not immune to change. The importtant issue is not how to charge, but, rather, how to start.

First, of course, it is necessary that the system be capable of carrying an added signal sufficiently discrete that a charge can be made for its reception.

We have accomplished this economically by the use of a midband plus a converter. Most solid state CATV systems are amenable to this technique.

We originated our headend signal with three-quarter inch tape recorders. They are also economical and durable.

We have convinced most of the major producers of film to supply the programming material. And in this area, of course, traditions have been the hardest to change. But change is irresistible, because more movies mean more employment, mean more production, mean more revenue.

So, from headend to tuner, important new breakthroughs have been made. We suggest that now is the time for your system to participate.

Of course, we cannot promise you a delightfully easy road. There are start up costs. There is the expense of learning. But earlier in these remarks we suggested that the important considerations are not how to charge, but how to start, and for whom. And the answer is for the benefit of the guy who really controls your system - your subscriber. He has an insatiable desire for the better things in life, and if he is served well, he will reward us.

Thank you.

MODERATOR HARRIS: Thank you Frank.

Gerry Levin of Sterling.

MR. GERALD LEVIN: Thank you, Henry.

On the dark and stormy night of November 8th, Home Box Office became the first company to launch a cable pay TV service, an NHL game from Madison Square Garden and a motion picture appropriately and prophetically entitled "Sometimes A Great Notion." These historic events were transmitted to a limited audience in Wilkes-Barre, Pennsylvania. And, to be very truthful, the winds blew and the rains fell with such fury that night that we very nearly became the first company not to launch a cable pay TV service.

But we have been perservering since that time in November, and last night we logged our 222nd night of operation.

Our subscriber total has grown since that point to more than 12,000 homes in a dozen Eastern Pennsylvania cable systems.

Limited as this may be, I think it does qualify us to pose as a voice of experience in this aborning industry. We certainly don't need to spend much time on the quickening interest in cable pay TV. You will notice that I call it pay television without pretense, without euphemism and without circumlocution.

I think there is a broadening realization that cable pay television's time has come. Even the recent attacks by the television networks' top executives in reality are just one more evidence of its burgeoning impact.

The justification for cable pay television is quite logical. There is a growing demand for cable TV to provide program enrichment and broader consumer services. We know that cable TV can provide such services, that it should do so, and, in fact, it must do so, if it is to fulfill the promise so many of you in the industry have labored so hard to project.

But cable TV cannot provide these benefits within its historic revenue parameters. It has to develop a system for incrementally increasing revenues in order to sustain each new program service, whether it happens to be sports, entertainment, armchair shopping or meter reading.

The pay television medium as it is evolving today is the first link in this chain of new services for cable. It happens to be a service that can be provided now, today, without waiting for the full refulgence of promised and promising new technology, although I should be quick to point out that what is now being done in the pay television industry will some day cause us to blush at the memory of its lack of sophistication.

Like almost everyone else here, we at Home Box Office believe that the best of all pay TV worlds would involve a two-way, interactive delivery system and the capability for a program by program choice by the customer. However, we don't believe that we should mark time waiting for the fulfillment of these conditions. Therefore, we have gotten under way with a service that we think best fits today's situation.

Let me outline the characteristics of our Home Box Office service.

First, not unlike what Frank has told you, we offer our service on a monthly basis, rather than program by program.

Our service has been likened to an electronic magazine through which the subscriber may browse, selecting what he wants to see. Another analogy that we have used referring to our Home Box Office name would be that we offer a season ticket rather than a single-event admission.

You might ask, does this work? Well, our Wilkes-Barre subscribers who were asked in a survey to put a price tag on the events they watched during the course of the month estimated a median value of $23 per month for the service as against a $6 additional fee which they are paying. And I think this is very important because the subscriber is now being asked to establish a new cost-value relationship in his mind where he really has very little existing frame of reference for this. We are at least pleased to see this kind of value assessment on the part of the consumer.

Secondly, Home Box Office does not lease channels. We consider ourselves the supplier of a programming package to the cable operator.

Our aim is to be a wholesaler, to develop a compensable middle man's function, and at times we have analogized ourselves to a franchiser.

You can see that I too am searching for analogies or for an appropriate frame of reference in this new business.

Frankly, we think that the cable operators generally should oppose leasing their channels instead of providing this service themselves.

A third feature of Home Box Office is that our service consists primarily of current movies and live sporting events. We are offering essentially the same selection of motion pictures available to other pay TV entrepreneurs. However, we have concentrated also upon obtaining rights to major sports events on an exclusive basis.

This, we believe, is what the marketing experts refer to as our unique selling proposition. The Home Box Office sports package includes approximately 200 events from Madison Square Garden, which includes the Knicks and the Rangers, weekly Monday night boxing, wrestling, roller derby, the horse show, Westminster Kennel Club

Dog Show, college basketball, NIT, track -- we recently did the conclusion of the pro track meet at Madison Square Garden -- special sporting events such as the recent United States/Peoples Republic of China gymnastic competition, also a U.S. team against a Russian wrestling team.

We also include basketball games from the American Basketball Association, other NBA teams, the Boston Celtics, Milwaukee Bucks, Cleveland Cavaliers; World Hockey Association games, as well as Major League baseball which we have been carrying from Cleveland. Also this summer and fall we have had a schedule of professional bowling association tournaments. Two weeks ago we held a tournament out here in Downey, California. And we do a weekly night of trotting from Yonkers Raceway.

I should mention tonight that we are making one of our regular Monday night boxing events available to all the attendees of the Convention via the Canadian satellite. This is not only what we hope will be an outstanding heavyweight fight between Jimmy Ellis and Earnie Shavers, but it will also be an historic occasion, the first domestic satellite transmission across the continent of a live sporting event. It will be received in the structure out in the parking lot and transmitted into the closed circuit system at the Disneyland Hotel.

