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# TELEVISION DIGEST WITH CONSUMER ELECTRONICS

The Authoritative Service for Broadcasting, Consumer Electronics and Allied Fields

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**INTERNET SEEN OUTPACING MEDIA:** Internet revenue to grow 30% per year, Schroders forecasts. Cable, DBS to rise at double-digit rates, broadcast audience erosion to slow. Radio to increase in 'high single-digit' range. (P. 6)

**VALENTI 2ND IN ASSOCIATION COMPENSATION:** If total compensation is included, MPAA Pres. Jack Valenti has been displaced as best-paid communications industry association head, according to latest tax returns. New leader, at \$1,239,574, is U.S. Telecom Assn. Pres. Roy Neel, according to Form 990 filed for 1998 tax year (most recent available). Figure includes \$511,814 salary, down from \$533,845 previous year (TVD Dec 28/98 p1), but \$727,760 in USTA contributions to unspecified employee benefit plans (up from \$189,419).

In comparison, Valenti's increase was relatively paltry 3.1%. His salary totaled \$1,065,359 for 1998 tax year, including income from MPAA and corporation that owns hq building. Actual figure is believed to be higher, including income from MPAA's international affiliate, which is for-profit and doesn't have to make tax return public.

Cellular Telecom Industry Assn. Pres. Thomas Wheeler is close 3rd, although his actual \$657,905 salary is well below some other association executives. He benefited from \$373,038 contributions to employee benefit plan, which is well composed of combination of insurance and deferred compensation, for total of \$1,030,943, according to tax form.

Media association heads made up most of other salary leaders: NCTA ex-Pres. Decker Anstrom (\$812,595), NAB Pres. Edward Fritts (\$700,008), CableLabs Pres. Richard Green (\$632,386), Alliance of Motion Picture & TV Producers Pres. J.N. Counter (\$600,000).

### Consumer Electronics

**DEFENDANTS WIN FIRST ROUND** of suit that seeks to bar Internet sites from posting hacked DVD encryption codes as Cal. court denies temporary restraining order. (P. 8)

**NEW-MILLENNIUM PRODUCTS** to star at this week's Las Vegas CES. Recordable-DVD announcements to abound. (P. 9)

**CEA WORKING GROUP FORMED** to draft proposed HDTV display definitions by mid-Feb. as 9-5 vote reverses earlier committee decision. (P. 10)

**HOLIDAY CE SALES RISE 4-6%,** led by DVD and projection TV; shortages of HD-ready sets and videogame products reported. (P. 11)

**CD COPY PREVENTION READIED** for summer debut by Macrovision. System inhibits recording in audio CD decks and PCS. (P. 13)

**DAEWOO ELECTRONICS JOB CUTS** weighed as company pieces together debt restructuring program, S. Korean press reports. (P. 14)

**DVD EXPRESS TO MERGE** with games e-tailer Maximum Holdings to form Express.com; music store to be added in first quarter. (P. 15)



Overall, average salary for telecom association head was \$378,259 in most recent tax year. That's up 16.1% from previous year, largely because of handful of major increases. Most of executives' compensation included some employee benefit contributions, but most of those were well under 10% of total pay.

Average was significantly skewed by handful of low-paid executives, including Cable TV Public Affairs Assn. Exec. Dir. Sara Breaux (\$31,359), Alliance for Community Media Exec. Dir. Bunnie Riedel (\$40,000), Independent Cable & Telecom Assn. Exec. Dir. William Burhop (\$61,900), Center for Media Education Pres. Kathryn Montgomery (\$70,271).

Average also was reduced by inclusion of public broadcasting association heads. Despite controversy over public broadcasters' using bonuses and other means to top \$150,000 salary cap, PBS Pres. Ervin Duggan was highest-paid public broadcaster for 1998 tax year ended, with \$151,800 salary, \$96,391 in contributions to employee benefit plans, \$29,449 in taxable expenses and other allowances. Exec. Vp Robert Ottenhoff had same salary, plus \$62,991 benefits and \$16,663 expenses; Exec. Vp Kathy Quattrone same salary, \$54,036 benefits, \$2,092 expenses; Exec. Vp John Hollar \$151,598 salary, \$61,404 benefits, \$6,450 expenses.

Other public broadcaster compensation included: APTS Pres. David Brugger (\$175,000); CPB Pres. Robert Coonrod (\$149,415 plus \$29,883); NPR Pres. Delano Lewis (\$144,577 plus \$15,654); NPR senior host Robert Edwards had \$172,600 salary.

Mass media executives included: Newspaper Assn. of America Pres. John Sturm (\$435,760 plus \$124,253 benefits), Assn. of National Advertisers Pres. John Sarsen (\$428,417), TvB Pres. Ave Butensky (\$413,537), Radio Ad Bureau Pres. Gary Fries (\$379,000), SBICA Pres. Charles Hewitt (\$373,149), CTAM Pres. Char Beales (\$371,875), ALTV Pres. James Hedlund (\$322,500), Promax Pres. James Chabin (\$314,827), NATPE Pres. Bruce Johansen (\$307,200 plus \$55,000 benefits), Ad Council Pres. Ruth Wooden (\$251,116), MSTV Pres. Margita White (\$220,750), American Ad Federation Pres. Wallace Snyder (\$211,000), C-SPAN Chmn. Brian Lamb (\$195,118 plus \$24,869), RTNDA Pres. Barbara Cochran (\$192,222), IRTS Exec. Dir. Joyce Tudryn-Friberger (\$154,287 plus \$31,500 benefits).

**RETRANSMISSION NPRM LAUNCHED:** FCC has opened rulemaking (CS 99-363) asking whether satellite retransmission consent should be handled under same basic rules as cable retransmission consent. Rulemaking says many parts of Satellite Home Viewer Improvement Act (SHVIA), which provides for local-into-local carriage of TV signals for DBS, "appear to have general impact upon the retransmission consent provisions as applied to all MVPDs" (multichannel video program distributors), including cable, and notice of proposed rulemaking (NPRM) seeks comment on that tentative conclusion.

NPRM addresses retransmission consent only, Commission said; must-carry via satellite has later statutory deadline and will be dealt with in future. Although rulemaking repeatedly mentions cable and could have some effect on cable provisions, industry officials expressed little concern about its likely impact on cable carriage of broadcast signals.

Key issue is whether retransmission consent rules for DBS should operate under regulatory regime similar to that for cable, FCC says, or whether there should be new regulatory structure. For example, rulemaking asks whether TV stations should have same election period for DBS as for cable to choose between must-carry and retransmission consent and whether choice has to be same for both. Commission asks whether there are any statutory, regulatory or technical differences between delivery systems that would justify different treatment.

SHVIA prohibits broadcasters from signing exclusive retransmission agreements and requires broadcasters, until 2006, to negotiate in good faith with satellite carriers and other MVPDs for carriage of broadcasters' signals. Notice seeks comment on what criteria should be used to define "good faith" and on statutory provision that allows broadcasters to discriminate among MVPDs based on "competitive marketplace considerations."

Commission also seeks comments on exclusive retransmission contracts, which statute allows beginning in 2006. It notes that sunset of limit on exclusive contracts appears to apply to all MVPDs, not just DBS, and seeks comment on that. Rulemaking also asks about procedural issues such as burden of proof and relief procedures. Comments are due on exclusivity and "good-faith" negotiations 14 days after publication in *Federal Register*, replies 21 days after publication. Comments are due on retransmission consent and administrative matters Feb. 1, replies Feb. 20.

**Alliance for Community Media** urged FCC to ensure that public, educational and govt. (PEG) channel placement "will not be sacrificed" while creating Class A low-power TV stations and securing permanent spectrum for LPTV. In comments supporting Community Bcstrs. Assn. petition for permanent spectrum home for LPTV stations, Alliance said it recognizes creation of dependable LPTV service will enhance diversity in programming and minority ownership, but Commission must continue to support PEG, which has been harmed by "must-carry rationalizations for PEG slamming." Alliance also opposed turning over any PEG channel capacity, even if not currently being used, to non-PEG entity: "If LPTV is allowed to occupy currently unused PEG channel capacity, it must do so only for a period of time that the channel is not needed for PEG purposes."

**FCC Cable Bureau** granted EchoStar motion to dismiss its program access complaint against Fox following companies' settlement agreement, details not disclosed. EchoStar had complained that Fox unlawfully discriminated against it in prices and other terms and conditions for making available regional sports programming of Fox Sports Ariz. In motion to dismiss, EchoStar said companies had "amicably settled certain disputes," including program access complaint, and as part of that settlement EchoStar had agreed to withdraw its complaint against Fox.



**COX AND FOX FIGHT:** Retransmission consent fight between Cox and Fox went down to deadline Dec. 31, with Fox rejecting Cox bid for 30-day extension of agreement. Dispute threatened to deprive more than 400,000 cable subscribers in 5 cities in nation of Fox network programming beginning Jan. 1. Cox refused to carry 2 Fox TV specialty cable channels — Fox Sports World and classic movies FXM — in return for renewal of retransmission consent allowing cable system to carry Fox TV programming in each market.

Chances of resolving dispute before Dec. 31, when current retransmission agreement expired, appeared slim, Fox official said at our Dec. 30 deadline, although parties said negotiations were continuing. Fox spokesman was less than optimistic on chances of success: "At this point we are working on the assumption that there will be no settlement." Dispute potentially was to affect Cox subscribers in 5 cities, he said. Cox Va. Vp-Business Development David Dejesus merely said: "Cox is continuing to negotiate with Fox."

Cox faced being forced to pull plug on Fox affiliates in Fairfax County, Va., with more than 260,000 subscribers, Cleveland with 72,000 and Austin, Dallas and Houston, each with more than 30,000. For cable subscribers that would mean going without NFL games, Fox news and other popular programs such as *The X-Files*, *Ally McBeal*, *The Simpsons*.

At our deadline, parties seemed adamant. Dejesus said: "Cox's position is that retransmission consent for a Fox channel should not be tied to carrying their other 2 channels." However, Fox spokesman said broadcasters had to "look for value in other ways" because cable systems won't pay per-subscriber fee for right to carry broadcast signal. In Fairfax, Fox wanted Cox, which recently acquired cable system from Media General, to carry its 2 cable channels when it completed digital upgrade of its system, he said, "and all other cable channel and satellite providers such as Comcast, AT&T, MediaOne and DirecTV, did not have a problem with this arrangement... They [Cox] did not want to provide this and are willing to throw out WTTG-TV [Ch. 5, Washington]."

Asked why Cox had problems with Fox's terms while other MSOs didn't, Gary McCollum, Cox vp-gen. mgr. in Fairfax, said he wasn't privy to other cable agreements, but "it is different with Cox. We do not make program changes without consulting with our customers." Accusing Fox of holding Cox customers hostage to its interests, he said "program changes have to include discussions with customers. It can't be forced on us by broadcasters. That is not the intent of the Cable Act." McCollum said he remained hopeful on discussions but made clear that "the considerations they [Fox] have required of us have not been something we can go along with."

Cox informed customers through posting on its Va. Web site of likelihood of removal of Fox channel. "It is their [Fox's] decision, not ours," notification said. It also accused Fox of "using retransmission consent as a bargaining chip to meet their demands for our cable systems to pay and carry several other Fox networks (even if it requires eliminating other popular networks in our lineup)." Giving in to Fox's demand would set precedent that could give broadcasters "greater voice in determining our programming lineup than the customers we serve," company said.

Meanwhile, Fox signed long-term retransmission agreement with Time Warner that includes carriage of Fox Sports World and FXM Movies. Fox also agreed to provide Time Warner customers all high-resolution digital programming broadcast by Fox Bcstg., News Corp. said.

**FCC reaffirmed** that it can use "underlying facts" involved in forfeiture, though not forfeiture itself, to help determine whether licensee is qualified, in decision rejecting reconsideration petitions filed by CBS Radio and Tidewater Communications. Commission said statute supports FCC interpretation that facts can show pattern of noncompliant behavior. CBS had said facts shouldn't be used because licensee hadn't had chance to cross-examine or exercise other procedural rights, but Commission said licensees have that opportunity later in process. FCC also rejected CBS claim that indecency basis for fines was "constitutionally suspect." However, agency did reverse its earlier decision that no statutory violation can be considered minor for purposes of reducing fine.

**President Clinton** said he will support new initiative to protect consumers from illegal sale of pharmaceuticals on Internet, saying "we will show that we have zero tolerance for prescription drug Internet sites that ignore federal and state laws and harm patient safety and health." Initiative, which will be included in this year's budget, would: (1) Establish federal requirements for all Internet pharmacies to ensure that they comply with state and Federal laws. (2) Create new civil penalties for illegal sale of pharmaceuticals. (3) Give federal agencies new authority to swiftly gather information needed to prosecute offenders. (4) Expand federal enforcement efforts. (5) Start new public education campaign. Clinton said that in FY 2001 budget he would include \$10 million to fund activities.

**Minn. Attorney Gen. Michael Hatch** is seeking civil penalties against Minn. Public Radio (MPR) for allowing about 100 organizations to use its member information. In suit filed in Ramsey County Dist. Court, Hatch said practice, in which 3 million member names and addresses were disclosed to fund-raising solicitors, violated laws limiting what charities can do. He also said MPR didn't adequately disclose to contributors what would be done with their membership information, which Hatch said is fraud. MPR officials didn't comment.

**Nat Ostroff**, vp, Sinclair, and Robert Graves, chmn. of Advanced TV Systems Committee, are to face off at DTV Forum March 20-22 at Hotel Inter-Continental in L.A. Sinclair has been pressing for new DTV standard, while Graves supports current version. Other scheduled speakers include Robert Pepper and Amy Nathan of FCC, Larry Thorpe and Robert Hopkins of Sony, Peter Fannon of Matsushita, Michael Petricone of Consumer Electronics Assn., Daniel Brenner of NCTA — 800-647-7600.

**National cable network ad revenue** rose \$2 billion to \$8.7 billion in 1999, Cable Ad Bureau (CAB) said. CAB estimated that with addition of ad revenues from cable systems, interconnects and regional cable sports networks, total (national, regional and local) cable ad revenue in 1999 would exceed \$11.6 billion, up from \$9.45 billion in 1998.



**MEDIA ASSOCIATIONS HEALTHY:** Major media associations were relatively healthy at end of 1998 tax year (most recent available), according to Form 990 tax returns we've obtained. Most ended year with minimal surplus or deficit, but with strong reserves. Generally, convention and similar revenue was up, with dues often flat or down. Lobbying and other expenses were relatively flat, returns indicated.

Convention revenue totaling \$40 million made up bulk of NAB's \$52.3 million revenue for 1998 tax year, in addition to \$10.3 million dues (down \$200,000 from previous year). It ended year with \$11.8 million surplus and \$39.4 million in reserve. It reported \$4.9 million lobbying expense for year, down from \$5.2 million year before.

NCTA cut expenses sharply in 1998 tax year, to \$30.1 million from \$38.4 million, in part because of reduction in spending for National Academy of Cable Programming. Convention revenue was up \$300,000 and lobbying expense was virtually flat at \$3.2 million. Assn. ended year with \$2.2 million surplus and assets of nearly \$9.6 million. CableLabs spent \$113,718 more than it took in for year, although revenue nearly doubled to \$16.3 million. Expenses grew to \$16.4 million from \$13.9 million.

ALTV had \$278,939 surplus for 1998 tax year, increasing reserves to \$2.7 million. Dues slipped slightly to \$1.5 million and expenses rose to \$1.6 million from \$1.5 million. Lobbying expense was \$22,765, up from \$16,750. MSTV ended year with \$15,780 deficit, but \$986,348 net assets. Revenue was down more than \$1 million because of lower dues. Advanced TV Technology Center operated at \$23,127 deficit for year, leaving \$525,745 in reserve. Revenue dropped to \$1.5 million from \$1.9 million and expenses to \$1.5 million from \$1.8 million.

MPAA had \$2.27 million deficit for 1998 as expenses jumped to \$38.6 million from \$35.8 million. Revenue was up \$500,000 to \$36.4 million. Lobbying expenses increased to nearly \$4.2 million from \$4.1 million. SBCA broke virtually even for year, with \$5.3 million revenue and \$5.28 million expenses. Convention revenue dropped \$400,000, but that was offset by dues increase to \$2.2 million from \$1.6 million. Reported lobbying expenses were up to \$505,446 from \$479,542.

**Hispanic TV Network (HTVN)** said it agreed to acquire 12 TV stations in Southwest but didn't disclose sellers or price. Stations are to begin airing Hispanic programming this month, adding to HTVN's current network of more than 45 stations. HTVN said it anticipates adding more stations soon. Stations are in Corpus Christi, Del Rio, Eagle Pass and San Antonio, Tex.; Globe and Phoenix, Ariz.; Oklahoma City. Deals also include construction permits for Tulsa, McAllen and Uvalde, Tex., Carrizo Springs and Clovis, N.M.

**Ad-supported cable's** prime-time U.S. household delivery increased by 1.7 million homes to 24.2 million in 14-week period ending Dec. 26, Cable Ad Bureau (CAB) said in analysis of Nielsen data. CAB said figures represented highest prime-time and total day season-to-date viewership levels for first 3 months of any TV season. Rating rose 1.4 points to 24 and share 1.8 to 39.6, CAB said.

NCTA said FCC should view "with considerable skepticism" contention by U S West and SBC that AT&T-MediaOne merger would violate horizontal ownership limit due to its interest in Time Warner Entertainment (TWE). NCTA filed in reply to Bell companies' filings on AT&T and MediaOne submission to FCC insisting combined entity would comply with ownership cap (CS 99-251). NCTA said revised horizontal ownership rules, currently stayed as were their predecessors, don't attribute ownership if "MSO is not materially involved in the video programming activities," and LECs are just trying "to protect themselves against competing providers of nonvideo services." AT&T made same point in its reply, adding that even if FCC does view TWE as attributable, "the extraordinary public interest benefits that will be produced by the merger alone justify a waiver."

**Comcast said it signed** definitive agreement to acquire 45% ownership interest in cable operator Comcast MHCP Holdings, currently held by Cal. Public Employees Retirement System, for \$750 million cash. Comcast MHCP has 642,000 cable subscribers in Fla., Mich., N.J.

**Internet Ventures (IV)** told FCC in ex parte filing that leased access to cable systems by Internet providers won't require new capital investment by cable operator because IV would install needed headend equipment. It said return link would be by telephone lines and repeated contention that leased access is best way to reduce "digital divide."

**Miss. Educational TV** said it completed work on digital microwave system to deliver programming to remote transmitter sites. Group called completion major step toward becoming full DTV broadcaster by 2003.

**Responding to "incredible demand by new [media] companies clamoring to participate,"** NATPE added 3rd New Media Pavilion to exhibit hall at Jan. 24-27 convention in New Orleans. All new media companies that exhibited at 1999 convention renewed for this year, and with many others wanting space, increased exhibit area was added, Assn. said. Convention also will feature more than 20 panels on DTV, new technology, convergence.

**TvB now has 500 TV station members** for first time since records have been kept, Assn. said. Stations owned by Citadel Communications and Nexstar Bcstg. are latest groups to join TvB, which has members from largest market N.Y. down to No. 201 — Lima, O. Major TV rep firms also belong to TvB — which had only 140 station members when Ave Butensky became pres. 8 years ago. He retired Jan. 1 and Chris Rohrs takes over as pres.

**As expected,** CBS and Viacom shareholders easily approved merger of 2 companies in separate votes Dec. 29. Voters representing 99.7% of Viacom shares and 98.7% of CBS shares endorsed deal. Assuming okays by FCC and Justice Dept., deal would close at end of first quarter or early in 2nd, companies said.

**Nielsen Media Research (NMR)** said it's increasing its stake in Internet measurement firm NetRatings to 54% from 11% at cost of \$246 million. As part of deal, NMR Pres. John Dimling will join NetRatings board.



**CES HIGHLIGHTING DIGITAL:** Consumer Electronics Show in Las Vegas this week traditionally has been mainly about new TV products, but new digital and Internet products, some of which may be critically important to TV industry, are expected to dominate this year (see separate story in this week's Consumer Electronics section). FCC Chmn. Kennard and Comrs. Ness and Powell are to be among speakers.

Kennard speaks at invitation-only special session, 11:45 a.m., Jan. 7. Ness will be among participants on Internet 2000 panel, 1 p.m., same day. Others are Va. Gov. James Gilmore (R), House Commerce Committee Chmn. Bliley (R-Va.), and Brad Chase of Microsoft, John Roth of Nortel, Bill Schrader of PSINet, John Chambers of Cisco Systems. Keynotes include Microsoft's Bill Gates, 7 p.m., Jan. 5; 3Com's Eric Benhamou, 8:30 a.m., Jan. 6; Sun Microsystems' Scott McNealy, 4 p.m., Jan. 6; RealNetworks' Rob Glaser, 8:30 a.m., Jan. 7.

Other speakers are to include: Panel on govt. role in broadband, 3 p.m., Jan. 6, featuring House Telecom subcommittee Chmn. Tauzin (R-La.), FCC Comr. Powell, Rep. Berman (D-Cal.); online privacy panel, 10 a.m., Jan. 8, with FTC Comr. Mozelle Thompson; Washington panel, 2:30 p.m., Jan. 8, with House Commerce Committee member Luther (D-Minn.) and Hill staffers; Joseph Clayton of Global Crossing, noon Jan. 9.

Product developments include:

**DTV:** Rather than new DTV receivers, main developments involve copy protection for IEEE-1394 interface between DTV and other digital equipment, which remains unresolved issue that's impeding momentum of rollout. At least one major consumer electronics (CE) company is expected to announce initiative to break deadlock over DTV copy protection and cable compatibility.

**Digital video recording:** Show is expected to be breakthrough for hard-disc based personal video recorders (PVRs) from Replay Networks and TiVo. Sony is to announce plans for its TiVo platform PVR, due to ship in April. Panasonic, which backs Replay PVR platform, also is expected to show 30 GB recorder for spring delivery.

**Internet Music Portables** also are expected to be big category, now that copy protection for Internet music downloads is in place. Showgoers this time will see downloadable music portables not only from Diamond Audio, which as Diamond Multimedia introduced first U.S. product in category — Rio — in 1998 and major CE players such as Sony and Thomson.

**E-tailing:** E-commerce retailers not only will be speaking on panels at show, but some will have their own booths, including Hifi.com, Roxy.com and 800.com.

**Sirius Satellite Radio** said Blackstone Capital will buy \$200 million of newly issued preferred shares. Stock has 9.2% annual dividend and is convertible into common shares at \$34 each. Proceeds will be used for continued buildout of Sirius's system, company said. To date, it has raised \$1.2 billion.

**RealNetworks** filed copyright infringement suit against start-up Streambox Inc. in U.S. Dist. Court, Seattle. Court issued temporary injunction requiring Streambox to stop production and distribution of its software, although it ordered RealNetworks to post \$1 million bond to protect Streambox against losses if suit fails. Suit claims software of Redmond, Wash.-based Streambox allows users to copy RealNetworks' streaming audio and video and convert files to other formats. It contends RealNetworks programming is protected by copyright because it contains graphical elements that are original. Streambox denied charges.

**U.S. Appeals Court, D.C.,** upheld lower court decision in case involving defamation suit by Eric Foretich against ABC. Foretich, subject of 1993 made-for-TV movie, sought to block enforcement of settlement agreement involving suit, but Appeals Court (99-7010) said lower court has jurisdiction and affirmed Dist. Court in all respects.

**Cable equipment firm Antec** said earnings will be below analysts' expectations in 4th quarter, even though revenue will exceed expectations. CEO Robert Stanzione said profit margins are lower than expected and company will take \$16 million write-off for reorganization.

**Streaming media investments:** (1) Microsoft took \$30 million stake in Intervu, which will develop applications based on Microsoft's Windows Media software. (2) Sony invested undisclosed amount in privately held iBEAM Bcstg.

**International soccer officials (FIFA)** approved use of virtual ads in soccer matches, according to Orad Hi-Tec, which makes equipment that allows ads to be displayed in TV broadcasts, even when they don't exist at stadium. In typical application, ad would appear to be on grass of stadium or wall around it. FIFA will allow virtual ads to be displayed on center circle and penalty areas when players aren't on field, as well as on areas of stadium that normally would be available for ads.

**Israel's Matav-Cable Systems Media** said it signed "division and merger arrangement" with Gvanim Cable TV, Tevel Israel International Communications and Yedioth Communications to consolidate cable industry in Israel. Under arrangement, companies' subsidiaries — Krayoth, Fishman Properties, T.L.M., Idan, Idan Holdings and Haifa-Hadera — will be merged with Gvanim. Agreement is subject to regulatory approval.

**Cablevision is continuing negotiations** for sale of its cable franchises in Boston and 37 Mass. communities, spokesman said, although he declined to give reasons for failing to meet announced Nov. schedule. "There is no status to report. We are continuing to explore options," he said, refusing comment on media speculation that MediaOne was most likely choice as buyer.

**MediaOne has lost** "several thousand" dollars and suffered outages in Atlanta as result of recent thefts of cable equipment and services, company spokesman said. In recent weeks, company experienced rash of incidents of theft of equipment such as amplifiers and pedestals, he said. Company has 620,000 customers in area.

**Benedek Bcstg.** agreed to sell KOSA-TV (Ch. 7, CBS) Odessa, Tex., to locally owned ICA Bcstg., terms not disclosed.



**INTERNET TO OUTPACE MEDIA:** Internet revenue will grow at 30% annual rate for foreseeable future, far exceeding increases for other media, investment banking firm Schroders (www.schroders.com) said in report. Report forecast cable and DBS would grow at double-digit rates through 2003, but audience erosion would slow broadcast TV gains, while radio would increase in "high single-digit" range. Internet figure excludes rapid expansion of e-commerce.

Forecast said broadcast TV would reach \$48.3 billion revenue by 2003 from \$39.2 billion in 1998 and estimated \$39.4 billion in 1999. Cable/DBS would surge to \$70.8 billion from \$41.1 billion in 1998 and \$46.7 billion in 1999 and radio to \$24 billion from \$15.1 billion and \$17 billion. U.S. Internet revenue was projected to jump to \$25.7 billion by 2003 from \$8.6 billion in 1998 and estimated \$12.3 billion in 1999, Schroders said.

Internet revenue would grow fastest in Japan, averaging 46.5% annually, vs. 29.5% in Europe and 24.9% in more mature U.S. market, Schroders said. Investment bank said ad revenue would climb 47.9% annually despite concerns about effectiveness of Internet banner ads, vs. 22.4% gain in Internet access fees. Ad growth would be boosted by "explosive" growth in number of people using medium, report said.

Despite slow growth in broadcast TV revenue, Schroders predicted leveling-off of impact of cable and DBS on broadcast. It said broadcast ratings shouldn't "drop that much" because cable was becoming mature medium and cited factor of "diminishing returns to adding channels." It also noted that advertising upfront markets were strong this fall, indicating TV's continuing strength as mass medium, and fact that some advertisers appeared to be simply buying more ad time in effort to reach larger cumulative audience. Good news is Schroders' prediction of double-digit ad revenue in 2000 because of political campaigns and Olympics. Report does note gradual shift in power from affiliates to networks, which are using their control of programming to reduce compensation they pay to affiliated stations.

Cable systems aren't likely to raise rates rapidly, despite new regulatory freedom, Schroders said: "There is now true competition in the form of DBS, which has already attracted a portion of cable's high-end subscribers." It also cited new competition from DBS local-into-local service, potential of political backlash if rates rise too much, and that cable is likely to keep basic rates low in order to encourage more revenue from ancillary services such as telephony and cable modems. Cable has early lead in broadband data, Schroders said, with 1.2 million cable modem subscribers vs. 250,000 DSL lines.

Cable subscribership has continued to increase despite success of DBS, Schroders said, and "the continued improvement in cable services and programming will lead to further expansion in the cable universe." It said cable penetration would reach 71.4 million households by 2003, up 6 million from 1998, and spending per household would increase even faster because of gains in premium, pay-per-view and ancillary revenue. Cable ad revenue has been growing at double-digital rate, and Schroders said that was likely to continue.

DBS subscribership is likely to more than double by 2003, report predicted, reaching 15.5 million households. It forecast DBS subscriber revenue would reach \$6.5 billion from \$2.7 billion in 1998.

**City of Burlington, Vt.,** urged state's Public Service Board (PSB) to condition Adelphia's franchise renewal on company's providing open access to competing ISPs. City's filing said Adelphia also should make excess capacity on its system available to other entities, including Burlington. Adelphia could exercise monopoly control over broadband services in state, city said, since there's no competitor "either presently or in the foreseeable future." Adelphia's refusal to lease excess capacity to Burlington while offering it to some entities is violation of "nondiscrimination law," city said, but declined to say whether services are telecom or cable: "The distinction is not relevant... because in either case the essential broadband capacity offered by Adelphia is subject to the Board's jurisdiction."

**FCC is seeking** another round of comments on proposal by SkyBridge and Fixed Wireless Communications Coalition (FWCC) for ways to share 10.7-11.7 GHz band. Parties, in filings Dec. 8 and Dec. 22, proposed different regulatory schemes for sharing, including definitional criteria for earth stations and criteria for identifying "growth zones," instead of exclusional zones originally proposed in rulemaking (ET 98-206). Plan calls for no restrictions on satellite earth stations, but obligations on satellite operators to protect growth zones. Comments are due Jan. 12.

**FCC Cable Bureau** set 1.04% inflation adjustment factor for use in Form 1240 filings on cable rates. Figure, for 3rd quarter 1999, is based on Gross National Product Price Index.

#### **\$5,000 REWARD OFFERED FOR INFORMATION ABOUT ILLEGAL COPYING**

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## Personals

**Rick Welts** resigns as pres., Fox Sports Enterprises... **Loran Fite**, ex-Westpac Banking, appointed senior vp-chief information officer, News Corp./N.Y.... **Frank Bell**, ex-Sinclair Communications, named asst. dir.-programming, Cumulus Media.

**Kevin Moran** advanced to vp-business development, Lifetime TV/N.Y.... **Julie Fields**, ex-E! Entertainment TV, named senior vp-creative development, IWin.com, Santa Monica... **William Walsh** appointed CFO, Internet Cable.

**Lauren Northrop** named confidential asst. to FCC Comr. **Susan Ness**, succeeding **Janice Wise**, who becomes program and information specialist in newly created Consumer Information Bureau... FCC Events: **Chmn. Kennard** speaks at CES, Las Vegas Convention Center, Jan. 6... **Comr. Furchtgott-Roth** addresses Wis. Bcstrs. Assn. winter meeting, Edgewater Hotel, Madison, Jan. 18, and keynotes W.Va. Bcstrs. Assn. winter meeting, Charleston Marriot Hotel, Feb. 4.

In what's called significant departure, AT&T accepted self-executing open access agreement as part of cable franchise renewal in Pittsburgh. Councilman Dan Cohen, who negotiated agreement, said it didn't mandate open access but required AT&T to provide access to competing ISPs if AT&T signed open access agreement with any other municipality, FCC required open access, or any court required it. OpenNet Coalition called city vote "major victory for Internet users."

"Making News: Bcst. Journalism for the Nonnews Executive" will be presented April 7-8 in Las Vegas just ahead of NAB convention by Assn.'s Education Foundation, with major funding provided by Robert McCormick Tribune Foundation — 202-775-2559.

**News Corp.** agreed to sell its share of German TV broadcaster Vox to Bertelsmann for \$340 million, companies said. News Corp.'s 49.9% will be added to 25.5% that Bertelsmann subsidiary already owned. Each company had option to buy other's share this month.

**Andrew Corp.** said it acquired Conifer Corp., which produces equipment for MMDS, wireless LAN and DBS services. Terms weren't announced.

## Obituary

**Leonard Goldenson**, 94, founder and retired chmn. of ABC, died Dec. 27 at his home in Sarasota, Fla. In 1953, as pres., United Paramount Theatres (UPT), he oversaw merger of UPT and ABC. Under his direction, company expanded steadily to become major entertainment and information medium. Goldenson, among other accomplishments, was driving force in ABC's entry into cable. He was co-founder of United Cerebral Palsy Assn. Robert Iger, chmn., ABC Group, and pres., Walt Disney International, said, "Leonard Goldenson was a giant among broadcasters. He was a risk-taker. He had vision. He was a role model for anyone who ever worked with him, and his impact on our business will be long remembered." Cause of death wasn't given, but network said he had been ill for number of years. Memorial service will be held in N.Y. this month. Goldenson is survived by wife, 2 daughters.



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The Authoritative Service for Broadcasting, Consumer Electronics and Allied Fields

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**Cox said it topped 100,000 subscriber mark for its cable telephony service. Largest number (26,000) is in Orange County, Cal., where service was started in 1997.**

**CBS exercised its right to buy additional 380,000 shares of online sports company SportsLine.com, increasing its stake to 16.1%. At \$20 per share, price is \$7.6 million.**

**NBC Internet will partner with financial services firm National Discount Brokers to provide free e-mail, companies said. Service will be provided through NBC's XOOM.com.**



# Consumer Electronics

*A Section of Television Digest with Consumer Electronics*

## STATE OF THE INDUSTRY

Sales to dealers, from CEA, for week ending Dec.17 and year to date:

	DEC. 11- DEC. 17	1998 WEEK	% CHANGE	DEC. 4- DEC. 10	50 WEEKS 1999	50 WEEKS 1998	% CHANGE
TOTAL COLOR TV.	511,221	445,321	+ 14.8	619,368	27,903,352*	25,609,350	+ 9.1
DIRECT-VIEW**	481,229	418,701	+ 14.9	581,774	26,733,436*	24,586,902	+ 8.7
TV ONLY#....	421,466	361,416	+ 16.6	513,702	22,469,565	21,546,452	+ 4.3
TV/VCR COMBO.	59,763*	57,285	+ 4.3	68,072*	4,263,871*	3,040,450	+ 40.2
PROJECTION...	29,992*	26,620	+ 12.7	37,594*	1,169,916*	1,022,448	+ 14.4
TOTAL VCR**....	498,956	311,387	+ 60.2	433,117	26,354,992*	20,484,091	+ 28.7
HOME DECKS...	439,193	254,102	+ 72.8	365,045	22,091,121*	17,443,641	+ 26.6
CAMCORDERS(a) ..	62,467	51,755	+ 20.7	83,398*	4,658,828*	3,746,118	+ 24.4
DVD PLAYERS....	97,660*	46,322	+110.8	123,605*	3,797,691*	986,496	+285.0

**Direct-view TV 5-week moving average#:** 1999-590,889; 1998-495,614 (up 19.2%).

**Projection TV 5-week moving average:** 1999-37,215; 1998-27,227 (up 36.7%).

**VCR deck 5-week moving average:** 1999-608,952\*; 1998-441,694 (up 37.9%).

**TV/VCR 5-week moving average:** 1999-97,349\*; 1998-70,636 (up 37.8%).

**Camcorder 5-week moving average:** 1999-99,278; 1998-78,122 (up 27.1%).

**DVD player 5-week moving average:** 1999-138,032\*; 1998-47,778 (up 188.9%).

\* Record for period. \*\* Includes TV/VCR combinations. # Excludes TV/VCR combinations. (a) Includes analog camcorders only.

**RESTRAINING ORDER DENIED IN DVD INTERNET SUIT:** Santa Clara County Court judge Dec. 29 denied motion by DVD licensing entity that effectively would have shut down dozens of Web sites cited in Dec. 27 suit on misappropriation of trade secrets for publishing cracked Content Scrambling System (CSS) code on DVD encryption.

Arguments are expected to be heard in mid-Jan. on preliminary injunction sought against sites by DVD Copy Control Assn. (DVDCCA), licensing entity based in Morgan Hill, Cal. DVDCCA recently assumed DVD license administration functions from Matsushita, which had been performing that role on interim basis since format's inception in 1997. Judge William Elfving, citing First Amendment ground, denied DVDCCA motion for temporary restraining order to bar sites from continuing to publish CSS code that had been cracked by Norwegian hackers in Oct. (TVD Nov 8 p11). Judge's ruling was first-round victory for defendant sites, which could hardly contain their glee in wake of decision.

Sites were defended at Dec. 29 hearing by attorneys for First Amendment group, Electronic Frontier Foundation (EFF). Group said it believes suit by DVDCCA was "an attempt to architect law to favor a particular business model at the expense of free expression." Action is "an affront to the First Amendment," EFF said, "because the information the programmers posted is legal." Group said: "Trade-secret law only controls people who agreed to keep it secret and have been told the secret; other people remain free to independently discover the secret." Moreover, "reverse engineering" effort used by Norwegian hackers to crack CSS code in Oct. "is a legal activity that is not restricted by any laws in most jurisdictions," EFF said.

But plaintiff DVDCCA obviously sees issues differently. Complaint names 26 defendants in U.S., Europe and Australia, in addition to 46 sites it said had posted or were linked to offending "DeCSS" program. Suit said it could name as many as 500 additional defendants as soon as their identities are known. Suit said postings have caused "the illegal pirating" of DVD content and "threaten the financial stability" of fledgling DVD industry. It said disclosure of proprietary CSS information "has already had a very serious adverse effect on consumers" because introduction of DVD-Audio products has been delayed for 6 months. It said major music companies have balked at releasing content because "they



are not prepared to use a 'compromised' system to protect their content and have insisted on the creation of a new technology" to replace CSS-2 for DVD-Audio.

Suit claims defendants "knew or should have known" when they posted or linked to DeCSS program that "they were misusing confidential, proprietary information." It said activities were "improper" because DeCSS program "was designed specifically to enable users to defeat CSS encryption in order to illegally pirate DVD videos." Although complaint itself alleged that DVD pirating already had taken place as result of DeCSS crack, it cited no specific evidence of widespread pirating.

**NEW MILLENNIUM DIGITAL GEAR SEES CES EXPANSION:** Product categories spawned in 20th century will see expansion this week in Las Vegas at first CES of new millenium. But it's likely that products will take back seat to hangover issues that continue to vex industry, such as e-commerce and digital copy protection. What follows is preview of CES product trends by category.

**DTV:** Besides debate over what constitutes true HDTV display (TVD Dec 27/99 p8), copy protection for IEEE-1394 interface between DTV and other digital equipment remains unresolved issue that's impeding momentum of rollout. At CES, showgoers can expect at least one major CE company to announce initiative designed to break deadlock over DTV copy protection and cable compatibility.

**Digital video recording:** Hard-disc based personal video recorders (PVRs) from Replay Networks and TiVo made debut in 1999, but 2000 will be breakthrough year in lieu of copy protection for DVD-based recorders.

At CES, Sony will announce plans for its TiVo platform PVR, including \$500 SVR-2000 that has 30 GB storage drive good for 9-30 hours recording. PVR, due to ship in April, differentiates itself from Philips and TiVo models by one-touch dubbing from PVR to any Sony VCR for making archive tape of program. Panasonic, which backs Replay PVR platform, also is expected to show 30 GB recorder for spring delivery.

Picture is murkier for DVD recorders owing to incompatible formats and lack of standard for digital copy protection. Pioneer is expected to demonstrate its DVD-RW format deck, already on sale in Japan and promised for U.S. in spring. Company told us it expects other manufacturers to announce support for format, including at least one supplier that previously has been associated with another recordable format. Pioneer has said DVD-RW hardware support will be contributed by JVC, Mitsubishi, Sharp. But U.S. representatives of those companies said on eve of Las Vegas show that they knew of no plans to demonstrate prototypes at CES.

Other 4.7 GB rewritable DVD format is DVD-RAM, sanctioned as standard by DVD Forum and backed most vocally to date by Hitachi, Panasonic, Toshiba. Like DVD-RW, DVD-RAM supporters concede future DVD-Video players will need "slight modification" to play home recorded discs. Panasonic gave private demonstrations of backward-compatible DVD-RAM home video recorder at November Comdex show, but its plans for CES weren't known at our deadline, although Panasonic might be willing to speculate on launch dates and pricing.

Only DVD recording format that claims backward compatibility out-of-box with DVD-Video players is DVD+RW, which Philips is expected to demonstrate at CES in anticipation of 4th-quarter rollout. Although format was co-developed with Hewlett-Packard and Sony, latter has yet to commit to marketing DVD+RW for consumer home video recording.

**CD recording:** Other breakthrough category for 2000 looks to be Audio CD recording, including dual-transport dubbing decks, dedicated component recorders, CD+RW drive built into shelf-top stereo systems.

With exception of Sony, who's-who of CE vendors are joining pacesetters Philips, Pioneer and Marantz in expanding category. They include Aiwa, Harman/Kardon, JVC, Kenwood, Onkyo, RCA, Yamaha. Products already are being sourced from China and Korea, respectively, in cases of RCA and Harman/Kardon. As for dubbing decks, speed already is up to 4x.

Meanwhile, MiniDisc digital recording format won't see much additional activity at CES. Aiwa is limiting new entries to single portable recorder. Sharp has added CD-to-MD dubbing in shelf-top stereo, while format stalwart Sony is fielding 4x CD-to-MD dubbing deck and 2X CD-to-MD mini stereo.

**DVD-Video:** Installed base approached 4 million DVD players in U.S. as new century approached. Forecasts call for doubling that in 2000, driven by ever lower prices for Chinese-made decks sold through big-box retailers and mass merchants.



Chinese presence in DVD category will expand beyond Konka and Oritron this year, with large number of OEMs expected to hawk wares at CES, and more established brands expanding production or sourcing in China. Meanwhile, DVD function will migrate from dedicated tabletop players/changers and portables to variety of combos, such as TV/DVD and shelf-top home theater systems and Internet-enabled set-top boxes.

High-resolution audio: Recent cracks in DVD's Content Scrambling System (CSS) and announcement that JVC and Panasonic were postponing their Japanese DVD-Audio hardware launches to await development of new encryption system has cooled heels of most potential DVD-Audio marketers at CES. Even Pioneer, which took maverick approach in Japan and said it would market DVD-Audio players against grain of JVC and Panasonic postponements, is deemed unlikely to repeat that tack in Las Vegas, if mainly for pragmatic reason that software authoring infrastructure in DVD-Audio remains startlingly underdeveloped.

