



**Opening Statement of Michael Petricone
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before the Federal Communications Commission

**Open Commission Meeting on the
Digital Television Transition**

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Thank you, Chairman Copps, for convening this meeting and for inviting me to discuss the Digital Television Transition. My name is Michael Petricone and I am Senior Vice President for Government Affairs at the Consumer Electronics Association (or CEA).

CEA is the principal trade association of the \$172 billion U.S. consumer electronics industry. CEA's more than 2,200 member companies include the world's leading manufacturers, distributors and retailers of consumer electronics. CEA's members design, manufacture, distribute and sell a wide range of consumer products including television receivers and monitors, computers, computer television tuner cards, digital video recorders, game devices, navigation devices, music players, telephones, radios, and products that combine a variety of these features and pair them with services.

A number of CEA members are also the leading manufacturers of Digital-to-Analog (DTA) Converter Boxes. These boxes convert digital broadcast signals into analog so that a picture is viewable on older analog TVs that are not hooked up to MVPD providers (e.g., cable, satellite, telco-delivered video). Consumers that rely on these older analog TVs to watch over-the-air programming must install a converter box prior to the nation's DTV transition.

Our industry invented digital television, and we have taken a leading role in educating the public about the DTV transition. Among other things, we are a founding member of the DTV Transition Coalition whose mission is to ensure that no consumer loses broadcast television service due to lack of information.

We have engaged Florence Henderson to reach out to older Americans. We have partnered in consumer and trade events with groups like the Hearing Loss Association of America, the NAACP, and the AARP.

We hosted a YouTube contest encouraging consumers to show how they helped transition their friends and family to DTV. And we produced a DVD entitled "DTV 101 – A Consumers' Guide to Digital Television," which is available on DVD and on YouTube.

These are a small sampling of CEA's educational efforts, and these do not include the equally impressive efforts of CEA's individual members.

I would like to spend the remainder of my time discussing CEA's analysis of the market for DTA converter boxes.

Methodology

Let me start by saying that, from a market research standpoint, the DTV transition presents a unique and unprecedented challenge. No one knows with any certainty how many consumers need, want or will actually use converter boxes. Under normal conditions, it would be extremely difficult to predict with precision how consumers will behave or what the demand or market for converter boxes will be. It is even more challenging when faced with the current dynamic of a fluctuating economy and the substantial modifications made by Congress to the program.

That said, I'd like to describe the methodology underlying CEA's good faith attempt to estimate converter box supply. In January and February, CEA collected confidential data and information from multiple manufacturers of DTV converter boxes, representing upwards of 75%-85% of the market. We also collected confidential data and information from major consumer electronics retailers and distributors.

Box Inventory Levels

Retailers placed significant orders for converter boxes in anticipation of a major spike in demand at the conclusion of the transition around February 17. In early January, CEA estimated that U.S. retailers had inventory of between six and 12 million converter boxes, or approximately one-half the total number of boxes sold since the inception of the program (18 million boxes, according to NTIA). That was an unprecedented inventory level in an industry that abhors the risk of excess stock, and it is the result of manufacturers and retailers working to ensure sufficient supply in advance of the DTV transition.

As of yesterday, consumers had redeemed coupons to purchase approximately 22.6 million converter boxes, according to NTIA. We now estimate that U.S. retailers have inventory of between three and six million DTV converter boxes.

NTIA coupon redemptions accelerated significantly in January (NTIA estimated an average of 72,000 daily coupon redemptions in November, 87,000 daily redemptions in December, and 114,000 daily coupon redemptions in January). Nearly 4.5 million coupons have been redeemed since the beginning of 2009.

CEA believes that the extension of the transition date to June 12 could reduce daily coupon redemption rates in the coming weeks. Consumers ramped up daily redemptions over 50% in the weeks leading up to the February 17 transition date; now that the date has been extended by four months we anticipate that daily redemption rates will fall off and then accelerate again as the June 12 transition date approaches.

The worst case scenario is that there are only 3 million boxes in current inventory and daily redemptions stay at 115,000. We will then run out of box inventory by the end of February. What is unknown -- and thus makes inventory projections difficult -- is that the NTIA coupon waitlist is now 3.7 million. If NTIA suddenly issues all the coupons and 65% of those coupons are redeemed, we may run out of boxes even earlier than the end of February. Another unknown is the impact of new rules allowing consumers with expired coupons to reapply for coupons.

The more likely scenario is that there are 6 million boxes in inventory, so that if we stay at 115,000 daily redemptions, we will run out boxes in 52 days. As discussed in the analysis below, we believe it is likely that existing inventories of converter boxes will be exhausted just as new box inventories begin to arrive on store shelves.