We hope all of you will join our announcers tonight at seven o'clock in watching this fight. Our announcers are Don Duffy and Floyd Patterson at ringside. There is a kind of historical niceness about having Don Duffy do this fight. The first network broadcast that Don did was the radio broadcast of the Louis-Conn fight in 1941. He can be remembered for being the announcer on the early boxing shows on commercial television. He has made the transition into closed circuit, big-screen boxing, and now he appears as the announcer on the first spacecast of a sporting event.

In regard to sports, our research indicates that obviously interest is largely confined to the male members of the family. However, our research also makes it pretty unmistakably clear that the ultimate go, no-go decision in the family on subscribing to this kind of service is made by the male head of the household.

Thus, while the whole family enjoys the movies, uncut and uninterrupted, the sports events may or may not be likely to tip the scales of decision making in the family.

The fourth aspect of our Home Box Office service is this: We are indeed a pay cable network. Because we offer live sporting events, our service depends upon real time delivery by microwave or cable rather than the unspooling of a film or roll of tape at the system headend. While this creates obvious initial problems of distribution for us, we also believe it gives us a particularly strong quality control over the origination of our product.

Furthermore, as should be evident at this convention, we consider ourselves to be in a unique position to take advantage of the new domestic satellite technology to form pay televesion networks, and that technology is here today.

I think that other participants in this discussion and the reprise this afternoon will probably take issue with some or all of the operating premises that we have at Home Box Office. And I think it is interesting that almost every one of the pay TV systems now in operation or hoping to go into operation represents a different approach to what is really a common goal. I believe that is very fortunate, because out of the pioneering efforts of all of us, the knowledge and expertise should emerge that will be essential to the development of future subscriber-supported services of all kinds.

At Home Box Office we have been experimenting with new programming, children's programming, for example, and new marketing techniques. But we are definitely willing to acknowledge that there is nothing sacred about our own format and philosophy, and we expect continuing change in the months and years ahead.

Before I close, I would like to comment briefly on two particular points.

One, the question of the, quote dirty movie, unquote, and also to give you some of our recent market experience.

Like everyone else, we are aware of the flak concerning our use of "R" movies over pay cable television, or dirty movies, as they have been characterized.

Why do we carry these "R" movies? For one reason, because that is basically what is available. The reason for this is that the studios are producing these films for theatre audiences, largely young audiences, now-generation audiences. But pay television audiences are different. The profile of our customer is that of a 35 to 49-year-old, middle-income family man who prefers to stay home and watch family type movies with his wife and children. In fact, in our most in-depth survey to date we discovered that 79 percent of our customers prefer to see movies at home rather than to go out.

There definitely is an opportunity, then, for the studios to swing back to making "G" and "PG" films. This potent market undoubtedly must be in the minds of the film industry as it makes its product presently available to what is a very thin pay cable market that now exists.

In the meantime we are limiting our schedule of our films, hopefully to one a month, and we play that in the late evening program slot.

However, don't overlook the fact that not everyone feels outraged about dirty movies. There is also a pay television audience out there that wants such fare.

In general our research has also indicated to us, and the direct reaction that we have received from subscribers seems to indicate, that almost exactly the same numbers of people want more "R" films and "X" films as object to them.

Let me just close on the subject of marketing. It is basically our policy to lend marketing support to the cable system operator.

Our experience, first of all with door-to-door marketing, using an outside marketing company, was very similar to that of most cable operators I have talked to - very high initial acceptance but a higher than desired disconnect rate. Direct mail and media advertising have been very effective. We have not achieved the penetration of door-to-door marketing, but indications are that subscribers achieved in this fashion are sturdier customers, that they are stayers, and provide a solid foundation for steady growth.

Telephone solicitation was almost totally unproductive except when used in conjunction with a tightly integrated marketing program. Word of mouth advertising obviously is extremely helpful.

We really came in from the cold in our early systems, but each day gives us gratifying proof that people are getting educated to what we are about and that a seller's market is being created.

And, finally, a discovery that I think you will find very important: We are beginning to see clear evidence that offering a strong supplemental program package, such as Home Box Office, does bring in new cable subscribers. In one 15,000-subscriber system, in the first two weeks of marketing the Home Box Office service we isolated 290 cases of HBO subscribers who had not previously been on the cable. In a 10,000-subscriber system, just the first new newspaper ads brough in 150 requests for Home Box Office from people who were non-cable subscribers.

Think of that in any terms you wish - cash flow, additional market value for the system. The implications are obviously intriguing.

We are still too young at the game to have complete answers, but we are willing to learn and we hope you are too. Cable pay television is alive and well, thank you, and we think we have something very important to contribute to your future.

<u>MODERATOR HARRIS</u>: Thank you, Gerry.

The next speaker is Bill Butters, Trans-World Productions, a subsidiary of Columbia Pictures.

<u>MR. WILLIAM BUTTERS</u>: Thank you, Henry. Good morning, ladies and gentlemen.

Trans-World Communications, as you have already been told, is a division of Columbia Pictures Industries, and we are most commonly referred to as the hotel pay TV system. We are the largest operators of pay TV in the world, operating from London, England, throughout the entire continental United States and Canada.

Trans-World is devoted to a philosophy in marketing which is pay per program.

We started in the hotels in Atlanta, Georgia, in 1971, at the Recency Hyatt House.

Our entire philosophy is to provide programming at the subscriber's leisure, primarily current motion pictures, uncut and without commercials, live sporting events. As some of you probably know, we have taken many of the heavyweight fights into our hotel systems around the country live.

I would like to talk a moment, about Teletheatre and how it works. It is a total marketing philosophy and that same market philosophy is being introduced to cable at this moment.

There are over 40,000 hotel rooms throughout North America that are now equipped with Teletheatre and people are enjoying movies and entertainment in the comfort of their hotel room.

Every ten minutes a hotel room somewhere in North America, 24 hours a day, seven days a week, is being equipped with our services. Every 60 minutes, starting now, a cable home is being equipped with Teletheatre service.

