

FROM DOW JONES NEWS SERVICE

November 17, 2003

Dow Jones WebReprint Service®

IN THE MONEY:

Disney's Video Strategy Savvy, Not Goofy

By Steven D. Jones

DOW JONES NEWSWIRES

VANCOUVER, Wash. (Dow Jones)—

Walt Disney Co. (DIS) and its technology partner Dotcast of Kent, Wash., are creating bandwidth out of thin air and they want to use it to send movies to your television.

That's the strategy for Moviebeam, a video-on-demand service which Disney launched six weeks ago in Salt Lake City; Spokane, Wash.; and Jacksonville, Fla.

Marc Drooker has spent 14 years with Circuit City Stores Inc. (CC) and compares the buzz in the store over Moviebeam with the introduction of satellite TV in 1994. Shoppers' skepticism gives way to curiosity, says Drooker who is now buyer for digital video services for Circuit City.

Customers he dealt with recently in Jacksonville found Moviebeam's on-screen prompts "intuitive" to navigate. Moviebeam relies on an antenna, which seemed like a throwback to some, but after seeing the DVD-quality picture "consumers seem to get it," he says.

Using Dotcast technology, Disney attaches its Moviebeam content to an ordinary television signal. For a monthly fee of \$6.99, viewers receive an antenna and set-top box containing a hard drive capable of

downloading and storing up to 100 movies. In certain areas, users may be charged a \$29.99 activation fee. A phone line connected to the box collects billing information.

Using a nine-button remote, viewers can scan the library, watch trailers and view entire films. First run movies cost \$3.99 and oldies are \$2.49. Once selected, users can pause or rewind at will and have 24 hours to view the entire film. The system includes films from most Hollywood studios and updates itself weekly with 10 new offerings and deletes 10 others.

Finding A Fit

Frequent renters display the most interest in Moviebeam, says Linda Walters, manager of video and stereo sales for R C Willey Home Furnishings of Salt Lake City.

A regularly updated film library sitting atop the TV is a couch potato's dream. "After people warm up to the idea of how this works they get pretty excited," she says.

Technophiles have said they are disappointed that Moviebeam doesn't contain more films in wide-screen or high-definition formats, says Henry Hill, manager of Huppins Hi-Fi Photo and Video in Spokane.

Although Moviebeam is capable of handling both, it currently contains mostly standard format films. Renters frustrated by late fees and checkout lines at video stores express the most interest. "If it's a fit, then they really like it," says Hill.

Finding that fit for just a fraction of the 60 million U.S. households that spend about \$10 billion annually on movie rentals could produce big returns for Disney.

Disney has a cable and satellite presence through its Disney Channel and ESPN sports franchise. But the industry that was once a mix of competitors is rapidly consolidating, squeezing content providers like Disney for higher fees and premium placement in the channel lineup.

Access to America's living rooms is in the hands of fewer companies, but Dotcast technology may provide an end run around the oligopolies.

Dotcast isn't a broadcast network like ABC or the Public Broadcasting System, although it utilizes those signals. You can't tune a television to see a Dotcast signal although the signal may be attached to the TV channel you are watching.

Rocket Science

Broadcast signals travel in planes and television receivers are built to detect signals in a specific plane. Dotcast attaches a separate signal at a right angle to the primary TV signal.

Imagine the tail of a jet airliner; the vertical fin carries the television signal and the horizontal fin carries the Dotcast signal.

The signal travels "at a right angle to where the TV receiver expects to detect a signal so basically the TV ignores it," explains David Serlin, general manager of Dotcast. "This is the first time broadband data has been successfully imbedded in a broadcast signal."

If this sounds like rocket science, that's because it is.

About 15 of Dotcast's 25 employees are former engineers at the Boeing Space Center in Kent, Wash., where they developed

satellite communication systems, Cruise Missile controls and networks for the International Space Station. In 2000, they began slipping across the street to Dotcast's offices where they work on systems to deliver Mickey and Goofy to your living room.

On a recent afternoon, Lilo & Stitch was playing on the lunchroom television.

Leo Hoarty, who developed trading systems for Goldman Sachs and Paine Webber before helping found interactive TV pioneer ICTV, founded Dotcast in 1998.

Hoarty demonstrated the technology to a group of Disney executives. He recalls they quickly grasped the key: "The bandwidth Dotcast provided was very cost effective."

Cable companies want to make video-on-demand a core offering, but to do so requires upgrading their networks to digital capacity at a cost of about \$100 per subscriber. Upgrading networks in cities such as San Francisco, Denver and New York is costing hundreds of millions of dollars.

In those same markets, Dotcast can attach content to an existing television signal for about \$200,000 and reach every household.

Tortoise And The Hare

The difference is cable delivers content swiftly as the viewer watches. Dotcast is slow. It trickles data into the set top box where it is stored.

Viewers of both services have control of when they watch the content, but the Moviebeam content is less costly to deliver. Moviebeam has turned video-on-demand into a race between the tortoise and the hare.

"We can light-up a market of 1 million people for as little as 20 cents per home," says Serlin, who has worked with Hoarty at ICTV and now at Dotcast.

"We believed very quickly that this would be an excellent way to deliver movies and other content further down the road," says Salil Mehta, Disney's executive vice president for new business development.

Disney made an investment in Dotcast

shortly after the presentation in 2000 and now has an "exclusive license" for Dotcast technology delivered to televisions, says Mehta. A year ago, Disney also acquired Dotcast's network services team and moved its 35 engineers to California.

Disney has struck an agreement with National Datacast Inc., a unit of the Public Broadcasting Service, for access to its 217 broadcast signals and tower facilities nationwide. Disney also has access to signals broadcast by its 10 company-owned ABC stations.

Combined, Mehta says Disney can deliver its Moviebeam video service to 80% of the country and Disney is confident the Dotcast technology is up to the task.

"This is not a test," says Mehta. "It's a launch in three markets. As far as how many more markets or at what rate Moviebeam will appear, we haven't said."

Neither Mehta nor Hoarty would disclose terms of the relationship between Disney and Dotcast. Hoarty says Dotcast has received "north of \$70 million" in venture investment from Disney and Intel Corp. (INTC), the GE Capital Group of General Electric Co. (GE) and Worldview Technology Partners of Palo Alto.

With Disney rolling out televised content, Hoarty plans to next approach "a few record labels" about music distribution. Next on his list of potential customers are computer makers, communications companies and anyone with an appetite for bandwidth on a budget.

Says Hoarty: "This is a very low cost distribution channel that goes straight to the living room."

(c) 2003 Dow Jones & Company, Inc.

By Steven D. Jones, Dow Jones Newswires;
360 253-5400; steve-d.jones@wsj.com