That would leave CES spotlight dominated by Super Audio CD (SACD) camp supported by Philips and Sony. Preshow indications were that Sony planned no new additions to its SACD hardware lineup at CES. However, Philips told European reporters last month that it had changed its position on "universal" players for at least first generation of SACD product. Paul Reynolds, Philips' point man on SACD, said company in 3rd quarter will introduce what will be called "Super Audio Universal" player with SACD and DVD-Video read capability, but not DVD-Audio, as Philips announced at Aug. Internationale Funkausstellung in Berlin. Reynolds said "a true universal player that also will play DVD-Audio is still on our wish list," and he indicated further announcements might be made at CES. He stressed that Philips's revised position wasn't related to Panasonic's decision to delay its DVD-Audio rollout but more to fact that infrastructure for authoring and producing DVD-Audio software content had been slower than expected in developing.

As to pricing, Reynolds said the Philips Super Audio-Universal player would be dedicated to high-end music reproduction and cost about \$1,500. Meanwhile, a "true universal player" will follow later at unspecified date in \$1,000 range. Considerably more expensive will be Marantz's long-anticipated entry into SACD hardware arena, although pricing and delivery specifics on company's "reference series" SACD player hadn't been established when this report went to press. Marantz will bill deck as "the ultimate audio component," capable of "no-compromise" sound reproduction when meshed with line of separates, including stereo power amplifier and integrated amp, that are said to be designed expressly for SACD playback.

Internet Music Portables: Now that copy protection for Internet music downloads is in place, showgoers can expect to see wide selection of portable devices on display at CES that will comply with Secure Digital Music Initiative (SDMI) specs. They also will see portables that are compatible with much broader range of music distribution technologies than they have seen in last few months. Although nascent category had only minor representation at CES last year, showgoers this time will see downloadable music portables from not only Diamond Audio, which as Diamond Multimedia introduced first U.S. product in category — Rio — in 1998 (TVD Sept 14/98 p15) and major CE players such as Sony and Thomson, but also product from relative newcomers such as I-Jam Multimedia.

E-tailing: While brick-and-mortar retailers traditionally have taken part in panels at CES, e-commerce retailers not only will be filling ranks of various panels at this year's show, but some even will go one step further — they'll have their own booths. CE e-tailers prepared to take spotlight at CES include Hifi.com and Roxy.com, each with its own booth, and 800.com, which plans to hold briefing at its MGM Grand suite.

**CEA WORKING GROUP TO DRAFT HDTV DEFINITIONS IN FEB.:** Technical working group will draft proposed definitions for HDTV display by mid-Feb. as part of agreement crafted after CEA Video Div. members voted 9-5 to reverse earlier DTV Definitions Committee decision, sources close to those developments told us last week.

Committee had voted 6-3 on Dec. 17 to clarify requirements for HDTV in way that excluded some 4:3 aspect ratio HD-ready monitors sold by Hitachi and Toshiba. But in 2nd poll taken Dec. 22 that reversed earlier decision (TVD Dec 27 p8), we're told Sharp and Zenith defected to join Hitachi, JVC, Matsushita, Runco, Samsung, Thomson and Toshiba in voting to reverse earlier decision and set up working group. Sources said DirecTV, Mitsubishi, Philips, Proton and Sony backed earlier measure. Sharp and Zenith officials weren't available for comment.

We're told working group effort will be chaired by Edward Milbourn, Thomson planning mgr. for advanced TV systems. Group, which will include engineering representatives from key CEA member companies, has been charged with drafting HDTV definitions on aspect ratios, scan rates, other factors. Some had objected to earlier CEA work on DTV scan rate definitions on ground that they applied differently and unfairly to CRT-based displays compared with pixel-based displays such as plasma or LCD. Working group also is to develop definitions for set-top HD decoder boxes, sources said.



CEA's definition of what qualifies display as HDTV stipulates that "complete product system" displays vertical resolution of 1080i or 720p scanning lines or greater — and capability of displaying 16:9 aspect ratio image at those resolution levels. Definitions Committee voted to extend or clarify definition to apply to 4:3 monitors labeled DTV-ready or upgradeable. Source of dispute last month was that displays sold by Hitachi and Toshiba scan 1080i lines on entire screen, but when 16:9 program is displayed in letterbox area, resolution of image drops to 810i.

**DVD AND TV LEAD WAY IN HOLIDAY SALES:** Strong DVD and projection TV sales enabled retailers to shake off shortages of HD-ready sets and videogames hardware and — in cases of brick-and-mortar retailers — post 4-6% gains in holiday sales, dealers we canvassed said. Of course, sales gains for online merchants were considerably higher, with 1999 representing landmark year for e-commerce despite problems some faced in delivering on orders in time for Christmas (see separate report, this issue).

Uptick in DVD hardware sales was spurred in large part by plunging prices. Bare-bones units from Oritron, Konka and KLH led charge to \$149-\$169 prices, but average ticket remained in \$300 range, down about \$100 from year ago, industry officials said.

"The prices were dropping so fast it was hard to keep up with them," Eddie Maloney, exec. vp of 12-store Cowboy Maloney's Electric City said, noting chain brought in KLH player at \$169 after Circuit City broke with decks at \$149. Average selling price fell to \$290 in Nov. from \$321 in Oct. and \$310 in Sept., NPD Group analyst Thomas Edwards said.

Shortages that plagued dealers earlier in year all but vanished during holidays and retailers also reported strong sales of DVD changers. "Without question, the dramatic lowering of retails at entry-level prices contributed a lot to the successful sales this Christmas," 800.com Mdsg. Vp Frank Sadowski said. "But our mix stayed surprisingly robust in the upper end." 800.com carried DVD players at \$149 to more than \$1,000, he said.

DVD hardware also benefited from continued price and promotion wars in software. Average prices at DVD Express were in \$15-\$20 range, with typical order running \$55, CEO Michael Dubelko said. Mix of titles ran from Warner Bros. movies starting at \$14.99 to Disney collections at \$39, he said. "The pricing has been artificially low because there have been price wars online because everyone is competing for customers at this point, but you can only do that for so long," Dubelko said.

Meanwhile, discounter Wal-Mart credited CE, in part, for what it's projecting to be 5-7% same-store sales increase in holiday season. Chain said it had strong Christmas weekend that made up for softness earlier in week caused by one-day shift of holiday.

On projection TV front, most of business was in 50-60" sizes for both analog and HD-ready sets, dealers said. Retailers scrambled for inventories of HD-ready sets as supply fell far short of demand throughout season, dealers said. Sales of 50-59" projection TVs were up 10,000 units in Nov. from year ago, said Edwards, who predicted overall projection sales of 1.2 million units in 1999. Brandsmart Pres. Michael Perlman said: "We can sell whatever pieces we can get our hands on and it doesn't matter what the brand is." Good Guys Mdsg. Vp Cathy Stauffer said HD-ready supply has been "hand-to-mouth" and shortfall coupled with shipping delays "made it impossible to catch up" with demand.

Yet while projection TVs were selling well at relatively stable retails, price wars broke out in 27"-and-under category, retailers said. Promotional battle was most severe at 19", where models were advertised at \$99, supplanting 13" as major consumer traffic builder for holidays, retailers said. Edwards said low-end 19" carried \$114 average retail price in Nov., down from \$163 year ago and \$159 in Oct. By comparison, 13" was at \$111, roughly even with year ago, as entry-level 27" hit \$341, down from \$366 year earlier. "The unit sales [in 27"-and-under TVs] were probably fairly close to levels a year ago, but the dollars were way down and we decided not to get into the \$99, 19" sets," Maloney said in noting that low prices extended to 31" where GE set appeared at \$399 in ad.

Also getting mixed reviews was audio. While some retailers said heavily-featured shelf systems from Aiwa, Denon, Kenwood and others priced below \$200 were strong sellers, others reported moving more product in \$500-and-up category. Hifi.com Mdse. Vp Thomas Hannaher said "our best sellers were \$500 and up and we had expected shelf systems that sell for \$150-\$200 to be the things that moved like popcorn." He said his company gave equal exposure at its Web site to entry-level and higher-end shelf systems: "I think it's a matter of what people wanted to buy from us."



Retailers also said speakers priced at under \$500 and more than \$1,000 sold well, while midpriced pieces fell short of expectations. "There seems to be a tendency for customers to buy either entry-level or top-of-the-line and somehow the middle-range speakers get ignored," Hannaher said. "Consumers are either going all the way or they're trying to save money."

Caught in Christmas rush was videogames hardware. While retailers said Nintendo N64 and Sony Playstation consoles were in ample supply, Nintendo's Game Boy and Sega Dreamcast came up short. Game Boy shortfall has been linked, in part, to Pokemon craze with retailers reporting especially strong demand for *Pokemon Yellow* title. Taiwan earthquakes also slowed production of chips for Gameboy and device had to compete with cellular phones and handheld PCs for LCD screens, retailers said. Prices remained relatively stable, although Best Buy caught competitors by surprise when it offered \$10 instant rebate on Nintendo N64 that effectively lowered price to \$89.95 (TV Dec 13 p18). Hardware sales in Dec. were "dramatically less" than year ago as Nintendo and Sony consoles neared end of product cycle with new models due in 2000, Target Stores Electronics Vp Steve Birke said. "Software was up, but that doesn't make up for the hardware," he said, and even addition of Sega Dreamcast didn't offset downturn in consoles.

Also gaining notice at retail were first-timers Replay Networks and TiVo personal video recorders (PVRs) as well as MP3 players that were available from wide range of suppliers. Amazon.com spokesman said PVRs from both Replay Networks, which had 2-week exclusive with online retailer in Nov., and TiVo attracted early adopters, but "some people are still confused by it." MP3 players generated strong sales, although most dealers were focusing on only 1-2 brands. While digital music downloads rode wave of publicity in 1999, category remains one of "most chaotic and least defined" applications available on Internet, MusicMatch Mktg. Vp Robert Ohlwiler said. But confusion didn't hurt CDNow, which said it signed up 3 million unique customers during holiday season. CDNow Web site recorded one million visits on both Dec. 2 and 4, company said.

"There is going to be a really, really serious Christmas next year that we don't really have any inkling of right now," EMusic CEO Gene Hoffman said.

In more traditional technologies, single and dual CD-R decks were quick moving category due largely to increased number of brands compared with only Philips year ago.

CompUSA said sales for 2nd fiscal quarter ended Dec. 25 fell 21% to \$1.38 billion from \$1.75 billion year earlier on reductions in direct sales, training and technical service operations. Same-store sales dropped 1.8% as slide in desktop PC pricing slowed. CompUSA, which has moved to expand merchandise mix to offset falling PC prices by adding more DVD players, digital cameras and other digital products, said gross margin in quarter will move above 16%, up from 15% year earlier. Desktop PC prices were flat with previous quarter, down 3% from year earlier. Meanwhile, notebook PC retail prices fell 4% from first quarter, but increased 5% over year ago. Unit volumes for notebook PCs jumped 35%, while desktops slipped 5%. Sales at CompUSA's Internet site — www.cozone.com — rose 24% to \$7.5 million from \$6 million in previous quarter. CompUSA, which expanded rapidly in 1998 after buying Tandy's Computer City chain, underwent restructuring in 1999 that included layoffs of 2,600 as it eliminated commercial sales unit (TVD Sept 6 p15).

Datel agreed to pay Sony Computer Entertainment \$155,000 to settle suit that accused it of illegally gaining access to Playstation developers' Web site. Suit also alleged that Recoton's InterAct Accessories, which contracted Datel to build its Game Shark enhancer for Sony Playstation, breached contract by providing site's access code (TVD June 7 p17). Under terms of settlement, payment will cover Sony's legal fees and Datel and InterAct are required to post "statement of regret" on their respective Internet home pages. InterAct shipped new Game Shark enhancer for Playstation last month (TVD Dec 27 p17). Original Game Shark, which connected to Playstation through peripheral port, became obsolete when Sony eliminated port to cut manufacturing costs and discourage software piracy.

Kenwood joined growing list of manufacturers that will be developing receiver for Sirius Satellite Radio service. Kenwood Sales & Mktg. Vp Robert Law told us last week that company planned to ship first Sirius receiver — for aftermarket — in 2nd half 2001. Company previously signed deal to manufacture receivers for USA Digital Radio service (TVD May 31 p12), but at this point hasn't thrown its support behind XM Satellite Radio. Explaining why company decided to back Sirius, Law told us: "We have been seriously looking at all of the proponents out there" and Kenwood has been "in discussions with [Sirius] for quite some time and have confidence in their management team and their plan." But he said "that doesn't preclude" deal with XM "at some point in the future." At this point, he said, programming — which he thinks "is going to drive subscriptions for satellite" — that Sirius has announced "is in a lot of respects more compelling" than XM's. He said it was too early to provide pricing or other specific Sirius receiver product information and said Kenwood wouldn't be showing Sirius prototype at CES this week. But Law said his company "will be showing the concept of the IBOC USA Digital Radio product" at its CES booth.

PC shipments in Japan are likely to reach 10 million in fiscal 2000, year-on-year increase of 12%, Japan Electronics Industry Development Association (JEIDA) said. In value, shipments rise 2% to \$17.75 billion.

#### THIS WEEK'S YEN RATE

Yen values have been converted to dollars in this week's issue at ¥102 = \$1, except where noted.



**CD COPY-PREVENTION READIED:** Technology that will prevent copying of music CDs with Audio CD+RW recorders or PC-based CD+RW drives will be in place this summer, as we have reported (TVD July 12 p9). New twist comes in planned partnership of Macrovision and TTR Technologies that will merge their respective AudioLok and MusicGuard anticopy technologies.

Combination will create "best-of-breed" system scheduled to make debut in "several million discs" this summer, said Mark Belinsky, Macrovision senior vp-business development. He told us companies soon will begin internal and external tests to ensure "99.9% compatibility" of anticopy system with installed base of CD playback equipment, including standalone audio players, shock-resistant mobile players, DVD-Video decks, PC-based CD drives.

As-yet-unnamed copy prevention system also is applicable to DVD-Audio, Belinsky said.

Macrovision recently agreed to make 11.4% investment in TTR in exchange for exclusive use of MusicGuard system and right to license joint technology worldwide to music rights owners. Companies will work cooperatively with encoder manufacturers and CD replicators to implement system. But in S-3 registration filed with SEC (TVD Dec 27/99 p14), Macrovision conceded risk that system might fail to achieve acceptance among major musical labels, either because of competing systems or possibility of "significant consumer resistance."

Company said consumers probably believe they have right to copy CDs only because they haven't been technologically prevented from doing so in past. "The major music labels have expressed interest in a technology which would prevent the copying of audio CDs to a PC or CD recordable device," Macrovision said in SEC filing. "There has never been an effective copy-protection technology for audio because no one has been able to develop a copy-protection technique that does not interfere with the playback of the original music."

That's precise claim for Macrovision-TTR protected disc, which "shall match the quality of the original unprotected disc," company said — much as was claimed earlier for AudioLok. Meanwhile, copies made from protected discs "shall be degraded, such that the commercial entertainment value of the music has been eliminated" when played back. Within PCs, tracks from protected CD aren't transferable without becoming degraded, Macrovision said. CD can't be copied to hard drive in file formats such as .BIN or .WAV, as commonly is done with popular CD+RW copying software such as Adaptec Easy CD Creator, Goldenhawk CDRWin or Nero.

Addition from TTR is MusicGuard CD and DVD signature technology and related encoder software that's used to embed signatures during replication process. What's not clear is extent to which new anticopy process will retain previously reported features of AudioLok system, developed by U.K.-based Macrovision subsidiary C-Dilla.

We tested prototype AudioLok music disc last summer and learned that although it will run in music CD player it won't play at all in PC's CD-ROM drive. Other layers of protection

prevented disc from being copied on consumer audio CD+RW recorder. C-Dilla founder Peter Newman told us that by time of AudioLok's introduction, disc also could be coded to prevent CD player from passing digital signal through its digital outputs.

Key to system is tricking CD-ROM drive into behaving as though disc were faulty, and rejecting it. That's done by exploiting differences in error-correction between Red Book audio CD and Yellow Book CD-ROM, which needs more robust protection for PC data, Newman said. He told us that C-Dilla adds false CD-ROM error-correction code to AudioLok music disc. Audio CD deck ignores code and plays disc normally. But CD-ROM drive sees erroneous code and rejects disc as unreadable.

AudioLok can prevent audio CD recorder from making copy because audio CD+RW decks already are unable to dub CD-ROMs or other non-audio CDs, Newman said. Meanwhile, AudioLok disc basically is false CD-ROM that would decoy recording drive in CD+RW deck.

Newer system's potential for DVD copy protection isn't known. But last summer, Newman told us system we tried is called AudioLok Red, first phase of at least 3 applications for technology. He wouldn't disclose others, but said first phase could include coding that record labels can use to prevent CD player from sending digital signal through its optical or coaxial IEC-958 digital outputs (also called SPDIF, for Sony-Philips Digital Interface). If labels exercise option, consumer would get only analog output from those CDs.

Possibility of CD copy-prevention comes as music industry's Secure Digital Music Initiative (SDMI) has conceded consumer's ability to copy digital content onto PC storage media, either for sedentary listening or for transfer to portable music players.

Inability to copy CDs also comes as breakthrough year for audio CD+RW home recorders looms, with decks being offered by increased number of CE vendors including mass-market brands such as RCA (see CES preview report, this issue). Audio CD+RW recorders and blank discs carry royalty to compensate artists and record labels for consumer digital recording — limited by internal Serial Copy Management System to single digital copy of digital original.

But prohibiting digital dub of original by any anticopy means could be moot point for some consumers. CD copy always can be made after original undergoes analog conversion, and recent lab test by *Popular Electronics* magazine (since renamed *Poptronics*) found there's little audible difference compared with copying original digitally.

In test of Philips CDR765 dubbing deck conducted by Bethel, Conn.-based Advanced Product Evaluation Laboratory, losses from analog-to-digital conversion were negligible in frequency response, channel separation and total harmonic distortion. Meanwhile, copy made through analog conversion lost 7 dB in signal-to-noise ratio and 10.7 dB in dynamic range. But measurements still were 87 dB and 79 dB, respectively, derived from test disc that's more challenging than many music CDs and probably exceeding reproduction capabilities of mobile playback equipment where CD copies are most likely to be played.



**DAEWOO ELECTRONICS CUTS JOBS:** Daewoo Electronics (DE), struggling to piece together debt restructuring plan, may cut 20% of 1,600-employee worldwide workforce and close 27% of 78 overseas operations, S. Korean press reported.

In consolidating operations, DE would merge sales units in Colombia, Venezuela and other Latin America countries and Czech Republic, Hungary and eastern Europe, *Seoul Economic Daily* reported, citing creditors. Unclear was impact job cuts might have on DE's U.S. division and officials weren't available for comment.

Creditor banks are expected to take control of DE via debt-for-equity swap (TVD Nov 8 p15), then seek to sell unit within 12 months. DE, which has \$6.8 billion in debt vs. \$74 billion for parent Daewoo Group (DG), is one of 12 affiliates that creditors put under debt restructuring programs in Aug.

As creditor banks continue to pursue restructuring strategy, one of DE's potential buyers confirmed that negotiations have been "put on the back burner," Steven Kalabat, project dir. at Walid Alomar & Assoc. (WA), said. "We're not actively pursuing anything with respect to that deal," he said. His company proposed in Aug. to buy DE for \$3.2 billion. "If they come back, we would definitely look at it."

WA had "a much better solution" than debt-for-equity swap being proposed, said Kalabat, who blamed bank creditors for deal's collapse. Banks "strangled" DE by tightening export credit terms and earnings "performance the last couple of quarters" was half previous levels, Kalabat said. "We told them it wasn't worth what they thought it was," he said. DE has \$3.7 billion sales target for 2000, up 14% from estimate for current fiscal year that ended Dec. 31.

Meanwhile, DG's local creditors said they would reject foreign lenders' debt write-off proposal aimed at breaking 2-month impasse on group's \$6.7 billion in overseas debt. Foreign creditors said they were prepared to write down average 41% of exposure on Daewoo's 4 key units including DE. Creditors earlier had turned down S. Korean govt.'s request to write off 66%.

Foreign and local creditors have been deadlocked on recovery rates for Daewoo loans as govt. tries to prevent DG from collapsing. "The latest proposal by foreign creditors is not acceptable," Choi Ouk, official of Corp. Restructuring Coordination Committee, told Bloomberg.

As it rejected foreign lenders' proposal, S. Korean govt. postponed decision on fate of Daewoo Corp., DG's biggest and most indebted affiliate, until Jan. Govt. earlier indicated it would decide in Dec. whether to put unit in bankruptcy if local and foreign creditors couldn't reach accord.

Late last week, domestic Korean creditors were said to nearing accord on debt restructuring agreement for 3 of DG's smallest units, including Orion Electric (OE). Korean Exchange Bank said that under OE agreement, creditors would defer \$773 million in principle repayments until end of 2001 and cut interest payments. Also reaching pacts were Daewoo Capital and Keangnam Enterprises.

**VALUE AMERICA CUTS STAFF:** Value America (VA) will cut work force nearly in half and refocus online business on CE and PC products as it seeks to overcome fulfillment delays and transition issues.

Charlottesville, Va.-based company said it will cut staff to 320 from 600 and will vacate 5 of 13 buildings it occupies. It occupied 45,000 sq. ft. in several buildings in Charlottesville. VA said it will take \$5.4 million charge against 4th-quarter earnings to cover restructuring costs.

Co-founders Craig Winn and Rex Scatena, who launched VA in 1996, also resigned as chmn. and COO, respectively, as board formed special committee to review "strategic opportunities" for company.

Jobs cuts came as VA projected that 4th-quarter revenue would fall 6-9% below analysts' estimates. First Call consensus of analysts has VA losing \$1.03 per share in 4th quarter. VA went public in April at \$23, but was 5-1/4 at our deadline. Its stock had 52-week high of 74-1/4.

E-tailer carries broad mix of products including housewares, appliances and sporting goods in addition to CE and PC. But "unprofitable" product lines will be eliminated and VA said it will seek to build its corporate and govt. businesses. It also has suffered from shipping delays that it attributed to installation of new infrastructure including addition of inventory management software. Overall, vendor list will be narrowed 25 from 450.

VA carries range of DVD players, TVs and VCRs from Panasonic, Philips, Zenith, others. But e-tailer also has relied heavily on IBM, which accounted for 35% of revenue in first 9 months of 1999, Hewlett-Packard (7%), Proteva (18%). IBM since has left desktop PC market at retail in U.S. (TVD Oct 25 p16), while Proteva, which specialized in build-to-order PCs, filed for bankruptcy protection in fall and has been sold.

Company said loss more than doubled to \$31.5 million in quarter ended Sept. 30 as revenue rose to \$57.6 million from \$15.6 million year ago. But cost of revenue soared to \$54.2 million from \$15.2 million and sales, marketing and advertising expenses jumped to \$27.2 million from \$12.3 million. Charge for product returns increased to 4.6% of sales from 0.1% year earlier.

**THQ acquired privately held Internet entertainment developer Genetic Anomalies** in all-stock transaction valued at \$8 million. Calabasas Hills, Cal.-based interactive software publisher THQ said acquisition includes rights to all Genetic's products including *Chron X* and WWF online strategy game now in development. As part of transaction, THQ said it issued 220,000 new shares and assumed existing Genetic stock options to acquire 44,000 THQ shares. In making acquisition, THQ Pres.-CEO Brian Farrell said it's "first step in our aggressive online gameplan" and he intends that company become "a major player in the Internet arena."

**Creative Technology** said it will be coming out with first in series of products that will support Macintosh platform. Products at start will include Creative's Nomad portable audio devices and WebCam Go line of portable PC cameras. Company said it would demonstrate products at this week's Macworld Expo in San Francisco.



**DVD EXPRESS TO MERGE:** DVD Express, in bid to expand beyond DVD online sales, is expected to merge with software e-tailer Maximum Holdings this week to form Express.com, companies said. Terms weren't disclosed.

New company, which also will include Maximum's *Game Fan* magazine, will employ more than 300 and have combined revenue of \$75 million, said DVD Express CEO Michael Dubelko, who retains post in Express.com. Online company is likely to add music service, including sales of CDs, cassettes, MP3 downloads and customized CDs to mix by end of first quarter, Dubelko said. Express.com will be based at DVD Express' L.A. hq and Maximum's warehouse will be combined with 6,000 sq.-ft. facility in Culver City, Cal., he said.

In addition to selling DVDs, videogames and music CDs, Express.com will seek to expand "communities" concept championed by Maximum Holdings, which has tied together more than 40 gaming sites. Express.com will introduce community concept to its DVD and music sites, which will serve as both retail and information outlets, Dubelko said. Next-day shipping will continue through U.S. Postal Service and Federal Express, he said.

"Our game plan is to become an online entertainment destination," he said. "We're building out communities so that not only can we provide the products to the people that are interested, but also information."

Strategy also seemed aimed at attracting interest on Wall St. DVD Express filed for initial public offering last year (TVD April 19 p18), but canceled it in Nov. citing "market conditions." It has since attracted new funds from 2 venture capital groups, and combined companies also will have investment from software maker Eidos Interactive. New plan is to go public in first half 2000, Dubelko said.

"We will go out in a much stronger, more attractive configuration as an entertainment destination," Dubelko said. "We're repositioning in order to create a lot more traffic and broaden our product and customer base. It's crazy to spend a lot of money acquiring a customer, sell them a movie and then send them over to a competitor to buy a game or music." Express.com will cross-promote its 3 sites, he said.

DVD Express and Maximum Holdings have combined 4-5 million unique visitors per month, Dubelko said. DVD Express carries 5,000 titles at \$14.99-\$39, with average price and order at \$15-\$20 and \$55, respectively. Maximum has inventory of 7,000 titles with mix skewed toward videogames and average prices of \$30-\$40. Average order size wasn't available. In expanding site, online gaming also will be added this year, Dubelko said. Separate 1999 sales figures for Maximum and DVD Express weren't available, although latter had projected \$16 million in revenue for year ended Dec. 31, 1998.

DVD Express and Maximum Holdings have been in talks for year, brought together by investor with holdings in both companies. Dubelko is largest investor in DVD Express with 84.2% interest, but stake is likely to be halved in combined company. Geocapital (8.5%) and America Online (7.2%) also were major investors in DVD Express. Maximum CEO David Bergstein will keep unspecified senior executive post in Express.com, Dubelko said.

At start, Express.com's largest revenue source will be DVDs, although category eventually will be matched by games and music, he said. Express.com also will expand CE selection, which DVD Express has largely limited to Pioneer, Panasonic and Toshiba DVD players, digital audio recorders and other items such as universal remotes, digital cameras, 2-way radios. Dubelko said new product selection hasn't been finalized and "it remains to be determined" whether TVs will be added.

While new strategy will draw Express.com into competition with online heavyweights such as Amazon.com and CDNow as well as superstore chains Best Buy and Circuit City, Dubelko said market isn't in danger of becoming saturated. Noting that online music sales are projected to hit \$3 billion by 2001, he said "even if there is 10% or 20% of the business floating around to be had that's still a substantial number."

**Best Buy made \$10 million investment in etown.com** last week in exchange for nonexclusive rights to its editorial content including product profiles and reviews. BB, which is expected to begin online business formally in first quarter, also will have access to etown's interactive shopping assistant and be part of its DealerWeb. BB funding was part of \$22 million raised in etown's 2nd round of financing that raised total since Feb. to \$25.5 million. BB was joined by ZDNet, Sands Bros., Gruber & McBaine Capital Management, Bedford Oak Partners, Valor Capital Management... **CD Warehouse** signed new \$15 million revolving credit facility with GE Capital Management last week. New pact replaced \$7 million facility (\$2 million line of credit, \$5 million term loan) that CD Warehouse signed with Bank One of Okla. in Feb. Latter agreement provided funding for CD Warehouse's purchase of 16-store Music Trader.

**Circuit City** is expanding Comcast @Home in a Box broadband cable promotion it started in Indianapolis to additional markets throughout U.S. Retail chain is running promotion in conjunction with Comcast and Thomson, which is providing RCA-brand DOCSIS cable modems to Circuit stores. Companies said there were "hundreds of onsite signups" as result of promotion Dec. 10 and 11 and "hundreds of other orders were received via telephone over the 2 days." They said "many Circuit City customers" also bought RCA modems. During 2-day promotional period, Circuit salespeople demonstrated Comcast high-speed Internet service to consumers in chain's Indianapolis stores. Promotion was publicized in Circuit store flyers, *Indianapolis Star*, local radio, direct calls to homes.

**More than million DVD movies** were sold in average week in period immediately preceding Christmas, VideoScan said. Tracking service reported sales of 1.275 million DVD movies in week ended Dec. 19 and 1.875 million in week ended Dec. 26 — most ever. Totals increased number of DVD movie sales tracked by VideoScan year to date to 21.4 million. By comparison, only 8.8 million were sold by end of 1998. VideoScan says its statistics account for about 70% of all DVD sales to consumers.

**Be and Compaq signed licensing agreement** allowing latter to preinstall and distribute Stinger, Menlo Park, Cal.-based Be's software platform, in Internet appliance computing devices it's developing. As part of nonexclusive agreement, companies said they are working together on joint development and sales initiatives. Stinger is customizable software that comes with browser and supports current streaming audio and video standards.



**E-RETAILERS FUMBLE ON FULFILLMENT:** By most accounts, 1999 holiday season was most successful period ever for online retailers in terms of sales and traffic. However, fulfillment issues created dilemma for e-tailers who couldn't deliver all products consumers ordered in time for Christmas. As result, industry observers were left wondering what percentage of customers who were left out in cold without gifts this season have been turned off online shopping for good.

EToys and Toysrus.com were among e-retailers getting most attention for not being able to deliver on time. Latter wound up, starting on Dec. 22, sending shoppers e-mail messages in which retailer provided options including full refund for orders expected to not arrive in time for Christmas or \$100 worth of "Geoffrey dollars" good at company's brick-and-mortar Toys "R" Us retail locations.

But Toysrus.com spokeswoman said only "small percentage" of customers purchased items before deadlines for on-time Christmas delivery didn't have orders in time. She also said some consumers who got \$100 in Geoffrey money also wound up getting products they had ordered anyway. Company even offered \$100 in Geoffrey dollars to customers whose orders had been for much less than \$100. "We wanted to make sure that we had customer satisfaction," she said, and company didn't think it lost many customers over fulfillment issues. But if angry comments posted by consumers at ZDNet Web site in last couple of weeks are any indication, Toysrus.com may have lost more than bunch of customers.

This wasn't first trouble Toysrus.com has experienced in 1999. Company was forced to limit traffic at Web site and halted TV ad campaign after it said it was "swamped" with new online shoppers who were slowing traffic (TVD Nov 22 p15). At that time, company said it was in process of bringing "hundreds" of additional servers online to handle increasingly heavy volume of traffic.

Meanwhile, *Wall St. Journal* reported that similar fulfillment issues during holiday season affected Internet-only retailer eToys, which wound up offering some disgruntled customers \$10 coupons. EToys couldn't be reached for comment last week.

Rise in customer dissatisfaction with online merchants may have played role in drops of some e-commerce companies' stocks last week. Reuters reported on Dec. 27 that shares of eToys dropped almost 17% and Amazon.com almost 10% — despite fact that there weren't even widespread complaints about latter site's fulfillment record.

Other online retailers said they also had fulfillment problems, but not to same degree as eToys and Toysrus.com.

"I don't think we have many unhappy customers at all right now," said Hifi.com Merchandise Vp Tom Hannaher. He said "through really planning ahead... we have not had significant problems at all" in terms of fulfillment. While there were some consumers who didn't get what they ordered in time for Christmas, he said number was "very low."

Hannaher said that starting Dec. 16, Hifi.com "offered free 2nd day air UPS shipments on any purchase other than an oversized TV at no additional charge. And as a result, a lot of people bought products up until the 22nd and [we] got them there on time for Christmas without [customers] paying anything for the shipping at all" — "most" arrived on time, anyway, he said.

Various online retailers in holiday season faced same dilemma that hit Toysrus.com earlier this year — having more traffic at their Web sites than they could handle, resulting in many consumers' getting error messages when attempting to place orders or being bounced off sites entirely. Hannaher guessed one problem certain competitors may have had was not having enough servers. He said Hifi.com has 14 servers dedicated to its site, "and it's scaleable so that we can add servers at peak times." Although he said company added servers "for several 2-day periods" during holidays, 14 proved to be enough most of time. With 14, he said, "we're capable of handling 7,000 transactions simultaneously."

In early Dec., Roxy.com posted on its Web site message guaranteeing that shoppers who placed holiday orders would receive their products by Christmas or be refunded price of item ordered up to \$100. Company placed Dec. 21 cutoff on guarantee, said Chief Mktg. Officer Donna Driscoll, who admitted there were "some" instances where consumers didn't get order on time. She said "we don't have a firm number on it, but we don't think it was very much at all." She said company also, on Dec. 23 and 24, called customers it thought might not receive orders on time because "manufacturer or distributor ran out of inventory" or "shipper was backed up." She said "in many, many cases when we called, the item had just arrived or arrived an hour before and consumers were thrilled that we took the effort" to make phone call.

KBKids.com spokeswoman also admitted that company experienced "a few bumps along the way" in fulfillment. She said that where there were "delivery or fulfillment issues for any reason, they worked through them on a case-by-case basis." In some cases, company couldn't deliver product on time and had to so inform customer, in other cases it upgraded consumers' shipping to free so products would arrive in time for Christmas.

Amazon.com spokesman said: "People could order as late as the 22nd and if the item was in stock and if they used overnight shipping, it would have been delivered on no later than the 24th" of Dec. But he admitted there were exceptions. As for those, he said: "I don't want to belittle the [feelings] of an unhappy customer. If somebody didn't get what they want — whether that's one person or 100, it doesn't make us very happy. But considering the huge volume that we successfully fulfilled and fulfilled in time, the number of people who were disappointed for lack of product being in stock was just incredibly tiny." As far as what Amazon.com did to make it up to customer who didn't get order on time, he said "it was [on] case-by-case" basis.

But at least 2 e-tailers last week said they had made it through holidays without instances in which customers didn't get products they had ordered before sites' listed cutoff dates.

800.com Vp-Chief Mktg. Officer Tim Zuckert said his company planned ahead and was prepared for jump in holiday traffic. As far as he knew, he said, everybody who by Dec. 19 had ordered products that site said were in stock received that merchandise in time for Christmas. Zuckert said that on Dec. 20, company posted message on site telling consumers that "our holiday shipping deadline has passed, however [customers could] still order gift certificates up until the end of the day on the 23rd."

And ZanyBrainy.com said it had "delivered every in-stock item ordered through December 22 to customers before Christmas."



**CETRADE READIES EXCHANGE:** CETrade.com., taking different spin on Internet-based CE business, will start online barter network for retailers and manufacturers in first quarter 2000.

New York-based company's service is designed to match wholesale buyers with sellers of new, discontinued and closeout CE and other products including PCs, health care and household items, Managing Dir. Kenneth Kristal said.

CETrade will target manufacturers and small and medium-size retailers with 4 formats — straight product offerings; auctions; "Buyers Source," where buyer starts inquiry for product; "Price\*Force" in which several potential purchasers pool funds to make large volume acquisition, company said.

Membership in service is free, but CETrade will charge 4% of sale price for each transaction. It also will offer logistics, inspection, escrow and other service, Kristal said. Customers using added features will be charged about 5% of service cost, Managing Dir. Renato Vaisman said. Eventually, service options will be integrated into Web site. CETrade is negotiating with several service providers, but no agreements have been finalized, Vaisman said.

Online company will be geared toward international market at start and expects 60% of revenues to come from overseas transactions, 40% in U.S., Vaisman said. CETrade expects to have 100 members at launch and eventually will have regional sites that deal in local currencies. Internet site will be available in English, Portuguese and Spanish at start, with Chinese, Japanese, French and German added by end of 2000, he said.

While new service would appear prime target for transshippers, Vaisman said CETrade will monitor transactions. And while those participating in service will remain anonymous until sale is closed, seller will be able to determine whether buyer is authorized to carry manufacturers' products and can halt transactions, Vaisman said. Manufacturers posting product on CETrade also will be able ensure sale to authorized customers, he said.

Meanwhile, e-tailer YouPrice.com, based in Bloomington, Minn., has added CE section to Web site and signed pact with Alamo Distributors to supply product. Brick-and-mortar retailer Let's Talk Cellular and Wireless also started online sales of wireless phones and related products last week. LetsTalk.com will offer wireless service from AT&T, CellularOne and others, phones from Ericsson, Motorola, Nokia. Online service will draw from same Texas warehouse as retail chain, which operates 260 stores, company said.

**Former Cambridge Soundworks CEO Thomas DeVesto** formed Tivoli Audio and will market Henry Kloss-designed AM/FM radio (\$99) as first product. Radio, made from cherry wood, contains single 3.5" speaker with minimum number of controls including tuning, on/off and volume, he said. DeVesto, who parted ways with Cambridge after it was acquired by Creative Technologies in 1998 (TVD June 1/98 p14), said noncompete agreement recently expired and Tivoli is weighing expanding audio line. Kloss is consultant to Tivoli Audio in addition to being minority investor. DeVesto opened Tivoli Design in 1998 to market A/V furniture.

**HANDHELDS SELLING BRISKLY:** Personal computing devices of all types are on track to \$450 million year, research firm NPD Intellect said. It said nearly 2.5 million handhelds valued at \$321 million were sold through Sept. — 62% and 33% increase, respectively, over year-ago.

High-end personal digital assistants (PDAs) accounted for 80% of dollar sales, while lower priced personal organizers had 12%, NPD said. Balance came from reference data banks — least expensive handhelds that saw sales jump 85% from sales from first 9 months of 1998. PDAs gained 58% and personal organizers 51%, NPD said.

Drop in average selling prices prevented revenue from keeping pace with hardware sales, NPD said. Price of PDAs dropped to \$345 from \$397 from year ago, but category had 38% dollar gain. Data banks sold for \$37 compared with year-ago \$53, but dollar volume rose 72%. Revenues for personal organizers were flat despite 51% sales increase.

NPD said vendors' market shares varied with class of product. It said 3Com's Palm Pilot line had 77% of PDA market in Sept., while Royal had one-point lead over Sharp in personal organizers with 38%. Year ago, Sharp was leader in organizer category with 61% share, nearly 10 times greater than Royal's. In PDAs, Casio followed 3Com after increasing share to 9.5% from 3.5% year ago. In all, 5 brands accounted for 96% of PDA business and 99% of personal organizer sales.

**Good Guys (GG)** will pay CEO Ronald Unkefer, who re-joined chain he founded in July, \$500,000 annual base salary, it said in proxy filed with SEC in connection with Jan. 26 annual meeting. Unkefer, who received \$125,000 salary in fiscal year that ended Sept. 30, also is eligible for up to 100% of base salary as annual incentive bonus. Former CEO Robert Gunst was eligible for \$937,500 as of June 30, which is being paid in installments, SEC filing said. Gunst received \$377,682 salary through June 30. Mdsg. Vp Cathy Stauffer was paid \$185,994 salary in fiscal year, up from \$170,925 year earlier. Stauffer also received stock options for 7,500 shares. GG is asking stockholders to approve 400,000 share increase in employee stock option plan. Lord Abbett & Co. is chain's largest holder with 2.1 million shares (10.8% of those outstanding), followed by First Pacific Assoc., 2 million (10.2%); and Unkefer, 1.4 million (7.3%).

**Online retail sales** this holiday season peaked in Dec. 6-12 period, survey by Goldman Sachs and PC Data Online reported last week, hitting \$1.2 billion. Report said sales started to taper off in following week, declining to \$900,000. Despite decline, report said sales still were "well above preholiday spending levels." For week Dec. 13-Dec. 19, survey said category attracting most buyers was toys, with 1.15 million consumers spending \$101.97 million. But category attracting most money in same period was computer hardware, on which 431,000 buyers spent \$169.77 million. Electronics came in 15th in terms of number of consumers, with 410,000 shoppers spending \$83.39 million.

**Apple Computer** is shipping 22" Cinema Display flat-panel LCD at \$3,999. Display, built by LG.Philips joint venture, has 1,600x1,024 resolution, 200:1 contrast ratio, 200 lumens (TVD Nov 22 p13). It also will be packaged with Apple Power Mac G4 desktop (350-450 MHZ) PCs at \$5,598. Apple, which has been long-time LG Electronics customer, recently made \$100 million investment in Samsung's LCD business. In addition to Apple, IBM and Dell are said to be considering 22" display for workstation applications.



## Consumer Electronics Personals

**Craig Winn**, Value America chmn., and **Rex Scatena**, pres.-COO, resign, plans unknown... **Robert Webb**, ex-Independent Video Retailers Group, joins Video City as licensing & franchising vp... **Gary Johnson** resigns as CD Warehouse COO to become franchisee... **Michael Dubelko**, DVD Express CEO, to retain title as company merges with Maximum Holdings to form Express.com; **David Bergstein**, Maximum CEO, to shift to unspecified senior executive post... **Saul Gold**, who ended 30-year career as NATM exec. dir. Dec. 31, started CE and major appliances consulting business — 516-868-1435 or saulbgold@aol.com

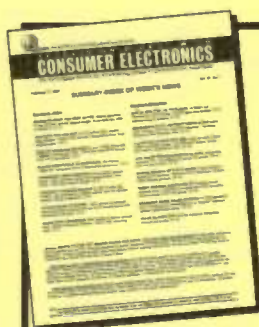
**Konka** has been replacing "small percentage" of its KD-1800U DVD players because of technical problems. It said players "were found to have had a defective component, causing the units to work intermittently, and in very few cases, cease operating altogether." Company "has identified and halted further shipment of these defective units" and is "actively taking appropriate measures to replace all defective units with new, flawless players." Customers with defective players are asked to call 800-298-9751 for replacement and \$25 rebate check "for the inconvenience caused."

**Image Entertainment** announced another international distribution pact for its films, in Belgium, Luxembourg and Netherlands, with Video Film Express through agreement with Image's joint venture partner Aviva International. Venture recently also made deals for international distribution in Germany through Ice Storm Entertainment and in U.K. through Direct Video Distribution.