The philosophy is a simple converter box, if I may call it simple, that is made to accommodate the one-way systems that exist today but is not confined to today's systems; it is expandable to two-way systems.

The converter box either contains four controllable channels and one off-air channel for hotel rooms or some cable systems who don't need additional channel space, or it contains four controllable channels and 22 off-air channels, or a standard home-type converter.

Total control is maintained at the headend of the CATV system, utilizing midband frequencies, we program four channels daily, 23 hours a day, one channel being devoted entirely to previews.

As a division of Columbia Pictures, we feel the only way to sell programming properly, especially movies, is the way we have sold them in the theatres for the past 50 years, and that is through professionally produced trailers.

We also believe the marketing concept for pay TV -- and I am glad to hear Gerry voice the same opinion -- is per program. Impulse buying. Make it easy for the customer to buy.

We do that by means of a preview trailer that runs 24 hours a day, and for about 4-1/2 minutes the total preview content is exposed to the viewer. So any time the subscriber wants to watch Teletheatre and wants to determine what is playing on the channels, he simply turns the selector box to a channel marked Previews. And, as I said, in 3-1/2 to 4-1/2 minutes he sees total previews of what is available to him on the three pay channels.

We operate on the basis of a theatre. If you tune to Channel A -- and we might be playing "French Connection" or "Nicholas and Alexandra," or whatever -- you will have a starting time listed for that movie, and it will play continuously throughout the day; there is no interruption, there are no breaks in programming. It is available totally at the leisure of the viewer.

Some of you might be interested in some of the results that have been obtained for the past 18-19 months in the hotel field, which we think are probably going to hold true in the homes.

If you recall when we started our test experiment in the Regency Hyatt Hotel in Atlanta, we said we would program the system 24 hours a day but only for a test period, for three months, feeling that our computer could then tell us what the viewing curve was and we could confine our programming to that viewing curve.

I guess the most startling revelation was that 67 percent of our viewing was taking place during the non-prime hours of the late, late night and early morning. I don't know whether that is accounted for by the traveling salesman who can't sleep or who has other things to do other than sleep, or whether we are going to find the same thing in the home.

After completing a ten months' test in the Regency, we were playing to one out of four of the guests at that hotel, who paid $3 to see a Teletheatre movie. Twenty-five percent.

Today, operating now in seven cities, and the eighth city goes on the air this month in San Francisco, and over some 40,000 hotel rooms, we are playing to better than one-third.

Now, we picked the Hyatt because it was a highly competitive hotel -- bars, nightclubs, every possible competition within the hotel itself -- and we wanted the test to be as tough as possible.

Last month in Miami, Florida, which was one of our worrisome areas as to whether people going to Miami really wanted to watch pay movies, 52 percent of the people in our hotels bought Teletheatre. Thirty-six percent of the people in our London hotels last month bought Teletheatre. So we are running about a third of the total guests who are buying our programming from $3 to $3.50 per market.

The philosophy, as I said, of Teletheatre is a preview channel and jammed pay channels, controllable from the headend with an RF carrier, so that when the customer has watched the preview channel and determined the programming he or she chooses to watch, he picks up the telephone and dials the telephone number that is posted on the front of the converter box, gives his discrete subscriber number or his confidential code number, and, in three milliseconds under the new equipment, his set turns on in front of his eyes and he can watch that movie for as long as he likes that day, until sign-off the next morning at seven a.m.

Our computer, then, which controls each city, goes through and turns off every subscriber set in that city and starts the new programming for that day. If he chooses to buy another channel, he repeats the same process of picking up the telephone and dialing the operator and ordering that channel.

As most of you probably know, in the hotels we were asked to put this ordering service through room service, because the hotel would like to sell food and beverage, so they want contact with the guest.

I'm sure you have seen the trades and you know that we will be on the air July 10th in the Viacom system in Suffolk County, New York, with this same philosophy. The problem always comes up as to how many telephone orders an operator can accommodate and is the CATV operator going to have to have a battery of operators there to take the calls?

As you know, there are only three ways to communicate with a subscriber. The most ideal way, of course, would be an interactive two-way cable system, but unfortunately, there are very few of those in operation, where you can electronically talk to the subscriber and he can order that way.

The second way is by telephone, which is the most common way and the fastest. And the other way is by mail, which, of course, is subscription television.

Since we are working on a per-program system, we had to use the telephone. It is the most readily available. And, to eliminate the operator stage that we have in the hotels, we use the first interactive dialing system, utilizing computer-access dialing which K'Son Corporation has developed to count the dials on a telephone, the clicks on a telephone, so that we do not need the touchtone type dialing, which is not available in many areas.

So our process now is from the CATV subscriber's home. He picks up the telephone and dials in to our computer a normal telephone number. When he reaches our computer, the computer either gives him a recorded message that says Thank you for calling and Your choice, please, or gives him a beep, as most normal computers do for data information. When he gets the beep, he then has three dial codes for the three channels playing. He dials in the channel of his choice, which takes a click of the finger. Then he has his subscriber number, which is his own number and no one else knows, and he dials that into the computer. And I assure you, before you can take the telephone from your ear, your movie will be playing.

Simultaneously with that, we create a billing system two ways. In the CATV headend we provide him with a hard copy billing. We have found as we have gone through the years in this business that the hotel people like to watch the box office, and we find that we are getting the same reaction from the CATV operator: Can I have that box office in my office? So if you come by the booth, you will see the electronic box office that spits out a hard ticket billing for him every time an order comes in from one of his subscribers. He knows immediately, within milliseconds, about that order.

At the same time, at the headend in our studio, is a 360 IBM-compatible tape which records every transaction throughout the day for the entire city.

We take that tape off and hand it to him once a week or once a month, whatever his billing procedures may be. We supply him with the computer programming, or, if he wants us to run it on our 360 here or in New York, we will even run his statements for him. He places that IBM tape on the computer; the programming is already provided. Statements are then issued direct to the customer, addressed and ready to go in the mail.