It is important to note that NTIA reports that 12.5 million coupons have already been redeemed by OTA households -- the only households that truly need converter boxes to continue watching free over-the-air television after June 12. CEA estimates that 11.5 million U.S. households are OTA households. Nielsen Media Research (Nielsen) reports that 6.5 million households as of December 2008 were not ready for the transition. The Nielsen survey is based on a small sample size, includes households that have purchased a box but not yet hooked it up, and does not account for the 4.5 million additional coupons that have been redeemed since it published its survey.

Converter Box Supply Chain

CEA believes that converter box manufacturers, in anticipation of a February 17 transition date, ended production of boxes in early January 2009. CEA believes that retailers began to order new box supplies when it appeared likely that legislation extending the transition date would pass. It is extremely difficult for manufacturers and retailers to anticipate demand levels for boxes between now and June 12, especially since the NTIA coupon program remains on hold and anticipated changes to the program, including the possibility of additional funding, remain ambiguous.

Generally speaking, the time from commencement of the ordering process to the time a product appears on store shelves can take upwards of 20 weeks. In cases where manufacturing of the product does not commence until after orders are placed, it can take even longer. But the DTV converter box is a unique product, and CE manufacturers and retailers recognize the exigent circumstances surrounding the transition date change and the current status of the NTIA coupon program.

As noted above, CEA estimates that between three and six million converter boxes are currently in retail inventory. CEA estimates that new supplies of converter boxes could appear on retail shelves by mid-April, representing a highly accelerated cycle of only 60 days.

What makes this 60 day cycle possible when a typical CE supply chain takes at least twice as long? What has changed since early January?

- (1) CE manufacturers are not immune to the severe economic crisis and have been shutting down manufacturing of many of their product lines in recent weeks. This creates a virtually unprecedented level of excess manufacturing capacity and means that manufacturing lines can be turned on

immediately and dedicated to the production of converter boxes. This ability to start up manufacturing immediately can cut weeks off the typical supply chain timeline. The fact that manufacturers do not have to allocate capacity to other products also means they can make converter boxes 24/7.

- (2) Manufacturers and retailers understand the exigency created by the change in the transition date and are working in concert to shorten supply chain timelines to virtually unheard levels. Manufacturers are securing shipment slots on first available vessels, retailers are coordinating shipment pickups, and other supply chain coordination is shortening each link in the chain.
- (3) Manufacturers have greater access to components, including chips, housings and other materials, than would have been available even 30 days ago because ancillary product lines are idle. The ability to secure parts immediately without having to source them further shortens the timeline.
- (4) Typically, when manufacturing lines are shut down, the lines are immediately retooled to manufacture other products. But because manufacturing of CE products has slowed, many converter box lines were not retooled, thus allowing lines to start back up immediately, saving additional time.

All of these factors are new since CEA estimated supply chain timelines for converter boxes back in early January. Therefore, we believe that new converter boxes will arrive on store shelves by mid-April.

Contingency Planning

As I mentioned above, it is extraordinarily difficult to predict precisely the demand and supply levels for converter boxes through the end of the delayed transition. We believe that there is a possibility that we may have a temporary shortage in February or March. But new evidence of a significantly compressed production cycle suggests that it is highly possible, though not by any means certain, that any shortages would be temporary. Is there any way of guaranteeing against even a temporary shortage?

Unfortunately, I am not aware of anything that the FCC can do to increase the supply of converter boxes. I can however share with you suggestions that CEA and others have made to Congress and the Administration.

Manufacturers and retailers do not want to risk getting stuck with an oversupply of products that have very slim profit margins and will be virtually worthless after the transition is complete. Some have suggested that the Federal Government could eliminate this risk altogether by taking over responsibility for the distribution of converter boxes. This would entail either purchasing or providing funding guarantees for the existing retail inventory, and taking over responsibility for ordering and distribution of new converter box supplies. While CEA is not advocating this proposal, it would allow for orders to be placed immediately with manufacturers without regard to current inventory levels and would ensure 100 percent satisfaction of consumer demand.

Other measures that may reduce the need for additional supply include:

- Restrict the availability of vouchers to exclusively over-the-air households

- Allow vouchers to be used for converter boxes that currently are not coupon-eligible because of their advanced feature sets
- Allow vouchers to be used for purchase of DTVs priced at under \$300
- Allow vouchers to be put toward cable or satellite subscription services

Conclusion

I hope that this analysis provides information that is helpful to the Commission. We recognize that the transition is an enormous national responsibility. We are committed to educating the public and doing whatever we can to ensure a successful and consumer friendly transition. I would be happy to answer any questions that you might have.