**DVD-ROM** isn't growing as fast as DVD player market, digital communications research firm Cahners In-Stat reported. While player shipments are expected to double this year, DVD-ROM drives haven't taken momentum away from CD-ROM, firm said. It said CD-ROM drives would continue to outship DVD-ROM drives until 2002. Popularity of CD-RW drives is forcing PC makers to choose between incorporating CD-RW or DVD-ROM drives. They would prefer to see combination CD-RW/DVD-ROM drives, In-Stat Senior Analyst Michelle Abraham said. However, shipments of CD-ROM drives are expected to begin significant decline this year, firm reported. Company's research also found that DVD-Video recorders were likely to stay out of mainstream for several years because of high price, competing formats, copy protection issues. Reports on *DVD Markets & Opportunities in the Living Room* and *CD Still Ahead of DVD* are priced respectively at \$2,995 and \$2,495 — Cahners, 617-630-2139.

**Kozmo.com** added 'Minimart' category to its online product selection last week. Category, which includes medicine and toothpaste, joins books, CDs, electronics, food, games and videos that we reported company already had been offering for delivery to consumers' doors within one hour (TVD Dec 27 p15). Short site outages were reported on day new category was added — problem that's nothing new to e-commerce retailers. Additional categories and markets are planned by Kozmo.com for 2000. Company currently serves 5 markets: Boston, N.Y.C., San Francisco, Seattle, Washington, D.C.

**High-speed mechanism** in 2 Sanyo VCRs introduced in Japan can rewind 120-min. tape in 43 sec. Company said each is S-VHS model with champagne gold cabinet, priced at \$480 and \$575.



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# TELEVISION DIGEST WITH CONSUMER ELECTRONICS

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**MAJOR ISSUES FACE NAB IN CAL.:** 'Long, long day' expected at joint board meeting. Income was \$53.3 million in year starting April 1, 66% coming from convention. (P. 2)

**NBC, ABC, NAACP IN ACCORDS** on diversity, including employment, casting, content, image portrayal, production, distribution, training, education. Mfume sees agreements with Fox, CBS near. (P. 4)

**DTV OFF TO 'PHENOMENAL START'** despite reception concerns, CES speakers say. COFDM remains issue. Consumer confidence could be affected. (P. 5)

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**DISNEY'S EISNER TAKES NO BONUS** after company fails to meet income targets. Cable stocks hit. (P. 6)

**CHURCH SERVICE NOT EDUCATIONAL** programming, FCC says in WQEX Pittsburgh transfer approval order. Only Ness doesn't dissent. (P. 8)

**KENNARD SETS APRIL DEADLINE TO SOLVE DTV-CABLE COMPATIBILITY:** FCC Chmn. Kennard said he has instructed staff to draft set of compatibility rules that could be put into effect if cable, consumer electronics and programming industries can't break deadlock on compatibility, technical, and copy protection issues. Industries would have until April, Kennard said in speech at CES in Las Vegas Jan. 7. Afterward, he refused to provide details of rules being drafted, but we're told process is "far along" and rulemaking notice could be issued by end of month or early Feb. to assure that final rules could be adopted in April.

"We want to be prepared to act," Kennard told us. He said he's asking industries involved to "come back to us by the end of the month" with specifics on what should be included in rules. In speech, he said he would prefer that industries resolve issues themselves, "but we can't wait... If the industry can't solve it by April, we will." Kennard said he understands that there are varying incentives and interests among industries, but "consumers don't care. They just want this worked out quickly."

FCC has been patient with industries on DTV-cable compatibility issues, Kennard said, noting that they first asked Commission to defer action in 1994, pending their agreement. He said agreement was promised by 1995, and again by Nov. 1999, "but it's still not resolved." Commission prefers market solution, Kennard said, but "when we have a market failure, it is the government's responsibility to address it... Our patience is running out... Bring this to closure or the FCC will have to act."

### **Consumer Electronics**

**DTV COPY PROTECTION ADDED** by Sony at CES in effort to spur availability of more premium programming for digital broadcast. (P. 11)

**BRAGGING RIGHTS VIE FOR DVD+RW CAMP**, which lands Thomson's support at CES. Philips backs off from claims of 100% compatibility with DVD-Video. (P. 13)

**BEST BUY TOPS E-COMMERCE NEWS AT CES**, revealing plans for debut of its CE Web site. BestBuy.com to start this quarter. (P. 14)

**CE SALES TO RISE 5.8% IN 2000**, CEA projects in annual consensus forecast report. It predicts only 64.8% rise in DVD player shipments this year. (P. 15)

**E-TAILERS IN STRONG PRESENCE AT CES:** In addition to Best Buy, Good Guys, Hifi.com and various other e-commerce retailers make announcements. (P. 18)

**CE SALES MIXED** in holiday season, with digital products top revenue generator. (P. 19)

**PVR CATEGORY GROWS AT CES** as vendors add hard-disc video recorders. Novel deck that stores video on CDs debuts. (P. 20)



Industries would benefit from mutually acceptable solution of compatibility and copy protection issues, Kennard said. He said resolution of copy protection for DVD resulted in DVD's "exploding." He said industries "can't listen to the naysayers" who say there's no viable solution without opening door to wholesale theft of programming: "Reject the all-or-nothing approach. You can have choice without theft."

FCC's proposed rules are expected to build upon agreements already reached by industries, including technical accords. Kennard said industries have agreed on about 90% of technical issues, but way has to be found to resolve those remaining. On copy protection, he said 5C system backed by major manufacturers seems "most promising." Copy protection is "vitally important," Kennard said, because protection that's acceptable to program owners will "unleash quality programming" that's critical to spurring consumer acceptance of DTV.

Cable and consumer electronics industry are "very close" to agreement on compatibility, NCTA Vp William Check said on panel, although he acknowledged that there's still potential copyright licensing issue with program producers: "Technology-wise, I believe we can proceed, but the licensing issue is still being worked out." He said licensing is "necessary" for cable-DTV connection to be fully functional.

Industries should be "locked up for a week in Shepherdstown," W. Va. (site of Mideast peace negotiations) to work out compatibility and copyright issues, HBO Senior Vp Robert Zitter said: "Let's get this thing done and get on with it. People need to know this can work." Asked whether week would be enough to meet needs of program producers, Zitter said it would because "we need each other. DTV won't work for any of us until we put this behind us."

Consumers are "buying into the future" by purchasing sets that are at least HDTV-ready, retailer Tom Campbell said. He said 62% of projection set sales in his stores in Dec. were HDTV-ready, although only 12% included DTV decoders. He said there's some consumer concern whether sets will work with cable: "We make it clear to our customers that we don't know what the standard will be." He said he's confident sets will work, but when asked whether consumers are fully aware of cable compatibility problem, he said: "I don't think they really are. It could rear its ugly head."

Some technological developments seem to outpace speed of talks among consumer electronics, cable and programmer industries, speakers said. Brad Hunt, MPAA senior vp-chief technology officer, said one of toughest issues is encoding rules. Consumer electronics and cable industries want simple set of rules for access to digital content, but he said studios believe they should have options on how to protect content and what business model to use. For example, content owners would prefer to use different levels of copyright protection — no copying at all for lower price, single copy for higher price and unlimited copying for highest price — to give consumers and copyright owners more options, he said.

Meanwhile, consumer rights also must be protected, speakers acknowledged. Stephen Balogh of Intel said govt. will step in if final copyright protection system doesn't preserve consumers' expectations that they will have roughly same copying capabilities in digital age as they have now. He said final system also must "preserve end user privacy." Intellectual property lawyer Bruce Joseph said there's also question of what to do with already sold DTV devices, costing more than \$10,000 each, that won't have content protection capability and therefore may have no access to much content. There's also question whether current state of technology and law may give content holders too much control, Joseph said. Govt. also will determine whether any encryption system can be exported, he said.

Pace of technological development also is making it difficult to develop system that's truly secure, speakers said. Joseph said DVD copyright protection already has been "hacked," increasing industry concerns about security of DTV content control. Balogh acknowledged that any encryption system can be broken, although he said it can be relatively secure against regular consumers. For larger scale pirates, he suggested legal resources may be main solution.

Referring to "vast wasteland" speech by former FCC Chmn. Newton Minow, Kennard said fully realized DTV could lead to creation of "vast wonderland." He coined phrase "IPTV" for new services that would be possible, saying it could stand for "interactive personal TV," "intelligent personal TV" or even "Internet Protocol TV." Kennard said his "vision" is 2-way interactive TV with agility of computer and display quality of theater, as well as "limitless" content.

Broadcasters aren't realizing full potential of IPTV, Kennard said. Since they're looking only at full-quality HDTV, he said, they're "looking at DTV through blinders... The better vision is to harness the interactive possibilities." New services could provide "a new horizon for investment," he said. Statement on IPTV prompted one audience member to note that when ABC's Preston Padden made speech downplaying importance of HDTV, he ended up facing congressional hearing.

**ISSUES PLENTIFUL FOR NAB BOARDS IN CAL.:** NAB board members have been told to expect long work sessions during 4 days of meetings that started Sun. (Jan. 9) in La Quinta, Cal. Broadcasting industry is facing "more major



issues at these meetings than anytime that I can remember," said NAB Chmn. James Yager. Opening joint board meeting "will be a long, long day," NAB staffer predicted, and Yager amended that to say separate TV, radio and joint board meetings all will be "long, long days." Radio board meets today (Jan. 10), TV board Jan. 11, joint board again Jan. 12, and "there'll be little time for golf and tennis," low-handicap director lamented.

Not least of issues is NBC's expected withdrawal from NAB over Assn.'s support of continued 35% TV station ownership cap (TVD Dec 20 p3). Subject is scheduled as last item on TV board agenda — but it also could be raised earlier during joint board's discussion of ownership issues and/or when planned bylaw amendments are brought to floor. NBC Exec. Vp Richard Cotton, along with Washington Vp Robert Okun, member of TV board, will be on hand to present NBC's position. Fox TV Network and its stations already have pulled out of NAB because of group's position on ownership cap (TVD June 14 p2).

Martin Franks, CBS senior vp and head of its Washington operations, was more than just a little critical of NBC and Fox. Citing many Washington legislative and regulatory areas where TV networks and NAB work together, he told us: "To me, it's insane to be tearing the NAB apart over this issue... It's lunacy." By same token, Franks is very much against NAB position — which is result of position taken by TV group owners, and thus affiliates — and chastised CBS affiliates at spring convention for their advocacy of keeping ownership cap at 35% of U.S. TV households (TVD June 7 p1).

Among issues facing both TV and radio boards will be program streaming via satellites and how that affects music performance fees and other copyright issues (TVD Dec 13 p6), plus "a number of ownership issues" not related to TV cap, NAB official said. Much time is expected to be devoted to discussion of new FCC EEO proposals, lottery and casino ads, political broadcasting rules, disabilities access. Earlier EEO rules have been ruled unconstitutional by U.S. Appeals Court, D.C., and NAB has taken position that FCC can't adopt its proposed new requirements until it establishes "nexus" between minority and female employment and/or ownership. Also before board will be proposed changes in bylaws "to make them more relevant to the way the industry is structured in today's world," Yager said.

On TV side, DTV and Sinclair's COFDM proposal (TVD Dec 6 p3) will receive extended discussion, but no action is expected because NAB is waiting for technical study by MSTV to be completed. Study is expected to be released next month. FCC hasn't acted on petition to seek comments on COFDM, which has become "real political football," broadcaster said. Thorough discussion also can be expected on digital must-carry, newly authorized Class A LPTV stations and Commission's proposal on need for new public service obligations in digital era, along with "fairly complete look" at developments under Satellite Home Viewer Improvement Act. Same is true on radio side of FCC's rulemaking to authorize low-power FM stations, which is strongly opposed by NAB on interference grounds.

Radio Dir. William O'Shaughnessy has been given slot on joint board agenda to present his position that NAB should establish in-house Institute for Public Policy (TVD July 12 p3) to be headed by exec. dir. who also would be an NAB exec. vp. According to O'Shaughnessy, Institute would "confront, study, analyze and counter the growing criticism of broadcast programming, the decline in public support for freedom of the press [and] the perception that broadcasting will not be a major player in the digital age." Primary goal, he said, would be to "build bridges with our enemies as well as our friends." NAB, he said, "is very good at counting votes inside the Beltway but we're losing the war of public opinion." Last summer, NAB staff covertly opposed idea as unnecessary. This time around, Radio Chmn. William McElveen told us: "It's a valid position and we should hear what he has to say and act accordingly."

Joint board will be asked to approve budget for fiscal year beginning April 1 with expected \$55.9 million in revenue (up 5% from \$53.3 million now projected for current year), expenses of \$41.1 million (up \$2.36 million). April 2000 convention income is projected to be \$36.7 million (66% of NAB's total revenue), up \$1.8 million (5%) from \$34.9 million in 1999. Drop in projected TV dues of \$218,000 to \$5.4 million was caused by Fox withdrawal last spring.

**Comcast bought naming rights to new basketball arena at U. of Md. in College Park for \$20 million, parties announced Jan. 6.** Arena, which isn't yet under construction, will be called Comcast Center. Comcast also will be exclusive cable provider to University as part of agreement, including digital cable and Comcast@Home. University estimates arena, expected to be completed in 2002, will cost \$101 million. Comcast has been building "supercluster" of cable systems from Conn. to Va., and U. of Md. is in area it's taking over from another provider.

**CableLabs Pres. Richard Green will speak at monthly Washington Metropolitan Cable Club (WMCC) luncheon Jan. 11, Park Hyatt Washington — WMCC, 202-775-1085.**

**Showtime said it will launch HDTV services Jan. 23 with east and west coast feeds, beginning with *Star Trek: Insurrection*.** Network will use 1,080i with 16:9 aspect ratio. HBO already has HDTV channel it offers DBS and cable operators.

**Cable systems across nation experienced no Y2K-related problems or unusual service interruptions during rollover into new year, NCTA told FCC.** MSOs representing majority of U.S. cable subscribers submitted systemwide status reports to NCTA beginning 10 a.m. Dec. 31, NCTA said. In final report to FCC, NCTA said interfaces performed "as expected."



**NBC, ABC, NAACP IN ACCORDS:** Culminating 6 months of negotiations, NBC and ABC last week reached broad agreements with NAACP covering minorities in all levels of networks' operations. Emphasis is being put on increasing number of minority writers, producers and directors, as well as actors in front of cameras, starting with 2000-2001 prime-time season. NAACP Pres. Kweisi Mfume, who participated in news conferences Jan. 5 at NBC and Jan. 7 at ABC to announce deals, said "unprecedented" agreements were result of "browbeating that took place over the last 6 months" (TVD Aug 2 p1). He said NAACP was "very close" to reaching similar agreements with Fox and CBS.

NBC agreement covers "full inclusion" of minorities in employment, casting, image portrayal, content creation and program development, distribution, promotion and financing, Mfume and NBC Pres. Robert Wright announced. Effective immediately, NBC said it will use its "best efforts" to increase deals with minority-owned production companies and conduct "senior level reviews to ensure that such deals are fully commensurate with current marketplace compensation levels."

Among other initiatives agreed to by NBC: (1) Holding "intensive, all-day seminar" in Feb. for producers, studio and agency heads "to emphasize NBC's commitment to diversity... and to exchange ideas for achieving that diversity in writing, casting and directing." (2) Increasing amount of products and services purchased by NBC from minority-owned businesses by 100% within 18 months — investment of additional \$10 million, according to Wright. (3) Encouraging use of minority writers to fill free-lance assignments. (4) Setting policy to "seek out and hire qualified people of color" as producers. (5) Funding additional minority writing position for all series starting their 2nd year, beginning with 2000-2001 prime-time season. (6) Adding 25 minority positions to year-long training assignments in news, entertainment, sports and stations divisions. (7) Expanding pool of minority job applicants by providing 6 NBC scholarships for graduate students. (8) Ensuring that "substantial number" of NBC pages each year are minorities. (9) Employing additional in-house minority lawyers and retaining "diverse outside lawyers."

Agreement with NAACP, which represents coalition of minority groups, is "a truly cooperative relationship to help us do better," said Wright, making it "unequivocally clear that NBC is committed to diversity in every aspect of our programming." That goal, he said, is being approached as a matter of corporate responsibility: "There's a great deal to be done" and NAACP agreement is "an important first step." NBC West Coast Pres. Scott Sassa said he and others "worked right through the holidays to get this done."

Two days after NBC, ABC became 2nd network to sign diversity agreement with NAACP, covering all phases of company's operations. Mfume said NAACP "continues to make progress" in negotiations with Fox and CBS and he expects agreements with them within 7 days. He said News Corp. Chmn. Rupert Murdoch phoned him Jan. 4 to say Fox is ready to strike deal.

ABC agreement covers 7 pages, with network saying it "reaffirms its intent to enhance diversity and increased opportunities for qualified people of color at each of its network levels, programs and departments." Those areas include employment, program production, distribution, promotion and financing, casting and image portrayal, content creation and development — "both in front of and behind the camera," ABC said.

Unlike NBC, ABC included ABC News Pres. David Weston in news conference. He cited "editorial component" of agreement and said ABC can't adequately report news if there's only one point of view in newsroom: "We need the full range of diverse people... We need to go further for our own sake." ABC TV Pres. Patricia Fili-Krushel stressed progress made in daytime programming during 5 years she headed that division and said "I take the issue of diversity very seriously."

Mfume said Westin's presence "underscores the level of trust" achieved by 2 sides in 6 months of negotiations. Mfume said ABC agreement is "a good initial first step [and] a genesis of a partnership." He pointed out that NAACP has earmarked \$500,000 to establish "watchdog" office in Hollywood to make sure networks fulfill terms of agreement: "We've got to show around the world that we're not a segregated, racist society."

Agreements with ABC and NBC will be reevaluated every 6 months to make sure networks are holding up their end of bargain. Among terms of deal cited by Mfume were ABC's commitment to establish associates program, mentoring protege set-up with network vps assisting minorities to reach higher levels of employment, mandatory diversity training for network executives and tying their bonuses to individual diversity efforts, program to help develop producers and directors.

Last summer, NAACP had threatened viewer boycott of one or more networks because of what it saw as "virtual white-wash" in fall programming schedule. Several meetings have occurred since, culminating in public session in L.A. last month to which only CBS sent top executive (TVD Dec 6 p2).

**FCC Jan. 6 adopted** licensing rules for 30-MHz portion of 700 MHz band reallocated from TV Chs. 60-69, establishing 2 bands that will be auctioned later this year and used for variety of wireless services. Agency also established guard bands of additional 6 MHz to protect adjacent public safety spectrum from interference and said that spectrum also will be subject to auction. Agency will seek comments on plan to auction that spectrum in paired 2 MHz and 4 MHz segments. Commission said "technical and operational restraints" on those bands would be more strict than others because of public safety concerns. Use of this guard band spectrum has been controversial because private wireless users have urged FCC to give them exclusive use of spectrum or at least limit eligibility of those who can compete for it in auction. FCC also decided that 700 MHz licensees won't be subject to 45-MHz spectrum cap.

**Time Warner Vice Chmn.** Ted Turner and wife Jane Fonda are separating, couple said in joint statement. They were married in Dec. 1991. In statement, Turner and Fonda said that while "we continue to be committed to the long-term success of our marriage, we find ourselves at a juncture where we must each take some personal time for ourselves. Therefore, we have mutually decided to spend some time apart."

**More than 1,000 TV stations** filed notices of intent to maximize their DTV signals in response to FCC deadline (TVD Dec 10 p3). Mass Media Bureau said Jan. 5 total was 1,024 "and counting." Notices were due to be posted on FCC Web site by end of last week. Full-fledged applications, which would protect stations from interference from newly authorized Class A LPTV stations, are due May 1.



**RECEPTION CLOUDS DTV GROWTH:** Although initial DTV sales are slower than they were for DVD, TV's digital era "will get very big very fast," CEA Vp Ralph Justus said at CES in Las Vegas last week. He said "phenomenal start" will mean 1% DTV household penetration by 2002, total of 20 million sets sold by 2005, 10.8 million DTV sales in 2006 alone. Other speakers at convention said there are clouds on horizon, including concern whether current DTV standard could be replaced by COFDM.

DTV technology is "far more mature" than NTSC was at same point in product cycle, Justus said. He said there's "a lot of confusion and disturbing concerns" whether DTV standard will work in all environments, but they are "totally unjustified" and "very disturbing." NxtWave CEO Matthew Miller, whose company is developing ghost-busting chip said to solve some DTV reception problems, said there clearly are no significant reception problems and his chips are being fully evaluated by many companies, although results are being released only after signing of nondisclosure agreements.

Most major broadcast groups continue to support current DTV standard, rather than endorsing push for additional testing of COFDM, but reception issue "is a concern for broadcasters," MSTV Senior Vp Victor Tawil said. He said he's convinced standard will work, but there are problems with first-generation receivers: "People are nervous. There is also a lot of confusion and misinformation about both technologies."

Broadcasters "have to do our homework" on whether systems will work, Tawil said: "It is important to step back and assess it properly." He didn't provide details on how assessment would occur or on timetable, but said broadcasters would "look at COFDM," including "assessing the tradeoffs, not just the technology."

"Time is the enemy," Miller responded at standing-room-only panel session. "If we screw around with this, it could be another 10 years doing nothing." Tawil agreed, but said goal is to "get the information and stimulate the industry to do the right thing."

CEA expects to complete process of setting definitions of what is true HDTV display device by midyear, Justus said. He acknowledged that definitions are controversial among key CEA members, but said disagreement has to be resolved in order to assure consumer confidence: "It has to pass the squint test." Tawil said definitions involve only how well DTV sets display HDTV, not how well they receive it, saying that doesn't solve problem whether sets will be able to receive DTV programming in downtown areas. Justus said he doesn't believe reception standards are necessary, saying different quality receivers were common in NTSC: "The market will take care of itself."

Although deadline for replies in FCC rulemaking to authorize LPFM stations has long passed (TVD Nov 22 p7), NAB submitted new study to Commission last week to show "folly of low-power radio," NAB Pres. Edward Fritts said. "No matter how you slice it, LPFM will result in additional interference on an already congested radio band," he said. New research for NAB, by Ramond Pickholtz and Charles Jackson, found "numerous inconsistencies" in Rappaport Study submitted earlier by United Church of Christ, which reportedly showed that technical standards would permit FCC to authorize 100 LPFMs. Countered NAB: "It was precisely the type of analysis advocated in the Rappaport Study... that led to the present condition of the AM radio service."

**FOX NOW ON COX CABLE:** Fox and Cox thrashed out retransmission consent agreement last week, ending blackout of former's local and national network programming in 5 cities that began Jan 1 following breakdown of talks on issue and expiration of agreement extension. With companies deciding by "mutual consent" not to disclose terms of agreement, it was unclear whether Fox had backed down on its demand for carriage of its cable channels — Fox Sports World and classic movies FXM — on all of Cox's cable systems or whether Cox had agreed to demand.

Fox's broadcasting programming was unplugged in Cox systems in Fairfax County, Va., with 260,000 subscribers, Cleveland with 72,000 and Austin, Dallas and Houston, each with more than 30,000. While companies' officials were tight-lipped about terms, programming and ad managers in affected Cox systems pleaded ignorance of any proposed change in program content. Companies had been trading charges for week over who was responsible for stalemate in talks resulting in Fairfax County Supervisory Board member Gerald Connolly offering to mediate to help restore Fox programming in county. Fox had virtually rejected Jan. 5 proposal by Connolly for "cooling-off" period, saying Cox had "consistently rebuffed" every proposed deal that Fox had offered.

Fox spokesman said agreement will cover all Cox systems reached by Fox-owned stations. Agreements in some systems were to expire at end of Jan. Of significance is fact that agreement came on day bipartisan group of senators wrote to Cox Pres. James Robbins and Fox Chmn. Rupert Murdoch chiding companies for "what appears a lack of concern for the consumers who make both of your businesses possible." Sens. DeWine (R-O.), Kohl (D-Wis.), Leahy (D-Vt.) and Voinovich (R-O.) asked companies either to extend retransmission consent agreement or come to some agreement that would help restore service to consumers.

Cox Va. Gen. Mgr. Gary McCollum declined to say whether Fairfax County system would carry 2 Fox cable channels as he had offered earlier. "All I can say is that we are ecstatic that the Fox signal is back," he said, saying he couldn't divulge details of "long-term" agreement. Meanwhile, spokesman for Time Warner, which is locked in retransmission dispute with ABC and Hearst-Argyle TV, said their negotiations still were continuing.

**Model HDTV station WHD-TV Washington** has new lease on life as sponsors have begun 18-month project to focus on such DTV implementation issues as closed-captioning, lip sync, Program System Information Protocol (PSIP), equipment interoperability, reception. Original 3-year test hosted by WRC-TV Washington ended Dec. 31. Sponsors of both projects are MSTV, CEA and NAB, with nearly 300 TV stations and 40 manufacturers and service providers continuing as participants.

**FCC sought comments on applying cable rules for network nonduplication, syndicated exclusivity and sports blackouts to satellite carriers.** Rulemaking is part of implementation of Satellite Home Viewer Improvement Act, which permits satellite carriers to transmit local TV broadcast signals into local markets. Comments are due Feb. 7, replies Feb. 28.

**National Assn. of Mfrs. and Information Technology** Assn. commended Occupational Safety & Health Administration (OSHA) Jan. 7 for withdrawing advisory opinion applying agency regulations to offices of telecommuters.



**EISNER FORGOES BONUS:** Disney Chmn. Michael Eisner acknowledged that his company had rough year and failed to reach financial targets. As result, he said he and some other top executives will go without bonuses. While news buoyed Disney's stock, cable stocks plummeted on interest rate fears and negative analyst report.

In fiscal 1998, Eisner received \$5 million bonus and Vice Chmn. Roy Disney \$410,000 bonus, but this year no senior executives will receive bonuses, Eisner said in letter to shareholders filed with SEC, because company failed to meet income target for year. Eisner's 1999 income will be \$750,000 salary and \$3,280 in other considerations, along with \$50 million in profit from exercising stock options. Disney's income plunged 21% for year to \$3.2 billion on 2% rise in revenues to \$23.4 billion.

Company will save \$300 million annually over 5 years through cutting procurement costs, Eisner promised. He also pledged more aggressive VHS and DVD releases and predicted boost from new theme parks opening next year in Cal. and Japan. Contributing to losses in 1999 were reduced ad rates at ABC resulting from network's low ratings, something Disney has vowed to address. Morgan Stanley Dean Witter upgraded Disney to "outperform" from "neutral," and stock gained \$1-3/8 (4.34%) Jan. 5 to \$33.

Cable growth in video subscribers has been relatively flat in recent years, only 1-2% per year, while programming costs have increased at much faster pace. MSOs are banking on bundles containing advanced services such as digital video, high-speed Internet access and IP telephony to spur growth and boost profits. However, Morgan Stanley analyst Richard Bilotti wrote that potential annual rate of growth for those bundled services might not be as high as cable anticipated, or even as high as 5-7% average increase for video that's common today. Cable industry will face such intense competition from phone companies and DBS operators that competitors "will probably force the entire cable television industry to bundle these incremental services with the standard digital packages at modest, incremental prices," he said.

MSOs probably couldn't get away with rate increases larger than 3% per year, Bilotti said, and he expects average rate "to remain flat over the next several years." He downgraded Cablevision to "neutral" from "outperform" and Cox to "neutral" from "strong buy." However, he kept Comcast at "outperform." Despite rush of investors to sell MSO shares, other analysts seemed disinclined to follow Bilotti's lead. Other major Wall St. firms either reaffirmed their MSO ratings or left their ratings, nearly all positive, unchanged.

**Comcast-owned QVC** sued pornographic Web operator AdultQVC.com, citing recently passed "cybersquatting" law. QVC charged that Mesa, Ariz., computer operator Jay Cambern launched AdultQVC.com Dec. 30 to use QVC's trademark to sell "unwholesome and unsavory" products and services. Cambern took down site after being contacted by QVC lawyers, but QVC is pressing for statutory damages of \$100,000, *Philadelphia Inquirer* reported.

Larry Irving, ex-NTIA dir., has teamed up with basketball's Earvin (Magic) Johnson to create Web portal to target African Americans. Portal will be called UrbanMagic.com.

Weeks after controversy first was reported (TVD Dec 20 p5), alleged effort by Senate Commerce Committee Chmn. McCain (R-Ariz.) to influence FCC on behalf of major campaign contributor Paxson Communications has become Presidential campaign issue. *Boston Globe*, followed by *New York Times* and *Wall St. Journal*, questioned whether McCain letters to commissioners seeking quick action on Paxson bid to acquire WQEX Pittsburgh (Ch. 13) constitutes hypocrisy by champion of campaign finance reform. Chmn. Kennard had told McCain that his letter was "highly unusual" in that it sought information about status of voting in open docket, although he and all other Commissioners but Comr. Tristani nevertheless complied. Station transfer was approved following week. McCain continued to maintain that he asked FCC only to act quickly, and not to rule one way or other, and he took opportunity to slam Commission as one of slowest-moving agencies in Washington. Asked about matter during N.H. GOP Presidential debates, McCain said average time for FCC to decide transfers is 418 days. In this case, he said, "they ended up taking 700 days. At 700 days I wrote to them, make a decision." Asked whether McCain had given satisfactory answer, Tex. Gov. George W. Bush (R), rival for GOP nomination, said: "Yes, I think so."

**U S West is biggest donor** to Senate Commerce Committee Chmn. McCain (R-Ariz.), giving \$107,520 to various campaigns throughout his career, according to report by Center for Public Integrity. Others of interest among top 25 contributors to McCain: (3) AT&T and its affiliates, \$72,250; (4) Viacom and its affiliates, \$61,750; (6) BellSouth, \$60,000; (9) Motorola, \$49,045; (12) Bell Atlantic, \$44,000; (22) Microsoft, \$35,250; (24) Ameritech, \$33,750. List for fellow GOP Presidential hopeful Tex. Gov. George W. Bush (R) includes just one primarily communications interest, Chancellor Media owner Hicks, Muse, Tate & Furst, 4th at \$305,150. Among Democratic contenders, Vice President Gore's list includes: (2) BellSouth, \$104,000; (6) Viacom, \$89,750; (9) Disney, \$68,000; (13) Time Warner, \$59,750; (15) Bell Atlantic, \$58,750; (16) AT&T, \$58,250; (22) Microsoft, \$46,500; (23) Patton & Boggs, \$44,119; (25) Akin, Gump, \$41,250. For former Sen. Bill Bradley (D-N.J.), whose list is dominated by financial institutions: (5) Time Warner, \$112,770; (8) Disney, \$95,415; (13) Wilkie, Farr & Gallagher, \$79,650; (14) Viacom and affiliates, \$74,867.

**RCN Corp. plans** to accelerate its buildout in L.A. by using fiber plant of Southern Cal. Edison. Agreement, terms not disclosed, will allow RCN to reach 1.5 million households in area with density of more than 200 homes-per-mile of plant. Edison has 1,800-mile fiber network in Southern Cal. and has built communications routes for telecom providers in recent years. Power company also is certified by Cal. PUC as telecom provider. RCN has long had fiber partnership with Potomac Electric Power Co. (PEPCO) in Washington region.

**FCC Chmn. Kennard's** response to letter from House Commerce Committee member Dingell (D-Mich.) calling for inquiry on AT&T MindSpring cable open access agreement failed to address many of questions raised in letter, aide to Dingell said. Dingell had charged that FCC "lagged behind on this issue" and sought response by Dec. 24. Aide declined to divulge contents of Kennard's response, saying only "there would be further correspondence." AT&T also responded to Dingell's letter to Chmn. Michael Armstrong asking why company can't implement open access immediately, but company spokesman said it had decided not to make reply public.



**CES NOTEBOOK:** New era of convergence through software-connected gadgets was predicted by Microsoft Chmn. Bill Gates. He told overflow crowd that 2000 will usher in "consumer electronics-plus era," in which consumers will have multiple information technology devices, all interconnected and interoperable. Convergence won't mean consumers use single multipurpose device, Gates said: "There will be a proliferation of devices," such as pocket phones, PCs or organizers and digital cameras, big-screen devices for entertainment, and desktop devices for work or study. Convergence also won't mean "just putting everything on the Web," Gates said.

RCA parent Thomson will underwrite DTV broadcast of NCAA Men's Final Four basketball tournament to be carried by CBS April 1-4, company said at CES news conference. Games will be broadcast live in 1,080i HDTV resolution from RCA Dome in Indianapolis, but produced and transmitted separately from CBS Sports analog feed, partners said. CBS now has 19 owned and affiliated stations broadcasting DTV, with coverage area 38% of U.S. households. Broadcaster said it expects to have 40 stations online by May 1, reaching 55% of U.S.

Set-tops for HDTV satellite reception from DirecTV have joined CES product lineups of Panasonic, Sony, Toshiba. Toshiba said it plans to ship \$1,100 ATSC/DirecTV set-top, including dish antenna, in first quarter. Panasonic said it will add HD DirecTV reception to its DTV set tops beginning in spring, but didn't announce pricing. First HD DirecTV set-top from Sony also is due for spring delivery at price to be determined, to be followed by 2nd model with IEEE-based digital connector later in year.

Geocast system for HDTV datacasting to home PCs was demonstrated in simulation at CES by hardware licensee RCA parent Thomson. System exhibited TV-quality video reception from Web sites by using small portion of HDTV terrestrial bandwidth to broadcast Internet content instead of transmitting data through telco or cable land lines. Thomson said it expects to have RCA brand Geocast set top receiver on market next year at price under \$300.

Hughes announced at CES that it will manufacture DBS set-top designed to receive HDTV programming, as well as over-air DTV signals. New Platinum HD receiver is to ship in 2nd quarter, it said.

USA Digital Radio announced at CES that its in-band, on-channel digital audio broadcasting service will be called iDAB. It was demonstrated at Digital Radio Pavilion last week over KWNR(FM) Las Vegas. Most of major U.S. radio groups are stockholders in USA Digital Radio.

Excite@Home is latest Web portal to start free ISP service, to be called FreeWorld. FreeWorld will use technology of CMGI's 1stUp.com, which also powers CMGI subsidiary AltaVista's free ISP. Excite@Home said it hopes to lure customers who eventually will migrate to its cable modem service. Meanwhile, AltaVista said its free ISP has reached 1.5 million users in 5 months.

XM Satellite Radio said it has preliminary arrangement with Sony Electronics to design, produce and market XM-Ready audio products that include portable, home and aftermarket radios and OEM auto stereo markets. Specifics of deal weren't disclosed. XM Satellite plans to offer new band of radio next year, featuring up to 100 channels of digital quality news, sports and other programming for \$9.95 monthly, company said.

**OPEN ACCESS FADING ON HILL:** Legislation to mandate open access to cable systems and other broadband networks "has no legs whatsoever in the House Commerce Committee," committee member Rep. Oxley (R-O.) told Consumer Electronics Show in Las Vegas last week. Other speakers, including House Judiciary Committee member Berman (D-Cal.), agreed there's little chance of passage. Robert Pepper, head of FCC Office of Plans & Policy, said Commission isn't likely to act either.

Current system of regulating telecom "isn't perfect and there are aberrations," Oxley acknowledged, but he said lack of regulation "has done quite well overall." He said FCC and Congress should continue to trust market and impact of 1996 Telecom Act.

Berman said he personally is "uncommitted and agnostic" on broadband access and there's "superficial appeal" to regulating access to telecom networks: "I have the impression that there could be all kinds of steering and improper tiering, but with all the different technologies, it's not 'cable or nothing.'" He said competing technologies will include DSLs, satellite broadband, wireless broadband, possibly others.

More telco involvement in broadband is almost certain because of ILECs' move into new competitive arenas, Oxley said. He said it "appears" that FCC will give long distance approval quickly to SBC Communications in Tex. and Ameritech in Midwest, with competition moving swiftly to most major states: "That changes the situation immensely. It takes the air out of the sails of this legislation." Oxley said there may be hearings on broadband access but chances bill will be signed into law are "very small."

Cable continues to claim it will "hold its breath and turn blue" if it's required to provide access to other broadband ISPs, Pepper said, but its claims that access will cause technical problems and slow access are "false choice." He said providing access is "technically difficult, but not impossible." Within 3-5 years, consumers will have choice of ISP providers via cable because "cable companies will have to deliver because if they don't, consumers will go somewhere else... Fear in the market is much better than regulation."

Policymakers "should do nothing to reduce the incentive" to provide broadband, said Peter Pitsch of Intel. Govt. should intervene only where there are bottlenecks, he said. Pitsch also said gov't. shouldn't assume that broadband is sure winner, saying Wall St. isn't completely comfortable with those investments.

Mark Cuban, founder of what's now Yahoo Bcst., signed letter of intent to buy majority of Dallas Mavericks basketball team from Ross Perot for \$280 million, *Dallas Morning News* reported. Perot paid \$125 million in 1996 for 55% share. Among minority owners standing to gain from value increase, which is attributed in large part to building of new arena, is Belo Corp., which paid \$24 million in Sept. for 12.4% stake in team and 6.2% of new arena. Cuban, who lives in Dallas, made estimated \$1.5 billion from sale of Broadcast.com to Yahoo.

Hollywood.com and CBS closed on deal whereby TV network acquired 30% of Web movie service in return for \$105 million worth of promotion, ads and other considerations. Ads and promotions actually started on CBS in Dec. but now will be "launched on a much bigger scale," Hollywood.com Chmn. Mitchell Rubenstein said.



**RELIGION RULES CLARIFIED:** Religious programming doesn't qualify as educational if it's "primarily devoted to religious exhortation, proselytizing or statements of personally held religious views or beliefs," FCC said in order that allowed religious broadcaster Cornerstone TV to take over WQEX (Ch. 16, PBS) Pittsburgh (TVD Dec 20 p5). Decision, which permitted PBS station WQED (Ch. 13) Pittsburgh to swap its 2nd station for Cornerstone's WPCB-TV (Ch. 40) Greensburg-Pittsburgh, and clears way for eventual sale of WPCB-TV to Paxson, was announced Dec. 15, but order wasn't released until Dec. 30.

Inclusion of what FCC termed "clarification" of standards for noncommercial content was part of compromise order that saw dissents by 4 commissioners, with only Comr. Ness agreeing both to approve transfer and to clarify standards. She said FCC hadn't provided enough guidance in past to justify denying application made more than 2 years ago on basis of newly tailored rules. However, she pointed out that Cornerstone will be subject to new guidelines in operating station.

Commission said more than half of noncommercial licensees' programming must "primarily serve an educational, instructional or cultural purpose in the station's community of license." In particular, church services "generally will not qualify" unless they're "part of an historic event, such as the funeral of a national leader," FCC said. However, it said more academic religious instruction such as parsing of Bible would qualify.

House Telecom Subcommittee Vice Chmn. Oxley (R-O.) and Subcommittee Republicans Pickering (Miss.), Largent (Okla.) and Stearns (Fla.) sent letters to FCC Chmn. Kennard and Vice President Gore challenging FCC's right to meddle in programming matters or to set policy without soliciting comments. Meanwhile, National Religious Bcstrs. (NRB) is "considering various legal options," it told its members. Congress members told FCC: "We assure you that this policy will not stand. We advise you to reverse this ruling, or stand by and see it overturned legislatively or in court." They said they "would have commented on this application if we had known the Commission was considering anything so outrageous." They continued: "The Commission is neither qualified nor does it have the legal authority to engage in this sort of line drawing."

Congress members said policy amounts to "unconstitutional restriction on religious speech... A majority of the Commission may not find religious services to be educational, but having traveled outside the Washington Beltway in recent weeks, we can assure you that millions of Americans *do*." In letter to Gore, they urged him "as the Clinton Administration's most visible telecommunications policy maker," to "condemn the FCC's actions and counsel the Commission to withdraw its order."

FCC should have held hearing on Cornerstone's fitness to take over WQEX, Chmn. Kennard and Comr. Tristani said. They said there are "simply too many unresolved questions of fact regarding whether the proposed programming [by Cornerstone] is primarily educational, or primarily something else." Kennard and Tristani said they believe new guidelines "will permit the Commission to more effectively and expeditiously enforce its rules in future cases," though they "regret the Commission's decision not to apply this standard to the facts before us."

New standards "may open a Pandora's Box of problems that will create confusion and litigation that noncommercial licensees can ill afford," Comrs. Powell and Furchtgott-Roth said. They

said quantifying educational obligations is "greater federal intrusion" that's "unwarranted and may well be unconstitutional."

**NCTA said its members won't carry PTV's digital signals during transition unless forced to by FCC,** APTS told staffers of several bureaus in recent meeting to lobby for DTV must-carry. According to ex parte filing, APTS provided position paper that said must-carry "is the only option for public stations," despite NCTA contention that "FCC can rely on voluntary retransmission consent agreements between broadcasters and cable companies." Public broadcasters have pushed FCC to provide them with must-carry, regardless of outcome of larger rulemaking that encompasses commercial broadcasters. APTS also said cable operators can make room for PTV by turning over unused public access channels. It said DTV signals won't just be duplicates of analog, because public broadcasters plan "range of multicast digital educational services... along with data to enhance and deepen the educational value of the programming." However, without guaranteed cable carriage, "it is extremely difficult for public television to obtain funding and attract partners" for such content, APTS said.

**NTIA issued notice last week describing conditions under which applications will be received for grants for Technology Opportunities Program (TOP, renamed from Telecom Information Infrastructure Assistance Program — TIAP) and how NTIA will determine which applications it will fund.** Agency said \$12.5 million is available for federal assistance and there's possibility of small amount of additional funds that have been recovered from grants awarded in earlier years. This is 7th year of funding under program. Completed applications for funds must be received in hard copy at NTIA by March 16. NTIA said aim of program and matching funds is to help develop nationwide, interactive, broadband information infrastructure that's accessible to all Americans, in rural as well as urban areas. Grant recipients will be required to provide matching funds toward total project cost. Administration said it will provide up to 50% of total project cost unless applicant can document extraordinary circumstances warranting grant of up to 75%. Applicant may request up to \$600,000 in total federal support. In FY 1999, NTIA said it received more than 700 applications that together requested more than \$250 million in grant funds. From those, NTIA made 43 awards totaling \$17.6 million. TOP will have 4 distinct application areas — community networking and services, lifelong learning and arts, health, public safety. TOP won't support projects to construct or extend one-way networks, single organization projects, replacements or upgrades of existing facilities, content development projects, hardware or software development projects, training projects or projects aimed at building or installing voice-based systems. NTIA said reviewers will evaluate each application according to criteria such as project purpose (15%), innovation (15%), diffusion potential (15%), project feasibility (15%), community involvement (15%), reduction of disparities (15%), evaluation and documentation (10%). Successful applicants will have 12-36 months to complete projects, NTIA said. It said it anticipates it will take 6 months to complete review of applications and make final decisions.