That is the general tone and philosophy of the Teletheatre system. In the Viacom installation in Smithtown, New York, out of the 40,000 subscribers which Mr. Baruch has, we have taken one leg of the system for a concentrated marketing effort and we will confine 7,000 subscribers to that leg. If you step out the front door you will see a big 55-foot remote sitting out there, and that is a full Trans-World studio, with computer origination consoles and everything, and that is rolling out of here Thursday to Suffolk County, New York to power that system.

And by confining our first marketing effort to 7,000 subscribers, our planned marketing approach, briefly, is this: A direct mail campaign is already under way. We believe in utilizing the CATV system to do what all of the people who have been called blue skyers have been saying it will do for a long time. We believe it can be used for marketing, and that is the purpose of the preview channel, is to sell the product. We also believe it can be used to sell Teletheatre to the subscriber.

Professionally produced spots are now being prepared. They will go on the system over the origination channel of the Viacom system. The direct mail piece will tease the people and tell them to watch Channel 12 for new and exciting news of something that is available. And then they will see those spots every half hour all day long, telling them all about Teletheatre, showing them the operation, showing trailers of the product that is going to be available, and telling them that it is a service that is installed in their home and there is no monthly subscription fee. A dollar-and-a-half a month maintenance is all they pay. And then, if they don't buy, they don't pay.

We have great hopes for this marketing philosophy, of using the CATV system or the television tube to sell it. From there, of course, we will use mass demonstrations and other electronic means of selling the system throughout Suffolk County, New York.

We hope by the next convention to be able to give you a more update report on what is happening in the world of cable. I know you get bored listening to hotel numbers, so we won't go any further into those.

But we do think that the future of pay TV lies in per-programming. It gives you control of the box office and enables you to bring in live events and many other things that we are planning to do.

I might say this, that on two of the channels in cable we are going to be programming movies, top-run movies, all day long. On the third channel we will be programming everything from live sporting events, on Channel C, to packaged children's programming in the morning, to educational series programming in the afternoon. So it will be changing rapidly, rather than the 24-hour format.

Thank you very much.

MODERATOR HARRIS: Bill, thank you.

Our next speaker will be Dick Lubic.

MR. RICHARD LUBIC: Ladies and gentlemen. Good morning.

Now that the HTN network system has been explained as to control by Mr. Levin and now that our PERK has been made obsolete and since Touchtone is not available, at least not in three milliseconds nationally, I would like to present to you this morning a basic philosophy that will seem foreign to some but I hope make sense to you on how pay television, not subscription or premium, can affect you and your future -- that is, if you feel pay television is vitally related to your future.

You may be here representing investors who are taking a long, hard look at the cable industry, or a motion picture firm which has invested heavily in product, film product, or as a cable system operator whose future depends on the best use of his system.

The basic problem is the real lack of ingenuity on the part of many people in our industry. It is easy to follow the patterns of past forms of businesses, but pay television is a new and unique business and has an unproven past.

The subscription fees that you collect as cable operators to maintain, operate, and hopefully make a profit consist mainly of one income source, the subscriber.

I think you will easily understand that what I am explaining to you is not a downstream dream, but a fact. It is quite important at this point in the development of pay television that we get on the right track for the future, or there may be a very limited and narrow one, based on past history.

It has become increasingly difficult for each and every one of you in the cable television business to increase monthly subscription rates from, say an average of $5 to 10 or 20 percent more without going to the authoritative bodies and the subscribers themselves, or even because of price controls and other unknowns. And by the time anything happens, it will be like the Select Committee of the Senate having the President testifying at Watergate. It becomes a very difficult problem to raise rates once they have been established.

Therefore, I present the following question: Is subscription or premium television the best form of pay television?

I am not a negative person by nature, but I cannot be true to myself and tell you this morning that subscription or premium television is the future.

Consider the following: The concept of subscription purchases is not new. Subscriptions were being bought, magazine subscriptions, before anyone ever heard of pay television. Look up the word "subscription" in Webster's and you will find: To agree to receive and pay for a periodical.

When an industry is marketing a new product, it often looks at an earlier successful approach to merchandising. In this case the advocates of subscription or premium TV looked back and saw only one aspect of the magazine concept. Time Magazine sells for 50 cents an issue,or, if you buy a subscription, $14 a year. Special offers through the year cut prices even further. Newsweek sells for 50 cents an issue, or, if you buy a subscription, $14 a year. In all magazine sales, the magazine price is not the major source of revenue. The advertising is.

An inexpensive package sale of a magazine generates large readership and the large number of readers increases the advertising rate a magazine can charge. We have all heard of cost per thousand. The game plan is in the numbers, not the item price. Free TV is much the same. Ratings are important only because they lead to a higher rate card. But in pay TV it is illegal to both charge for a program and then sell ad time. This means that subscription TV bought the magazine approach to sales but disregarded the source of magazine profit which makes reduced sales possible.

This whole issue of volume sales is questionable. Bob Huston in the May 14th issue of Cable News printed the results of an FCC study on the size of cable systems last year. There were approximately 5,000 cable communities in the United States in 1972. Of these, about 90 percent had less than 3,000 subscribers. Approximately 70 percent had less than 1,000 subscribers. And half of these systems had less than 500 subscribers.

Obviously, the answer in pay TV has to be on a fair return from each subscriber. The volume for reduced package sales does not exist.

Let's take a look at the assumptions involved in subscription or premium television. Let's assume that a system charges $5 or $6 a month and provides six to eight new movies or programs a month. If a motion picture company receives as much as 50 percent of the gross, they will receive approximately 40 cents per home per film. They will have taken a product which heretofore was worth $2 to $3 on the open market and they have depreciated it to absurdity.

The pay TV or cable company will take the $2.50 per subscriber remaining and, out of that, they will have to provide origination equipment, facilities, converters, dubbing costs, billing costs, studios, maintenance personnel and the replacement of faulty equipment. Again, negligible profit.