**Media Access Project** has moved to 940 18th St. NW, Suite 220, Washington, D.C. 20006. Telephone remains 202-232-4300, fax 202-466-7656.

**Charter Communications** increased to \$1.3 billion from \$900 million debt offering it's extending.



**DBS SALES SURGE IN DEC.:** Despite DBS providers' projections that local-into-local legislation would be major driver of holiday sales, some analysts told us big Dec. was based on medium's momentum, rather than new availability of local TV signals. Sean Badding, vp-business development of Carmel Group, said Satellite Home Viewer Improvement Act (SHVIA), which permitted satellite transmission of local TV signals, had "nothing to do" with Dec. sales increases. He said "momentum in DBS sales pushed the numbers regardless of legislation," attributing Dec. growth to hardware and program-based promotions. DirecTV said it gained record 225,000 new customers in Dec., EchoStar 160,000.

"Christmas is always a big time for DBS sales," said William Kidd, satellite industry analyst with C.E. Unterberg Towbin. "These numbers were expected without introduction of local-into-local." He said DBS sales eventually would have tapered off without legislation, but local-into-local will be catalyst for sales in future. "The question is whether local-into-local will be a one-year wonder or last for several years," Kidd said. "One positive thing," he said, "is that local-into-local can be used to upsell... current subscribers." Unterberg Towbin predicts 500,000-700,000 new subscribers in 2000 attributable to local-into-local markets. Badding said local-into-local effect, while not having immediate impact, will increase DBS sales 12-15% in next 2 or 3 years, and even more significantly beyond that.

DirecTV Pres. Eddy Hartenstein attributed Dec. sales boost directly to new availability of local stations in specific markets, saying strong numbers continued in first week of Jan. with "aggressive rollout of local channels in those markets." Spokesman for DirecTV said local-into-local "definitely had an impact" on Dec. sales. "There was a lot of pent-up demand, so how could it not have had an impact?" However, company also said recently that "real impact [of local-into-local] will be seen" in 2000.

Meanwhile, EchoStar introduced series of new products at CES in Las Vegas, including new Dish HD receiver with ability to receive HDTV signals. Receiver delivers programming onto 16:9-ratio HDTV screen and supports both 720p and 1,080i HD formats. EchoStar said it has world's first combination satellite TV receiver with built-in DVD player; DishPlayer 500 system with built-in 17.2 gigabyte hard drive capable of simultaneously recording and playing back digital video; Quadrature Amplitude Modulation for multiple dwelling units.

DirecTV made similar announcement, saying it had reached deal with Samsung Electronics for latter to manufacture and market SIR-TS200 model HDTV-compatible set-top box. In other announcements, it said: (1) Total Choice Silver and Total Choice Gold packages have been renamed Total Choice Movies and Total Choice Sports, respectively. (2) Hughes Network Systems will manufacture DirecTV set-top receivers designed to receive HDTV programming as well as high-definition, digital "over-the-air" signals from local broadcasters via off-air antennae. (3) DirecTV and TiVo Personal TV are combined in one device. (4) It has signed deal for Panasonic to manufacture its HDTV systems.

"The Washington Scene" and direct response TV commercials are among subjects to be discussed at March 30 TV Ad Forum, Plaza Hotel, N.Y., sponsored by Assn. of National Advertisers. Other topics on agenda at one-day Forum include future of wired communications, personal video recorder technology, audience measurements — 212-697-5950.

**ANALOG BOX SECURITY DELAYED:** While cable industry expects to offer interoperable set-tops and other navigation devices by FCC-mandated July 1 deadline, NCTA told Commission that interoperability for hybrid analog-digital boxes won't make that deadline. Cable has long opposed any inclusion of analog boxes in rules. In reconsideration of its order last year, Commission dropped requirement for analog boxes but kept mandate on analog-digital hybrids.

"Based on what we know today, analog POD [point of deployment] modules will not be available for cable operators to provide to subscribers by July 1, 2000," NCTA said. To make box interoperable, CableLabs is leading effort to develop PODs that MSOs would provide to subscriber, with POD descrambling MSO's programming. Commission's goal is to have boxes available at retail, but NCTA said hybrid analog/digital boxes in retail or by MSO distribution would be rare and as result, "production of hybrid boxes which accommodate a separable analog security module — as well as production of analog POD modules themselves — is not likely to be economically feasible."

Cable industry insisted that FCC deadline didn't have teeth when it came to hybrid boxes. It cited court transcript of General Instrument's appeal of Commission's order, in which Dept. of Justice attorney for FCC told court regarding deadline that "nothing is set in stone."

NCTA said industry was "on track" to have digital boxes interoperable by July 1, as it has in 2 previous semiannual reports it has filed with FCC. However, it revealed that it defines that track as schedule it proposed before order was issued, with goal of Sept. 2000 for availability of digital PODs. Still, it said "cable industry intends and expects to have digital POD modules available by July 2000."

Since last status report July 7 CableLabs has completed interoperability testing for preliminary digital security module and has completed prototype for final digital security module "form-factor," or shape, which will be like PC card for laptop. Final prototype also has undergone interoperability testing, and efforts to retain interoperability while shrinking prototype to PC card shape "look promising," NCTA said.

However, only General Instrument (GI) and Scientific-Atlanta (S-A) have developed modules, NCTA said, "potentially limiting the supply of such modules by the July 1, 2000, deadline." GI and S-A dominate cable set-top market. Although testing was scheduled to be completed Jan. 1, NCTA said "additional testing has been scheduled to assure even wider interoperability."

**Faced with threat** of refusal of retransmission rights, Time Warner won brief extensions from ABC and Hearst-Argyle TV until agreement could be reached for carriage of broadcasters' cable channels. Time Warner spokesman said ABC, which wanted carriage of its cable channel SoapNet, had given it until Jan. 15 to reach accord, while Hearst-Argyle, which is threatening pull out its ABC affiliates if Lifetime Movie Network isn't included, granted 20-day extension. ABC and Hearst-Argyle are co-owners of Lifetime TV. Saying chances of deal were "pretty good," spokesman said: "We are confident of reaching agreement without losing the signals."



## Personals

Promotions at NCTA: **Barbara York** to senior vp-industry affairs; **Jadz Janucik** to senior vp-association affairs; **Elanor Winter** to vp-special projects; **James Ewalt** named acting vp-public affairs, succeeding **Josie Martin**, resigned... **David Farber**, telecom prof. at U. of Pa., named FCC chief technologist, succeeding **Stagg Newman**, who will leave Commission Jan. 14, completing 2-year term... **Blake Bryant**, dir.-creative services, KNBC L.A., named vp-ads, promotion and creative development, co-owned WMAQ-TV Chicago.

NBC executives **James Vescera**, **Vivi Zigler**, **Frank Radice** and **Jenness Brewer** named senior vps, NBC Agency... **Vincent Favale** promoted to vp-late night programs, CBS Entertainment; **Russ Pillar**, ex-Virgin Entertainment Group, appointed pres.-CEO, CBS Internet... **Pancho Mansfield** promoted to senior vp-development/original programming, Showtime Networks... Changes at AAAA: **William Nicholson**, ex-Bozell Worldwide, named exec. vp-management services; **Wendy Jones** promoted to exec. vp-AAAA Benefits, succeeding **Don Lewis** retired... Promotions at Primedia: **Douglas Smith** to senior vp, retaining post as treas.; **Robert Sforzo** to senior vp, retaining controller position; **Michaelanne Discepolo** to senior vp-human resources... **Robert Bronner**, ex-SunGard Recovery Services, appointed COO, Internet Cable Corp.

Changes at Wiley, Rein & Fielding: **John Yang** promoted to partner; **Kathleen Kirby** becomes of counsel; **Brian Johnson**, ex-Reed, Smith, Shaw & McClay, named of counsel; **Ronald Rinaldi**, ex-Fried, Frank, joins as assoc... **Karsten Amlie** promoted to pres., PAX Internet... **Bradford Loucks**, ex-Coca Cola Bottling Co., named vp-sales, Acclaim Entertainment.

**Nusrat Durrani** promoted to vp-strategic partnerships, MTVi Group... **Sam Pagan**, ex-Cadena Caracol, appointed dir.-U.S. Hispanic sales, DoubleClick Las Americas... **Dennis Chateaufneuf**, pres.-COO, DTI Networks, adds CEO title; **Richard Graves**, co-founder and CEO, becomes vp-corporate strategy and market development... **Roger Sverdlik**, ex-ABC TV, named senior vp-national sales, Comcast Cable... **Robert Clasen** appointed CEO, ICTV, will continue as chmn.

**Robert Allen**, ex-FCC, named dir.-telecom consulting group International Technology & Trade Assn... Appointed at Alliance Atlantis Bcstg.: **David O'Brien**, ex-CTV, as senior creative dir.-History TV, HGTV; **Ricardo Alleyne**, ex-Warner Lambert, as mktg. mgr.-HGTV... **Pendleton Gaines** promoted to vp-product development, NewSouth Communications.

**Paula Kerger** promoted to station mgr., WNET N.Y., replacing **Ward Chamberlin**, who will remain as vp, concentrating on programming... Changes at Walt Disney International: **Edward Borgerding**, senior vp-managing dir., Walt Disney TV International for Asia-Pacific, named exec. vp, Asia-Pacific; **Koji Hoshino**, senior vp-gen. mgr., Buena Vista Home Entertainment, Japan, appointed exec. vp, Japan; **Brian Spaulding**, vp-business development and finance, Walt Disney TV International Asia-Pacific, becomes senior vp-CFO, Asia-Pacific region... **Karsten Amlie** promoted to pres., Pax Internet... **Neil Johnston**, controller, Cox Radio, appointed vp-development, Cox Bcstg.

**Peter Zhou**, vp-technology, Sentry Technology Corp., named chief scientist in charge of Digital Angel Technology,



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# Consumer Electronics

A Section of Television Digest with Consumer Electronics

## STATE OF THE INDUSTRY

Sales to dealers, from CEA, for week ending Dec.24 and year to date:

	DEC. 18- DEC. 24	1998 WEEK	% CHANGE	DEC. 11- DEC. 17	51 WEEKS 1999	51 WEEKS 1998	% CHANGE
TOTAL COLOR TV.	461,437	316,581	+ 45.8	511,221	28,364,789	25,925,931	+ 9.4
DIRECT-VIEW**	431,250	300,179	+ 43.7	481,229	27,164,686	24,887,081	+ 9.4
TV ONLY#....	358,917	262,114	+ 36.9	421,466	22,828,482	21,808,566	+ 4.7
TV/VCR COMBO.	72,333	38,065	+ 90.0	59,763*	4,336,204*	3,078,515	+ 40.9
PROJECTION...	30,187*	16,402	+ 84.0	29,992*	1,200,103*	1,038,850	+ 15.5
TOTAL VCR**....	408,508	240,868	+ 69.6	498,956	26,763,500*	20,724,959	+ 29.1
HOME DECKS...	336,175	202,803	+ 65.8	439,193	22,427,296*	17,646,444	+ 27.1
CAMCORDERS (a) ..	55,256	33,285	+ 66.0	62,467	4,714,084*	3,779,403	+ 24.7
DVD PLAYERS....	110,005*	57,310	+ 91.9	97,660*	3,907,696*	1,043,806	+274.4

Direct-view TV 5-week moving average#: 1999-520,019; 1998-414,864 (up 25.3%).

Projection TV 5-week moving average: 1999-37,276; 1998-24,750 (up 50.6%).

VCR deck 5-week moving average: 1999-518,060\*; 1998-351,893 (up 47.2%).

TV/VCR 5-week moving average: 1999-87,538; 1998-54,408 (up 60.9%).

Camcorder 5-week moving average: 1999-89,477; 1998-62,721 (up 42.7%).

DVD player 5-week moving average: 1999-137,621\*; 1998-48,874 (up 181.6%).

\* Record for period. \*\* Includes TV/VCR combinations. # Excludes TV/VCR combinations. (a) Includes analog camcorders only.

**MOMENTUM BUILDS FOR DTV SETS AND COPY PROTECTION:** New low price point of \$3,500 — and gambit to increase availability of premium programming by addition of copy protection to DTV sets — were among highlights for infant format announced at last week's CES in Las Vegas. Show also saw more TV makers add DTV reception by satellite to their set-tops or integrated DTV sets, and first instance of terrestrial DTV decoder built into satellite receiver. Other first was demonstration of Internet access for PCs through DTV terrestrial broadcast.

In effort to jump-start wider DTV deployment, Sony unilaterally will apply copy-protected IEEE-1394 based connection to its DTV sets and related digital home video products. Announcement at CES news conference signals industry's growing impatience with lack of compelling DTV programming from Hollywood.

Content owners' preoccupation with unauthorized copying has been exacerbated recently by pirated movies transmitted over Internet and cracking of DVD encryption code. So far, most major studios have yet to sign off on Digital Transmission Content Protection (DTCP) system, developed for "i.Link" IEEE-1394 fiber connection by 5-Company group of Hitachi, IBM, Intel, Panasonic, Sony. DTCP-enabled i.Link would prevent programming from being hijacked in digital form during transmission among CE devices connected to DTV, such as digital cable and satellite set-tops, DVD players and future digital home video recorders.

Lack of consensus on DTCP has stalled deployment of those devices while placing embargo on release of premium movies for DTV viewing, Sony Senior Vp-TV/Digital Media Vic Pacor said. "The industry can make compelling pictures but we have to be sure there's compelling content for DTV to make any headway," Pacor told us. Meanwhile, it's "naïve" to ignore Hollywood's copy protection concerns "because without security, high-quality entertainment does not exist," he said.

In making first move to implement DTCP with i.Link connection, Sony hopes to resolve chicken-and-egg impasse, Pacor said. Company expects that other TV makers will follow suit, and that some studios will ante up with programming once pro-



tection is in place. But missing from CES announcement was expected DTCP endorsement from programming affiliate Sony Pictures Entertainment. Latter and Warner Bros. are only studios to back DTCP so far, sources tell us. Agreement with Sony programming arm couldn't be finalized in time for CES but announcement could be expected in near future, Sony Consumer Mktg. Pres. Fujio Nishida told us.

Pacor likened studios' gradual acceptance of DTCP to DVD rollout out where some, such as Disney, were holdouts from product launch until they became comfortable with copy protection technology — and eager for additional revenue stream. He said i.Link with DTCP will be implemented first in 6 new Sony DTVs and 3 million digital cable set-tops Sony will make for Cablevision. Function will be incorporated in DirecTV satellite HDTV receiver later this year, and in future generations of Sony's TiVo format hard-disc-based personal video recorder.

DTV-set rollout advanced at CES, with \$3,500 price-point established for Thomson 34" widescreen direct-view set with integrated decoder for broadcast and satellite DTV reception. Set, which will make debut under ProScan brand, is scheduled for delivery late this year following midyear shipment of ProScan and RCA 38" widescreen direct-view at \$4,000. Thomson also will add integrated 65" and 61" rear-projection DTVs at prices to be announced, as well as 42" widescreen plasma flat-screen monitor at \$13,000. Company said its \$649 DTV set-top decoder has sold in "tens of thousands" in 2 months since debut and is on back order.

Also at CES, Sony announced lineup of 6 new DTVs, including 34" widescreen direct-view at \$5,500 and 65" rear-projection flagship at \$7,000. Company said all sets have integrated DTV decoder, and 3 models with 4:3 aspect have ability to scan picture with full 1080i HDTV resolution within 16:9 aspect ratio letterbox. Toshiba also is extending DTV line to 10 HD or HD-ready sets with addition of HD-ready 34" widescreen direct-view (\$4,500) and 65" widescreen rear projector with integrated terrestrial and DirecTV satellite HDTV decoder (\$8,500). Company forecasts that industry will sell 400,000 DTV sets of all types this year.

Direct-view DTV offerings will increase this year, with Philips and Konka also readying models. Philips announced 2nd-quarter delivery for 34" widescreen model with integrated decoder at \$5,000 and HD-ready 34" and 30" at \$4,000 and \$3,000, respectively. Company also will field HD-ready rear projectors, including widescreen 60" (\$5,500) and 55" (\$5,000), and 4:3 aspect ratio 60" (\$4,200). Chinese newcomer Konka plans HD-ready 30" widescreen direct view for April at \$2,499 and same size with integrated DTV decoder at \$3,499 in May. Set-top decoder (\$999) also is due in April, Konka said. It will add 4:3 aspect ratio HD-ready 32" in Sept. and widescreen 34" integrated set in Nov. at prices to be determined. Some other Chinese vendors at CES exhibited direct-view DTVs but had no distribution in place for exports to U.S.

HD-ready direct view also are in works at Zenith. Company announced widescreen 38" at \$3,000, and 4:3 ratio 36" and 32" at \$1,999 and \$1,699 respectively. Flat-screen 36" and 32" models will be added by midyear at 50%-75% premium over curved CRT sets, company said. Sensory Science showed widescreen 38" prototype but offered no marketing plans.

Meanwhile, Hitachi aid it will concentrate on projection DTV for new offerings. It said it plans HD-ready 53" or 55" widescreen DLP-based front projector for late this year at \$9,999. Set uses Texas Instruments' single-chip Digital Light Processor to display progressive scan image with 1,280x720 pixel resolution, Hitachi Exec. Vp Gary Bennett said. He said company also will ship HD-ready 52" widescreen LCD rear-projection set next month at \$4,999. Progressive-scan projector has SVGA 800x600 pixel resolution. Bennett said Hitachi also is working on next-generation DTV set-top that is likely to incorporate reception for multiple digital programming sources, such as satellite.

Set-tops for HDTV satellite reception from DirecTV joined CES product lineups of Panasonic, Sony and Toshiba. Toshiba said it plans first-quarter shipment for \$1,100 ATSC/DirecTV set-top, including dish antenna. Panasonic said it will add HD DirecTV reception to its new \$1,099 DTV set-top, which ships in May. First HD DirecTV set-top from Sony also is due for spring delivery at price to be determined, to be followed by 2nd model with IEEE-based digital connector later in year.

In DTV, satellite programmer EchoStar took different tack. It announced agreement to incorporate NxtWave Communications' terrestrial DTV demodulator chip in upgrade module for its Model 6000 receiver. Set-top and upgrade module will be available by spring, with option valued at \$250, NxtWave CEO Matt Miller told us. Arrangement enables EchoStar to offer subscribers local-to-local TV programming without having to use additional satellite transponder space. Meanwhile, customers get fringe benefit of receiving any local DTV terrestrial broadcasts. Even if home TV isn't capable of displaying full HD-resolution image, digital signal eliminates distortions and artifacts of NTSC broadcast.

Geocast system for HDTV datacasting to home PCs was demonstrated in simulation at CES by charter hardware-licensee Thomson. RCA parent's system exhibited TV-quality video reception from Web sites, using small portion



of HDTV terrestrial bandwidth to broadcast Internet content instead of transmitting data through telco or cable land lines. Thomson said it expects to have RCA brand Geocast set-top receiver on market next year at under \$300.

\* \* \* \* \*

Thomson will underwrite DTV broadcast of NCAA Men's Final Four basketball tournament to be carried by CBS April 1-4, company said at CES news conference. Games will be broadcast live in 1080i HDTV resolution from RCA Dome in Indianapolis, but produced and transmitted separately from CBS Sports' analog feed, partners said. CBS now has 19 owned and affiliated stations broadcasting DTV, with coverage of 38% of U.S. households. Broadcaster said it expects to have 40 stations online by May 1, reaching 55% of U.S.

**PHILIPS LANDS RCA FOR DVD+RW SUPPORT:** Virtually everyone at last week's Las Vegas CES agreed that consumer stands to be real loser in mutually incompatible DVD recorders coming to market late this year with no unifying interplayability standard. However, Philips and DVD+RW recorder camp picked up strong endorsement at CES with Thomson's announcement that it will market format globally, beginning with U.S. product debut late this year.

Targeted date and price are early 4th quarter at under \$1,000, Thomson Senior Exec. Vp-COO James Meyer told us. "The most compelling reason behind our choice of DVD+RW was the backward compatibility with DVD players," he said. "Also, we believe that the combined support of the Philips, Sony and Thomson brands brings strong credibility to the format." Meyer's reference to Sony was curious as Sony has said it would bypass marketing 4.7 GB recorder in favor of higher capacity deck capable of reproducing HDTV-quality images using blue laser. At suggestion of high-ranking Philips executive Jan Oosterveld, we asked Sony Pres.-COO Teruaki Aoki if Thomson's endorsement would persuade Sony to change its mind. Aoki said Sony remains strong supporter of 4.7 GB DVD+RW system for data storage but it hasn't changed its position on DVD for home video recording.

Thomson target price is in line with what Philips executives have cited previously. Latter also have said that market can expect price drops for DVD+RW on same par and pace as for DVD-Video players and audio CD recorders. Thomson will build own DVD recorder at its Mexican plants, Meyer told us. Although Pioneer already is selling rival DVD-RW recorder in Japan at about \$3,000 and DVD-RAM camp plans summer rollout here in same price range, Meyer contended that early arrival to market with DVD recorder doesn't guarantee success. "It isn't who gets there first that matters. It's who first delivers the best recording quality and features at a reasonable price that will make a format succeed."

At CES, Philips became considerably less sweeping in its claims as to which DVD+RW recordings can be played on which "legacy" DVD-Video machines. Philips Consumer Electronics Chmn.-CEO Adri Baan told Las Vegas news conference that with base of more than 10 million DVD-Video players installed in homes worldwide by year-end, "compatibility with the existing players is key." He said Philips is "checking the compatibility with the installed base" and has found that "majority of the present players can read DVD+RW discs." When pressed by reporters in Q&A for more specifics, Baan said: "There are tolerances in this business" on signal strength and noise and "that's why we make these statements and avoid 100% guarantees." When Philips talks "majority," he said "we're talking high numbers." As to pricing, Baan said DVD+RW recorder will be "a mass market product, but it will start at the higher end of the price curve."

Normally outspoken Sakon Nagasaki, who heads DVD Business Development Office at Matsushita, said he would have no comment on Thomson's DVD+RW endorsement or assertions by Meyer that it was based on 2-way compatibility of DVD+RW with existing DVD-Video players. It was Nagasaki who told reporters in Oct. that any DVD recorder developer that claimed compatibility with existing unmodified decks was "not telling you the truth."

There were few surprises in Panasonic's announcement at CES that it would ship DVD-RAM recorder this summer at \$3,000, although senior executive Jeff Cove said: "That's not a final price." Panasonic Pres.-COO Don Iwatani described DVD home recording as "a dream we know the world has been waiting for." As will be typical of virtually all DVD recorders that arrive on U.S. shores this year, Panasonic's deck will lack inputs that would make direct-digital dubs possible, although Nagasaki said company was studying whether first-generation recorder would have DV input for making copies directly from digital camcorder. Philips already has committed to putting DV input on its DVD+RW deck, while Pioneer said it's studying introduction of first DVD-RW model in U.S. in 4th quarter.

At our deadline, we were unable to determine accuracy of reports from senior executives at Pioneer Japan that Las Vegas CES would feature 2 suppliers that would defect from DVD-RAM to support DVD-RW. Booth attendant at Sharp, which previously was aligned as DVD-RW supporter, said it plans to ship recorder late this year in U.S., based on similar model that will be available soon in Japan. He said pricing of U.S. version hasn't been established, but Japanese model sells for about \$2,200.



At CES, Philips went out of its way to demonstrate that DVD+RW recordings would play on legacy DVD machines. At invitation of Pioneer spokesman, we asked Philips Program Dir. A/V Disc Recording Chris Buma to bring recorded DVD+RW disc to play in working model of Pioneer DVR-1000 DVD-RW recorder now available in Japan. Disc failed to play in DVR-1000, but played flawlessly on regular DVD-Video player in Pioneer booth. Pioneer has said DVD-RW model that will be available for sale will render discs playable on large majority of DVD-Video players (same claim as Philips for DVD+RW), but only after system is reconfigured for copy protection.

Buma said that for Pioneer to build compatibility with existing machines, it would have to change DVD-RW specifications. He said common to both systems was inner ring "lead-in" area that contains start and stop codes for player — much as for existing authoring standards on DVD-Video. But on current Pioneer DVD-RW discs, area is blocked out for CSS copy protection, Buma said. Therefore, he said, player would have to search elsewhere on disc for start and stop codes. Other features differentiate DVD+RW from DVD-RW, making unification difficult, including recording track pattern wobble frequency and other factors, Buma said.

Buma said Thomson endorsement of DVD+RW doesn't necessarily make it new member of DVD+RW consortium. Nor has Thomson signed royalty-bearing license with Philips to build DVD+RW recorders, he said, and licensing infrastructure hasn't been established yet. Format licensing aroused consternation even among new-to-market Chinese manufacturers at CES. Hong Kong-based Thakral Electronics showcased mockup DVD-VR deck, but didn't specify recording format product would use. Company builds DVD-Video players on OEM basis for Grundig, KLH, Proline and Teac brands. Daniel Wong, gen. mgr., Thakral Technology, told us company was inclined to adopt Pioneer's DVD-RW format for recorder because it's "open standard" compared with proprietary DVD+RW system. That could change, he conceded, if DVD+RW consortium clarifies licensing situation and terms.

**BEST BUY.COM HEADS CES E-COMMERCE NEWS:** Best Buy took advantage of e-commerce category's strong presence at CES last week (see separate report, this issue) to reveal its online CE Web site launch plan. Company said BestBuy.com will offer same product mix as retailer's 354 brick-and-mortar locations when it opens for business later this quarter.

Best Buy named 24 CE manufacturers it had "secured partnerships with" for Web sales as of last week. Although retailer said it had signed on "substantially all name brand consumer electronics manufacturers," Sony — which to date has authorized only small number of online merchants to sell its products online — was noticeably absent from list. BestBuy.com Pres. John Walden told us after news briefing he was "confident" company will get authorization from remaining suppliers by start.

Manufacturers that Best Buy said it had partnerships with as of last week included Aiwa, Bose, Cerwin Vega, Clarion, DirecTV, JBL, JVC, KLH, Panasonic, Philips, Recoton, Samsung, Sharp, Thomson, Toshiba.

Responding to our question of why Best Buy didn't launch site before Christmas to take advantage of holiday sales, Walden said main reasons were that site they were "building is complicated" and took time to build correctly and company has "standard for service that's important to us." He added: "We could have thrown up a site in 2 months. That's not difficult... [but] we don't think that it would have been the right decision. We also don't think we lost much" by not being ready for past holiday season.

Walden said Best Buy won't be "a defensive player" in e-commerce business, adding: "We intend to play offense, and what we mean by that is this is a growth strategy for us. It's an offensive strategy where we think that if we can service consumers better on the Internet and in a combined, synchronized way with our other channels, we think we will grow our business." He said some competitors have chosen to enter clicks-and-mortar world merely as a defensive strategy — something they think is necessary merely because everybody else is doing it. But Best Buy's goal, he said, is to "be the market leader in entertainment and technology products on the Web." He said to achieve that, company is "leveraging" such things as brand awareness, product knowledge and vendor partnerships it has achieved as brick-and-mortar retailer. BestBuy.com Web site will be product-oriented, and Walden said it "will provide extensive information and shopping tools" — more than competitors offer. Company is out to differentiate its site as best as possible from those of competitors, which Walden said look too much alike and function as little more than online product catalogs and don't take full advantage of what Web allows.

Noting competitors' fulfillment problems in holiday season (TVD Jan 3 p16), Walden said ability to deliver products to consumers in timely way will be important goal for BestBuy.com. Like its online competitors, BestBuy.com will offer multiple delivery options, including direct shipment and in-store pickup.



Best Buy also intends to eventually be able to deliver one-to-one marketing that “involves gathering systematically the data about our consumers, whether they’re in the store [or] whether they’re doing business with us on the Web,” Walden said. That will allow company to better personalize Web shopping experience for customers, he said.

After site’s debut, Walden said, company “will be expanding over the ensuing few months the categories we provide” and said improvements at site to make it different from competitors’ sites “will never stop.” Although company said that at outset it will be selling online only what it sells at stores, Walden said that won’t necessarily be case in future.

Walden said Best Buy believes “Internet will take share from traditional retail,” whether “it’s 2%, 5%, 15%, it will take share. But the other side of that is it also offers an opportunity for people who service consumers better on the Internet to take additional share. So it depends on your perspective, but it will have an effect on traditional retail — plus or minus.”

At same news conference, Best Buy Pres. Brad Anderson said: “We’re making a tremendous economic investment in terms of this site.” But he said: “We fundamentally want to be agnostic. We don’t care whether the customer is buying directly from us [online] or buying from the store. We want them captured for Best Buy as a brand.”

In telephone conference with analysts last week, Best Buy Chmn.-CEO Richard Schulze said losses company sustains in launching Web site will be offset by Microsoft’s \$200 million investment in retail chain (TVD Dec 20 p12).

Company also announced at CES that it will be spending \$100 million in 2000 on new ad campaign called “Turn on the Fun” in which retailer will attempt to move away from its pricing brand strategy to focus more on promoting Best Buy as company that provides fun ways for consumers to spend their time.

**CE SALES PROJECTED TO RISE 5.8% IN 2000 — CEA:** Consumer electronics sales to dealers hit 11th consecutive record last year — \$81.03 billion — and should grow another 5.8% to \$85.73 billion in 2000, according to annual consensus forecast of CEA members released on opening day of Las Vegas CES last week. Extended forecast suggests that industry still is 3 years away from breaking \$100 billion barrier.

DVD hardware became \$1 billion business in 1999, CEA reported, and unit shipments climbed 371% to 4 million decks, far surpassing projections issued year ago — and since revised twice — when CEA members believed fledgling DVD hardware industry would reach only 1.7 million decks. As recently as Oct., CEA said it believed only 3.5 million would be sold to dealers in 1999. For 2000, CEA is projecting relative signs of maturity for DVD hardware category, with unit volume seen rising “only” 64.8% to 6.6 million. Moreover, reflective of higher mix of commodity-priced entry-level machines, dollar shipments are projected to rise “only” 44.4% in 2000 to \$1.59 billion. Partly as result of DVD, overall video product shipments increased relatively healthy 16.1% to \$17.25 billion in 1999. But declines in core categories such as direct-view color TV, projection TV and VCR decks will lead to only modest 2.7% growth in overall video equipment shipments to dealers, CEA said.

Home theater audio seemed to fail grasping at DVD’s coattails in 1999, when overall shipments fell 3.3% to \$5.79 billion, following small increase in 1998. CEA is projecting additional audio declines for 2000, when shipments are seen falling 3.3% again to \$5.6 billion. Only CD players and factory-boxed home theater ensembles were estimated to have scored measurable increases last year. In home theater in a box market, shipments rose 6.3% to 833,000 systems, with additional 5.6% increase to 880,000 forecast for 2000. With average price of home theater in a box falling to \$272 this year, market is expected to generate \$239 million in factory revenues. News also tends to be relatively good in total CD players, although strength in category continues to be vested not in component home players, but in portable configurations and various manifestations of home-based shelf systems.

#### U.S. SALES TO DEALERS AND FACTORY VALUE

##### Home and Portable Audio Products

Product	Units (add 000)			Value (\$000,000)			Average Price		
	1998	1999	2000	1998	1999	2000	1998	1999	2000
Rack systems.....	367	260	192	\$200	\$142	\$104	\$545	\$546	\$544
Compact systems....	8,946	10,295	10,860	1,557	1,637	1,672	174	159	154
Components.....	—	—	—	1,565	1,525	1,500	—	—	—
Home thtr-in-a-box..	784	833	880	224	232	239	286	279	272
Home radios.....	18,734	19,178	19,080	300	345	324	17	18	17



Product	Units (add 000)			Value (\$000,000)			Average Price		
	1998	1999	2000	1998	1999	2000	1998	1999	2000
Tape/rad-tape plyrs	12,505	10,755	10,100	273	204	192	22	19	19
Tape/rad-tape rcdrs	9,289	8,500	7,820	249	221	196	27	26	25
Portable CD gear...	23,726	25,600	25,935	1,624	1,485	1,375	68	58	53
Port headset audio.	26,913	27,200	26,995	1,050	1,006	1,026	39	37	38
Total CD players...	40,507	45,200	47,000	4,379	4,475	4,512	108	99	96
<b>TOTAL.....</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>\$5,992</b>	<b>\$5,792</b>	<b>\$5,603</b>	<b>-</b>	<b>-</b>	<b>-</b>

## Video Products

Product	Units (add 000)			Value (\$000,000)			Average Price		
	1998	1999	2000	1998	1999	2000	1998	1999	2000
Direct-view TV-only	22,204	23,350	23,560	\$6,151	\$6,375	\$6,196	\$277	\$273	\$263
with stereo.....	11,955	12,325	12,520	4,555	4,778	4,763	381	388	380
Projection TV.....	1,070	1,225	1,120	1,577	1,615	1,424	1,474	1,318	1,271
Monochrome TV.....	347	320	300	23	20	18	67	62	61
LCD color TV.....	366	367	380	39	36	36	106	99	95
LCD monochrome TV..	474	465	455	28	25	23	59	54	51
TV/VCR combos.....	3,147	4,300	4,650	831	1,028	1,028	264	239	221
Vidcassette plyrs..	260	180	125	21	15	9	81	79	75
VCR decks.....	18,113	22,275	22,700	2,409	2,294	2,134	133	103	94
with stereo.....	9,085	11,350	11,960	1,392	1,453	1,411	153	128	118
Camcorders.....	4,006	4,985	5,470	2,144	3,240	3,670	535	650	671
Laserdisc players..	20	6	2	10	3	1	502	504	495
Home satellite.....	2,685	3,600	4,100	733	950	992	273	264	242
DVD players.....	1,079	4,000	6,590	421	1,100	1,588	390	275	241
TV/PC combinations.	123	140	160	323	357	382	2,630	2,550	2,388
Internet devices...	917	1,200	1,400	145	192	210	158	160	150
<b>TOTAL.....</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>\$14,855</b>	<b>\$17,250</b>	<b>\$17,712</b>	<b>-</b>	<b>-</b>	<b>-</b>

## Mobile Electronics Products

Product	Units (add 000)			Value (\$000,000)			Average Price		
	1998	1999	2000	1998	1999	2000	1998	1999	2000
Aftermkt autosound.	-	-	-	\$1,859	\$2,070	\$2,195	-	-	-
Aftmkt car security	-	-	-	213	205	212	-	-	-
Pagers.....	-	-	-	550	660	750	-	-	-
Wireless phones*...	13,875	15,540	18,000	2,775	2,797	3,060	\$200	\$180	\$170
Radar detectors....	-	-	-	160	165	170	-	-	-
Factory autosound..	-	-	-	2,540	2,610	2,775	-	-	-
<b>TOTAL.....</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>\$8,097</b>	<b>\$8,507</b>	<b>\$9,162</b>	<b>-</b>	<b>-</b>	<b>-</b>

\* Sales through consumer channels.

## Home Information Products

Product	Units (add 000)			Value (\$000,000)			Average Price		
	1998	1999	2000	1998	1999	2000	1998	1999	2000
Cordless phones....	31,261	40,070	43,340	\$1,745	\$1,763	\$1,907	\$56	\$44	\$44
Corded phones.....	28,998	35,831	37,685	489	573	565	17	16	15
Answering devices..	18,519	20,370	22,150	1,104	1,039	1,063	60	51	48
Fax machines*.....	3,048	3,010	2,975	647	455	440	212	151	148
PWPs/eltrnc typwtrs	1,750	1,550	1,200	280	240	174	160	155	145
Personal computers*	12,800	14,900	16,800	16,640	16,390	16,800	1,300	1,100	1,000
Computer printers*.	12,500	15,000	16,650	4,188	4,500	4,829	335	300	290
Aftmkt monitors....	3,710	4,100	4,560	1,076	1,148	1,208	290	280	265



Product	Units (add 000)			Value (\$000,000)			Average Price		
	1998	1999	2000	1998	1999	2000	1998	1999	2000
Modems/fax modems*.	9,000	10,500	10,500	1,305	1,460	1,365	145	139	130
Digital cameras*...	1,180	2,070	2,685	519	814	905	440	393	337
Other peripherals*.	—	—	—	1,440	1,950	2,650	—	—	—
PC software*.....	—	—	—	3,930	4,480	5,200	—	—	—
<b>TOTAL.....</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>\$33,363</b>	<b>\$34,811</b>	<b>\$37,107</b>	<b>—</b>	<b>—</b>	<b>—</b>

\* Sales through consumer channels.

#### Miscellaneous Products

Product	Units (add 000)			Value (\$000,000)		
	1998	1999	2000	1998	1999	2000
<b>Blank media.....</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>\$1,119</b>	<b>\$973</b>	<b>\$927</b>
Audiocassettes.....	355	339	296	248	212	181
Videocassettes.....	403	425	424	639	561	571
Floppy diskettes*.....	580	530	500	232	200	175
<b>Accessories &amp; batteries.</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>4,141</b>	<b>4,699</b>	<b>4,947</b>
Electr accessories....	—	—	—	1,178	1,359	1,429
Primary batteries.....	—	—	—	2,963	3,340	3,518
<b>Home security systems...</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>1,520</b>	<b>1,650</b>	<b>1,750</b>
<b>Electronic videogaming..</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>6,460</b>	<b>7,350</b>	<b>8,525</b>
Hardware.....	—	—	—	1,980	2,250	2,650
Software.....	—	—	—	4,480	5,100	5,875

\* Sales through consumer channels.

**Lexar Media last week jumped on Memory Stick bandwagon.** Fremont, Cal.-based Lexar announced at CES that it signed licensing agreement with Sony that enables it to start developing high-speed Memory Stick. As part of deal, Lexar will license its high-speed flash memory controller technology to Sony so that latter can increase read/write speed of its Memory Stick technology to download 64 MB of music in less than 10 sec. Although Internet music players stands to gain large boost from increased speed, Lexar said digital cameras also will see gain. Agreement also calls for Lexar to license Memory Stick media specs from Sony to manufacture and market its own Memory Stick media. At CES news conference, Lexar CEO-Pres. John Reimer said new high-speed Memory Stick media will ship in 2001, but Lexar will start shipping product using current Memory Stick version under Lexar brand in first quarter this year. Reimer said he expected to phase out slower version of its Memory Stick media once faster one ships because his "expectation is there would be no cost advantage" to keeping current one. Lexar's product lineup already included USB-enabled CompactFlash, PC cards, SmartMedia. Company is best known for supplying flash-memory controllers to CompactFlash card manufacturers, but also manufactures products that allow consumers to transfer digital images to computer at fast speed. Sony said 26 manufacturers threw their support behind Memory Stick in Nov., among them Aiwa, Alpine, Casio, Clarion, Fujitsu, Kenwood, LG Electronics, Olympus, Pioneer, Sanyo, Sharp.

**Cowboy Maloney's Electric City** will open 13th store in spring when it adds 10,000-12,000-sq.-ft. outlet in Gulfport, Miss., Exec. Vp Eddie Maloney said. CM had weighed entering Gulfport several years ago, but settled on Biloxi, Miss., instead, he said.

**Recoton will enter vehicle security/navigation market** by end of this year, company said at CES last week. Company will introduce Sentinel product and service under its Jensen brand name as part of technology licensing agreement it has reached with Varitek Industries that gives it ability to develop, manufacture, market and distribute Varitek-controlled telematics technology. Although price and shipping information were unavailable, Jensen Senior Product Mgr. Matt Spiro said system will cost "under \$300 and probably less." Sentinel combines cellular communication with global positioning technology, as well as on-vehicle integrated communications and 24-hour live-operator monitoring service that can provide consumer with services including emergency help and travel information. Company also showed ATSMQ in-dash half-DIN digital equalizer that includes built-in MP3 player. Spiro said it will ship in midyear but price was unavailable. Although company has yet to announce car DVD-Video player, Spiro said it's planning to introduce product in 2001 that also may include DVD-Audio capability.

**C-Phone faces delisting** from Nasdaq after net tangible assets fell below exchange's \$4 million minimum requirement, company said. C-phone will appeal decision, which was to have delisted its stock effective Jan. 7, company said. At same time, C-Phone, which made brief run at retail market for videophones, said it will cut operating costs 33%, but didn't say whether that would involve layoffs.

#### THIS WEEK'S YEN RATE

Yen values have been converted to dollars in this week's issue at ¥102 = \$1, except where noted.



**E-COMMERCE STRONG AT CES:** Best Buy wasn't only e-tailer making news last week at CES, where presence of retailers on show floor and at nearby hotels was unusually high. Hifi.com, Roxy.com and CETrade.com actually had booths at Las Vegas Convention Center — Hifi.com's at same location as its parent Creative Technology, as 800.com and Good Guys had suites at nearby hotels.

Hifi.com Operating Vp Roger Sullivan said his company is planning to add music, video and videogame software to product mix this quarter. How large selection of titles will be at out-set depends upon how quickly company can build infrastructure. It might be top-selling titles only, he said, but "certainly by April 1" software selection will be equivalent to competitors'. Company has yet to establish relationship with videogame suppliers, he said.

Sullivan said Hifi.com intends "to be one of the significant top players in the [e-commerce] space" over next 3 years. Although it currently has only main warehouse in Mass. and smaller one in San Francisco, he said company is looking to have bigger warehouse in Mass. and "probably" will add "2 or 3 more" elsewhere in U.S. Sullivan said company also plans to "expand our brands but not to the extent of having too many."

Hifi.com, which reopened site late last year with expanded selection of products from larger number of manufacturers, closed out year on upbeat note, Sullivan said, as "things really started to skyrocket" for site in sales and traffic once it resumed and started running ads nationwide. He said it still is Creative's intention "to take Hifi.com public at some time in the future," although he wasn't sure when. Like many Web companies, Hifi.com is "not making any profit at the present time," Sullivan said, but "it is our goal to be as profitable as soon as possible." Company feels it's important at this point to invest in ads, inventory, service center and personnel, he said. "If you don't have inventory, you can't sell anything." And because Hifi.com had inventory this holiday season, it didn't run into sort of problems Web sites such as Toysrus.com did, he said.