You can be sure that you, the cable operator, will receive the calls when maintenance is required, regardless of whose equipment requires maintenance. You are the one who will accept the abuse when a subscriber is irate about an "R" rated film which was shown, and you will be munificently rewarded with an additional 30 cent net for each subscriber each month. There is no rip-off in subscription or premium television. There is never enough to rip off.

As a result of this factor, programming has to suffer. Certainly no one is going to produce an extravaganza for pay TV at 40 cents a showing. But, aside from this, the very concept of a package will lead to the least common denominator. When you buy a bag of mixed nuts, how few almonds or cashews there are, compared to the peanuts. Packaging products for all subscribers has to lead to a package with mass appeal. Thus, in free television we have the year of the Western or the year of the mystery. "Ironside" yields a "Barnaby Jones," which yields a "Mannix" or a "Cannon," and so on.

Recently they have turned to the ethnic detectives to broaden their programming, an Italian Columbo or a Polish Banacek. George Stein and I have decided to do a pilot on a new ethnic detective. We are going to call him Izzie Goldfarb. Izzie will only accept the most dangerous, the most hazardous and the most expensive clients. Then he will hire Columbo and Banacek to solve them.

One of the early promises that pay TV made was the promise that even a small audience could receive unique programming -- opera, ballet, symphony -- if they were willing to pay the program price. Subscription or premium television returns the viewer to one more channel of programming, preselected for him, which he can either take intact or refuse, almost the same as regular TV. Again, lack of ingenuity or real choice.

Advocates of premium or subscription, perhaps a lot of people here today, say, Sure, subscription television has its drawbacks; that is all that the present state of technology will allow. In the meantime we are in business and pay TV is a reality. Or is it that my investors and stockholders want to see more dollars? This is a half-truth.

Pay per-programming requires a tremendous investment in research and development, as well as an investment in time and education.

The temptation is great to buy an armful of existing converters, some playback equipment, and get into the market place first and with a minimum investment.

If someone buys his own converter and cheats, how much will really be lost? Maybe this whole business. They can rationalize and say that in time they can change over to more advanced systems of pay TV. It never works that way.

The subscriber who has been paying less than a dollar for a new film will not want to pay the $2 or $3 that that new film can and will demand. Anxiety to get in first with a minimum investment and to capture the markets can destroy the future of pay television.

The motion picture companies would do well to stop and consider what their film product is really worth to the home subscriber. Once the major motion picture companies start selling their product this cheaply, it may be casting a die that is going to be very difficult to break.

The Federal Communications Commission, the Federal Trade Commission, the Justice Department, and Congress, as well as all those subscribers, will be watching this spectacular.

What are the motion picture production companies going to do when all the cable companies request their movies so that they can show them at these cheap prices? This could well be the most costly loss that ends the movie industry's in-home distribution and that elusive audience.

The cable operator would do well to stop and consider what his channels are really worth. I have complete faith in the future of pay TV. I have invested too much of my life in it not to be a believer. Subscription television or premium television is not the future. Pay per program offers the following decided advantages:

One, it allows different pricing. "The Panic in Needle Park" and "Cabaret" need not be sold at the same prices as part of a package.

Pay per program can create a need basic to cable television, and that is the utilization of multi-channel operations, rather than the reliance on just one-channel delivery for programming.

Pay per program allows greater freedom from censorship. "R" rated movies are selected by the home viewer. They don't have to be part of a package and available on the screen at all times. Those who object can keep these films out of their home. The subscription package will result in many excellent but controversial films being excluded from many packages.

A diversity of cultural programming can be offered at a price which makes this kind of programming feasible. Similarly, a cultural event, a heavyweight championship fight or another sports spectacular, a once-a-year event, can be specially priced.

The techniques of scrambling usually lead to a home unit which offers a much tighter security system. It is no longer possible for a veiwer to buy a standard or off-shelf converter and beat the system.

Six, perhaps the most important -- pay per program allows for impulse buying. Americans are not geared to pre-purchasing entertainment in less expensive packages. Years ago film studios experimented with ten-tickets sales for movies. It failed. The average viewer will look at his TV fare on a certain night, find nothing he or she really wants to see and will order a pay television movie or programming.

People are accustomed to spending $2 to $3 for a single theatre seat. Many factors have contributed to the decline in motion picture attendance: Fear of going into urban areas at night, the high price of family attendance, babysitters, parking problems, standing in line for tickets and perhaps not even getting in.

The $2 to $3 per-program charge for the family eliminates these problems and still offers a price people are willing to pay, unless subscription or premium TV creates a market which feels that 50 cents is too much for a first-run movie or outstanding sporting event.

You sitting in this audience who control the abundance of communications and entertainment needs in your communities' future certainly don't want to make a failure of what could potentially be one of your biggest profit-makers and your future and mine.

Thank you.

<u>MODERATOR HARRIS</u>: Thank you, Dick.

Our last panelist this morning is Mr. Jim Ragan of Athena Communications.

<u>MR. JAMES T. RAGAN</u>: Good morning, all.

I would just like to put my comments in the context of a system operator, a hardware supplier for pay TV and hotel theatre systems and also as a potential program distributor and supplier.

Now, briefly, I just want to put a couple of economic facts on the table and tell you what we did this past year.

Our focus has been on the economics of the delivery system, getting the product to a couple of small systems. I would just like to tell you what we did in a couple of instances.

As a programming distributor and a system operator, this past winter we conducted what we thought at the time was the first experimental live pay TV presentation of a major sporting event -- bringing the home games of the St. Louis Blues National Hockey team to Jefferson City, Missouri. Jefferson City has a system of about 8,000 subscribers. From late December through the playoffs in March we had live telecasts of the games carried by leased telephone lines to our system, which is a distance of about 135 miles. We shared the video feed with the Hughes Sport Network, which was carrying the game to the visiting team's home city. We used our own announcer and color man for the play-by-play production.

Now, costs. For this series of games -- and I believe it ran to 20 -- there was a one-time fixed installation charge of approximately $1200. And for each game the recurring production charges and the leased time were about $1300.

Now, this was a subscription, or a monthly subscription channel, and we were working on a fully loaded 12-channel system, so for the technologists here, we were using Channel G.

We charged $2.50 per game for the complete season or $3.50 per game if the subscriber paid on a monthly basis. There was a $3 installation charge and a $20 deposit for the subscription box.

I might add, the test from a technical and marketing point of view was a complete success. The economics looked right. We also discovered that those who like hockey or like a particular sporting event will come right up and plunk down the full charge for the whole season.

I also can say that those who did not like it just didn't pay for it.

Now, we did another thing. We have been working on our Indicode system, which is a per-channel subscriber system. This can go on either a standard or non-standard channel. And this past year we spent the time reaffirming the costs.

The scrambling device that goes into the headend as one per-scramble channel is $2700 installed. The decoding function in the home as an integral part of either a converter or as a separate device is $40 to $25.

This equipment has been production-tested. We have tested it on our own systems. And at the present time discussion is under way to integrate it into a pay TV test in Canada.

We have also been concentrating on the delivery economics of the hotel theatre system. We elected when we went into this business to look at the small end of the economic scale, the smaller inns, the 150-room inns, which is basically the average size.

When we started in, we estimated the total installed cost was $138. Today we can install a system complete for $78 a room. So the economics there are favorable.

We have conducted numerous surveys. We have talked to systems operators about what they wanted to have on cable, premium cable. And in some cases we found surprising resistance, particularly among the smaller operators. And I think that there are two points we should look at in this business.

I personally believe the technology is here; I personally believe the economics are right and it can be done. But there were two very good comments made. One comment from my right which says that the market for this type of service at the present moment is thin, and the other point that was made by Dick in his very strong comments, parts of which I happen to completely agree with: Please take a look at the size of the system. Most of them are very small.

But I think this is the time we should turn it over to questions, Henry.

MODERATOR HARRIS: Thank you, Jim.

We will now take questions from the floor. And if you want to address them to a panelist, fine. If not, I will try to direct them to a panelist.

Yes.

MEMBER: The gentleman who talked about the hotel business gave a figure that one-third, 36 percent or something like that, of the guests in the hotel had paid for it.

Can you break that down as to how that relates to guests nightly, which is of importance? If a guest stays for three nights and only uses the system once, you have lost something.

My understanding of the hotel business is that you need somewhere around 13 percent or something like that to break even.

And the head of one of the major hotel chains who put it in told me he only had 6 percent in the particular hotel in which they tried it, so they had half of what they needed to break even.

Can you relate your numbers to any of those?

MR. BUTTERS: Yes, I can. Unfortunately, in the hotel field there have been too many figures thrown around that have no relationship. When you say 14 percent, 14 percent of what?

The hotel business today is based upon equipped rooms. You have to weigh that against occupied rooms. Let's take the Regency Hyatt in Atlanta as a typical example. That is a 1,000-room hotel. The average stay in that hotel is 1.9 days. The average occupancy per room is 1.7. The average hotel occupancy is 97 percent.

When you are playing to 25 percent of those quests, you are playing to better than 12.5 to 13 percent of equipped rooms. So when you start throwing numbers around, you must base them either against equipped rooms, occupied rooms, or length of stay.

When I said in Miami we were enjoying 52 percent of the guests, you can readily see that the average stay in Miami is not 1.9 days; it's 3.2 days.

The average stay in London, England is 2.7 days.

And I don't know what any hotel man says he needs to break even, because with our concept we completely equip the hotel, he has no investment and he is taking his off the top side.

We expect to run a minimum of 10 percent viewing level per equipped room.

MEMBER: Mr. Lubic, we have heard from the other gentlemen as to how this works and where they have experimented and what they are doing.

Could you please tell us what HTN is doing?

MR. LUBIC: We are experimenting right now to put our system into Redondo Beach, California. We are having problems, to be honest with you, problems in what we call the box because of the technology of a two-way system by telephone. But I think we have overwhelmed it and whipped it this week.

We had a lot of changes in our box. A box cannot cost a lot of money to get it into the home; everybody here in the pay TV business knows that the hard costs of financing it are the boxes in the home.

That is why some people have merged together or are doing joint ventures, because they started out on the path to give free boxes away and found out that they can't because they cost a lot of money. Others have been experimenting with boxes that can't seem to work and they must change their system.

We have the availability of watching what they do, and we have the availability of putting the system in the right way.

That is why we are still experimenting with our system in Century City, and it will probably be in in Redondo Beach some time in September. It is a matter of just getting the lines in now.

MEMBER: Mr. Lubic, in your talk it was just a brief comment. You said PERK is obsolete. What does that mean?

MR. LUBIC: Our system, when we first designed it --

Okay. I'm sorry that a lot of people don't know what PERK is.

But basically, when we designed our system we used an acoustic coupling device to talk through any standard telephone, a dial type telephone. We found that a dial type telephone will take 14 different numbers to dial seven numbers to get the computer; then an access code, and then seven or eight numbers more to get into the computer: It's hard enough for me to remember my driver's license number.

So we developed a PERK, which was a programmed ordering device which now has been replaced by the touchtone telephone or touchtone pad, which is available basically in almost any telephone company. And they are putting in new equipment to receive it now.

So PERK is portable electronic response keyer. It's a device we made up the name for.

MEMBER: Dick, if you've got 7 or 10,000 homes who take advantage of impulse buying and at five minutes to eight you've got 5,000 customers who decide they want to watch the movie, how in the world is the computer going to be able to handle, or how are you going to have enough lines to handle a large number of people ordering the same programming?

MR. LUBIC: Basically I think you have got to go back to marketing of the system.

All people that watch movies will not dial in at one minute to eight to watch that one movie. Let's assume you had six programs on a 24-hour basis. Whenever they watch it, it's a new movie, a new program.