Roxy.com announced that ValueVision and NBC Internet (NBCi) are taking minority equity stakes in it. Roxy.com Chmn. Keith Clougherty said alliances represent "step in our multichannel consumer electronics marketing strategy" that will allow it "to reach more consumers, in more ways." As part of deal, ValueVision will promote Roxy.com on its home shopping TV station and Web site VVTV.com, and NBCi will promote Roxy.com on its Web properties and in NBCi TV and radio ads. Roxy.com and ValueVision also will co-produce weekly one-hour CE TV show on latter's service. In return, Roxy.com is getting exclusive CE marketing rights on ValueVision's TV station and Web site, which are being rebranded as SnapTV and SnapTV.com as part of e-commerce strategy ValueVision is pursuing with NBCi. NBCi's parent, NBC, has ownership stake in ValueVision as well. NBCi's deal with Roxy.com will give latter "anchor tenancy" in Snap Electronics Shop on NBCi Snap Internet portal and provide it with distribution and marketing possibilities throughout NBCi's Internet properties, which include AccessHollywood.com, NBC.com, VideoSeeker on-demand video service, Xoom.com.

On nontraditional CE level, CETrade used CES to announce debut of its Web site devoted to facilitating domestic and international transactions of CE and computer products among distributors, exporters, importers, manufacturers, retail-

ers. CETrade.com gives buyers and sellers means to meet, negotiate and close deals on confidential basis, and offers services including escrow, inspection, insurance, transportation. Site, which started in English with instructional demos in Portuguese and Spanish, has 24-hour/7-day customer assistance service in all 3 languages. Company plans to start targeting Asian, European and Middle Eastern markets as part of site's next phase. Co-Managing Dir. Renato Vaisman said Web site will earn money by charging sellers fee based on small percentage of each completed sale and by providing trade logistics services.

Meanwhile, Good Guys, which had suite at Desert Inn, said it will open GoodGuys.com e-commerce Web site later this year (see separate report, this issue). Also off official CES grounds was e-tailer 800.com.

E-commerce had strong presence in form of various conferences and panel discussions throughout CES last week, with E-Commerce Supersession featuring such online players as CNet, Cyberian Outpost and RadioShack.com that was to be held after our Fri. deadline.

Although Thomson mentioned its RCA.com e-commerce Web site only at its news conference at CES, Senior Vp-Americas Michael O'Hara told us "traffic was great" at site over holiday season. He declined to provide any specifics such as how much merchandise was sold and in what categories, but did say sales still were "extremely, extremely small" and "a mix of products" was being sold. As company did when it launched RCA.com (TVD Oct 18 p11), O'Hara stressed that main purpose of site is "to enhance the brand" and help educate consumers, which he said is what seems to be happening.

**Future Technologies section at Alpine CES booth** last week included prototypes of company's upcoming MPA-7800 MP3 player, IVA-D900 DVD Mobile Multimedia Station, DVA-5200 add-on DVD-Video/CD Video/CD Audio player, as well as Sirius and XM Satellite Radio receiver prototypes. Although pricing and ship dates weren't available, Alpine Brand Mktg. Vp Stephen Witt said MP3 player could ship "as early as the 3rd quarter of 2000." Although he said last month Alpine would be showcasing only XM prototype at CES, he said last week that it was able to show Sirius prototype as well because of "unbelievably fast advancements" it made. But he said Alpine most likely will be shipping actual XM product before Sirius because Alpine started working with XM almost year earlier. Although Witt said Alpine was close to shipping car DVD-Audio/DVD-Video player, company decided to hold off because of cracks in "CSS-2"-encrypted copy protection exposed in Nov. by Norwegian hackers and posted on Web — same development that caused Panasonic and JVC to back off their DVD-Audio plans (TVD Dec 6 p10). He said: "We have to redo circuit points." As result, "delivery is a question mark now" but he said it's still possible Alpine will be able to introduce product in 4th quarter, as long as copyright issues are ironed out soon. Witt recently told us company was hoping to replace its current DVA-5200 DVD-Video player with unit that could play DVD-Audio as well. He said company still will replace DVA-5200, but with unit that adds only built-in DTS decoding to current one's Dolby Digital decoding. Like current DVD-Video player, it will be \$1,200, he said.

**Olympus cut pricing on 2 of its digital still cameras:** 2.1 megapixel C-2000 Zoom now is \$799 and newer 2.11 megapixel C-2020 Zoom is \$899. Both models have 3x optical zooms.



**CE SALES MIXED:** Publicly traded CE retailers reported mixed sales in holiday season with some hurt by lower prices and shortages, others benefiting from strong demand for digital products.

**Rex Stores** and **Tandy** reported disappointing sales gains in Dec., while **Best Buy** and **Circuit City** were up 9.8% and 6%, respectively, on strength of big-screen TV and DVD player sales.

Rex said overall Nov.-Dec. sales climbed 6% to \$113.6 million but same-store sales fell 1% as chain suffered from poor sales of older technologies including VCRs. Analog VCR pricing had dropped sharply throughout year, with most of models falling \$100. Tandy said total Dec. sales rose 9% to \$638 million from \$586.5 million year earlier, but same-store sales gained lower-than-expected 6% as chain was hurt by shortage of digital cellular phones.

Tandy, which carries Samsung and Nokia phones for Sprint PCS and other services, said shortage cut Dec. gains 2% and orders for 200,000 phones were either delayed or canceled by manufacturers in quarter ended Dec. 31. Demand for low-priced PCs outstripped supply in 2nd half of Dec., Tandy said. Compaq is RadioShack PC vendor.

**Best Buy** said Dec. sales jumped 23% to \$2.27 billion with digital products accounting for slightly more than 10% of revenue. Digital products' gross margins topped 20%, with HD-ready TVs top-selling item, company told analysts in conference call.

CEO Richard Schulze said there had been "moderation" in PC price declines and sales volume offset drops in retail tags. Year-to-date through Dec. average sale price was down 15%, company said.

Schulze predicted chain would surpass 25% year-over-year earnings growth in fiscal 2001 that starts in March, due in part to alliance with Microsoft. Microsoft invested \$200 million in Best Buy in Dec. and chain will have "lifetime participation" in royalty stream from sales of Microsoft Network services including Expedia, HotMail, WebTV and MSNBC, Schulze said. Earlier in week, Best Buy stock surged \$7-1/4 to \$57-1/2 after Merrill Lynch analyst Peter Caruso said company should "be looked at as a Microsoft division" and that each MSN sign-up could generate \$3 per month in royalties. Microsoft investment will help offset Best Buy losses on start-up of online business (see related story this issue), Schulze said.

To boost DVD category, Best Buy began Jan. 2-March 4 promotion with Image Entertainment offering band Eagles' *Hell Freezes Over* DVD free with purchase of DVD player.

**Circuit** reported Dec. sales rose 14% to \$1.78 billion from \$1.57 billion on 6% gain in same-store sales. It also said Internet access will extend to all stores by April and it will co-promote Sony's Memory Stick storage products in retail outlets and on Web site. CarMax Div. sales increased 12% in Dec. to \$1.63 billion from \$1.45 billion on 9% same-store gain.

**Harvey Electronics** said sales soared 54% to \$7.1 million in 8 weeks ended Jan. 1 on 39.2% leap in same-store sales.

**Trans World Entertainment (TWE)** same-store sales gained 4% in Dec. as sales for 9 weeks ended Jan. 1 increased to \$428 million from \$414 million. Same-store sales at newly acquired Camelot Music rose 3% in Dec., 1% in 9 weeks. Minus Camelot, TWE same-store sales were up 6%. Rival **Musicaland** said sales in same period rose 2.9% to \$439 million from \$427 million year earlier on 2% same-store increase.

**Zany Brainy** sales increased 45% during holidays to \$87.6 million from \$60.5 million on 8% rise in same-store sales. Including catalog and e-commerce revenues, same-store sales were up 11%.

**Zenith** has signed agreement to market 27-36" multimedia TVs containing Wink Communications' enhanced broadcast technology. Sets, expected to be available by midyear, will feature Zenith's Flatron flat-screen technology that includes 0.78 mm dot pitch tube. Tubes are likely to be manufactured by Philips, which is starting full production of flat-screen models at Ottawa, O., plant in June. Wink technology, which allows user to access more information on program and/or commercial by activating on-screen script "I" icon, will be integrated into chipset designed by Telecruz. Chipset combines Wink technology with Gemstar electronic program guide and controller. Wink also is being built into Thomson's RCA DirectTV IRD. Agreement with Zenith marks return to TV set category for Wink. It previously integrated technology into high-end Toshiba 36" direct-view TV, but sales were slow due to \$300 cost of adding module to set. Telecruz chip provides feature at much lower cost, company said.

**Panasonic** introduced new line of DV Palmcorders last week at CES. Entire 5-model line features i.LINK IEEE 1394 digital interface as well as, for first time on whole line, PhotoVu Link RS232 serial port connection, Panasonic Consumer Video Gen. Mgr. Andrew Nelkin said. They all also include new feature for Panasonic — Dual Electronic Image Stabilization, which Nelkin said allows user to increase amount of shutter that can be removed from images. He said company also added 3-way PC link capability to all but entry-level camcorder. Camcorders are to ship in Feb. at SRPs of \$899.95-\$1,399.95.

**24/7 Showroom** expects to open network of e-commerce Web sites in first half as it finalizes agreements with 8 regional dealers. Company, headed by former Roberds CE & Appliances Vp Charles Palko, had planned to have service running by 1999 4th quarter, but "our timetable was a little faster than our customers'," Palko said. 24/7 is creating and customizing Web sites for retailers based on zip code. It plans have all U.S. zip codes covered within 18 months, Palko said. Among new features expected to added is online product training conducted by manufacturers, he said.

**EchoStar** has abandoned plan to buy some assets of bankrupt SkyView Media Group for \$23 million. Satellite service provider, which made offer Dec. 15, scrapped proposal after reviewing SkyView finances, sources said. SkyView, which began as Ethnic American Bcstg. Co. (EABC) in 1998 to provide foreign language programming for DirecTV, filed for bankruptcy protection in summer (TVD Aug 23 p20) and said then it planned to sell assets by Oct. Earlier, SkyView, which operated Ukrainian Bcstg. Network TV and WMNB Russian TV station, had trimmed programming lineup in effort to stave off bankruptcy (TVD Aug 9 p19).



**PVR DECKS EXPAND AT CES:** Hard-disc-based personal video recorder (PVR) category gained new vendors at CES and prices took headlong dive following product's first holiday selling season on market. Meanwhile, definition of PVR has expanded to include recorder that uses recordable and rewritable CDs in lieu of PC-type hard disc.

As we reported, Sony is latest brand to add PVR to line. It's backing TiVo Networks format with SVR-2000 deck whose 30 GB drive can store 9 to 30 hours of MPEG-2 video. Surprise at CES was price cut to \$399 MSRP for PVR that ships in April. Less than month ago, Sony had said \$500 would be maximum price. It's equity investor in TiVo, and is likely to leverage its movie and other entertainment holdings to broaden TiVo services.

Panasonic isn't tipping hand on price of its ShowStopper PV-HS1000 PVR, which adopts Replay Networks platform and is expected to have 30 GB storage when delivered in April. Model with 20 GB drive now sold direct by Replay is \$699 and offers 8 to 20 hours recording time. Company recently added slow-motion and frame-advance features to deck. Replay last week filed with SEC for initial public offering. Investors to date include Panasonic parent Matsushita and several broadcasters and entertainment companies.

At CES, Thomson announced it will pursue development of its own PVR in conjunction with equity holder Microsoft's WebTV Networks subsidiary. Thomson wasn't specific on disc format, capacity or other hardware aspects of PVR, but said it would use software platform based on Microsoft's WebTV Network Personal TV service. Besides customizable electronic program guide and typical PVR features such as live TV control, pause and instant replay, options are likely to include Internet access and interactive TV programming through WebTV browser.

Intriguing PVR entry at CES came from China's Amoisonic Electronics, brand of company formerly called Xiamen Solid Electronics that visited Las Vegas show to establish foothold in U.S.

VDR (video disc recorder) from Amoisonic stores programs on user-replaceable CD+R or CD+RW discs instead of fixed hard drive. MPEG-2 video recording time at full 30 fps rate is limited to 74 min. capacity of 650 MB blank CD, compared with multi-gigabyte hard discs that yield about one hour of recording per GB. But benefit for consumer is CD media that can be removed for archiving, Amoisonic Export Dept. Mgr. Sun Ning Jun said. Price also is attractive, at \$299 MSRP.

Besides recording video, Amoisonic VDR can record audio digitally on blank CDs and play prerecorded CDs, he said. In video domain, deck can be used to play or record MPEG-1 Video CDs or Super Video CDs, although there's little market for those formats outside of Asia. But video camera can be connected to VDR to record MPEG-2 quality home movies. Footage from analog or digital camcorder can be edited and dubbed to VDR to make digital disc copy for archiving or, with suitably equipped PC, for transmitting video over Internet. Amoisonic's format isn't compatible with DVD-Video or proposed DVD recording formats. It uses MPEG-2 compression system developed by San Jose, Cal.-based Stream Machine. Its SM2210 codec performs real-time single-pass encoding at MPEG-2 variable bit rate.

**DVD-AUDIO TO USE 'C2' ENCRYPTION:** As DVD-Video Group was announcing at last week's Las Vegas CES that it would "re-charter" under new DVD Entertainment Group banner to encompass 5 major music companies with plan to promote DVD-Audio, Matsushita's highest-ranking DVD executive told us "C2" encryption has been chosen to replace CSS-2 for DVD-Audio copy protection.

Sakon Nagasaki, who heads Matsushita's DVD Business Development Office in Osaka, told us at Panasonic news conference that major music companies now will evaluate C2 to assure that they're satisfied with system's robustness. He said there's no reason why evaluation would stand in way of summer DVD-Audio rollout worldwide, as Matsushita and its affiliated JVC had stipulated when they postponed Japanese debut in Dec. on fears that CSS-2 had been compromised by Norwegian hackers. Wide dissemination of cracked CSS code for DVD-Video (on which CSS-2 obviously is based) caused DVD licensing entity to file misappropriation of trade secrets suit Dec. 27 seeking to shut down dozens of Internet sites that published data or established links to it.

C2, which itself is based on CSS-2 for DVD-Audio, is basis of copy protection system being used in Secure Digital (SD) Memory Card system developed by Matsushita, SanDisk and Toshiba and now backed by some 71 companies for pocket music portables and other devices ranging from digital still cameras to miniature fax machines. Responding to our question how security of C2 compared with that of CSS and CSS-2, Nagasaki said Matsushita engineers believe C2 is 100,000 times more secure.

Although he sidestepped specific explanation on what makes C2 so much more robust, he did say that while CSS and CSS-2 rely on some 400 encryption "keys," there's "infinite" number of keys available to protect data encrypted with C2. As for what steps can be taken to shore up security of CSS encryption, Nagasaki said there's limit to what can be done without sacrificing compatibility with existing DVD-Video hardware and software. However, he said Matsushita and other companies are studying means of upgrading DVD-Video's software authentication system.

Panasonic's DVD Gen. Mgr. Rusty Osterstock, who serves on DVD Entertainment Group board, told CES reception that 5 major music companies will join to form "new coalition" that will "help pave the way" to promote DVD-Audio's "eventual introduction" later this year. He said group will revise its current consumer brochure to include DVD-Audio and will explain "in consumer-friendly language" how DVD-Audio exceeds performance of CD format. Group Chmn. Emiel Petrone told CES that research firm Ernst & Young estimated that 50 million DVD-Video discs were shipped to retail in recent 4th-quarter alone. He said volume was virtually equal to that shipped in first 9 months of 1999 and represents 400% growth over same period year earlier. Petrone said total exceeding 100 million DVD movies and music videos were shipped in 1999, generating revenues of more than \$2 billion for Hollywood studios and major music companies.

As expected, DVD Express and Maximum Holdings announced completion of merger Jan. 6. Company will retain DVD Express name for time being but will launch express.com URL in first quarter.



**FREE DISH IRDs OFFERED:** EchoStar, further escalating battle with cable industry, has begun offering IRD free to cable customers with one-year commitment to programming package carrying \$38.99 monthly fee.

Promotion, which runs Jan. 5-March 31, applies differently to noncable customers, who must buy hardware, but are eligible for \$199 rebate, company said. Offer includes installation cost. At same time, EchoStar introduced 17-Gb DishPlayer with WebTV service (\$299) and is readying separate combo IRD high-definition decoder (\$499) and DVD (\$399) players for midyear deliveries. DirecTV released more details on TiVo personal video recorder (PVR) and AOLTV IRDs as well as Wink Communications-enabled unit.

DirecTV Pres. Eddy Hartenstein said at CES show in Las Vegas last week that company has no plans to respond to EchoStar free promotion. In past, it has offered own rebate programs. "Our market research shows that customer don't want that and don't like it," Hartenstein said. "It may work for their direct distribution, but we would not be at the CES show and there wouldn't be a retailer that would carry us if we gave away the hardware for free. It violates the first rule of consumer electronics." Free IRD will be available under JVC, Philips and EchoStar, although only last-named is subsidizing program.

On AOLTV front, many details including pricing and features remain to be finalized before 2nd-quarter start, Hartenstein said. Combo box, being built by Hughes Network Systems, has 166 MHz Pentium processor, 32 Mb RAM, 4.3 Gb hard drive, US port. It features many of AOL's PC-based services including Instant Messaging, e-mail, e-commerce, Internet browsing. AOLTV also signed agreements with TiVo and Internet appliance developer Liberate Technologies, although whether those technologies will be designed into DirecTV product was unclear.

TiVo service, which carries \$10 monthly fee, will be built into combo IRD with 30 Gb Quantum hard drive. Sony is offering standalone TiVo PVR with 30 Gb drive at \$399 (see separate story, this issue). TiVo electronic program guide will be delivered to receiver via satellite with such new features as WishList, which allows consumers to customize program searches by names, themes, actors and/or key words. Pricing for combo product hasn't been set and manufacturer hasn't been selected, although it's scheduled to be delivered in 2nd quarter.

EchoStar integrated HD/IRD represents advance from standalone adapter (\$349) that company marketed last year. EchoStar will sell device under own brand, although CEO Charles Ergen said product will be "made available" to licensees JVC and Philips, neither of which is marketing standalone HD set-top decoder. EchoStar currently carries HBO HD programming and said it's mulling pay-per-view. Neither EchoStar nor DirecTV, which has similar product under several brands, have signed agreements with Showtime. Cable network is expected to introduce HD program package this month.

As HD programming packages are readied, Matsushita's Panasonic brand is returning to DirecTV fold with plans for HD/IRD product. It joins Hitachi, Mitsubishi, Thomson, Toshiba, Zenith. Panasonic previously carried standalone DirecTV IRD, but dropped out of market when sales slowed in 1998.

"A lot of programmers haven't figured out what they want to do yet," Hartenstein said. "We've got to pick and choose and see whose content makes sense. You can put up 24 hours of HD, but if 80% of it is in standard definition you haven't done much."

New EchoStar DVD/IRD is being built by Vtech, while Philips continues to supply DishPlayer, which will be sold at \$299 with more than double hard drive space of year ago (\$499). WebTV-based product continues with on-screen guide and various services such as e-mail and messaging with subscription pricing at \$9.99 per month. Various services may be packaged at lower prices, EchoStar Satellite Services Vp Mark Jackson said. Online videogaming also is available.

Both DirecTV and EchoStar have moved quickly to expand marketing of local channel service since Congress passed legislation in Nov. EchoStar, which charges \$4.99 per month, has local-into-local available in 18 markets, but will expand to 33 later this year. DirecTV is in 17 markets and will add 8 more in "next several weeks," Hartenstein said. Only 2 of 17 markets have new equipment required to receive local programming via satellite and DirecTV is serving up to 25% of some regions in U.S., he said.

On standard programming side, EchoStar plans to add another 50 channels to create 150-channel basic package that will be priced under \$40, Jackson said. Additional channels are likely to be derived from new satellite — EchoStar's 6th — that's scheduled to launch in late spring from Cape Canaveral. Bird's orbital position hasn't been set, although it may be colocated at 110° W, sources said. EchoStar bought 2 Loral-built satellites and license for slot from News Corp/MCI Worldcom last year.

As satellite companies readied new hardware, both posted strong subscriber gains for 1999. DirecTV added 225,000 new subscribers in Dec., up 23% from year ago, increasing total net new customers to 1.6 million in 1999. It converted another 89,000 former Primestar customers in Dec., bringing total since June to 470,000. DirecTV, which acquired Primestar assets last year, expects to complete conversion of another 1.4 million by year-end, 6 months ahead of schedule, Hartenstein said. DirecTV had said it hoped to convert 70% of Primestar's 2.3 million subscribers. EchoStar said it added 160,000 subscribers in Dec., 1.47 million for year, to bring overall total to 3.4 million.

**Warrantech slashed 160 jobs** and terminated leases, including one for 6,683 sq. ft. at Stamford, Conn., hq, as part of cost-cutting measures, company said in SEC filing. It merged operations in Bedford and Euless, Tex., as well as in U.K. covering combined total of 58,968 sq. ft. Job reductions thinned Warrantech staff to 590 from 750 for year ended March 31. Service contractor suffered blows when CompUSA dropped program in July and build-to-order PC vendor Proteva sought bankruptcy protection in fall. Actions increased Warrantech's bad debt expenses to \$2.2 million for fiscal year ended March 31 from \$910,675 year earlier. It also tangled with its former accounting firm over its method of recognizing revenues generated by its service contracts. While accounting firm Ernst & Young said company should recognize revenue over life of contract, Warrantech had recorded revenues at time of sale. Dispute resulted in its delisting from Nasdaq and delayed release of annual report until last week. Warrantech said it lost \$7.6 million for year ended March 31 vs. \$5.6 million profit year earlier despite 12.1% gain in sales to \$148.9 million from \$132.8 million. Consumer Div. sales dropped 17% to \$90.6 million, partly offset by 40.9% gain in international revenues to \$17.7 million.



**FORMAT WAR ON FLASH-MEMORY LOOMS:** Portable audio could well be first frontier in flash-memory format battle that took shape at last week's Las Vegas CES between Sony's Memory Stick (MS) and Secure Digital (SD) Memory Card alliance formed by Matsushita SanDisk and Toshiba, but now apparently backed by dozens of other manufacturers.

Looming battle is reminiscent of 1995 DVD format war because it pits Sony on one side, Matsushita and Toshiba on other. Added ring of familiarity is fact that SD logo is same as that used by Super Density disc alliance 5 years ago to battle Sony and Philips on Multimedia CD. Ultimately, parties got together on unified DVD system that since has proved huge success. But as MS and SD differ significantly in shape and appearance, there seems little likelihood of similar unification on flash-memory front.

At CES, Sony said that between 2 rival systems, it's only one available today for sale to public. Sony used show to announce line of MS-enabled products, including Digital 8 camcorders available in spring at \$900-\$1,300 capable of storing 60 still pictures on 4 MB card. In audio, new Network Walkman, available in April at \$330, is ultrasmall portable that downloads Internet music onto 64 MB card. Sony also announced: (1) Deal for Circuit City to promote MS extensively in ads and in-store kiosks. (2) Agreement in which General Motors will use MS in future "e-vehicles" and work together to promote format. (3) Licensing agreement in which it will work with Fremont, Cal., supplier Lexar to develop high-speed Memory Stick that would allow user to download 64 MB of music (about 80 min.) in less than 10 sec. Sony executives said they're working earnestly to develop MS media with capacities of 1 GB or more in next few years.

Similar capacity ambitions were expressed by SD partners at Las Vegas news conference to announce formation of SD Assn. (SDA), which will have L.A. hq. Format developers Matsushita, SanDisk and Toshiba said SDA had 71 members as of Jan. 6, and hopes to have 100 when it holds first organizational meeting in L.A. Jan. 24. Full SDA membership is available for \$5,000 per company, which gives it full participation in drafting specifications and voting on procedural rules. Associate memberships are available at \$2,500 per year, but company would have only observer status. Device manufacturers that join SDA will be able to produce products royalty-free. However, unspecified royalties will be assessed on media manufacturers.

Responding to questioner, Toshiba's SD point man, Koji Hase, who played same role in DVD, said SD camp will be "probable" winner in competitive flash-memory battle because of significantly larger number of companies supporting that format. Moreover, Dan Auclair, SanDisk senior vp-business development, said Sony would suffer "significant competitive disadvantage" because it had relatively little experience in producing flash-memory products in large volumes. However, SanDisk Pres.-CEO Eli Harari stepped in to praise Sony as "a very worthy competitor." Harari predicted SD would replace CD as format of choice in portable audio devices within 10 years. Universal Music Group executives weren't on hand as promised to endorse SD, and thus were unavailable for questions whether Harari's prediction meant Universal would stop marketing CD music by end of decade.

Sony Senior Vp Yoshihide Nakamura took SD criticisms in stride. He defended Sony's manufacturing prowess in flash-memory devices and said MS alliance featured many of world's top media producers. As to SD camp's relatively large

base of supporters compared with 26 companies that have licensed MS hardware or software specifications, Nakamura said: "Numbers aren't important."

**Toys 'R' Us** reported holiday sales were flat at \$4.3 billion but same-store sales fell 1.6% for 6 weeks ended Dec. 31 amid "significant shortages" of videogame hardware. Chain had "practically no" Nintendo Color Game Boys in Dec. and suffered from delay in shipments of Pokemon electronic games to first quarter. Game Boy shortages have been linked to both Taiwan earthquake that slowed chip production and tight supply of LCD screens. Color Game Boy and Sega Dreamcast shipments are expected to improve by Feb., company said. Minus videogames, Toys 'R' Us same-store sales would have been "flat to slightly down," CEO Michael Goldstein told analysts in conference call. "When there is a problem in videogames we suffer more than anyone else and we have to change that," he said. Despite shipping delays, chain's e-commerce business logged \$39 million in sales for 9 weeks ended Jan. 1, \$44 million since launch in mid-1999. Consumers who didn't receive shipments in time for Christmas got \$100 certificates. Online business lost \$20 million in last 9 months, company said. Toys suffered slowdowns on Web site and since has added servers. It also encountered problems in converting fulfillment warehouse to handle toys from sporting goods. ToysRus.com "will add some new channels," but "major changes won't be made until the 2nd half," Pres. John Barbour said. "Our major problem wasn't our ability to drive traffic to the site, but that we couldn't make any changes to the basic infrastructure in the short time I was here," he said. Toys also has slowed growth of new C-3 format, which Goldstein conceded was "too aggressive" in 1999. New format, which doubled space for electronics and videogames to 3,000 sq. ft., has been featured in 170 new stores, added to 230 others. Chain will continue to expand C-3 format. Goldstein denied new format slowed holiday sales: "We are going to have to have a major initiative to improve consumer traffic [in stores] in the December period and we have a lot of work to do." He said chain may seek exclusive products for 2000 holiday selling season.

**Apple unveiled** newest version of Macintosh operating system at annual Macworld convention in San Francisco last week. MAC OS X, scheduled to go on sale this summer, will ship with all-new Apple PCs this month, features larger color icons and simpler way to organize files and present programs in single window. It also has new protected memory feature to guard against crashes and new graphics system to better handle 3D images. OS runs most existing Mac programs, but future software must be modified to take full advantage of it. Apple also made \$200 million investment in ISP Earthlink and will make it exclusive Internet access provider for Macintosh PCs. Microsoft introduced new 5.0 version of its software for Apple PCs that will include Outlook Express and further expand 5-year agreement signed in 1997. Harman International's multimedia group introduced 20 w iSub for Macintosh PCs (\$99) that contains USB port.

**Stock Sales:** EchoStar Exec. Vp Steven Schauer has filed to sell 54,332 shares worth \$5 million and Satellite Services Vp Mark Jackson registered with SEC to sell 13,702 (\$1.29 million)... Take Two Interactive CEO Ryan Brant filed for 100,000 shares (\$1 million), owns 718,563 (3.8% of outstanding common)... Tandy Dir. Lewis Kornfeld filed to sell 16,000 (\$1.2 million)... Cree Research Pres.-COO Charles Swoboda plans to sell 20,000 (\$1.1 million), retains 130,400... Electronics Arts Pres.-COO John Riccitiello registered 63,000 shares (\$7.2 million), owns 79,200.



**GOOD GUYS ONLINE:** Good Guys (GG), seeking to join flood of CE retailers in online market, will start venture capital backed e-commerce business in first half. Venture came as Best Buy provided more details on its e-commerce business (see separate story, this issue).

Goodguys.com, which will be 49.9% owned by retail chain, will be based in Portland, Ore., and will have separate management including CEO, GG CEO Ronald Unkefer said. Bricks-and-mortar GG will handle buying and inventory for on-line business and chain will share in revenues, said Unkefer, who declined to disclose terms.

E-commerce site is being backed by venture capital and Good Guys management, although Unkefer declined to disclose amount of money raised in first round of financing. Investors are largely individuals in venture capital firms, rather than firms themselves, which may be tapped in 2nd financing round, Unkefer said. Chain will be privately held at start, although public offering is being considered.

GG is negotiating agreement with "technology partner" to design and develop Web site, deal expected to be finalized this month, he said. Also still to be finished are shipping arrangements, company said. Losses incurred in start-up of site will be tied to online company, said Unkefer, who returned to chain he founded in July and since has led effort to turn around financially ailing retailer.

Chain is negotiating buying agreements with vendors, but expects online offering to mirror that of stores, which carry 3,000 SKUs, Unkefer said.

Separately, GG said sales for first quarter ended Dec. 31 fell to \$262.2 million from \$294.1 million year ago on 1% drop in same-store sales. Year-ago results included home office products, which since have been dropped. GG will be "materially more profitable" in first quarter largely on strength of increased inventory turns and 5% improvement in gross margins. Sales of extended service contracts also increased, chain said.

There are no immediate plans to expand chain and GG said it's continuing to seek lease agreement for stores up to 5,000 sq. ft. In past, Unkefer has said chain was considering leasing space for software sales. It already has joint operating agreement with Tower Records for Wow stores that combine 2 chains' product mix.

Meanwhile, Wal-Mart, which had postponed start of e-commerce business until this month from last fall, said it had reached pact with venture capital firm Accel Partners to provide financial backing for WalMart.com. Online business will have separate board consisting of Wal-Mart Chmn. Robert Walton, Vice Chmn. Lee Scott, Accel Managing Partner James Breyer.

Newly minted CE retailer Amazon.com said 4th-quarter revenue more than doubled from year ago, but strong sales won't curb losses yet. Year ago, Amazon had \$46.4 million loss on \$252.9 million in revenue.

Amazon, which got start selling books via Internet and branched into CE last fall, said "higher seasonal sales won't translate into lower net losses in the 4th quarter." It said it incurred "higher-than-expected" charges and write-downs in quarter because it overstocked warehouses for start-up businesses such as toys and CE.

**ROBERDS WEIGHS OPTIONS:** Roberds, struggling to boost balance sheet, is "laying out all options" including seeking bankruptcy protection and/or selling or closing stores, Pres. Robert Wilson said.

Company based in Dayton, O., is coming off what Wilson conceded was "terrible" fiscal 3rd quarter, citing failed direct mail campaign (TVD Nov 1 p17). It hired Deloitte & Touche to review "strategic alternatives." Consultant also was retained in 1997 to review operations (TVD Dec 1/97 p15), action that later resulted in chain's dropping home office products.

At least one entity has expressed interest in buying Roberds, Wilson said, but discussions were in early stages. He declined to identify potential buyer. "We're at the front end of a process and we're laying out all our options," he said.

Despite financial problems, Roberds continues to receive shipments from manufacturers, Wilson said, but he declined to give timing for completion of review of operations.

Chain has struggled in recent years with dual operations of selling CE products and furniture while also operating in 3 markets (Fla., Ga., Ohio), each with separate distribution centers and marketing strategies. Roberds has been hampered by unprofitable operations in Fla. and high costs at 300,000-sq.-ft. outlet it opened in Cincinnati area in 1995. It also violated credit covenants in fall (TVD Nov 15 p17) and earlier battled delisting from Nasdaq after failing to meet requirements that at least \$5 million of its common stock be held by individuals other than its officers and dirs. (TVD March 22 p17).

Roberds has been lone survivor of retail wars that hit Ohio market in recent years in face of Best Buy and Circuit City expansions. Sun TV and Steinberg's have closed, former selling some stores to H.H. Gregg for latter's push into Cincinnati market.

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**Newest hybrid twist** is Hitachi's DVD/CD player that ships at midyear at \$799. As we reported, device plays back DVDs and CDs but adds 2x CD-R drive for recording. Hitachi took wraps off DVD camcorder due in midyear with sub-\$2,000 price. Device can record up to 2 hours of video in standard mode (S-VHS quality) on 3.7 Gb DVD disc. Hitachi also showed range of new DVD players including progressive scan model. It said it's planning DVD-RAM recorder for 2001... **Sensory Science** showed very preliminary design of dual-deck DVD player/VHS recorder with several potential arrays to gauge dealer reaction, Mktg. Mgr. Paul Frederickson said. Sensory Science currently markets dual-deck VCRs under Go-Video brand sourced from Shintom and Samsung. It's expected to introduce new dual-deck VCRs later this year, and sources say it may be shooting for new low price. Current low-end model has \$299 retail.

**Casio will ship digital camera** with 3.34 million pixels (2,048x1,536 resolution) in first quarter at \$999. New camera, which has 3x zoom, features 1.8" LCD across back and 340 Mb IBM microdrive with storage for 245 images at maximum resolution. It also has 1,024x768 resolution and digital recording options. Latter can record up to 30 sec. of video at 320x240. Camera has night mode and continuous option during which 3 images are recorded at half-sec. intervals.



## Consumer Electronics Personals

**Stephen Nickerson**, ex-Toshiba, joins Warner Home Video as vp-mktg., DVD worldwide... **Tweeter Home Entertainment Pres.-COO Jeffrey Stone** becomes CEO, replacing **Samuel Bloomberg**, who will remain chmn... **Steve Jobs**, Apple Computer interim CEO, assumes full-time CEO post... **Edward Griffen**, ex-Geneva Group, joins Recoton as senior national sales vp, Accessories Group... **Bradford Loucks**, ex-Coca Cola Bottling, joins Acclaim as sales vp... **Mary Walker**, IBM Home Director vp, named pres.-CEO of group as it's spun off.

Added at Good Guys: **Paul Crevelli**, ex-Amazon.com, returns as TV/DSS category mgr.; **Daniel Navarro**, ex-Al & Ed's, named mobile electronics category mgr.; **Sandy Lirag**, ex-Boston Acoustics, appointed car installation gen. sales mgr... **John Foster**, ex-Lazard, to join Toysrus.com as COO-CFO Jan. 17... **Toshikazu Koike** advanced to Brother International pres. from exec. vp, succeeding **H. Gunji**, who remains chmn... **Bernard Stoller**, ex-Sony and Sega, named Mattel Interactive pres., replacing **Kevin O'Leary**, who left company in Nov.; **CFO Harry Pearce** to retire in March... **Derek Quackenbush**, ex-Sony 989 Studios, joins Infogrames N. America as CFO; **Ronald Rudolph**, ex-Wyse Technologies, named senior vp-administration.

**TiVo and Blockbuster** have formed video-on-demand alliance, companies announced at our deadline. Blockbuster New Media Group Pres. **Santo Politi** told us companies hope to deploy new service by year-end or early next year. He said movies will be delivered from data distribution center through method to be determined and downloaded to TiVo boxes. TiVo owners will be offered small selection of movies from "mini-Blockbuster store" that will be changed periodically and aimed at variety of tastes. Details are still being worked out, but plans call for movies to be offered for "rental" for given number of days at price separate from TiVo subscription fee. Companies will "abide by what the studios would like to see" in terms of copy protection, such as Macrovision, he said. Possibility exists that Blockbuster stores could offer TiVo hardware, he said. Cross-promotional opportunities will be part of alliance.

**PC video camera** unit sales jumped more than 250% in Nov. over same period year ago, PC Data retail hardware report said last week. It said Intel was market leader for 3rd consecutive month with 37.2% unit share, despite company's products having \$81 average price, which is above industry average. IBM-branded PC camera manufacturer **Xirlink** followed Intel with 16.7% unit share. PC Data said IBM name and \$50 average pricing drove Xirlink's sales. Rounding out top 5 were Logitech, Ezonics and Kensington, which didn't enter market until Oct. Best-selling model in Nov. was Intel's \$65 PC Camera Pack. PC Data also said unit sales were up 128% for first 11 months of year, period in which average PC video camera price dropped 41%, to \$96 from \$161.

**Compaq** unveiled new consumer PCs featuring blue-gray color, rounded corners and oval display panel that's likely to put it into direct competition with Apple Computer's multicolored iMacs. New EZ 2200, which will sell through retail for \$999, has 64 Mb RAM, 500 MHz processor, 17 Gb hard drive. It also has CD-ROM and CD-RW drives, 4 USB ports and ultra-high-speed FireWire ports in front and back. Step-up 2700 adds built-in Ethernet port for DSL or cable modem connection, 20 Gb hard drive, 550 MHz Pentium III, 17" monitor, \$1,499 price after rebate. It also replaces CD-ROM with DVD-ROM drive.

**Recoton**, expanding into new categories, has signed agreement with NMB Technologies to supply Acoustic Research branded PC speakers. NMB, which builds speakers for Compaq, Dell, Gateway, IBM and others, will ship speakers in 2nd half. Recoton also signed licensing pact with Varitek to develop Jensen "Sentinel" product that combines cellular communication with global position system for car applications. Products, which will ship in 2nd half, feature 24-hour monitoring service. Recoton's InterAct Accessories also signed agreement with Sega to develop products for Dreamcast videogame console.

**IBM will quit** home networking business as it spins off Home Director (HD) Div. into separate group. HD, which will be based in Morrisville, N.C., and employ 55, has financial backing of Spencer Trask Intellectual Capital Co. Agreement will allow IBM to focus its business on e-commerce, consulting and PCs, while HD continues to pursue home building market with system for networking PCs with CE and other products in home. It has alliances with Bell Atlantic, Cox Cable, SBC Communications. Systems, based on central control panel based in home, typically sell for more than \$7,000. **Mary Walker** will be pres.-CEO of HD.

**Tops Appliance City** officially changed name to **Tops Home Appliances**, which is reflected in print ads that have started to run in force in N.Y.C. metro area. Retailer recently left CE business and switched to appliance-only format in move to turn around sagging finances (TVD Oct 25 p15). Focus now is on 20,000-25,000-sq.-ft. stores, and it had 4 locations entering 2000 — 2 in N.J., one in Hawthorne, N.Y., one in Manhattan. **Tops Pres. Richard Jones** told us in Oct. he believed there was room for 40 outlets in N.Y.C. market, where company plans rapid expansion. He said it also plans to expand into Mid-Atlantic region in 2002.

**Chip maker Analog Devices Inc. (ADI)** will supply DSPs for USA Digital Radio (USADR) in-band, on-channel (IBOC) DAB receivers under joint marketing and technology development agreement announced on eve of last week's Las Vegas CES. USADR said ADI's DSPs were used successfully in recent IBOC DAB field trials. **Jerry McGuire**, ADI's DSP product line dir., said collaboration on IBOC DAB "will help proliferate digital audio processing and raise the standard for sound quality throughout all types of electronics."

**Motorola introduced** first cellular phone featuring color screen at CES in Las Vegas last week. Phone contains organic electroluminescence display (OLED) developed by Pioneer. OLED, which has thin layer of carbon that emits light when current is passed through, was introduced in 5.2" for Pioneer card head unit last year. While first model with technology was \$650, new version containing it will be available this year at \$400, Pioneer said.

**Audiobookclub.com** was 3rd most popular e-commerce book Web site in Nov., PC Data Online survey found. Survey said only Amazon.com and BN.com attracted more unique users in Nov. PC Data Online also said Audiobookclub.com was 34th fastest-growing Web site of month with 317% increase in unique users over Oct. and 69th most-trafficked e-commerce Web site overall in Nov. Audiobookclub.com parent MediaBay said Audio Book Club online member revenue increased more than 400% in 11 months ending Nov. from year earlier.





# TELEVISION DIGEST WITH CONSUMER ELECTRONICS

The Authoritative Service for Broadcasting, Consumer Electronics and Allied Fields

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### Broadcast - Cable

**AOL-TIME WARNER HIT ON OPEN ACCESS**, but is seen to face few regulatory hurdles. Senate hearings planned. (P. 1)

**NAB TV BOARD BACKS 35% CAP** in face of NBC's threat to withdraw. Feb. conference call set on Sinclair's COFDM digital proposal. (P. 3)

**NETWORKS DENY GOVT. INFLUENCE** in form of adding antidrug messages in return for better ad deals. Violation of sponsorship rules charged. (P. 4)

**CBS DENIES DECEPTION** in using digital technology to replace NBC logo with its own in Times Square. No change 'whatsoever' to viewers in Viacom purchase. (P. 5)

**BROADCASTERS BACK LIMITED FCC** authority in DBS retransmission talks. NCTA says rules apply to cable. (P. 5)

**CABLE MARKET SHARE ERODING**, FCC says in latest FCC competition report. It now has 82% of market, down from 85%. DBS strongest competitor at 12.5%. (P. 6)

**NBC MEETS WITH LATINOS, ASIANS:** Sassa says he's surprised at claim they were left out of NAACP negotiations. NBC to drop long-form programming, go for family and drama shows. (P. 6)

**AOL-TIME WARNER OPEN ACCESS COMMITMENT QUESTIONED:** In wake of its multibillion-dollar merger agreement with Time Warner (TW), AOL has drawn fire on issue of cable open access from legislators and consumer groups. Nevertheless, most observers agreed companies faced relatively smooth path toward regulatory approval of merger.

AOL CEO Steve Case insisted that new company was committed to open access: "We need to have consumer choice and competition among ISPs... we are committed to that." He said that "now that No. 1 [MSO] AT&T [with MindSpring agreement] and No. 2 AOL Time Warner are both on record supporting consumer choice," issue would be resolved "sooner than it would have been." TW CEO Gerald Levin said other MSOs would be quick to open networks and adopt AOL's service.

Govt. action "is less and less needed" on open access, AOL Senior Vp-Policy George Vradenburg told us. Although AOL "still will be a dues-paying member of OpenNet," he said, ISP "will be urging OpenNet increasingly to be advocating issues of how and when, not whether... and not necessarily to have to rely on government action to achieve it." AOL will continue to push principles of open access, "but increasingly in the marketplace, because we're seeing such real and genuine commitments" made by cable industry. AOL's position has been "fairly consistent," Vradenburg said. Company always has sought to achieve access in market and turned to regulators "when we were frustrated that things weren't happening."

### Consumer Electronics

**SONY GETS POSITIVE RESPONSE** from Warner studio and its own movie division on implementation of DTV copy protection. (P. 10)

**NEW BUYING GROUP** being weighed after NATM terminates memberships of 4 retail chains. (P. 11)

**DIVX WASN'T ONLY BLUNDER** in history of CE industry, according to our retrospective on marketing debacles of 20th century. (P. 12)

**COPY-PROOF CD SHOWN** to record labels by Macrovision for summer debut. CDs can't be duped on audio or PC-based CD recorders — or played on PCs at all. (P. 13)

**'FREE' DVD PLAYERS PLANNED** by ISPs, with modem built in for Internet access and online shopping. (P. 14)

**INTERNET IMPACT COULD BE 'EXPLOSIVE'**, retail 'power' panelists say at CES. Tandy CEO Roberts says RadioShack could draw half its revenues from online sales within 5 years. (P. 15)

**AOL-TIME WARNER MERGER** isn't expected to alter Internet company's investment in Hughes Electronics or delay 2nd-quarter debut of DirecTV's AOLTV. (P. 16)



Leading members of OpenNet Coalition expressed confidence in AOL's continued leadership. "We have it on good assurance from AOL, both from their public pronouncements and in smaller conversations, that the AOL-Time Warner system will be an open system," MindSpring Vp-Legal Affairs David Baker said. He told us high-ranking officials at AOL, whom he didn't name, had assured him that "AOL remains committed to the principles and efforts of open access," including need for "consistent, coherent policymaking." But truer picture of OpenNet members' sentiments emerged in conference call before aborted news conference afternoon of Jan. 10, said source familiar with situation. "They were seething," source said. "They know what happened. They got stabbed in the back."

It's "absolutely untrue" that OpenNet Coalition members have been openly "seething," Co-Exec. Dir. Greg Simon said. He said conference call had "not even a rough moment." Although "I'm not going to argue that people don't have questions" about AOL's position on open access, Simon said, OpenNet has more meetings scheduled and ISPs will have chance to ask questions.

House Telecom Subcommittee ranking Democrat Markey (Mass.) agreed merger would affect "the roaring debate about open access," saying AOL's purchase of MSO has "thousands of competing ISPs... asking whether AOL now stands for 'All Others Left Out' or 'All Others Let In.'" Rep. Goodlatte (R-Va.) said industry movement toward open access is "to be applauded" but isn't enough. He said there's growing support in Congress for national policy "in the face of current FCC inaction."

Senate Judiciary Committee said it will hold hearings after Congress returns at month's end. Antitrust Subcommittee Chmn. DeWine (R-O.) and ranking Democrat Kohl (Wis.) said "deal could make sense for consumers" by efficiently delivering news and information, merger of "dominant Internet company" with "leading media conglomerate... raises a whole host of competition and public policy issues." They said "merger also adds a new wrinkle to the broadband 'open access' debate by potentially resolving it through private negotiation rather than by government regulation."

Center for Media Education (CME), Consumer Federation of America, Consumers Union and Media Access Project said consumers "do not want to be beholden to a giant media-Internet dictatorship, even if it promises to be a benevolent one." They said AT&T, AOL and Time Warner now collectively serve more than half of cable customers and "control the most popular cable TV programming and Internet services." CME Exec. Dir. Jeffrey Chester said Case "is the Benedict Arnold of the digital age," he said. "Now that he has bought himself a piece of broadband cable access, he is no longer advocating for public policy to ensure open access to the Internet."

Simon said consumer groups were making mistake with their "personal attacks" on AOL leaders: "I don't appreciate other people who are on my side of the issue making ad hominem attacks... To say these guys are all lying is highly irresponsible of them. I would much rather see them put forward a series of questions they want answers to."

#### Few Regulatory Obstacles Seen

With combined market value at merger announcement of more than \$245 billion, America Online (AOL) and Time Warner (TW) aim to become largest online and entertainment company in largest corporate marriage ever. Deal is expected to close before year-end, and as companies have little corporate overlap, executives were confident there wouldn't be serious regulatory hurdles. Consensus of AOL and TW officials was that merger definitely would be reviewed by FCC, as well as Dept. of Justice or FTC. TW's Levin said companies also will have to seek permission of most of TW Cable's local franchise authorities.

FCC fully expects to review merger, and its authority will lie in TW's ownership of CARS licenses, 75 MDS licenses and 250 2-way radio licenses for its truck fleet. FCC and Cable Bureau had no comment on merits of merger, not having received documentation from AOL or TW. Clinton Administration is reviewing whether merger should be assigned to Justice or FTC. One FTC official predicted selection of reviewing agency would be made within week. Each has precedent, as FTC approved Time's merger with Warner and DoJ has reviewed last several AOL acquisitions. Govt. officials wouldn't speculate on where merger might be assigned or what criteria might be used in decision, although it was hinted that DoJ's familiarity with AOL might be determining factor.

AOL and Time Warner will file paperwork to begin merger reviews at several levels "as soon as they can be completed," Vradenburg told us, because they "would like to get this process started." Deal must clear several international bodies, with Vradenburg pointing to Canada and Europe as toughest ones. He reiterated company's stance that "there's not much doubt" of ultimate approval because of companies' "largely complementary businesses." He told us he intends to "continue doing global and strategic policy" for merged company.



"I don't see any cross-ownership issues," said Washington attorney Robert Rini: "At first blush I don't see any immediate FCC issues, and it seems to me it might be procompetitive." Washington regulatory attorney Scott Harris, former FCC official, said: "I don't see the merger as having to overcome a great many regulatory or legal hurdles... AOL and Time Warner have up until now been in entirely different businesses." He said that "there is no reason to believe" that local regulators also won't be eager to give approval.

#### 'Missing Piece of the Other's Puzzle'

AOL COO Robert Pittman said of AOL and TW that "each is the missing piece of the other's puzzle." AOL has been looking for access to broadband for 2 years, as shown by its leadership in open access campaign. Now AOL has access to TW's cable plant, which is almost completely upgraded to 2-way digital and passes 20 million homes. It also gains access to TW's content, such as HBO, CNN, Cartoon Network. TW has sought for years to be dominant online presence, but its pathfinder.com was failure and RoadRunner's growth has been hampered by many factors. Now it wins AOL's 22 million AOL and CompuServe subscribers and AOL's hundreds of content partnerships. Both companies gain advantage of offering ad sales across multiple media to virtually every demographic, and both are subscription-based companies (AOL with online subscribers, TW with magazine, cable and pay premium channel subscribers). Combining subscription databases will allow new entity to cross-promote content and services.

Combined company will have revenue of \$30 billion, parties said, with almost 80,000 employees, 12,100 from AOL and 67,500 from TW. TW is larger company in other respects, with \$5.5 billion in assets to AOL's \$2 billion, according to their filings with SEC. TW's revenues also far surpass AOL's, but latter has market capitalization twice size of TW's, approximately \$165 billion vs. \$85 billion.

Deal is at least 2nd time in 9 months that AOL has looked at acquiring or merging with MSO. Last spring, after AT&T trumped Comcast's bid for MediaOne, AOL gave serious consideration to partnering with Comcast in counterbid. Holding it back, however, was lack of cash. It would have made offer to MediaOne based entirely on its highly valued stock, as in TW deal, but AT&T had put \$30 billion cash on table in its \$58 billion bid. Moreover, that was hostile bid situation, as MediaOne major shareholder Amos Hostetter already had sided with AT&T. Cash wasn't issue in friendly merger with TW. There also were rumors last summer that AOL had spoken with AT&T about merging.

**35% CAP GETS 'RINGING ENDORSEMENT' BY NAB BOARD:** There's likely to be one less NAB member as result of TV board's "ringing endorsement" of retention of FCC's 35% ownership cap on TV stations. Action came after NBC Exec. Vp Richard Cotton appeared before board meeting in La Quinta, Cal., last week, saying network's continued membership in association hinges on NAB's endorsing — and lobbying for — increase in cap. Only other networks on board endorsed Cotton's position, with large station groups "very adamant" against relaxation of NAB position, we're told. Board member Dean Goodman, pres. of Paxson TV, said his stations and network would remain members even if NBC withdrew. Question was raised because of NBC operating agreement with Paxson stations and its 20% ownership position in Paxson.

NBC sought "a more progrowth strategy" in era of media mergers as condition for keeping network and TV stations in NAB. Cotton says he stressed 4 areas of NBC's disagreement with NAB: (1) national caps on station ownership, (2) more relaxation of duopoly rules, (3) repeal of cable TV cross-ownership ban, (4) repeal of network affiliation rules. Cotton told us he didn't mention ban against dual network ownership, but NBC also opposes that FCC-mandated restriction.

Cotton said decision on whether network remains NAB member will be announced in week or 10 days. While NBC will save about \$400,000 annually in NAB dues, it would lose as much as \$879,000 annually in electricity bills saved through NAB's power buying pool, Assn. Pres. Edward Fritts said. When asked by Radio Dir. John Dille (who attended Cotton's presentation to TV board) how network would be better off by not belonging to NAB, Cotton admitted it wouldn't.

Meanwhile, TV board plans telephone conference call on Sinclair's request that FCC open rulemaking on COFDM digital modulation HDTV technology of coming DTV era. Conference call is scheduled Feb. 8, following expected Feb. 2 release of analysis by MSTV comparing COFDM and 8-VSB transmission standards. While NAB opposes rulemaking, TV board member Harry Pappas told FCC "it's better to light a candle than curse the darkness" in backing Sinclair's position. Pappas said he was "greatly troubled" by results of Sinclair's reception test of 2 systems in Baltimore: "Let us not 'shoot the messenger' but heed the message [and] act expeditiously and favorably" on Sinclair petition. NAB TV Exec. Vp Charles Sherman said 114 stations now are transmitting digital signals, with potential of reaching nearly 60% of U.S. TV households.



**NAB Exec. Vp-Govt. Relations James May** told board that little new legislative action is expected in Congress because it's Presidential election year. But, he said, Judiciary Committees of both houses could act on mergers and TV violence, latter as part of juvenile justice reform legislation. He said Internet streaming (some 3,000 radio stations now are streaming their signals, according to NAB Senior Vp-Research Richard Ducey) will be major issue in Congress and FCC reform, copyright and campaign reform will receive attention.

Without making any changes, board approved budget of \$55.9 million in revenue (up 5%) and expenses of \$41.2 million for fiscal year ending April 1. Of income, 66% will come from April convention, only 17% from radio and TV station dues. TV Dir. Andrew Fisher of Cox Bcstg. proposed station "dues holiday" for first quarter 2001, which passed unanimously, and long-term dues structure will be taken up by NAB Financial Advisory Committee. With huge growth in income from annual convention, NAB hasn't raised station dues since 1992.

Ironically, with NBC set to withdraw from NAB, network's *Sat. Night Live* will be inducted into TV Hall of Fame at April convention in Las Vegas, while ABC TV Pres. Patricia Fili-Krushel will speak at TV lunch. Radio Hall of Fame will add personality Thomas Joyner, who has commuted daily by air to host programs originating live from Dallas (in mornings) and Chicago (afternoons) on same day.

**NETWORKS DENY GOVT. DEAL:** Networks were flatly denying last week that they added antidrug messages to TV shows in return for better deal on govt.-financed antidrug ads. Instead, several said, they took advantage of deals govt. was offering for already planned shows. Charges were included in lengthy story on Internet news site salon.com. Story said networks benefited by at least \$25 million from deals with White House Office of National Drug Policy. If true, actions could violate FCC rules requiring sponsorship identification, said Andrew Schwartzman of Media Access Project.

Salon.com story claims networks submitted scripts for dozens of shows to drug policy office to determine whether they qualified for special treatment under advertising program, which was approved by Congress in 1997. Program provided significant funding for antidrug ads, but only on condition that each paid ad be matched by free PSA or ad. Since networks were reluctant to provide ad time under those terms, story said, drug office suggested free time requirement could be met by antidrug messages in shows themselves, allowing freed-up ad time to be sold to others. It claimed some scripts were unacceptable to office, so they were modified in consultation with office.

"Nothing in the story is true as far as NBC is concerned," spokeswoman said. She acknowledged that drug office saw some scripts after they were finished, but Roz Weinman, NBC exec. vp-broadcast content policy, said none was modified at drug office request: "NBC never ceded content control." Officials of other networks said much same thing, although they noted that White House "drug czar" Barry McCaffrey was invited to meet West Coast program producers to encourage them to include antidrug messages in scripts.

"The notion that any Hollywood producer would ever change a script for Washington is ludicrous," one network official said. He said network never changed script to get drug office approval, although he acknowledged that some shows did meet White House standards for more favorable advertising agreement. White House officials didn't immediately comment on story.

Communications Act requires broadcasters to identify any sponsor that provides any consideration, either directly or indirectly, in return for programming, Schwartzman said. If charges are true, he said, "this would be a rather clear violation." Schwartzman, who was interviewed for original article, said: "The fact that the government's subliminal messages are

being delivered by broadcasters is an extraordinary First Amendment breach. I can't imagine a bigger breach of trust." First Amendment attorney Robert Corn-Revere agreed, saying if claims are true they "represent a level of intrusion into creative decisions the likes of which we haven't seen before." He said actions may have been taken "for a good cause" but any incentives should have been disclosed.

**Defense Dept. "has no desire to revisit the 8-VSB"** standard for DTV, Pentagon said in statement issued after meeting with broadcast industry officials Jan. 13. Statement apparently reverses earlier comment urging FCC to consider COFDM modulation for DTV. Earlier statement was from Pentagon's Video Working Group; latest was from office of Assistant Secy. of Defense for Command, Control, Communications & Intelligence. Statement noted "unique needs" of military for DTV transmission and reception and said Pentagon "looks forward to continuing to work with all relevant parties" to ensure those needs are considered: "DoD desires to meet its needs through commercial products to the greatest possible extent."

**FCC should revoke** all Sinclair Best. licenses and hold all applications in abeyance because Sinclair exerts undue control over Glencairn Ltd., which owns KRRT Kerrville, Tex., Rainbow/PUSH said in FCC petition. Group said there hasn't been such egregious case since RKO General in 1980s because "the source of the misconduct was the people at the top of the company" and misconduct "cuts to the core of what it means to be a Commission licensee." Rainbow/PUSH said Sinclair's deal with Glencairn is so restrictive that it controls all finances and Sinclair is poised to "strip Glencairn of every asset Sinclair is allowed to acquire." It said Glencairn's only business is holding license that Sinclair uses through LMA.

**Contest has developed** for chmn. of NAB radio board, with election to be held in June. Candidates are ex-Radio Chmn. Walter May, pres. of East Ky. Bcstg., and David Kennedy, pres. of Susquehanna Radio Corp. If custom of alternating chmn. between TV and radio boards holds, winner will be in line to succeed James Yager, pres. of Benedek Bcstg., as joint board chmn. Current Radio Chmn. William McElveen of Bloomington Bcstg. and William Poole of WYSK-AM-FM Fredericksburg, Va., have served 4 years on board and aren't eligible for reelection. John Dille, Federated Media, also a former radio chmn., said he's considering running for vice chmn.



**CBS DENIES DIGITAL DECEPTION:** Replacing NBC logo with CBS eye in correspondent Dan Rather's reports from Times Square in millennium coverage was simply use of digital technology and wasn't meant to deceive public, CBS TV CEO Leslie Moonves and News Pres. Andrew Heyward told TV critics last week. Heyward conceded CBS News has "an obvious disagreement about the use [of new technology to delete NBC logo] in Times Square." He conceded ethics question in CBS action "is a close call which we did debate" in-house, and covering NBC's Jumbotron logo "was an aggressive move that naturally is going to put some noses out of joint... Like any new technology, it poses new issues that we have to wrestle with on a case-by-case basis."

While in Times Square case CBS didn't disclose to public its alteration, Heyward said "clearly we have a core principle of not deceiving the audience... I see this as an extension of electronic graphics and really a form of electronic signage." Overall, he said, CBS management has been "firewall supportive" of independence of CBS News. Asked about poor ratings for Dan Rather and whether changes would be made, he said "evening ratings [with CBS in 3rd place] are a problem... but we don't have any announcement to make today."

CBS Sports Pres. Sean McManus said similar situation couldn't happen in major professional sports because all contracts with networks prohibit altering of signage within stadiums and arenas. Provision, he said, "is a concern to us because it creates a potential cannibalization" of CBS advertisers when signs of competing products are shown.

Heyward said "there is a concern as larger and larger conglomerates... own various news outlets." But, he said, there's still "a lot of competing voices and, believe me, our competitors are watching for any pulling of punches" in favor of corporate owners. Moonves said that when merger of CBS with Viacom becomes reality, "I don't think that the viewer will see any change whatsoever." He also said CBS met with several minority groups Jan. 11 in "a very productive meeting... We expect to have a written agreement within a few days."

Moonves said TV network business "is phenomenal" now as "more and more advertisers" are targeting 25-54 demographics and "more and more money is going toward specific programming." Since very successful upfront selling season last spring and summer, scatter prices have gone up 35%, he said. CBS, he said, is exploring Internet opportunities and AOL merger with Time Warner "is sort of indicative that anybody that plays by the same old rules is going to be left standing at the gate."

\* \* \* \* \*

Fox TV Entertainment Chmn. Sandy Grushow and Pres. Doug Herzog spent most of their hour before critics acknowledging that Fox TV Network is having what Grushow said is "dissatisfying year" and explaining what it's doing to turn things around. Major problem, he said, is that for years network "over-relied on the short-term fix of shock reality specials and series. For a while, those programs brilliantly masked many of the growing problems on the Fox schedule. But, unfortunately this overreliance, oversaturation, has really come back to bite us on the collective Fox behind" this season.

**RETRANSMISSION TALKS AT ISSUE:** There's no reason to assume there's lack of good faith if TV stations' retransmission consent talks with DBS operators fail, NAB said in comments to FCC (CS 99-363). As result, there's no need for Commission to establish extensive system for evaluating progress of negotiations, NAB and other broadcasters said. NCTA, meanwhile, said retransmission consent provisions of Satellite Home Viewer Improvement Act (SHVIA) "plainly" apply to all multichannel video providers, not just to DBS.

Congressional mandate that parties negotiate in "good faith" doesn't require that they actually agree, NAB said. FCC monitoring would be "costly, burdensome and intrusive," it said, so Commission simply should set and enforce "a few objective rules relating solely to the negotiation process." If negotiations between station and DBS fail, NAB said, "remedy is simply to order more negotiations, not to force particular terms... on an unwilling party."

FCC has "very limited authority to promulgate implementing regulations" for DBS retransmission consent, 4 major networks said in joint filing. Like NAB, they said stations have strong financial incentives to sign retransmission deals, as do DBS operators. There's no need for FCC to set new enforcement rules for negotiations, networks said.

FCC shouldn't set detailed rules for retransmission consent talks between local TV stations and satellite carriers, ALTV told Commission. Assn. said it's worried that FCC is ready to "don the striped shirt of a referee, menacingly grasp the yellow flag and range freely amidst and within retransmission consent negotiations, ready to penalize the slightest flinch." Commission should only set broad, general rules, ALTV said in comments on implementing SHVIA consent provisions. Local stations have no disincentive to negotiate carriage deals, ALTV said, and there's no history of unsuccessful negotiations. It also said FCC has no authority to compel agreement or impose terms.

Act included provision prohibiting broadcasters from "excessively exploiting" retransmission rights, NCTA said, and provision applies to cable as well as DBS. Provisions, including prohibition on exclusive agreement with one multichannel provider, apply to cable as well as DBS, NCTA said. "Good-faith" provision, it said, means broadcasters can't impose unreasonable terms on cable if they negotiate DBS deal.

**Overbuilder Ameritech's** cable operations continue to be in limbo with SBC, which acquired company, saying issue still is under review. SBC put Ameritech's cable operations on hold in Nov. pending "deep evaluation" of business operations of all its business units. "There is no timetable attached to it [review]," SBC spokesman said. SBC's plans for future of cable operations didn't figure in Chmn. Edward Whitacre's speech Jan. 11 outlining proposals for growth in next 3 years at Salomon Smith Barney Tenth Annual Entertainment, Media & Telecom Conference.

**NBC Internet (NBCi)** and Asiacontent.com announced joint venture to provide Internet content, portal and shopping services throughout Pacific Rim. NBCi will own 35% stake with option to increase it to 60% and Asiacontent.com will start with 65%. NBCi also acquired minority stake in Asiacontent.com. Further details weren't disclosed. NBCi said it expects to announce Internet services in other Asian and Pacific markets in coming months.



**CABLE MARKET SHARE SLIPS:** DBS continues to eat away at cable's multichannel video market share, according to FCC's 146-page 6th annual competition report. Cable now holds 82% of market, down from 85% last year, while DBS has increased to 10.1 million homes from 7.2 million and has 12.5% of market. Numbers are measured to June 1999 from June 1998. Market shares of some other competitors, including home satellite dishes, MMDS services and open video systems (OVS), also declined. Report was adopted by Commission Dec. 30, with Comr. Furchtgott-Roth dissenting, and was submitted to Congress as required by statute by Dec. 31. FCC released report Fri.

Chmn. Kennard said "I am encouraged by the growth of competition to cable on a number of fronts" and "satellite industry currently offers the most meaningful competition to cable." He said Commission would move promptly to implement Satellite Home Viewer Improvement Act (SHVIA). Comr. Tristani said "widespread video competition, if it comes, will come via satellite and not from terrestrial competition." She said 46 of top 50 cable networks are owned by 12 "large media conglomerates." Number of cable networks increased 16% in last year to 283, but she said "the video programming that the American public receives is being funneled through a handful of media gatekeepers."

Furchtgott-Roth took opposite tack, echoing in his dissent language he used in dissent last year. He reminded fellow commissioners that statute calls for report on "video programming," not just "multichannel video programming." He said if one assumes that consumers "have choices for their source of video programming, as I think they clearly do, their selection of cable is not indicative of anything harmful."

Number of multichannel video homes grew 5.5% to 80.9 million, report said. Total of multichannel video users not subscribing to cable jumped 26% to 14.2 million. Cable subscribership edged up just under 2% to 66.7 million. In OVS, Commission said "few telephone companies have sought certification." One that has, RCN Inc., has been converting OVS franchises to traditional cable franchises, which Commission said could explain reduction in OVS subscribers to 60,000 from 66,000. OVS had less than 1% of multichannel video market, agency said. SMATV systems in multiple dwelling units (MDUs) grew 54%, FCC said, to 1.8% of market. Home satellite dish subscribers had 2.2% of market but declined 12% to 2 million, which agency said "is likely due to subscribers' switching to DBS." MMDS subscribership fell to 821,000 from one million, with wireless cable holding only 1% of market.

Report was first to include deregulated cable rates, with Telecom Act-mandated sunset going into effect March 31 of last year. FCC said cable rates increased 3.8%, nearly double that of 2% rise in consumer price index. Still, capital expenditures for cable plant upgrades gained 13.2%, video and nonvideo offerings increased, program license fees were up 14.6% and programming expenses up 16.3%. Commission calculated that cable, which saw 8% increase in revenues in year, represented 12.3% of communications industry's revenues.

**NBC Internet** filed with SEC to offer 4.6 million shares, including 3.65 million from company, 650,000 from part-owner CNET, 300,000 from CEO Chris Kitze.

**NBC PRESSES DIVERSITY:** Expressing surprise that some minority groups complained they were left out of NBC negotiations with NAACP on diversity in programming, training and employment, NBC West Coast Pres. Scott Sassa and NBC Pres. Robert Wright met with Latinos and Asian-Americans last week to listen to their complaints. At same time, Sassa said NBC stands behind its agreement with NAACP (TVD Jan 10 p4): "This is not something we came up with as a compromise to get these people away from us. We really believe in what we're doing [to increase diversity in programming and employment]." NBC already has good record in employment diversity, Sassa said, with 22% of employees and "more than 14% of executives," including himself, minorities.

Feb. 10 in Burbank, Cal., will be date of "intensive, high-level seminar" for program producers as part of agreement with NAACP that Sassa said will include officials of other minority groups, talent agents, studio CEOs. Wright and NAACP Pres. Kweisi Mfume will participate. Seminar "is really about sensitizing people," Sassa said. He said NBC will pick up cost of additional writers of 2nd-year programs for 3rd and 4th years — at cost to NBC of about \$200,000 per show. However, if program goes into syndication, network will get half of that money back from producers. Sassa said he "can't guarantee" that NBC's fall schedule will have minorities in featured roles, but "there's a much higher percentage chance" because of diversity initiatives.

NBC's programming development for future will shift from miniseries and other long-form shows to family type and drama, Sassa and NBC Entertainment Pres. Garth Ancier said. Half of NBC's new development is for family shows, Ancier said: "It just seems that with the demise of [ABC's] *Home Improvement* that there is a wide-open void for family and game shows." New NBC direction led to resignation of Lindy DeKoven as exec. vp of miniseries and movies 10 months after she signed new long-term contract, sources said.

At conclusion of Q&A with TV critics, Sassa told us without being asked, "I don't know what we're going to do" about NBC's threat to withdraw from NAB over 35% TV ownership cap issue and NAB TV board meeting. Fred Silverman, former head programmer at ABC and CBS and ex-pres. of NBC, predicted variety programs would "be the next big cycle... I think it's long overdue." However, he told us he doesn't have such a program in development stage.

**RoadRunner (RR)** said it tripled subscribership in 1999 to 550,000 from 180,000 at start of year. RR footprint covers 13 million homes in 37 markets, and systems in Kansas City (Time Warner) and Atlanta (MediaOne) are CableLabs compliant for interoperability. First-quarter launches are expected to include Minneapolis, Raleigh, Waco, western Ohio, Wilmington, N.C. RR is joint venture of Advance/Newhouse, Compaq, MediaOne, Microsoft and TW, and its future is very much in flux due to (1) impending purchase of MediaOne by AT&T and (2) just-announced acquisition of TW by America Online. TW's exclusive online contract with RR expires at end of 2001.

**Radio ad revenue** climbed 16% in Nov., compared with previous year, marking 87th consecutive month of increases, Radio Ad Bureau (RAB) said. For first 11 months of 1999, it said radio ad revenue was 13% ahead of 1998. Meanwhile, RAB said advance registration for its convention, which begins Feb. 16 at Adams Mark Hotel in Denver, already has exceeded last year's record 2,400 attendance — [www.rab.com](http://www.rab.com).



**NCE LIMITS PROPOSED:** Broad limits on FCC, preventing agency from establishing or modifying requirements for all non-commercial-educational (NCE) TV stations without rulemaking, will be introduced by House Telecom Subcommittee Vice Chmn. Oxley (R-O.), staffers said. Legislation is response to FCC decision that some religious programming doesn't count as educational, potentially affecting religious broadcasters' eligibility for NCE licenses (TVD Jan 10 p8)

FCC Chmn. Kennard defended new guidelines, even as conservatives stepped up campaign to overturn them. In addition to Oxley bill, Paxson said it will petition Commission to rethink decision and is soliciting additional support from broadcasters, lawmakers and conservative groups. Decision is in same case in which FCC has been accused of favoring Paxson as result of letter from Senate Commerce Committee Chmn. McCain (R-Ariz.), who has used Paxson's private plane for Presidential campaign. In same decision that allowed NCE TV license in Pittsburgh to be transferred to Cornerstone TV, freeing Cornerstone's commercial license to be sold to Paxson, FCC, over dissents of Republican Comrs. Furchgott-Roth and Powell, said church services and other non-analytical religious programming wouldn't qualify as educational programming to fill quota for NCE license.

Religious broadcasters complained of being "singled out" for extra scrutiny. Kennard said Commission didn't single them out, "but rather clarified standards applicable to all NCE broadcasters." He said standards wouldn't apply to most religious broadcasters, who hold commercial licenses, and Cornerstone "specifically acknowledged the applicability of, and its intention to abide by, the NCE eligibility requirements." Kennard said rules don't prevent religious broadcaster with NCE license from airing church services, merely from counting them toward NCE requirements.

Oxley said agency would "try to put a good face on this action, but the simple truth is that the Commission is restricting those who express faith. This is wrong, and it cannot stand." Titled "Religious Broadcasting Freedom Act," draft bill Oxley is circulating would reverse guidance provided in Cornerstone decision. In addition to Reps. Largent (R-Okla.), Stearns (R-Fla.) and Pickering (R-Miss.), who co-signed Oxley's letter to Kennard, Oxley said his original co-sponsors will include Reps. Coburn (R-Okla.) and Blunt (R-Mo.) and Majority Leader Armev (R-Tex.).

Paxson Chmn. Lowell Paxson said Commission's rules ultimately could affect commercial as well as noncommercial broadcasters, in radio as well as in TV. He said decision "opens the door" for FCC to decide whether religious broadcasting fills commercial broadcasters' educational and community service requirements. Paxson spokeswoman said company plans to file petition for reconsideration by Jan. 28 deadline, and hopes to have support of other broadcasters. Company also said it expects "certain publicly funded legal institutions" to file court challenges.

**Hispanic TV Network (HTVN)** said it closed on acquisition of 10 previously announced TV stations in southwest U.S. Terms weren't disclosed. HTVN, which already owns 60 stations, said it also has agreements to buy 6 more. Latest deal is 3rd in series of acquisitions since new management took over HTVN in Sept.

**MERGER REVIEWS ACCELERATED:** FCC wants to complete its review of even largest mergers within 180 days and assure merger review procedures are "uniform and transparent," Commission said in public notice. Although notice came out 2 days after AOL-Time Warner merger announcement, FCC Gen. Counsel Christopher Wright said there was no connection — FCC Chmn. Kennard had announced merger review in Oct., and improving procedures was subject of congressional hearings last fall.

Some expressed doubts about FCC's ability to meet 180-day deadline for complex mergers, but Wright said he was relatively confident: "If we can do a Sec. 271 in 90 days, I think we can do even the most complex merger in 180." He acknowledged he wasn't sure what changes FCC should make to facilitate merger reviews and that's why Commission staffers will meet with communications attorneys to discuss issue. Meeting is being organized by FCBA's Ad Hoc Committee on Telecom Competition Issues and ABA Antitrust Section, 12 p.m., Jan. 21, at offices of Howrey & Simon, 1299 Pa. Ave. NW.

FCC said merger streamlining effort is being headed by James Bird, ex-Shea & Gardner, who joined Commission as senior counsel. Wright and Bird plan team of 4 lawyers, one economist and support staff to work with bureaus on merger issues. FCC Web site will include postings for jobs.

Meanwhile, FTC officials weren't commenting on report that agency was considering toughening its merger review standards. *Wall St. Journal* said FTC was considering get-tough approach in response to complex deals raising antitrust issues that can't be resolved through simple divestitures.

**Zenith demonstrated** performance of 2nd- and 3rd-generation VSB-based DTV receivers, in comparison with current-generation COFDM receiver, at CES in Las Vegas. Zenith said demonstration showed that later VSB systems (including Motorola 3rd-generation prototype) performed 7 dB better than COFDM with complex ghosts and more than 20 dB better on impulse noise. Zenith officials repeatedly noted that there are "tradeoffs" between VSB and COFDM, including contending that COFDM signal is receivable 5 miles farther from transmitter at same power level, resulting in "a not insignificant" increase in audience reach.

**Despite rhetoric** that govt. regulation would be avoided by creation of Internet Corp. for Assigned Names and Numbers (ICANN), in entity's first year outcomes weren't "all that different from what could have been expected of direct government intervention," according to article by frequent ICANN critic Milton Mueller. Although Administration "disingenuously" painted ICANN as entity reflecting "consensus" in Internet community, he said, in fact it was stacked with bitter opponents of domain name monopoly Network Solutions Inc. (NSI) Since NSI still controls registry for top-level domains, Mueller said, agreement created not real competition but regulated monopoly.

**Comcast will buy** additional one million digital hardware products from Motorola, companies said, building on deal dating back to Dec. 1997 between Comcast and General Instrument (GI). Motorola closed on acquisition of GI earlier this month. Deal, for which terms weren't disclosed, includes DCT-2000 and DCT-5000+ set-tops and SURFboard SB3100 cable modems through 2001. Meanwhile, NCTA said more than 5,700 schools and public libraries now are receiving free high-speed cable modem Internet service, double amount last year.



**PEGASUS BUYS GOLDEN SKY:** Pegasus's \$1 billion acquisition of Golden Sky "may raise pressure on Hughes to resolve outstanding National Rural Telecom Co-op (NRTC) issues," Merrill Lynch Securities said in analysis. Hughes's rights to distribute U.S. Satellite Broadcast programming in NRTC territories and end of life programming renewal rights for NRTC on DirecTV's satellites remain unresolved. Pegasus and Golden Sky filed class action lawsuit Jan. 11 in U.S. Dist. Court, L.A., against Hughes and DirecTV claiming intentional interference with contractual relations and with prospective economic advantage, Golden Sky said.

DirecTV spokesman said: "We have done nothing to interfere or damage business to NRTC customers." It said NRTC filed 2 suits last year and new one "doesn't change the scope of already pending litigation." In first 1999 suit, Judge Lourdis Baird denied NRTC's request for "immediate injunction" against DirecTV because "NRTC's action would cause more harm to consumers than could be justified by the marginal claims the group made," DirecTV said. Second suit is pending.

Under terms of acquisition for stock and assumed liability, Pegasus will issue 6.5 million shares of common to Golden Sky shareholders, currently valued at \$632 million based on Jan. 10 closing price of \$97.25 per share. Golden Sky said its net debt and other liabilities total \$373 million and transaction has been approved by both company's boards. Agreement, which awaits stockholder and other approvals, is expected to close in 2nd quarter.

In separate announcements, Pegasus released its Dec. DBS subscriber statistics and details of exclusive license from Personalized Media Communications (PMC) for DBS programming distribution technology. Pegasus said it added 27,271 new subscribers in month, raising total to 702,018. Technology agreement with PMC is for hardware related to transmission and receipt of programming services via DBS in certain orbital locations, Pegasus said.

**FCC will permit additional comment on AT&T and MediaOne** position that combined company will comply with cable ownership rules, specifically its request for potential waiver. Commission last month held comments and reply comments cycle on issue, with AT&T and MediaOne saying in reply that company would be in compliance, but if FCC found it wasn't, AT&T should be given 18-month waiver. Because waiver request was raised in reply comments and not in earlier filing, Commission agreed with consumer groups including Consumers Union as well as SBC and U S West that oral ex parte comments weren't sufficient to respond. However, FCC said it wouldn't create new 30-day pleading cycle, as requested, but rather would permit extra reply comments on 18-month waiver issue due Jan. 31.

**FCC set Feb. 10 deadline** for comments on rulemaking (MM 00-10) on granting Class A status to low-power TV (LPTV) stations, replies Feb. 20. Rulemaking proposes conditions under which LPTV stations could be protected from interference by DTV and asks what rules FCC should set for giving DTV licenses to DTV stations. LPTV stations potentially are eligible for Class A status, which was required by legislation, if they broadcast at least 18 hours per day and have at least 3 hours of locally produced programming per week.

**Granite Bcstg.** said its revenue for 4th quarter was down 2.3% (\$1.1 million), mainly because of comparison with previous year that included \$7.5 million from political ads. Final 4th-quarter financials are to be released in Feb.

**FCC told U.S. Bankruptcy Court** in N.Y.C. it's canceling 63 PCS licenses awarded to NextWave Communications. It also issued public notice announcing that those licenses would be part of C- and F-block PCS auction scheduled for July 26. FCC Chmn. Kennard said: "This spectrum has laid fallow for too long. Now it is time to act swiftly to auction this spectrum and put it to productive use for U.S. consumers." At issue are licenses won by NextWave in FCC's 1996 C-block auction, which have been in limbo since company defaulted on its license payments and filed for bankruptcy in Dec. 1998.

**In ex parte filing** on FCC rules for 3650-3700 MHz govt. transfer band, C-Band Coalition chided Commission for lack of action on "immediate and long-term impact" of its plan for extended C-band on both "existing and potential users of that spectrum." Letter is latest step in series of letters and meetings explaining that current freeze on C-band applications "is substantially harming" ability of satellite operators to provide "critical communications services" to customers.

**Intellectual Property Enforcement Initiative (IPEI)** has "made substantial progress in every one of our goals" in its 6 months of existence, Deputy Attorney Gen. Eric Holder said. In speech to High-Tech Crime Summit in Washington, he said cooperative effort among law enforcement agencies has resulted in 5 convictions and charges against 11 others for intellectual property theft. Holder said FBI has 455 other cases under investigation, including 110 opened in 4 months following announcement of IPEI.

**E.W. Scripps** said it will make free time available on its 9 stations to political candidates in final stages of campaign. Each station will decide which candidates and races in their communities will be eligible for time, which is to include 5 daily min. during evening newscasts each of 30 days before local primary or national elections. Scripps said time could be used for variety of formats, including debates, extended interviews, issue statements. Station Internet sites also will devote space to campaigns, Scripps said.

**House Republicans'** high-tech agenda for year includes Internet privacy, avoiding new taxes, digital signatures and encryption, Rep. Cox (R-Cal.), chmn. of Republican Policy Committee, said. He said Congress intends to finish work quickly on digital signature bill because it "ought to have been finished with this by now." Privacy bill would include protections for public's video images commensurate with current wiretapping protections, Cox said.

**EchoStar** said it met FCC's deadline in rule requiring it to dedicate 4% of its channels to public interest programming by Jan. 7. Company was to have met programming deadline by Dec. 15, but FCC said it wouldn't levy penalties if it complied by Jan. 7. EchoStar said Jan. 10 it now offers "more than a dozen" channels of public interest programming, including C-SPAN, Free Speech TV, LinkMedia, NASA Channel, PBS You.

**Scripps Networks** will offer new do-it-yourself (DIY) network in conjunction with Home & Garden Television on EchoStar's DISH Network. DIY is a multiplatform that merges TV with integrated Web site — DIYNET.com. EchoStar also said it will start 2 new premium movie channels — Showtime Beyond and Showtime 3 — as part of Showtime Unlimited movie package for \$10.99 per month for customers with DISH 500 satellite service. It said it also will open Showtime Network's The Movie Channel 2 this spring.



## Personals

**Eric Ober**, former CBS News pres., resigns as pres.-gen. mgr., Food Network; **Judy Girard**, senior vp-programming of parent E.W. Scripps, succeeds him... **Marty Pompadur**, exec. vp, News Corp., appointed chmn., News Corp. Europe... **Veronica Pollard**, vp-external affairs, Toyota Motor Corporate Services of N. America and ex-ABC, elected to board, Granite Bcstg. Corp... **Joe Roth** resigns as chmn. of Walt Disney Studios to form independent film company; **Peter Schneider**, pres., promoted to chmn. of studios... **Christina Brown** advanced to vp-finance, Sony Pictures Entertainment... **Joe Castro**, ex-Paxson Communications, named dir.-network operations, Cadena Independiente Nacional (CIN)/Hispanic TV Network... **Phyllis Benson**, ex-National Geographic TV, named CFO, WETA Washington... **Kim Schlotman**, ex-Worldvision, appointed vp-programming and development, Paramount TV... **Nancy Knutsen** advanced to senior vp-film and TV, ASCAP... **Holly Beverly**, ex-DreamWorks, joins 20th Century Fox as vp-promotions... Promotions at Cumulus Bcstg.: **Mark Sullivan** to regional sales dir.-central states region, **Scott Farkas** to regional sales dir.-mid-south region... **Loren Matthews** ex-ESPN, named senior vp-programming, ABC Sports.

**Pancho Mansfield** promoted to senior vp-development, Showtime Networks... Appointed at Cablevision System: **Richie Fisher**, ex-McCann Relationship Mktg., as vp-creative services; **Jim Laurie**, ex-Wunderman Cato Johnson, as dir.-direct mktg... Promoted at Cox Communications: **Teresa Kennedy**, **Leslie Spasser** and **Jennifer Welch** to senior counsel, **Sandra Sigmund** to dir.-rate regulation, **Roberta Christopher** to dir.-customer management, **Mark Major** and **Susan Coker** to asst. treas; **Fred Nichols**, exec. vp-operations, to retire Jan. 31... **Rena Golden** advanced to senior vp., CNN International... Changes at Weather Channel: **Lisa Shankle**, vp-local and digital TV services, moves to vp-business development; **Karen Lennon**, vp-business development for next-generation platforms, becomes vp-new media; **Joe Conboy**, vp-program operations, named vp-programming/local, digital and new media; **Reed Barker**, dir.-local products and projects, becomes dir.-local and digital products development... **Kris Carpenter** advanced to vp-gen. mgr.-commerce, Excite@Home; **Byron Smith**, ex-AT&T, named senior vp-mktg.

Promoted at Fox Family Channels: **Tom Cosgrove** to senior vp-planning, scheduling and program operations/Fox Family Channels and Fox Kids Networks; **Thomas Hallen** to vp, prime-time acquisitions and scheduling; **Jill Goldfarb** to vp-planning and scheduling... Changes at Home Shopping Network: **Jed Trosper**, COO, named pres.; **Bob Rosenblatt** promoted to COO; **Michael McMullen** becomes pres.-international business development; **Judy Schmeling** promoted to senior vp-finance... **Eric Glick**, ex-Cable World, named dir., Public Affairs Dept., NCTA... Named to CTAM board: **Douglas Holloway**, USA Networks, chmn.; **Kevin Leddy**, Time Warner Cable, vice chmn.; **Len Fogge**, Showtime Networks, secy.; **Jayson Juraska**, Cox Communications, treas... Promoted at Comcast Corp.: **Marlene Dooner** to vp-investor relations, **Sharon Ingram** to vp-corporate human resources, **William Montemarano** to vp-internal audit.

Advanced at AMFM: **Scott Fransen** to senior vp-sales, **Dan Seeman** to senior vp-mktg and operations... **Tom O'Brien**, ex-WXTU(FM) Philadelphia, named national sales dir., Cumulus Bcstg... Added to Arbitron Radio Advisory Council: **Jack Taddeo**, regional vp-programming, Clear Channel, and **Wayne Leland**, COO, Spring Bcstg... **Paul Gregory** promoted to gen. mgr., Hampton Roads Internet Studio, Cox Interactive Media.