So let's assume that 6,000 people dialed in to the computer. The basic problem in our system and anybody's system who uses the telephone is the telephone company or the network of the telephone company itself. Getting from the home to our computer is the hazardous part, because if everybody in Anaheim, California, picked up their phone at one minute to eight, nodody would have a dial tone. You have to know the function of the telephone company.

So, to compensate that, we put CPUs right at the telephone company. CPUs are processing units that process the lines into the computer in a high-speed form so that it activates these homes. Some of them get a busy signal and they will have to redial.

MEMBER: I'm curious about an area where there is also a lot of activity, which is over-the-air pay television. It's not off the ground yet, but there are a lot of people talking about it.

Do you see this as being competitive with pay cable or friendly? What is your reaction to over-the-air pay TV?

MR. COOPER: Yes. I quite agree. There will be starts in the over-the-air pay cable field. And I think from the standpoint of people in the cable television business, we have to welcome it. I think we have to welcome every form of free enterprise. We are in that kind of business ourselves. And I am not concerned. I am more than willing, as we have always said in the cable business, to let the market place decide. I think there is a message there for the broadcasters.

MEMBER: Mr. Ragan, you mentioned your prices to the viewer. Could you also elaborate to some extent on what the fee-splitting arrangements were between the teams and the cable company and your own operation?

MR. RAGAN: All right. I would like to answer it this way. The fee-splitting race makes a point that I think is the most exciting thing about that whole test.

There was no fee-splitting. What we did is that we treated it as experimental, recognizing that costs would be incurred that may not be covered. The St. Louis Blues were very active. They think highly of expanding their -- expanding the market, and they wanted to try the cable route.

We asked permission of the visiting teams if we could do this. So basically it was strictly an experimental basis, and a memorandum of agreement and no fees.

MEMBER: Gerry referred to Channel 100 Systems in San Diego and said that people wanted to see more X rated movies and more R rated movies and wanted to pay for that. People are willing to pay for it and the market place wants it. It is not consistent with what you want to do, Gerry.

R rated movies are standard programming fare for a lot of pay cable companies. In our system we will have R rated movies so that people have a choice: they can either order it or not.

Do you see with your technology, the standard block converter technology, that you have to be more selective in your programming fare? Number one.

And, number two, will you ever go from the GP into the R or the X?

MR. LEVIN: First of all, Home Box Office is basically a program supplier, we are not wedded to nor do we provide any particular kind of box technology.

What we are seeking to do is to provide a program service to the cable operator that he, in turn, can market to his subscribers.

We have begun with the total package, for many different reasons. But, as I indicated in my remarks, it is not the kind of thing that we are wedded to

For example, on the question of the R and the X movies our research did indicate that while there is a substantial body of consumers that wants to see the family affair -- the family fare -- there is a consumer appetite for the R movies and the X movies.

Certainly as a startup industry, we have articulated a policy of not showing X movies in the home as yet.

What we hope happens in terms of technology, which we hope will follow the programming and marketing lead, is that there will ultimately be a box which will permit a number of services to be sold through the cable on what I will describe as a per-service and per-program basis, so that the consumer does have the kind of choice that everyone is groping for at this point. And by per service, I mean simply that perhaps the technological concept of channel may evaporate and people may be buying very discrete kinds of services, but there should be a per-program option available.

Now, when that box appears and it is available on a standardized, mass-produced basis, I think the program suppliers, the program packagers will welcome this, because ultimate consumer choice is important.

I think as a going-in proposition what we found is that the consumer initially not only is highly critical of each particular program but needs some entity to characterize. After all, you will never reach the point of infinite consumer choice. So somebody is doing the editing or the selection of programming for the consumer. And at least in this initial stage, it is important how that consumer, how the subscriber characterizes the nature of the service that is now coming into his home. You are reorienting, you are re-educating the subscriber, and one of the things we have tried to do as an opening proposition is simply to get good solid family traction into the home so that this particular thing is something that people will talk about, people will accept and people will look upon as a kind of dynamic new choice medium of providing programming.

That's a long-way-around to say that, at this point in time, I think it would probably be inadvisable for the pay cable entrepreneurs to show X movies into the home.

At the same time I think we need to see the development of cost-efficient box technology which will rise to support the market place demand for selecting out program choices.

And I will say in conclusion that from a program-by-program point of view, the movie industry will have to supply that kind of per-program movie that will sell on that basis.

<u>MEMBER</u>: Dick made a point that he feels that not enough is being charged for the fare.

In light of the Home Box Office study showing that the subscribers felt that they were getting \$23 worth of programming, what is the feeling in retrospect of knowing that information, that you would charge more if you had the opportunity? In other words, would you charge closer to \$23? Do you think your subscriber, while he feels he is getting \$23 worth, would pay anywhere near that amount?

<u>MR. LEVIN</u>: This goes back to this kind of cost-value relationship that I was referring to. Let's remember that this is a very difficult business that we are talking about, this pot of gold that is seemingly here for everyone. The consumer knows what it costs him to go to the movie theatre. He also knows what it costs him to see a Knicks playoff game at Madison Square Garden. But when that same program comes into his home via the television set through which he has been accustomed for many, many years to be receiving programming that -- in his mind he has thought has been coming through for free -- he is going to have a tough time figuring out exactly what the value relationship is of that programming in the home.

What we have sought to do is to make it a little easier for him, to begin with, by providing enough variety, enough programming, so that he can more adequately come to grips with evaluation of the programming.

Again, the \$23 is very heartening to us. But, of course, it is kind of a research figure to indicate the value assessment by the subscriber.

We have still found a lot of price-sensitivity in this business, particularly since, as everyone has indicated, you are talking about relatively small cable systems. And even having the home pay an additional $6 a month on top of the $4 or $5 basic cable charge is a lot of dollars in today's economy.