**Julian Eccles**, ex-Open TV, named dir.-corporate communications, British Sky Bcstg... **James Boyle**,



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## TELEVISION DIGEST WITH CONSUMER ELECTRONICS

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# Consumer Electronics

A Section of Television Digest with Consumer Electronics

## STATE OF THE INDUSTRY

Sales to dealers, from CEA, for week ending Dec.31 and full 1999:

	DEC. 25- DEC. 31	1998 WEEK	% CHANGE	DEC. 18- DEC. 24	52 WEEKS 1999	52 WEEKS 1998	% CHANGE
TOTAL COLOR TV.	503,711	496,087	+ 1.5	461,437	28,868,500*	26,422,018	+ 9.3
DIRECT-VIEW**	472,124	464,726	+ 1.6	431,250	27,636,810*	25,351,807	+ 9.0
TV ONLY#....	389,857	395,756	- 1.5	358,917	23,218,339*	22,204,322	+ 4.6
TV/VCR COMBO.	82,267	68,970	+ 19.3	72,333	4,418,471*	3,147,485	+ 40.4
PROJECTION...	31,587	31,361	+ 0.7	30,187*	1,231,690*	1,070,211	+ 15.1
TOTAL VCR**....	463,929	535,198	- 13.3	498,956	27,227,429*	21,260,157	+ 28.1
HOME DECKS...	381,662	466,228	- 18.1	336,175	22,808,958*	18,112,672	+ 25.9
CAMCORDERS (a) ..	76,218	49,769	+ 53.1	55,256	4,790,302*	3,829,172	+ 25.1
DVD PLAYERS....	164,242*	35,455	+363.2	110,005*	4,071,938*	1,079,261	+277.3

Direct-view TV 5-week moving average#: 1999-418,595; 1998-384,580 (up 8.8%).

Projection TV 5-week moving average: 1999-32,472; 1998-24,736 (up 31.3%).

VCR deck 5-week moving average: 1999-387,923\*; 1998-315,052 (up 23.1%).

TV/VCR 5-week moving average: 1999-73,234; 1998-56,043 (up 30.7%).

Camcorder 5-week moving average: 1999-77,609\*; 1998-45,156 (up 71.9%).

DVD player 5-week moving average: 1999-129,258\*; 1998-44,701 (up 189.2%).

\* Record for period. \*\* Includes TV/VCR combinations. # Excludes TV/VCR combinations. (a) Includes analog camcorders only.

**SONY GETS SUPPORT FOR DTV COPY PROTECTION:** First movie studios have lauded Sony's decision to apply copy-protected IEEE-1394 connection to its DTV sets and digital video products as means to free up premium Hollywood programming for infant format (TVD Jan 10 p11).

Sony Pictures and Warner Bros. issued joint statement responding positively to Sony's implementation of copy protection, but stopped short of making outright commitment to provide content for DTV broadcasts. Statement came Jan. 7 at CES, following Sony's declaration on eve of show to unilaterally implement Digital Transmission Content Protection (DTCP) system developed for "i.Link" IEEE-1394 fiber connection by 5-Company (5C) group of Hitachi, Intel, Panasonic, Sony, Toshiba. DTCP-enabled i.Link would prevent programming from being hijacked in digital form during transmission among CE devices connected to DTV, such as digital cable and satellite set-tops, DVD players, future digital home video recorders.

Sony's DTCP gambit results from growing frustration among DTV makers and broadcasters over lack of compelling DTV programming from Hollywood studios. Content owners' preoccupation with piracy and unauthorized copying so far has prevented most major studios from giving approval to DTCP (TVD Oct 4 p15). Endorsement by Sony Pictures and Warner signals first break in ranks among 7 top studios. Holdouts are Disney, Fox, MGM-UA, Paramount, Universal.

"We are pleased to see the deployment of this secure renewable content protection technology," said Chris Cookson, Warner Bros. exec. vp and chief technology officer who co-chaired Copy Protection Technical Working Group that oversaw DTCP's development. "We think it is important for consumers to understand systems that lack such a capability may not be able to receive and display our most valuable content," he said — comment that puts in question ability of current installed base of DTVs to be retrofitted for DTCP.

Timing of Sony-Warner announcement was curious, coming just after CES speech in which FCC Chmn. Kennard gave cable, CE and programming industries April deadline to settle outstanding DTV compatibility, copy protection and



technical issues (see separate report in this issue). In issuing ultimatum, he said he had instructed FCC staff to draft compatibility rules that Commission will impose if industries don't cooperate immediately. Originally, statement of support from at least Sony Pictures had been expected to accompany CE maker's announcement on DTCP implementation.

In roundabout way, FCC threat puts pressure on Hollywood to consider DTV copy protection anew. Most major studios are joined at hip to broadcasters or cable operators — Disney with ABC, Paramount with CBS, Fox and Warner with their respective networks. Kennard fiat should add urgency to upcoming meeting of studios and DTCP licensing group. But on DTV hardware side, debate over copy protection has additional complication. Thomson and Zenith oppose DTCP and are proposing Extended Conditional Access (XCA) system they developed that uses renewable smart card instead of security code embedded in hardware. At recent CES, Thomson Senior Exec. Vp-COO James Meyer repeated assertions that XCA card is superior alternative because it permits simple renewal or replacement in event copy protection system is hacked. Like DTCP, fiber IEEE-1394 link can be used with XCA.

Meanwhile, DTV sales are picking up nationwide since broadcasts expanded to additional markets and stations increased DTV airtime, said NPD Intellect market research group that tracks consumer purchasing at retail. Group said strong overall year for TV was capped by 15% increase in 4th quarter alone over 1998, with rear-projection TV — where DTV has most impact — scoring double digit gains each month in 1999.

DTV represented only 2.6% of consumer TV purchases in Aug., before expanded broadcast rollout, NPD Intellect analyst Tom Edwards told us, with ratio increasing to 3.5% in Sept., 5% in Oct. and 6.2% in Nov. Proportion of dollars for rear-projection sets attributable to DTV is higher, Edwards said. Percentage spent on DTV was 7.9% in Aug., 10.6% in Sept., 13.8% in Oct., 20.2% in Nov. Most sets sold were HD-ready models, Edwards told us. He estimated that industry average for DTV sets equipped with decoders was 7%-8%, with percentage varying by brand.

**NEW BUYING GROUP?** At least 3 of 4 retailers terminated as members of NATM Buying Group are weighing effort to attract other dealers to form new organization, industry sources said.

Queen City, Vann's and Video Only appear to favor new group, while Handy TV is undecided, sources said. Retailers also contacted former NATM Exec. Dir. Saul Gold, who left group Dec. 31, and said he would "like to give it one more shot if they can get enough [other] retailers to do it." Four retailers' NATM membership ends March 31.

"Groups, if they want to be effective, have to learn how to behave like a national retailer and offer that same experience to vendors," said Video Only Pres. Peter Edwards, whose 14-store Seattle-based chain joined NATM in April 1998. "If we can find 20 like-minded retailers, I think we can put together a group."

New group probably would be drawn from retailers who are members of other groups including Nationwide and Marta, Edwards said. All 4 of former NATM dealers were members of Nationwide.

NATM declined to disclose reasons for departures, although sources said buying group is seeking to focus itself on select group of 10-13 dealers. They said it also based decision on departing retailers' failure to provide buying projections for vendors. However, Edwards said "that if there really was such a dissatisfaction, I wasn't made aware of it."

Vendors were mixed on possibility of new group, most saying they would need firm buying commitments, not 50-60% participation found in some groups. "There is room for anything if you put it together, but I don't see it," JVC Exec. Vp Harry Elias said. "In most groups, some members go their own direction, and I understand that, but the group needs to set some kind of vision and direction to show total support for the vendor. The groups need to support the brand."

Following decision, NATM moved to freeze membership, Exec. Dir. William Trawick said. It currently has 13 members, but number could shrink depending on fate of Roberds, which earlier this month said it was considering seeking bankruptcy protection or possibly closing stores and/or selling chain. "We'll always be open to new membership, but there are very few dealers out there that NATM could be looking to put on as members," said Trawick, whose former employer, P.C. Richards, is said to have been approached about rejoining group it left in 1995.

New members would be added to NATM provided their sales volumes is "in line" with others in group, Trawick said. Remaining NATM members have sales volumes of \$100 million or more. "We're not open just to put on membership any longer, but if the right members come along we will be," Trawick said.



Departure of 4 retailers represents largest single exodus since Highland Superstores, Rex, Silo and Circuit City predecessor Wards left in 1985 to form short-lived Group 4 buying organization. NATM has been roiled in recent years by closing of several of its members including charter members Lusk's, Steinberg's and Sun TV and sale of Lechmere to Montgomery Ward.

**MARKETING BLUNDERS ABOUNDED IN CE HISTORY:** Prominent baby-food company once took bath on line of ready-to-eat adult dinners packaged in heat-and-serve jars. Similarly, Chevrolet bombed in Latin America with elsewhere-popular Nova — “no-go” in Spanish. Following retrospective of gaffes and debacles in 20th century history of consumer electronics is more eclectic than comprehensive, but might enable industry to recognize pitfalls in new millennium.

Television Digest archive of 55 years indeed catalogs many more formats and products come and gone (notice missing “Type III” tape switch between II and IV on cassette decks!). Some, such as Coleco's A.D.A.M. multimedia computer and Fisher's modular Kangaroo microcassette boombox, became instant closeouts at retail. Others have had longer legs (e.g., Betamax and Laserdisc) or, like single-use camcorder, have yet to progress beyond patent stage. More recently, debacles such as Divx and Digital Compact Cassette (DCC) have proved that not all is infallible in digital home entertainment era.

As food for thought, we offer following list of CE “Edsels” in recognition that not all paths may lead to better mousetrap:

**Jukebox Business Model:** Americans will feed money to jukebox in gin-mill or diner, but restricted pay-as-you-play systems never have gone over in home. Most recent instance is Divx conditional-access DVD player, scuttled last June by developer Circuit City after 12-month run. At root of Divx's failure was Circuit City theory that DVD format would need something more than better pictures and sound to propel it past status of likable videophile product and into mass acceptance. Chain grudgingly conceded later that it had underestimated DVD's ubiquitous attraction, but not until it had guaranteed minimum payments exceeding \$112 million to participating studios for content that qualitatively and quantitatively paled in comparison with that of regular DVD. Divx wasn't first such system to be torpedoed by consumer and retailer resistance: Variety of restricted-play prerecorded videocassettes (including Superscope's Renta-Beta) have bombed since 1980s.

**House Divided:** Lack of industry standards or product compatibility has provided surest prescription for greatest number of CE marketing debacles. They include “quadraphonic” stereo in 1970s (industry-record 4 incompatible formats marketed simultaneously); various CD-based interactive “infotainment” or “edutainment” platforms (Commodore CDTV, Philips CDi, Tandy-Zenith Video Information System); AM Stereo. Format incompatibility can be tolerated in some CE product categories (e.g., camcorders, videogames), but seldom where content is dependent on other industries, such as broadcasters or record labels in cases of “quad” and AM Stereo.

**Tale of the Tapes:** Answers to questions nobody asked abound in home recording products that CE and magnetic tape industries have tried to float. To wit: Elcaset (cross between open reel and Philips Compact Cassette formats that had neither fidelity of former nor convenience of latter); HiFi Microcassette (miniaturization didn't justify downsizing of sound quality); Philips Digital Compact Cassette (DCC retained analog playback compatibility in digital era — and all of cassette format's linear play deficiencies in age of random access optical media). Also, concepts of cardboard and styrofoam videocassette haven't been recycled since they hit techno-scrapheap.

**Ideas Ahead of Their Time:** Some that didn't succeed at first until tried again include: TV picture-in-picture... in 1954, DuMont tried to do it with mirrors in set with 2 tuners and opposite-facing tubes. Surround sound... although “quad” was musical fiasco it finally found niche as video home theater with single Dolby Surround standard.

**Ideas Whose Future Was Behind Them:** Technologies often reach their zenith as formats approach nadir, and analog phonograph category is case in point. Just as digital CDs took off, Finial Technology introduced turntable that used laser to read grooves of LP record without distortion from mechanical stylus. Also day-late-and-buck-short were various compression formats used to expand dynamic range of LP on playback, such as dbx and CBS' CX (Compatible Expansion). Similarly, AM Stereo arose as sun was setting on radio band's day as broadcast music medium.

**Rube Goldberg Dept.:** Handheld remote control was instant hit in 1956, but other efforts at CE automation became “inconvenience features” for couch potatoes. In late 1970s, BSR fielded record changer that could be programmed to play tracks from stacked LPs in any order, lowering and raising discs to and from turntable to spin next track selection. Product was called AccuTrac — something it seldom did. Earlier in analog era, Fisher offered phonograph designed to flip other side of disc onto turntable automatically. More often, it flipped platter to other side of room, usually giving fi-



nal shellacking to fragile 78s. In home video, Sony in early 1980s attempted to leapfrog longer record time of VHS format with 5-cassette Beta Stacker for unattended recording. Concept behind Pez-like tape dispenser was 5-Betas, No-Waiting. But reality was jams-first-time-every-time.

**Through Circumstances Unforeseen:** Here's "but-can-it-core-a-apple?" category of products that did things other than their developers intended. In 1978, Sony gave glimpse of music playback's future with all-digital amplifier. Then as today, high-frequency pulse train of digital amp must be shielded or else it will radiate from speaker leads and emit radio interference. Sony pulled digital amp from showrooms when it discovered amp was broadcasting 500 kHz pulse — same as international distress-frequency. Tale with more serendipitous ending, and moral perhaps, concerns Philips Compact Cassette. When introduced as Norelco recorder in 1964, Philips point-man Wybo Semmelink decreed that cassette was for dictation purposes only and that Philips would oppose any use for music recording. But consumers and rest of CE industry had vision to see better mousetrap, and steamrolled over Semmelink to create hi-fi recording medium that has since enriched its Dutch masters — and bedeviled recorded music business.

**COPY-PROOF CD SHOWN:** Record industry executives are receiving presentations on system developed by Macrovision and TTR Technologies that would prevent copying of music CDs with Audio CD+RW deck or PC-based CD recorders (TVD Jan 3 p13, July 12 p9).

As we have reported, new anticopy system merges TTR's MusicGuard technology for embedded digital signature with AudioLok process developed by Macrovision U.K.-subsidiary C-Dilla that prevents music CD from playing in CD-ROM or CD recorder drives.

When we tested AudioLok prototype disc last summer, we were told system hadn't been shown to record labels yet, although technical representatives of London-based International Federation of Phonographic Industry had been briefed. Now, U.K. record industry trade publication *Music Week* reports that label executives have been brought into loop.

Anonymous "senior new media expert" from unnamed label told U.K. magazine that anticopy development was "significant" for its ability to stop "casual CD recording," but he stopped short of endorsing Macrovision/TTR system. "I don't think the music industry has come to a consensus yet and is still working on a combination of initiatives, such as copyright law and better education, but of all the systems currently being brought forward, this is a good one," source said.

Potential impact of Macrovision/TTR system goes beyond making audio- and PC-CD recorders unable to copy CDs. It also could prevent CD-ROM drive in PCs from playing music discs at all — issue that might roil home PC vendors. In version we tested last year, AudioLok-encoded CD runs normally in Red Book audio CD deck, but not in Yellow Book CD-ROM drive. AudioLok tricks CD-ROM drive into regarding disc as faulty. That's because CD-ROM needs more robust error correction than music CD. AudioLok adds false error correction code to music disc, so CD-ROM drive rejects disc as unreadable. Meanwhile, audio CD player ignores CD-ROM error code. In audio CD recorders, which can't copy CD-ROMs, AudioLok disc acts as false CD-ROM that decoys recording deck.

Although its not clear whether new Macrovision/TTR system will incorporate feature, C-Dilla founder Peter Newman told us that AudioLok disc also could be coded to prevent standalone CD player from passing digital signal through its optical or coaxial digital outputs. Consumers thus would get only analog signal from CD player to feed to other components of music system, in-

cluding outboard digital-to-analog converters found in dedicated decoders and high-end preamps, integrated amps, receivers.

\* \* \* \* \*

Macrovision said it completed previously announced \$4 million investment in TTR Technologies, representing 11.4% equity stake.

**Magnolia Hi-Fi** will make first push into Cal. market with 2-4 stores opening in San Francisco Bay area in 2nd half, Pres. James Tween said. Two locations — Santa Clara and San Rafael — have been leased, but others haven't been finalized, he said. In expanding 10-store chain, Magnolia will test format that shifts 4,500 sq. ft. normally dedicated to car stereo to expanded mix of home theater products and displays. Among latter will be home theater rooms including one with seats that will be used to demonstrate \$50,000 systems, Tween said. New format also highlights chain's custom installation business and allows it to avoid fiercely competitive car stereo market in Bay Area. Magnolia originally tested concept with new outlets that opened in Seattle in 1999. New stores also represent Kent, Wash.-based Magnolia's farthest expansion south, extending chain from Portland, Ore. market, where retailer will add 3rd store later this year, Tween said. San Francisco market could accommodate up to 9 outlets, he said. At same time, Tween tamped down rumors that chain might be target for acquisition-minded Tweeter Home Entertainment, saying it was family-owned and not for sale. Tweeter last week filed for 2.5 million share offering, with proceeds to be used for general corporate purposes and acquisitions, retailer said. Chain, which operates 76 stores and has purchased Dow Stereo/Video and Home Entertainment (HE) in last year, said first-quarter sales rose 43.8% to \$124.8 million on 11.9% gain in same-store sales. At HE, same-store sales rose 30.1%, at Dow fell 9.1%. As Magnolia readies expansion, specialist rival Video Only (VO) will add 15th store in opening Salem, Ore., outlet in March, Pres. Peter Edwards said. VO also has 4 stores in Bay Area and sees room for up to 10, Edwards said.

Las Vegas CES drew total attendance of 126,818, increase of 30% over 97,525 at show year ago, CEA promoters said. CEA said audited CES attendance figures will be released in spring.

#### THIS WEEK'S YEN RATE

Yen values have been converted to dollars in this week's issue at ¥106 = \$1, except where noted.



**'FREE' DVD PLAYERS PLANNED:** Despite mixed success of free PC model, Internet Service Providers (ISPs) are considering extending concept to Internet-enabled DVD players (iDVD).

Under plan, DVD players equipped with 56 kbps modem and browser will be offered free or at discounts to consumers who agree to pay monthly fee for ISP service for set time period. Other details, including price, weren't available. Among ISPs are Edge, Favorite Online and Global Data Tel, parent of eHOLA.com — Spanish, Portuguese and English language ISP content provider in Latin America. Service will be available first in U.S. and China.

Major ISPs such as Mindspring also are considering concept as way of gaining foothold in Internet-enabled livingroom, sources said. "The Internet Service Providers are looking for a new base," said Pier Del Frate, mktg. vp, chip-maker National Semiconductor's MediaMatics subsidiary, which is supplying chips for iDVD players. "For them [ISPs] it will be people who don't already have a service and want to access the Internet."

National Semiconductor is partnering with browser developer PlanetWeb, which signed agreement to combine its software with C-Cube Microsystems video processing chip for rollout of players. ISP will sell both private label and branded iDVD players in promotion, although it couldn't be determined at our deadline whether any CE manufacturers had signed on. Far East manufacturers Raite and Lucas will supply DVD hardware containing chips from C-Cube Microsystems and Luxsonor in addition to National Semiconductor. Content providers for iDVD service will include CD Now, CMPnet, Concentric, DVD Express, Netflix, Time Warner, TV Guide.

Hardware production is to begin this month with sample quantities in "thousands" and service first available to consumers in early Feb., sources said. Basic iDVD players will feature 56 kbps modem, wireless keyboard, variable control pointing device. Sources said additional features would add \$42 to basic manufacturing costs, meaning players still could be made for half cost of even cheapest PC. Del Frate said National Semiconductor Pantera chip includes CPU, MPEG 2 decoder and functions that enable player to display Internet content in NTSC, PAL and other standards.

"The early [ISP participants] are going to be branding them with their own names," Del Frate said. "One of the requirements is that when you buy the box it has to have the Internet Service Provider built in. Most people that will buy these type of boxes won't have the knowledge of how to select and set up an ISP."

Executive of major CE company expressed some skepticism at prospects for free DVD players, saying that retailers, already battered by low-priced models in holiday season, were unlikely to embrace concept. PlanetWeb Mktg. Vp Gordon Short countered that there would be opportunities for retailers, especially those selling software.

Target market for iDVD will be those with PCs that don't have online access, Short said. ISPs view concept as much easier to implement than free PC approach that required extensive technical support, he said. "Typically, the person that's interested in a free PC doesn't know a thing about installing and maintaining a PC... so the ISP ends up doing a really heavy load of hand-holding," Short said.

Short said content either will be pushed to box or "triggered pull," meaning that DVD disc inserted in player will activate modem and browser, which in turn signal content provider to offer programming relevant to disc. For example, insertion of "You've Got Mail" DVD triggers background information on movies, lists of other Tom Hanks films, purchase option. "The idea is that the best time to try to reach a consumer with offers to buy or rent movies is when he's just started or just finished watching a DVD in his living room," Short said.

Unclear was how quickly content is pushed to player and where data will be stored. Both PlanetWeb and MediaMatics officials were vague on storage capacity of early DVD players and it was unclear whether devices would have hard drive. Players also will be compatible with PC-Friendly format hybrid DVD/DVD-ROM movie discs being marketed by film studios as adjunct to films and TV programming.

**Samsung booth at CES** spotlighted capabilities of new DVD-N2000 shipping in March at \$499 that, as we reported last month (TVD Dec 13 p21), incorporates Nuon media processing technology from VM Labs. Samsung is calling DVD player "Extiva" (hybrid of "excellent" and "festival") and is billing it as industry's first "all-in-one" entertainment station because of its ability not only to play DVDs and CDs, but also to offer interactive gaming ability. Senior Digital Products Mgr. Mark Knox said Nuon technology has enabled machine to also show graphic equalizer spectrum on TV screen while CD is playing instead of blank screen provided by other DVD players. User also can selectively magnify any part of screen with deck's "infinite motion zoom." Company said its goal is to sell 50,000 units this year. Revamped Samsung DVD line also includes entry-level DVD-511 at \$199, company's first DVD changer — DVD-C700 — at \$399, and DVD-711 and DVD-812, CD-RW compatible decks that can play back CD-R discs containing MP3 recordings.

**New feature of Panasonic TV/VCR combo line for 2000** is Wireless Audio, included in 4 of company's 13 new models. Panasonic Consumer Video National Prod. Mgr. Tom Hantson told us at CES that models with Wireless Audio feature have built-in FM transmitters that can send sound from combos to tuner of separate stereo or other sound system. Consumer then tunes to unused FM station. He said main benefit of feature comes in bedroom scenario where user can gain improved sound performance and also use headphones if someone else in room is sleeping. Wireless Audio is featured on PV-C2060 mono combo that has 20" TV screen and 4-head VCR deck at \$349.95, PV-C2080 4-head hi-fi combo with 20" screen at \$399.95, PV-C2580 4-head hi-fi combo with 25" screen at \$479.95, top-of-line PV-C2780 combo with 27" screen at \$599.95. Company plans to ship entire line of combos by end of March.

**More than 1.5 million** Dreamcast systems sold through in N. America as of Dec. 31, Sega said last week — milestone that came 3 months ahead of company's predictions and 30 days after Sega said sales had reached one million mark. Company said that during holiday season, software-to-hardware sales ratio was 3:1, with most popular titles being *Sega Sports NBA 2K*, *Sega Sports NFL 2K*, *Sonic Adventure*. Sega announced that European sales reached 650,000 units as of Jan. 11. Dreamcast system launched in Europe Oct. 14. Sega also said it signed licensing agreement with Midway that gives it rights to distribute and market Midway's *Ready 2 Rumble Boxing* game for Dreamcast in Japan. Title currently is one of best-selling Dreamcast games in U.S. and Europe.



**RETAILERS SEE 'EXPLOSIVE' INTERNET:** Declaring that Internet commerce "will be explosive for all of us if we use it the right way," RadioShack Chmn.-CEO Leonard Roberts used "re-tailing power" panel at Las Vegas CES to predict that his company could be drawing 50% of its revenues from online sales within 5 years.

Compared with fellow panelists from rivals Best Buy and Circuit City, Roberts said that RadioShack is "very bullish" on potential of e-commerce to enhance store brand and reach and that he would be "surprised" if there weren't 50-50 split 5 years from now between RadioShack online and brick-and-mortar retail. Roberts said: "It's imperative as a brick-and-mortar retailer that we provide service to the public because if all we stand for is product at a cheap price, we're going to be seriously challenged" by online-only e-tailers. But he said Internet also could play "positive" role in helping RadioShack "reinforce our brand."

Other panelists agreed that online sales could claim significant shares of their companies' revenues, but not to same extent as Roberts predicted for RadioShack. For example, Circuit City Pres.-COO Alan McCollough said his company was "agnostic" on whether it draws sales from e-commerce or brick and mortar because of Circuit City.com provision for in-store merchandise pickup. He said he doubted proportion that Circuit City would draw from online sales would be as high as 20% because "there's no substitute" for in-store shopping experience. McCollough said that "at the end of the day when the story is written, it will be that the folks who chose to have Internet businesses in combination with traditional brick-and-mortar businesses are absolutely going to be the winners." He said there was "a lot of hoopla" about how e-tailing-only retailers were going to assume control of CE business. "I would submit the question should be how are they going to compete with the tightly integrated brick-and-mortar retailer?"

Best Buy Pres.-COO Brad Anderson said software is one category that could draw high proportion of sales from e-commerce over brick and mortar. But overall, he predicted that online sales could account for 15% of Best Buy revenues within 5 years.

Responding to question on Internet taxation, McCollough said he was "mystified by the motives" of those who advocate Internet as "effectively a tax-free zone." He said that in brick-and-mortar world, tax abatements aren't unusual for luring new businesses into "economically disadvantaged" areas. McCollough said: "It would be a little hard to argue that those folks who are already shopping on the Internet are among those who are economically disadvantaged." He said "real question" on Internet taxation is whether govt. has role in "intervening economically" in private business.

Roberts described Internet taxation as "politically charged" public policy issue. He agreed with McCollough that Internet usage was "skewed" toward "upper middle class, so you have a situation where in any given state you have the low rent of society subsidizing the rich." Anderson agreed that it didn't seem "reasonable or fair" to give Internet tax abatement. Anderson said he was not aware of "rational argument for not establishing a fair playing field."

In DTV, McCollough said set sales and consumer demand were very strong in 4th quarter, but "I don't think we actually

know how high is up" because of tight supplies that are typical of new technology introductions. Anderson said inventories were tight because "no one could be prepared" for rapid ramp-up rate in DTV sets. He said there's axiom in CE industry that "product always arrives later than people expect, and when it hits, it hits much stronger, and I think we're at the beginning of that cycle in digital television really taking off as a consumer product."

Anderson said one downside of digital revolution is extent to which analog products are being "cannibalized." He said: "A VCR is not a very profitable transaction for us today. While DVD is very exciting, there are some negatives mixed in with some of the strengths of some of these new products." Roberts said RadioShack is "foaming at the mouth" awaiting introduction later this year of RCA store-within-store concept because of "incremental" impact it's expected to have on core AV sales. McCollough said despite some cannibalization in categories such as VCR, move to digital would be "largely expansive." For example, he said, products such as recordable audio CD or PalmPilot didn't exist several years ago, and now account for incremental sales increases.

**Sharp Electronics** will ship Replay Networks (RN) personal video recorder (PVR) in 2nd half, price and specs not set. Sharp will source assembly of PVR, with agreement expected within 2 months, Digital Products Group Assoc. Vp Robert Scaglione said. It also hasn't set capacity for hard drive, although he conceded market is moving to increased storage. Sony has said it will market TiVo PVR with 30 GB drive at \$399. "Obviously the consumer is going to look at the hours per dollar and it's becoming a race to increase horsepower," Scaglione said. In reaching agreement with RN, Sharp joins Matsushita, which postponed planned to delivery of PVR to April from 4th quarter as it moved to increase hard drive storage. Separately, Blockbuster spokeswoman said RN wasn't authorized to display chain's logo at its booth at CES earlier this month. She declined comment on whether agreement with RN was imminent. However, Blockbuster is talking with "a lot" of other companies about various options and is "looking at all different ways" to deliver movies into homes, spokeswoman said. Earlier this month, Blockbuster signed nonexclusive pact with TiVo to form video-on-demand alliance that would work to deliver movies to set-top box (TVD Jan 10 p24).

**Daewoo Group's** foreign creditors will lower recovery ratio on their loans to 45% as they seek to break stalemate with S. Korean govt. over conglomerate's overseas debt. New offer, contained in letter sent to Korean govt., represents sharp decrease from creditors' earlier debt buyback offer of 59¢ on dollar for Daewoo's \$6.7 billion foreign debt. Proposal came after Daewoo officials met last week with creditors of Daewoo Motor, Daewoo Electronics (DE) and Daewoo Heavy Industries. Govt. financial adviser Lazard Freres had relayed offer of 36.5¢ on dollar. Daewoo, which has \$78 billion in total debt, has sought to sell off units including DE, which has seen both proposed \$3.2 billion offer from Walid Alomar & Assoc. and swap with Samsung's automotive unit collapse.

**Olum's and Charlotte Furniture** have left Marta Buying Group for Nationwide organization. Olum's operates single store and outlet near Binghamton, N.Y., while Charlotte is in Rochester, N.Y. "There is no impact on us in terms of how it shows up in our overall sales, but the impact is more political," said Warren Mann, exec. dir. at Marta, which has 120 members.



**TIME WARNER-AOL DBS IMPACT:** AOL's investment in DirecTV and its planned AOLTV satellite service isn't likely to be affected by Internet company's proposed merger with cable giant Time Warner (TW), industry sources said.

While combined company would give AOL Time Warner foot in rival satellite and cable industries, TW's programming ties to DirecTV are likely to forestall any changes, sources said. AOL purchased \$1.5 billion (slightly less than 5% stake) in DirecTV parent Hughes Electronics last year (TVD June 28 p6) and is expected to start satellite-based service in 2nd quarter. TW's Warner Bros. film studio, HBO and Turner Bcstg. are major program suppliers for DirecTV. While proposed AOLTV service is expected to offer AOL staples such as e-mail and Instant Messaging, merger with Time Warner will open it to wide range of programming.

"Time Warner Cable probably wished there was no DBS, but DBS is very important to HBO and other Time Warner program providers so we have been able to find a way to work with all cable and DBS suppliers," senior TW official said.

Indeed, while TW Cable has 13 million subscribers, DirecTV has more than 8 million and sources close to DBS service said they didn't expect relationship with AOL to change. AOL said it made investment in Hughes to ensure access to broadband network that includes both DirecTV and planned Spaceway Internet-based satellite service that's expected to begin in 2002. Merger also will give AOL access to Roadrunner cable modem business.

"All Time-Warner is interested in is attracting more eyeballs and whether that's through cable or satellite I don't think they really care," source close to DirecTV said. TW has had ties to satellite industry in past, including investment in Primestar, whose assets were acquired by DirecTV last year (TVD Jan 25 p11). It also was said to be among potential buyers of U.S. Satellite Bcstg. (USSB), which DirecTV also acquired in 1999 (TVD May 24 p14).

"I think the combined company benefits more by AOL doing well and garnering those extra customers more than Time Warner loses by having to compete with satellite," PaineWebber analyst Thomas Eagan said.

**Sharp has trimmed TV/VCR line to single 13" model in major departure for company that had led charge to 31-35" 4-head hi-fi models (TVD June 10/96 p16).** "At the time, we did lead the curve to larger sizes, but we never did achieve a high sales rate," Sharp Digital Products Group Assoc. Vp Robert Scaglione said in noting that about half of combo sales come from 13" models. He said that "to be a player" in TV/VCRs, Sharp may have to return to larger sizes, but he declined comment on whether TV/DVD combo was being considered. Matsushita has introduced 27" TV/DVD unit and other CE companies are said to be considering entering category.

**Videogame software publisher Konami said it will boost its online videogame content business for cellular phone users in Japan.** It has started experimental service for NTT subscribers and will expand to other phone services in spring. Konami said it will release 5 titles and recruit 3 million users in fiscal 2000. Monthly service charge will be \$1-\$3. It said it also plans to develop peripheral devices for use with cellular phones and mobile equipment, including compact game controllers.

**800.com started extensive ad campaign emphasizing home theater products and e-commerce Web site's "unsurpassed customer service,"** Vp-Chief Mktg. Officer Tim Zuckert told us at CES. Print campaign kicked off week of show with full-page ad in *USA Today* and national TV campaign began Jan. 2, he said. Campaign also will include individual market components in 11 key areas. Company plans to expand its categories, but Zuckert said it was too early to give specifics. He did say, however, that it plans to remain "online specialty retailer of consumer electronics" and "won't go outside that" category. CEO-Pres. Greg Drew told us "there's a real benefit to being focused" on just one kind of product — "if you try to cover too many categories you can't be a specialist." Like most of its competitors, 800.com currently isn't profitable, Drew said, and for now is "making investments in a number of different areas," including building effective call center, inventory, infrastructure.

**Grow Biz International (GBI) completed sale of assets of its now-defunct 60-store It's About Games videogame chain.** In SEC filing, it said it liquidated inventory and other assets — 50% of which were disposed of through 3 main transactions. Times Two paid \$114,200 for assets of 14 It's About Games stores in Ky., Md., Ohio and Pa., plus inventory valued at 40% of cost. Crescent Marketing paid \$42,000 for assets of 14 Ohio stores and inventory at 40% of cost. GBI also made bulk inventory sale to L.A. Close-out for \$140,000. Remaining assets of stores "were disposed of by abandonment or liquidation sale," GBI said. As we reported in Oct., GBI took \$11.6 million pretax charge against 3rd-quarter earnings to shut down chain (TVD Oct 18 p16). It's About Games had posted \$3.4 million year-to-date loss. It had been one of smaller ones in GBI's stable, which includes Computer Renaissance and Play It Again Sports.

**N.Y. retailer Stereo Exchange was among biggest winners at Monster Cable's annual dealer awards ceremony at Las Vegas CES.** Stereo Exchange was among Silver Achievement Award winners in AV independent specialist retailer category, along with Audio Video Systems, Bjorn's, Chelsea Audio/Video, The Gramophone, The Little Guys, Showcase Home Entertainment, World Wide Stereo. In addition, Stereo Exchange's Alan Neubauer was awarded Retail Salesperson of the Year. Monster's new product line includes MP3 Internet Connection DataSpeed 100 cable that company says is specially designed to improve quality of MP3 and other digital music transferred from Web. Company said cable, priced at \$12.95 for 5 ft. or \$19.95 for 10 ft., features Xtra Low Noise technology that decreases crosstalk between conductors.

**Roxy.com is targeting mid to end of March for start of weekly one-hour CE TV show on ValueVision's home shopping station,** Chief Mktg. Officer Donna Driscoll told us last week. As we reported, ValueVision and NBC Internet (NBCi) recently took minority equity stakes in Roxy.com (TVD Jan 10 p18). Although Driscoll couldn't tell us exact size of minority investments, she said they were small and company remains privately held. Federated Dept. Stores subsidiary Fingerhut also is equity partner in Roxy.com. While Roxy.com shipped 2 catalogs in 1999, it plans 12 in 2000 with "much higher circulation," Driscoll said. E-tailer also is looking to increase its online partnerships, she said. Company is in middle of TV ad campaign, and print ads will be out at about same time as Super Bowl.

**Cambridge Consultants Ltd. (CCL), U.K. subsidiary of Arthur D. Little consulting firm, will take unspecified equity stake in watermark developer AudioTrack under R&D partnership.** Terms weren't disclosed.



**PLASMA MOVES TO LARGER SIZES:** Sharp Electronics and Philips, both sourcing 50W plasma display panels (PDPs) from Pioneer, have joined race to move technology to larger sizes.

Sharp will deliver PDP in Feb. at \$20,000 at same time as it readies rollout of more expensive 60" LCD rear-projection set featuring Continuous Grain Silicon (CGS) technology (\$49,995). Philips will continue to market 42W PDPs sourced from Fujitsu, but also has showed concept design of 50W. Both Sharp and Philips have plasma development agreements with Pioneer, which launched 50W category in 1998.

Philips and Sharp use latest version of Pioneer PDP, which has 1,024x768 resolution, 600 candelas, 350:1 contrast ratio. Panel is paired with 2-way, 3 w speakers.

As it unveiled PDP under Sharpvision banner, Sharp also promoted CGS. Monitor has 2.6" LCD panel, 1,280x1,024 resolution, 300:1 contrast, 280 lumens. "The CGS is bigger and it targets a different consumer who wants the latest in size," Sharp Advanced Products Mktg. Dir. Frank DeMartin said. "It's where the future will be, but at this point it's more of a technology statement targeting the very high-end consumer."

Fujitsu, which has joint development agreement with Hitachi and is supplying PDPs for Sony, is expected to continue to push 42W size this year, moving to 55W in early 2001. Current Fujitsu PDP features Alternative Lighting of Surfaces (ALiS) technology and has 1,024x1,024 resolution, 500 lumens, 250:1 contrast ratio (TVD Oct 4 p18). Among new PDP competitors using Fujitsu panels was Turkish manufacturer Vestel, which will market 42W model with 852x480 resolution (\$6,999).

"I think there is more of a push [toward larger sizes] than there was a year ago, but what has yet to be established is what will people be willing to pay for these products," CE executive said. "The question is what is the market for \$20,000 or \$25,000 products?"

Indeed, while Fujitsu is selling its ALiS PDPs at \$16,000, lower resolution 42W is likely to be mainstay as it seeks retail distribution for own brand. While Fujitsu's retail plans haven't been finalized, Brandsmart is likely to carry 42W at \$6,000, said Pres. Michael Pearlman, whose chain has installed displays at Miami Arena.

"These are still pretty expensive and what we're concerned about is the bad pixels that some of them have," Pearlman said.

Pricing isn't likely to fall until sales increase and manufacturing yields near parity with CRTs, which have 96% rate. Most PDP plants have achieved yields of slightly more than 50%, industry sources said. Also hampering market is yen's strength against dollar, which makes it more expensive to export from Japan where most PDP plants are located.

**Audiovox**, benefiting from strong sales of cellular phones, reported 4th-quarter income jumped to \$11.4 million from \$3.4 million year ago on 97% surge in sales (see financial table). For year ended Nov. 30, income increased to \$27.2 million from \$3 million as sales rose to \$1.16 billion from \$616.7 million. Audiovox, which sells range of CE products, also has benefited in recent months from addition of MP3 players.

**Pokemon call home?** Nintendo in April will release software titles for Game Boy Color portable player that will enable owners to trade *Pokemon* cartoon characters over cellular phones. Special adapter will connect Game Boy handheld to cell phone, and call to Nintendo server will let players exchange characters. Device further exploits games' popularity among kids for trading characters, now possible only through cable linking Game Boy players.

**Court hearing was postponed** to Jan. 18 on preliminary injunction sought by DVD Copy Control Assn. (DVDCCA) in Cal. suit that would bar Internet sites from disseminating cracked DVD encryption codes. Santa Clara County judge already had denied DVDCCA's motion for temporary injunction that was filed Dec. 27.

**Amiga computer trademarks** have been sold to Amino Development by PC maker Gateway. Latter acquired rights to popular Amiga in 1997 and had planned to reintroduce brand for multimedia PCs and information appliances. Instead, Amiga software engineering features will be incorporated into Gateway PCs, company said. Amiga, begun by defunct Commodore Computer in mid-1980s, was considered first true multimedia PC for music, video and graphics applications, and still has loyal niche following.

**Tutti-frutti TV coming?** Term "color TV" is about to acquire additional meaning, if sets displayed at recent CES make it to market. Leveraging on success of transparent pastel cabinets in Apple's iMac computer line, CE makers including Konka, Koss, Samsung, Sony, Thomson and Zenith previewed decorator-color AV products, some with guts exposed to view. TV sets with simulated woodgrain cabinets were nowhere to be seen.

**DVD Forum** said it would establish independent company to administer DVD licensing business and restructure licensing fees. Forum's 10 managing firms will own equal shares of new entity.

**Lawsuit was filed** against Toysrus.com, CNet News.com reported last week. Action was latest fallout from problems Toys "R" Us e-commerce Web site had with fulfillment of product orders during holiday season (TVD Jan 3 p16). Suit claimed Toysrus.com "knowingly and deceptively accepted orders for Christmas presents the company knew it could not deliver." While CNet described suit as class-action in nature, Reuters report said it was filed by Lynnwood, Wash., woman who was seeking class-action status. Toysrus.com spokesman said that after seeing "unofficial copy of the lawsuit" and allegation it contained, company feels there is "absolutely no merit to the suit."

**Roberds, which is weighing seeking bankruptcy protection** or sale and/or closing of stores (TVD Jan 10 p23), expects to complete review of operations within 2 weeks, Pres. Robert Wilson said. He declined comment that chain may close unprofitable 9-store Fla. Div. Dayton, O.-based Roberds pushed into Fla. and opened 9 stores 1985-1994. Largely based in Tampa area, chain's largest outlet is in Seminole (83,000 sq. ft.), smallest in Brandon (49,000 sq. ft.). It also operates outlets in Atlanta and Ohio markets.

**Bang & Olufsen (B&O)** opened www.beo.com Web site that functions mainly as news and information destination. Site also includes company history, from 1925 founding by engineers Peter Bang and Svend Olufsen through current product line. At site, consumers also can download B&O screensavers and wallpapers.



**SENSORY SCIENCE \$199 DUAL DECK:** Sensory Science (SS) will seek licensing agreements for its dual-deck VCR technology and slash low-end price to \$199 by midyear as it moves to reverse slight dip in 3rd quarter revenue, Chmn.-CEO Roger Hackett told analysts in conference call.

New entry-level deck, probably supplied by Shintom, represents \$100 drop in retail and comes after year in which SS held line on price as overall VCR market plunged below \$100. Overall, SS said 3rd-quarter income doubled to \$400,000 as operating costs were lowered to 18.5% of sales from 20.3% year earlier. Revenues slipped to \$20.4 million from \$20.6 million.