MR. RAGAN: Excuse me. Would you buy another used car from that type of salesman? Because when he comes back again, his price goes up. And I think you can't do that.

MEMBER: A question for Mr. Butters. How do you feel about the teenage prankster, the adult nut or the malicious competitor who sits there all day dialing your computer and using other people's identification numbers, the last four digits at random, if you will, and thus creating a billing nightmare for you at the end of the month when you bill people for programs that they themselves have not ordered?

MR. BUTTERS: That was a three-part question. How do we deal with the teenager and how do we deal with the malicious vandalism and the competitor?

Number one, this discrete code number that is assigned to this customer is really no different from the Bell Telephone credit card number that you have. In fact, it's a little more discrete. Now, if you want to pass that out to your child, you're going to find a telephone bill loaded with long-distance telephone calls. I know. My daughter has access to this number.

I think the same thing is going to apply here. If you want to pass that discrete code number out, it's like handing out an American Express card. That's your problem.

As far as the prankster dialing in: to get our combination of numbers would be pretty hard to do. And I think you should talk to our engineering people at our booth and see this system in operation and see the qualification, electronic qualification, that it goes through before you can even get into the computer bank.

MEMBER: May I clarify my question. I did see the demonstration in the hall yesterday. And as I understand it, after dialing the computer, which is a standard telephone call number -- you then dial a three-digit prefix to indicate the channel and then a four-digit suffix which is your identifying number.

MR. BUTTERS: Yes.

MEMBER: I'll just make up four digit suffixes and dial them all day -- one will be his, one will be his, et cetera, I do don't care whose it is -- and dial them into the computer. I am ordering a program for him and him and so on, and you are going to bill those people at the end of the month.

MR. BUTTERS: Well, I suppose you have that with computer access being done today with data terminals. I don't know. And I am really not a digital engineer. I know we don't assign them at random. So it's possible that he could find certain combinations, but he's got a lot of numbers to deal with.

MEMBER: Could we get some idea about the market penetration on cable systems that are now trying the subscription route? In other words, how many homes have subscribed?

MODERATOR HARRIS: Frank, do you want to try that first?

MR. COOPER: Gridtronics passes.

MODERATOR HARRIS: I'll see if I can find an answer. Gerry.

MR. LEVIN: We told everyone who is manning our booth today to answer every question that is asked.

Our penetration, to use the standard cable term -- in the startup systems, ones that we have at least been operating for a couple of months, to give some data -- has been in the 25 to 35 percent range, that is, of existing cable subscribers.

Again, I think we have the feeling, as we have experimented with various marketing techniques, that that is just the first phase in subscriber acquisition for pay cable.

What we believe we will see and we seem to be seeing now is a continuing addition of subscribers to the pay cable service, and we have some projections as to what we think might be the ultimate penetration. But that is the way it seems to be beginning.

MODERATOR HARRIS: Jim, do you want to take a crack at that in your Jefferson City system?

MR. RAGAN: Yes.

Remember that the purpose of the test to determine the economics of the delivery system, was an experimental test. It only lasted through the St. Louis Blues home games.

The response was not as satisfactory as we would like it. The people who enjoy hockey came right up and paid the full shot. But I can assure you there are many more who did not.

From a technical point of view, it was fine.

MEMBER: Yes. For Mr. Levin.

The people that have access to subscription television, are they using it each night and does their consumption of it go up the longer they are subscribing? Do they watch it more and more? Do they accept it as a network?

Do they watch it alternatively to, say, a major network, or do they use it just maybe once a month?

MR. COOPER: Yes. I won't try to dazzle you with terribly accurate numbers. But the viewers who take the service see nine out of ten of the movies. They watch nearly every movie.

MEMBER: Do they watch the same movie again?

MR. COOPER: I don't have the exact figures on how often they watch it. Some of them watch it frequently. After they get used to the service, there is a slight decline.

MODERATOR HARRIS: Gerry, do you want to try a quick answer? And then we will have one more question.

MR. LEVIN: What we have found in taking ratings on our service is that, first of all, there are two types of product. The film product or tape product that is repeated -- and repetition, incidentally, will be one of the backbones of pay television to provide accessibility to the consumer. The subscriber seems to be watching the programming to almost a frightening extent. And I say that only because, since repetition is important in order to provide convenience and accessibility, it appears that the appetite is rather enormous, so that people are continuing to watch even if they have already seen the film which is played seven different times.

On the question of live sporting events which we have, what we have found is kind of interesting -- these sporting events provide an alternative program for the viewer to watch, so that if on a Sunday might he happens to feel like watching a hockey game, there may be one there; or on a Monday night instead of watching something else, he may want to watch boxing. And from a traditional rating point of view, the figures are rather interesting in terms of subscriber viewership.

And I don't think we see any pattern of initial novelty to the service. If the service is getting traction in the home, it becomes a part of the habit structure in the home and they use their monthly calendar and they are checking off about the same number of events each month that they really want to watch. You are trying to stmulate ticket psychology anyhow.

MEMBER: Supposing in a given community you have the homes, the hotels and motels hooked up and you don't decide to subscribe to any of these services and a motel or hotel in that community would like to have these services. What happens then, since we are hooked up to the amplifers and the distribution in the hotel? How do you plan to supply that service?

MODERATOR HARRIS: I'm not sure I quite understand the question. Could you rephrase it?

MEMBER: Well, if you were to hook the cable system into a big hotel and the hotel wants it just for that -- their own use, would that be available to them?

Does the hotel have the option of taking only the pay service as opposed to both the cable and the pay service?

MR. BUTTERS: Well, as you may or may not know, Cox Cable handles all of our service on their system in Atlanta. They serve a all of our hotels on a leased-channel basis, and the hotel has an option of taking just our discrete channels and we choke out the off-air, or they have an option of taking the Cox Cable service and our service.

The same thing with Viacom in San Francisco. They handle our distribution there.

MODERATOR HARRIS: Thank you.

Thank you, audience and thank you, panelists.