SS recorded "significant reduction" in sales of mono dual-deck VCR in quarter as market shifted to Hi-Fi models, Hackett said. At same time, other manufacturers unleashed "aggressive price cutting" in conventional decks, he said. Margins on SS's "core" dual decks have risen back into "mid-20s", he said.

Following sharp decline in VCR prices, retailers are "looking at ways to build back the business," Hackett said in predicting that distribution of its Go-Video branded dual-decks would increase "50%, if not 100%," in next 6 months. At same time, SS also is "reviewing" patents covering analog and digital dual-deck technologies and "there are some licensing opportunities in the very near future," he said, declining to identify potential licensees. Discussions will involve "major" CE companies and goal is to "enhance" position of dual-decks in N. America "rather than erode it," Hackett said.

Licensing strategy has been tried in past. LG Electronics, then known as Lucky Goldstar, signed deal for dual decks with SS predecessor Go-Video in 1994 (TVD July 11/94 p14) and carried product for year before discontinuing it. Samsung also is SS dual-deck supplier.

Also cutting into 3rd-quarter revenue was "manufacturing delay and parts shortage" for Power 3 DVD player/amplifier that was key part of Cal Audio 2500 series that had been expected to be available in holiday selling season. DVD players overall were strong sellers as prices fell below \$200.

Sales of Loewe-branded digital TVs "continued to fall short of our expectations," but business "has been picking up" and companies remain "committed" to category, Hackett said. SS currently markets 30-36" direct-view DTVs and will add flat-screen models later this year, he said. It claims 15% share of direct-view DTV market. It signed licensing agreement with German manufacturer Loewe in mid-1990s and offered products in 1998.

"You will continue to see new products and bigger screen sizes," Hackett told analysts. SS has said goal is for 36" sets to account for 40% of Loewe sales (TVD Oct 18 p19).

On media player front, SS is readying new versions of raveMP including one based on Iomega's Click Drive technology (see related story this issue). It also will expand distribution of player in first quarter of fiscal year starting in April to national retail chains including Kmart.

SS is weighing expanding base of digital products, which accounted for 20% of revenue in 3rd quarter, with rest from dual-deck VCRs. Among new products being considered is

"one similar in nature" to TiVo and Replay Networks personal video recorders (PVRs), Vp Edward Brachocki said. Device will have hard drive as "recording medium" and will be tied to content and service deals, he said. While timing of product wasn't set, SS "will be participating in those areas in a very meaningful way in the very near future," Brachocki said.

**DVD player recall** has been issued by U.K. retail chains Comet and Woolworths on Proline-brand private label deck because of problems in playing hybrid discs with interactive features, such as Warner's *The Matrix* and, most recently, Universal's *Notting Hill*. Retailers, part of Kingfisher group, are offering refund or replacement for Proline players, made on OEM basis by Hong Kong-based Thakral Electronics. Proline decks capable of handling DVD-ROM features of hybrid movie discs are due to arrive in stores over next few weeks. Meanwhile, Comet and Woolworths also are offering to upgrade capabilities of Proline player — but not Samsung 807 player they marketed earlier last year. That deck, which also could be modified to play discs from all regions, was sourced directly from Korea, so Samsung U.K. has disavowed responsibility for service. Company has said it already has spent more than \$800,000 upgrading players imported through authorized channels. In 5 weeks since launch, more than 200,000 copies of *The Matrix* have been sold in U.K., not including sales through Comet and Woolworths. Chains had declined to stock disc because of incompatibility problems with Proline player, but have reversed policy now that Proline deck has been pulled from shelves. Separately, U.K. customers have been getting chuckle from one online feature of *Notting Hill* DVD. When played on PC, disc navigates viewer to Universal's Website, where advertisement for Region 1 U.S. titles offers links for mail order sale.

**DVD sales in U.K.** reached 1.5 million in Dec. making for cumulative 4 million launch-to-date, British Video Assn. (BVA) said. Warner disc *The Matrix* alone accounted for 205,000 in month. Previous best seller, Buena Vista's *Armageddon* distributed in Europe by Warner, has sold 100,000 since Feb. launch. BVA said value of DVD software market in U.K. after first year was \$112 million; that compares with first full-year sales of audio CD at 300,000 discs worth \$2.4 million. Group said DVD penetration has been faster in U.K. than in U.S. on per capita basis, and that worldwide DVD sales are 6 times greater than either VHS or CD at comparable points in their development. Since debut, installed base of DVD players has reached 250,000 in U.K., with 90,000 sold in Dec. alone.

**Set-top DTV converters** for NTSC sets will make debut in 4th quarter from Funai and Sanyo. Companies said set-tops will use Sarnoff chips to convert ATSC broadcast for viewing on current NTSC sets. In Funai's case, chipset includes MCT 2100 demodulator for 8-VSB transmission and MCT 4100 video decoder chipset, each jointly developed by Sarnoff and Motorola. Sanyo set-top will use unspecified "2nd-generation" demodulator. Companies said set-tops would be "affordable" means of enabling installed base of 250 million NTSC sets to make transition to DTV reception. Products will output 480i standard definition regardless of resolution of original ATSC broadcast, and will include NTSC reception.

**Alcatel and Thomson** completed merger of their telephone businesses, first announced July 20. Name of newly formed Paris-based company is ATlinks, with subsidiaries in 8 countries and \$900 million projected sales in 2000.



**MP3 MANIA AT CES:** As expected, Internet music players that can play and record MP3 and other formats were out in force at CES, including market leaders in category such as Creative and I-Jam, CE suppliers entering category for first time, lesser known manufacturers eager to catch piece of action in growing market.

Wide variety of products using either Secure Digital (SD) Memory Card or Sony's Memory Stick were shown throughout show floor, although many — like various configurations at Toshiba booth using SD — were merely prototypes, with specific pricing and shipping information not available.

Variety of Internet music devices were shown at Samsung booth. In addition to its Yepp players, it offered Wingo 2 MP3 cassette player that Senior Digital Products Mgr. Mark Knox said is shipping in Korea. But he said there are no current plans for product in U.S. Also at Samsung booth was MP3 phone that Samsung Telecom America Territory Mgr. John Bennedson said would ship in either 3rd or 4th quarter at price to be determined.

Creative Technology expanded its Nomad player line with Nomad Jukebox and Nomad II MG. Former is USB, multiformat portable audio player/recorder size of portable CD player that features 6 GB of built-in storage. Creative said latter is first digital audio device with time compression/expansion implementation for interactive speed control playback of voice recording. It also features FM tuner. Both players will ship in 2nd quarter. Creative spokesman said that as part of new pricing strategy to reach out to core "Web-savvy" customers, company is selling models at its Web site — [www.creative.com](http://www.creative.com) — at prices somewhat lower than street retail. He said that while Nomad Jukebox will have street price of \$599, it will be \$499 on Internet. Similarly, Nomad II MG will have \$399 street price and on \$329 Web, he said. Company starts shipping its 2nd-generation player, Nomad II, later this month with various price choices: Model with 64 MB onboard for \$329 street or \$299 online, model with 32 MB for \$229 street or \$199 online, and unit with no onboard memory for \$119 street or \$99 online.

I-Jam Sales Dir. Frank Richier said his company has been able to achieve No. 3 market share in category, behind Diamond and RCA with its Lyra. I-Jam Financial Officer Todd Stinson said what has helped company gain market share is "that we are shipping product" while "a lot of competitors are still in the R&D stage." In addition to current IJ-100 and IJ-101, company showed: IJ-50C unit at \$129 with stripped-down features, IJ-90V model at \$179 that also functions as voice recorder, IJ-200 at \$279 with built-in FM radio that can handle multiple audio formats and voice recording function, and IJ-828 at \$129 that also functions as portable CD player. Although company put out release announcing IJ-888 DVD/MP3 player at \$229, we weren't shown it in tour of booth. All models are scheduled to ship in 2nd quarter.

Philips announced 64 MB version of its Rush digital audio player that will ship in May at \$299.99. Thirty-two MB version of player is shipping this quarter at \$199.99. Models will support Real Networks, Audible.com and MP3 at start and can be upgraded to handle other formats, Philips Audio Managing Dir. Guy Demuynck said. Philips also is weighing expanding Internet music technology to range of other products including 2 shelf systems that will contain slot for Smart Media card and

personal stereo players, he said. Pricing and availability haven't been set. "The technology offers a lot of opportunities and we have to think it through," Demuynck said. "We will build Rush into a family of products."

Also expanding line will be Sensory Science (SS), which will add RaveMP media player with 64 MB memory, USB port and LCD display that increases in size to 1.3"x0.9" from 1.3"x0.4", Mktg. Vp Paul Frederickson said. New model, being built by Saehan, will ship in spring, although price hasn't been set, he said. While first model was compatible only with MP3, new unit adds Microsoft Media and Real Networks. SS also will deliver player based on Iomega's Click Drive by midyear. It won't have onboard memory and SS is likely to package player with storage card. Iomega cards range up to 40 MB at \$9.95. Click-based player will be built by Korea-based Varovision. SS said it will sponsor Rape and Incest National Network benefit tour that will be headlined by Tori Amos, Sheryl Crowe and REM and kicks off at Ariz. State U. in March.

Zenith jumped on category bandwagon with MP3 audio player/dual deck CD recording system that has 32 MB multimedia card for basic memory and 2 slots in main body for expansion to 64 MB. Model number, price and shipping information were unavailable.

Various MP3 products shown in autosound arena, including Alpine MPA-7800 MP3 player (TVD Jan 10 p18) and Jensen ATSMEQ in-dash half-DIN digital equalizer with built-in MP3 player (TVD Jan 10 p17) that we reported on last week. Kenwood introduced Excelon Model Z919 CD/receiver shipping in May at \$650 that can play MP3-encoded CDs as well as CD-R discs.

Refac Consumer Products is marketing universal MP3 car adapter (\$29) that fits into cassette deck and has holder for player. Refac also has 32 MB player with Compact Flash slot, FM tuner, \$199 price.

Other portable MP3 players at show included jazPiper player from Singapore-based RFC Distribution that has voice recording capability and optional FM tuner.

Among most intriguing MP3-related products was new SongBoy, digital multimedia player that allows Nintendo Game Boy user to access music from Web via plug-in module. SongBoy has menu with CD-like controls (play, stop, fast forward, etc.) and software that can convert personal music files into digital audio files that can be downloaded to player. User then can download music directly from SongBoy Web site. Company said advertisers will sponsor first 10,000 downloads of new song, which will be free to consumers. As music plays, images — including ads — are displayed in Game Boy screen.

Sanyo Electric said it will invest \$859.5 million to build new LCD plant in Japan. Sanyo, which produces LCDs for variety of applications including front projectors and rear-projection TVs, joins growing list of companies that are adding LCD capacity. Host of Taiwanese manufacturers led by Acer has moved in recent months to expand production to offset LCD shortage that has plagued U.S. monitor market.



**ON-TIME FULFILLMENT IS ESSENTIAL:** E-tailers' ability to deliver products when consumers want them and when promised was cited as one essential ingredient for e-commerce success this year and in future by panelists at "E-Commerce Supersession" at Las Vegas CES.

Another must for online merchants panelists cited was keeping costs down — something that often is difficult, especially when building infrastructure necessary for them to deliver on fulfillment.

Overriding question about e-commerce no longer is, "Is this going to happen?" but "Who's going to do it well?" Cyberian Outpost Chmn. Darryl Peck said. And retailer he singled out for not doing it well in 1999 was Toysrus.com — easy target considering all bad press Toysrus.com has been receiving in last month (TVD Jan 3 p16) for not being able to deliver products on time during holiday season.

"Toys 'R' Us is just clueless," Peck said, saying that he went on Toysrus.com Web site Dec. 6 and was met with statement that it couldn't ship for Christmas anymore.

Peck pointed out that his company has been in business online longer than most of its competitors, saying Cyberian has "been around for 5 years already" and joking that "we've been selling on the Internet since Al Gore invented it." Although Cyberian has concentrated on computer products, it recently opened CE store at its site in conjunction with Tweeter Home Entertainment Group — [tweeter@outpost.com](mailto:tweeter@outpost.com) (TVD Oct 18 p16).

This year, Peck said, "is clearly time for a shakeout" in online dealers and "it's really going to become a year of the top brands' rising to the top and the rest basically falling by the wayside." He said: "Retailers will either get it right or they'll be out of business this year. If Toys 'R' Us doesn't ship [on time] next Christmas I don't even think their retail business will survive. I mean you really have to get this stuff right. It's not that hard." But he, like fellow e-tail panelists, did admit that it can require huge investment on part of e-tailer.

CNet Commerce Group Business Dir. James Nicholson said one of biggest costs currently facing e-tailers is in area of customer acquisition, which he said is "what's killing profitability right now."

Having somewhat of advantage in customer acquisition area are e-tailers such as RadioShack.com and BestBuy.com, represented on panel by, respectively, Exec. Vp Henry Chiarelli and Pres. John Walden, who pointed out they have ability to leverage their companies' brick-and-mortar customer bases for their online stores.

Chiarelli said Tandy's base of 7,000 RadioShack stores is "one of our primary points of differentiation." He said his company's "allowing and even encouraging our customers to use our stores for refunds and exchanges and for price adjustments and repairs is a huge competitive advantage that few if any will be able to duplicate."

RadioShack customer database that he said "exceeds over one hundred million households and all the purchase history that goes along with that" also gives company advantage in one-to-one marketing area. Chiarelli said company recently

"started a registration process on our Web site that is going to allow us to append those customer records with e-mail addresses so that we can start to send customized flyers and customized messages on an opt-in basis only to our customer base." He said: "We believe that one-to-one commission marketing and all the things that go along with that are going to be the primary customer engagement strategy going forward." Walden said one-to-one marketing to customers also is goal of BestBuy.com.

Microsoft formally unveiled long-awaited Pocket PC software for handheld PCs, adding features such as ability to read electronic books and ClearType technology that makes fonts easier to read. New Windows CE software, code-named Rapiere, had been expected for more than year but was postponed repeatedly as Microsoft fine-tuned it. Microsoft Reader is new application for reading electronic books and company signed alliance with Barnes & Noble. Pocket PC devices also will support Windows Media Player, which plays digital music stored on file formats such as MP3. Microsoft Chmn. Bill Gates said in keynote at CES in Las Vegas that next release of Windows 98 — code named Millennium — will feature Movie Maker video editing that allows user to store 23 hours of video per GB of hard drive space. Introduction of Pocket PC comes as Microsoft struggles in handheld consumer market where 3Com's Palm Pilot has more than 70% share. Several Windows CE licensees have dropped products and others have shifted focus to corporate/industrial applications. "The jury is still out to some extent," Group Product Mgr. Philip Holden said. "There a lot of manufacturers evaluating what they want to do in the handheld PC space." Microsoft postponed delivery of Pocket PC several times to add functionality and to coincide with buying patterns of resellers and retailers, Holden said.

Slimmed-down Hughes Electronics (HE) will sharpen its focus on satellite and Internet services after reaching agreement last week to sell satellite-making business to Boeing for \$3.75 billion. While HE's DirecTV expects to start service in U.S. with AOL in 2nd quarter, it's seeking similar alliances for Latin America and Japan, HE Chmn.-CEO Michael Smith told *Wall St. Journal*. AOL made \$1.5 billion investment in Hughes in July as part of effort ensure access to broadband network for its service. While DirecTV will be first HE-AOL foray, latter also is said to have sites on Spaceway Internet-based satellite service that's expected to start in 2002. AOL and DirecTV said last week planned AOLTV service will be unaffected by former's planned merger with Time Warner (see related story, this issue). Since satellite-making is slower growing business that yields lower margins, "I'd rather invest my money in a business that's growing" rapidly, Smith said. Sale also is likely to forestall possible spinoff of DirecTV from Hughes, which has been rumored for months. At CES, DirecTV Pres. Eddy Hartenstein said spinoff wasn't being considered.

Memtek Products agreed to change coupon and cash rebate programs that federal regulators called "false and misleading." FTC had charged that consumers received rebates and gift checks several months later than promised. Memtek, which sells products under Memorex brand, offered purchasers of their blank audio and videotapes \$10 gift check good for purchases of prerecorded CDs and videotapes at Best Buy. Checks were to arrive within 8 weeks of consumer's request. It also promised buyers of 100-count package of PC diskettes that they would get \$29.99 rebate within 12 weeks of company's receiving their requests.



**PEGASUS TO BUY GOLDEN SKY:** Pegasus Communications' proposed \$693.1 million all-stock purchase of rival Golden Sky Holdings will position it as leading provider of DirecTV service and raise possibility that program distributor itself could become acquisition target, industry sources said.

Under agreement, Pegasus, which has 702,018 subscribers and derives 95% of its revenues from DBS, will issue 6.5 million shares of common stock to Golden Sky and assume \$373 million in debt. It had \$624.8 million of total debt as of Sept. 30. Deal is expected to close late in first quarter, Pegasus spokeswoman said.

Combined company, which will be based at Pegasus HQ in Bala Cynwyd, Pa., will have 1.04 million DirecTV subscribers and control 75% of National Rural Telephone Cooperative (NRTC) territories, analysts said. NRTC, which has filed 2 separate lawsuits against DirecTV alleging breach of contract (TVD Aug 30 p6), signed 15-year contract in 1992 for its members to sell DirecTV in territories covering 9 million households — 9% of TV market in U.S.

Pegasus acquisition of Golden Sky is most recent in string of deals that have roiled NRTC, shrinking its membership to 120-130 from 252 in 1996. Pegasus spent \$518.6 million on 32 acquisitions in 1998 and added another 6 independent program providers for \$100.6 million at close of 1999 (TVD Dec 27 p16). Golden Sky also has been aggressive, paying \$745,000 to buy 9 companies in 5 states with 18,200 subscribers in 9 months ended Sept. 30. It also fell into financial trouble and violated restrictive covenants of \$150 million credit facility last fall (TVD Nov 22 p18). Pegasus, which sells DirecTV through network on 2,500 independent dealers, is likely to close some of Golden Sky's 70 sales offices, spokesman said.

By increasing its size, Pegasus may become more attractive target for DirecTV, which has made no secret of wanting to handle rural markets itself. As currently configured, Pegasus pays DirecTV 5% of \$46 average per-subscriber monthly revenue.

Pegasus sued DirecTV in U.S. Dist. Court, L.A., last week charging that DBS service intentionally interfered with "contractual relations" as well as "prospective economic advantage." DirecTV is distributing premium services HBO, Showtime, The Movie Channel and Cinemax directly to NRTC customers in violation of exclusive contract signed in 1994, suit said. DirecTV also has "embarked on an orchestrated campaign to impair the value" of Pegasus' distribution rights and "drive it out of business," suit said.

DirecTV spokesman said company has "done nothing to interfere or damage business to NRTC customers" and it's "unfortunate" that Golden Sky and Pegasus "would get involved" in contract disputes. In suit involving NRTC, DirecTV has filed motion for partial summary judgment asking court to find that cooperative's right of first refusal at end of contract doesn't include programming services and is limited to 20 channels of transponder capacity. Motion is scheduled for Feb. 7 hearing.

"What Pegasus has done with the acquisition and the lawsuit is gotten itself a little bit more negotiating leverage and it sounds to me like this is an additional negotiating chip with DirecTV," Tellus Ventures Pres. Stephen Blum said. Both DirecTV and Pegasus spokesman denied any discussions on possible acquisition.

In adding 345,000 Golden Sky subscribers, Pegasus will gain access to new markets in Mont. and S.C. and expanded territories in Mo., N.D., northern Cal., Ore., Okla., Tex. Its average revenue per subscriber is higher than Golden Sky's — \$46 vs. \$38.25 in quarter ended Sept. 30 — while acquisition costs ran \$350 per subscriber against Golden Sky's \$425.

While Pegasus has paid \$1,950-\$2,010 per subscriber in acquiring companies in past, Golden Sky purchase comes in at \$3,000, PaineWebber analyst Thomas Eagan said. Pegasus spokeswoman defended price, saying that Golden Sky is largest acquisition, surpassing \$363.9 million it paid for Digital Television Services in April 1998.

NRTC spokesman declined comment on deal, but said organization "will work with all companies." NRTC added 412,000 subscribers in 1999 to finish year at 1.41 million, spokesman said. After Pegasus, next largest NRTC member is said to be StarPath Communications in Elizabethtown, Ky., although exact size wasn't available.

In sharpening focus on DBS, Pegasus last week reached agreement to sell its cable systems in P.R. to Centennial Cellular unit for \$170 million. Systems passed about 170,000 homes, had 50,000 subscribers. Pegasus retains broadcast TV operations that focus largely on Portland, Me., market.

Separately, Pegasus signed licensing agreement with Personalized Media Communications (PMC) for access to latter's patents on distribution of high-powered satellite services at 101°, 110° and 119° W and fixed satellite services (FSS) at 99°, 101°, 103° and 125° W. License covers 7 patents including those for automatic insertion of programming at DBS uplink, pay-per-view buying, authorization of satellite receivers. PMC Chmn. Mary Metzger also is Pegasus board member. PMC has been involved in lawsuit with DirecTV, Thomson and Hughes Network Systems since it filed infringement claim with International Trade Commission (ITC) in 1996. ITC later ruled that companies hadn't infringed on PMC patents, decision that was overturned in part by U.S. Appeals Court, D.C. (TVD Dec 7/98 p18) and remains pending.

**Consumers unwilling to shop online** because of fear of sending credit card information over Web were able to add fuel to their position last week. Online software retailer CD Universe was victim of extortionist who somehow got credit card information of consumers who shopped at site, *N.Y. Times* reported. After e-tailer ignored extortionist's request for \$100,000, thief — who called himself "Maxim" and said he was from Russia — released credit card numbers online and said he used information to get money for himself as well, report said. Identity of extortionist still was unknown as of our deadline, but Web site named "Maxus Credit Card Pipeline" where he posted credit card information had been shut down, report said.

**Toshiba has developed** prototype of complementary metal oxide semiconductor (CMOS) pickup it said has image quality comparable with charge-coupled device (CCD) sensor. Unit could pave way for lower cost digital cameras and other imaging products. Toshiba said CMOS pickup operates on 3.3 v, 25% of that of CCDs, is half size and has 1/6 of their noise level and can be produced for less than half cost. Sample shipments are scheduled for spring.



## Financial Reports of TV-Electronics Companies

These are latest reports as obtained during past week. Dash indicates information not

Company & Period	Revenues	Net Earnings	Per Share
<b>Acclaim Entertainment</b>			
1999-qtr. to Nov. 30	101,153,000	434,000	.01
1998-qtr. to Nov. 30	104,831,000	10,287,000	.19
<b>ATI Technologies</b>			
1999-qtr. to Nov. 30	413,527,000	53,580,000	.26
1998-qtr. to Nov. 30	327,388,000	50,086,000	.25
<b>Audiovox</b>			
1999-year to Nov. 30	1,159,537,000	27,246,000	1.43
1998-year to Nov. 30	616,695,000	2,972,000	.16
1999-qtr. to Nov. 30	410,469,000	11,381,000	.59
1998-qtr. to Nov. 30	208,809,000	3,447,000	.18
<b>Cree Research</b>			
1999-6 mo. to Dec. 26	43,977,000	10,421,000	.33
1998-6 mo. to Dec. 27	26,317,000	5,217,000	.19*
1999-13 wk. to Dec. 26	23,930,000	5,784,000	.18
1998-13 wk. to Dec. 27	14,038,000	2,851,000	.10*
<b>Koss</b>			
1999-6 mo. to Dec. 31	16,975,859	2,322,826	.87
1998-6 mo. to Dec. 31	17,417,922	2,325,076	.73
1999-qtr. to Dec. 31	8,582,606	1,139,209	.43
1998-qtr. to Dec. 31	8,386,879	1,033,615	.33
<b>Sensory Science</b>			
1999-9 mo. to Dec. 31	54,154,000	(11,000)	--
1998-9 mo. to Dec. 31	48,511,000	1,739,000	.14 <sup>b</sup>
1999-qtr. to Dec. 31	20,435,000	400,000	.03
1998-qtr. to Dec. 31	20,642,000	200,000	.02 <sup>b</sup>
<b>TriStar</b>			
1999-13 wk. to Nov. 27	13,464,000	386,000	--
1998-13 wk. to Nov. 28	15,075,000	224,000	--

Notes: \*Adjusted. <sup>b</sup>After special charge.

**LiquidPrice.com** Web site is among latest entrants in on-line CE e-commerce arena. Site functions in manner similar to eBay auction Web site but features only retailers that gain approval of Cupertino, Cal.-based company and sign legal contract. At Las Vegas CES, where company had booth on show floor, Exec. Vp Alok Singhania told us there are 2 ways of buying product at site — dealers can bid on products anonymously or consumers can select exact product they want and authorized dealers bid openly for customer's business. Singhania said LiquidPrice.com makes money by keeping "small percentage" of final price. While site currently is selling only CE products, he said "our goal is to roll out a new category every 2 to 3 months." But he declined to say what other categories company is looking to add.

**DTV reception for PCs** will be offered by Panasonic through new single PC add-in card that uses TeraLogic's Janus chip and reference board. Companies said single-chip device decodes all 18 ATSC resolution formats for display on multiscan PC monitors. Card is expected to be available later this year at price to be determined. At 1998 Comdex show, Panasonic had announced 2-card DTV decoder for PCs developed jointly with Compaq Computer. At our deadline, Panasonic spokesman told us 2-card decoder never advanced beyond sample stage.

Another *Pokemon* movie will open in Japanese theaters in summer, developer Pikachu Project 2000 said. Tentative title is *Pocket Monster: The Lord of the Unknown Tower* and it introduces mysterious new character, director Kunihiro Yuyama told Japanese press. Sequel actually will be 3rd *Pokemon* theatrical feature — 2nd movie didn't get same attention in Japan as original film, *Pokemon: The First Movie*. Second installment is to be released outside Japan in summer.

## Consumer Electronics Personals

**Eddy Hartenstein**, DirecTV pres., promoted to senior vp, consumer business, **Hughes Electronics**... **Bill Gates** resigns as Microsoft CEO, will remain chmn. and take over new role as chief software architect, replaced as CEO by Pres. **Steve Balmer**... **Mark Belzowski**, ex-Turner Bcstg. Systems, appointed Universal Electronics controller-CFO, filling post vacant since Sept. 1998 when **Paul Arling** was promoted to pres.-COO... **Bernard Goldstein** resigns from Franklin Electronic Publishers board... **Goldman Sachs** Managing Dir. **Lawton Fitt** elected to Wink Communications board... **Helen Murphy**, CFO, Martha Stewart Living Omnimedia, appointed to Cinram board... **Mark Stair**, ex-Motorola, and **Robert Jordan**, ex-Microsoft, join Digital Camera Network as vp-COO and vp-mktg., sales & business development, respectively... **John Schwartz**, ex-IBM, named Reciprocal pres.-CEO, succeeding **Paul Bandrowski**, who remains vice chmn... **David Glass** resigns as Wal-Mart Stores pres.-CEO, replaced by **Lee Scott**, ex-vice chmn.-COO... **John Eyler**, ex-F.A.O. Schwartz, named Toys "R" Us chmn.-CEO, replacing **Michael Goldstein**, who had served on interim basis.

**Joseph Fedorchak**, Fla. region mgr., Aaron Rents Rental Purchase Div., and **David Buck**, southwest region mgr., promoted to eastern and western operations vps, respectively... **Changes at Navarre**: Vice Chmn.-CFO **Charles Cheney** adds chmn.-CEO for subsidiary Digital Entertainment (DE); **Ian Warfield**, DE vp-gen. mgr., promoted to pres.-COO; **Joyce Fleck**, Navarre mktg. dir., named vp; **Ward Thomas**, national account mgr. in PC Products Div., national sales mgr... **Joseph Roth**, Walt Disney Studios chmn., resigns to start independent production company, replaced by Pres. **Peter Schneider**... **Kathy Tische**, ex-Mattel Media, and **Mike Myers**, ex-Acclaim, join 3DO as licensing dir. and PR dir., respectively.

**Ray Farrell**, ex-Geffen Records, joins EMusic.com as music mktg. dir., new post... **Claude Barathon** promoted to S3 pres.-international operations, succeeded as senior sales & mktg. vp by **Steve Kennedy**, ex-Quantum Corp... **Navroze Mehta** resigns as pres., Boca Research subsidiary Boca Global, replaced by **Cecil Dye**, Boca Global exec. vp-sales & mktg... **Patrick Barry**, ex-Warner Bros. Online, joins Brilliant Digital Entertainment as vp-business development & animation... **Kenneth Killin** resigns as MGI Software CFO, no replacement named.

**Secure digital delivery** of songs from New Year's weekend live concert by band Phish netted 70,000 downloads and 1,000 purchases, according to ViaTech, Natick, Mass.-based developer of eLicense system used to encrypt content and process sales. Tracks were posted on Web shortly after each set, and on-line concert-goers had option to listen-before-you-buy. Sampling option as well as copy protection remain with music even if file is e-mailed to other parties on Internet, ViaTech said. Combination on copy protection and secure e-commerce works with any file format and software media player, company said.

**More information was revealed** by Sega on restructuring of company following our original report (TVD Nov 29 p14). It said last week that it will split its game software development division and create 9 subsidiaries by June. Sega also plans to establish joint venture with another software vendor. New units will focus mainly on Dreamcast software, although some will develop software for NTT Docomo's iMode cellular system and PC. Once restructuring is completed, Sega will have 12 software development companies.





# TELEVISION DIGEST WITH CONSUMER ELECTRONICS

The Authoritative Service for Broadcasting, Consumer Electronics and Allied Fields

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## SUMMARY-INDEX OF WEEK'S NEWS

### Broadcast - Cable

**BROADCASTERS LOSE TWICE** at FCC, on LPFM and EEO. NAB to appeal decision to allow new FM service. Hill action threatened. EEO rules called compromise. (P. 1)

**RELIGIOUS BATTLE BREWING:** FCC feeling heat from both sides on noncommercial rules. Legislation possible. WQED deal cancelled. (P. 3)

**WEB STREAMER SUED** by broadcasters, MPAA, sports leagues. Consent violation claimed. Suit seen as test case for broadcast signals over Web. (P. 5)

**TAUZIN CRITICIZES DRUG AD PROGRAM**, pledges to 'raise hell.' FCC says it received no sponsorship ID complaints. (P. 6)

**ABC TOUTS AD REVENUE** gains in 4th quarter. Critics told of plans to extend brand and content to new delivery systems. (P. 6)

**CABLE PUSHING ADVANCED SERVICES:** Revenue more than doubles, FCC says in competition report. Rates up 3.8%, spending up more. (P. 7)

**FCC EYES LICENSE BUREAU** to unify activities of multiple offices. 'One-stop-shopping,' streamlining promised. (P. 7)

**BROADCASTERS HIT BY FCC ON LPFM AND EEO:** Broadcasters took double hit from FCC last week when agency authorized beginning of low-power FM (LPFM) service — over strenuous objections of NAB — and adopted new EEO rules containing many requirements to which Assn. objected. Both items were adopted over dissent of Comr. Furchtgott-Roth, with partial dissent from Comr. Powell on LPFM. NAB already has said it will appeal to courts on authorization of low-power FM stations "if necessary," and radio board meeting is scheduled for this week.

Commission majority said LPFM rules are "carefully crafted" (maximum power 100 w, maximum tower height 30 m, limited service range of 3.5 miles and mileage separation requirements with existing FMs) in effort to avoid interference to regular stations — position disputed by Furchtgott-Roth and broadcasters. LPFMs will be noncommercial by FCC mandate and licensees will be limited to single station that may not be resold — at least under original rules. FCC said such "a noncommercial [service] will be the best way to bring additional diversity to radio broadcasting and serve local community needs in a focused manner."

Commission will establish 5-day window in May during which it will accept LPFM applications and they will be processed "as quickly as we can," Mass Media Bureau Chief Roy Stewart said. Applicants will be asked if they ever have been involved in operation of unauthorized (pirate) station; individual who says yes will be eligible for authorized LPFM

### Consumer Electronics

**HOLLYWOOD DECLARES VICTORY** in DVD hacking case as court grants MPAA preliminary injunction. (P. 11)

**DTV CHALLENGES HOME VIDEO**, says IRMA report, citing gradual threat to VHS and DVD from digitally delivered video-on-demand. (P. 12)

**THOMSON TO CLOSE PCB PLANT** by Oct. as it moves to source printed circuit boards for TVs, DBS receivers. (P. 13)

**BLOCKBUSTER TO STREAM MGM MOVIES** in test of downloading via Internet and to other, unnamed home video technologies. (P. 13)

**GEMSTAR SUES TIVO**, charging patent infringement on interactive program guide, seeks temporary injunction. (P. 14)

**TWEETER TO BUY UNITED AUDIO:** Chicago-based 7-store specialty chain will be 'springboard' for Tweeter expansion to surrounding cities. (P. 14)

**RADIOSHACK.COM WILL RESUME** in late summer with added functionality and as 'showcase for Microsoft technology.' (P. 15)

**TOYS 'R' US TO EXPAND WEB PRESENCE** with new e-commerce sites this year. (P. 15)



if applicant certifies he or she “voluntarily ceased” illegal operation before Feb. 26, 1999, without being ordered to do so by FCC or had halted such operation within 24 hours after receiving official notice. If former pirate operator is granted LPFM and FCC finds out later, any such grants will be handled on “ad hoc, case-by-case basis,” Stewart said.

Point system will be established by FCC to resolve mutually exclusive applications “by a clear-cut selection process.” Applicants will be awarded one point for “an established community presence” of at least 2 years, 2 points for pledging to operate at least 12 hours daily (36 hours weekly is required minimum), and 3 points for airing at least 8 hours of locally originated programming daily. LPFM licensees will be subject to same character qualifications as regular station owners.

Minor flap developed over availability of LPFMs in largest markets. Furchtgott-Roth said only Houston would be eligible for LPFM station under engineering criteria. Comr. Tristani said new study showed following cities could be awarded LPFMs: Dallas 4, Miami 4, San Francisco 3, Washington 3, Philadelphia one.

Chmn. Kennard disputed contention that LPFMs would cause interference to regular FMs and said that with increasing number of mergers and consolidations, “interests of small groups and individuals are being lost and important voices and viewpoints are being shut out... And, the fact is there is more room at the table. There is spectrum available.”

Furchtgott-Roth asked whether new EEO rules would apply to LPFMs with 5 or more full-time employees and answered his own question “yes”: “The required outreach and paperwork for EEO alone, not to mention all the other regulations, may prove overwhelming [for low-power stations]. Any current demand... will only be dampened by these regulatory burdens.” Powell dissented in part, saying Commission had refused to consider impact of new service on “economic viability” of new stations. While they must be nonprofit, he said, they surely will siphon audiences and constitute threat to small stations. FCC should have considered that threat, Powell said.

Comr. Ness said she was convinced no harmful interference would be caused to regular FMs. She asked Stewart whether LPFMs would count as “market voice” under FCC rules. He said that question would be taken up in response to petitions for reconsideration.

Authorization of LPFMs led to spate of favorable news releases from public interest groups. Proclaimed Prometheus Radio Project (formed last spring to push for LPFMs): “For once, we win.” Said Ted Rappaport of Va. Tech, speaking for Media Access Project and several other groups: “The FCC has recognized the most blatant exaggerations put forward by low-power radio opponents... There can be no doubt that, technically speaking, the FCC has adopted an extremely cautious proposal.”

NAB Pres. Edward Fritts said: “The FCC has turned its back on spectrum integrity. Every legitimate scientific study validates that additional interference will result from LPFM. This FCC has chosen advancement of social engineering over spectrum integrity... It’s a sad day for radio listeners. We will review every option to undo the damage caused by low-power radio.”

House Telecom Subcommittee Chmn. Tauzin (R-La.) is “disappointed, but not surprised, that the FCC moved forward on this issue without any congressional consultation,” said spokesman Ken Johnson. “We’re still deeply concerned about possible interference on the FM band, and if it proves to be a problem, we won’t hesitate to try to resolve this controversy through legislation.” Sen. Burns (R-Mont.) said he was “very disappointed at both the substance and the timing of the FCC’s reckless decision” on LPFM. He said decision “basically legalizes pirate radio stations” and Commission hasn’t fully considered technical issues.

### **New FCC EEO Rules Designed to Pass Court Muster**

FCC originally adopted equal employment rules in 1971, adding women to mandate year later, and licensee violations of those rules led to dozens of fines over intervening years. However, in one of those fines Lutheran Church Synod of Mo. appealed and U.S. Appeals Court, D.C., ruled in church’s favor by throwing out agency’s EEO requirements in April 1998 as unconstitutional. As result, Commission adopted new requirements — applicable to broadcast and cable — that it believes will receive favorable decision by courts if they’re appealed.

New rules, which are “far different” from EEO proposal by NAB, require licensees to “widely disseminate” information about job openings to all segments of community and prohibit “discrimination on the basis of race, religion, color, national origin or gender.” Commission left EEO rulemaking docket open, it said, to “facilitate the submission of information relevant to employment disparities” in broadcasting and cable.



Cable and TV-radio are given “significant flexibility” in complying with rules, FCC said, such as ability to design their own outreach programs to meet requirements. Order allows church-owned stations to establish “religious belief or affiliation” as requirement for employees — one of issues in Mo. case. Stations with fewer than 5 full-time employees are exempt from EEO requirements, cable systems with fewer than 6.

Kennard said new rules advance “twin goals of prohibiting discrimination in hiring and promoting diversity on the public’s airwaves... The only good approach to discrimination is zero tolerance... The EEO rules before us will continue the Commission’s proud tradition of ensuring that broadcasters reach out to all segments of their community... and [agency’s] long-standing obligation and commitment” to ensure that use of spectrum “reflect[s] the diversity of the public itself.” But, said Kennard, “I had hoped that we could do more... We should have gone further.”

In dissenting, Furchtgott-Roth said new regulations “bear some of the same characteristics” that Appeals Court rejected. Most particularly, he said, is FCC’s “continued insistence” on requiring licensees to classify employees and applicants alike “based on their race and gender, factors that should be irrelevant to a person’s job qualifications.” He called that “legally troublesome.”

Tristani voted for EEO item, she said, “not because it goes as far as perhaps I would like, but because the bulk of it goes as far as I think we should in the current legal landscape.” She dissented to part of order, saying FCC didn’t go far enough by not requiring licensees to track “interviewee data, and not merely applicant data” — area where Kennard also wanted agency to go further than it did. Ness said: “I believe that the rules we adopt today respond to the letter and spirit of the court’s opinion.”

**RELIGIOUS BROADCASTING DEBATE HEATS UP:** Battle over religious broadcasters’ use of noncommercial TV spectrum intensified last week, with FCC feeling pressure from both left and right over its recent “clarifications” of requirements to own spectrum (TVD Jan 10 p8). Commission in approving Pittsburgh station license transfer just before New Year said 50% of noncommercial station’s programming must be educational, category that explicitly doesn’t include church services and other emotional religious programming. House Telecom Subcommittee Chmn. Tauzin (R-La.) asked each FCC member 33 questions about case, requesting answers by Feb. 4. Meanwhile, group headed by Citizens for Independent Public Bcstg. (CIPB) is starting letter-writing campaign to defend FCC decision and make it easier for citizens to challenge religious broadcasters’ ownership.

Hue and cry on right grew stronger when religious broadcaster Cornerstone TV terminated station swap with Pittsburgh PBS member WQED, deal that was to allow Paxson to gain Pittsburgh affiliate. Cornerstone said decision not to swap commercial station WPCB-TV (Ch. 40) for WQED’s noncommercial WQEX (Ch. 16) “was forced upon us” by FCC’s attaching new requirements. Cornerstone Pres. Oleen Eagle said church programming is his organization’s “primary means of carrying out our mission.” He said deal, which would have finished with WQED selling WPCB-TV to Paxson and splitting proceeds with Cornerstone, would have provided “significant” financial benefits, “but there is no benefit that would justify the sacrifice of religious freedom required by the new FCC standards.” Eagle said Commission ignored “fundamental educational, instructional and cultural nature of all religious services” and created standards that are “so vague and overbroad” as to make it impossible for religious broadcasters to know what would qualify.

“Frankly, I do not understand how the new policy can possibly be squared with our nation’s traditional commitment to freedom of religious expression,” Tauzin said in letter. Taken with recent revelations of White House Office of National Drug Policy payments to networks for inclusion of antidrug messages in programs (see separate story, this issue), FCC’s action constitutes “double-barreled blast at the First Amendment” by Clinton Administration, Tauzin spokesman Ken Johnson charged: “We’re not going to allow the federal government to become a censor.” He said Tauzin has requested House Commerce Committee hearings on both issues, possibly as consolidated hearing because of short session. “It’s too early to tell” whether legislative action is needed, Johnson said, but “if the White House pursues these initiatives, we certainly won’t be afraid of legislative initiatives.” Subcommittee Vice Chmn. Oxley (R-O.) has said he will introduce bill when Congress reconvenes today (Jan. 24) to reverse rules and to limit FCC’s authority to set noncommercial license standards (TVD Jan 17 p7), and spokeswoman said he already has 28 co-sponsors.

Tauzin asked each commissioner questions that included: (1) Why don’t church services, particularly exposition of Biblical passages, serve educational/cultural community needs? Tauzin asked what percentage of population must be interested to meet that standard. (2) Will Commission take it upon itself to determine which sermons are educational, and what training do FCC officials have to do so, especially since Comr. Ness questioned that premise? (3) Why isn’t religious music, including classical and gospel, “integral and extremely important aspect of our culture?” Would such music qualify if played in Kennedy Center but not in church? (4) Doesn’t religion have role to play in examining and solving social problems?



Tauzin asked if FCC was attempting to “read religion out of the culture,” and whether Commission’s policies when taken as whole didn’t indicate that “disturbing antireligious bias is at work within the agency.” Johnson didn’t identify other cases that might lead to that conclusion, but other sources told us religious broadcasters have long feared there’s effort afoot at Commission to discriminate against them, particularly at staff level. Along those lines, Tauzin asked: (1) How can church services be less educational for religious believers than cooking class? (2) Does agency similarly forbid “expressions of passion and enthusiasm with respect to secular educational/cultural presentations” such as visual arts? Tauzin said it’s “known” that more Americans appreciate church services than opera and other “classical” arts. (3) Don’t secular noncommercial broadcasters also need guidance on what is and isn’t cultural? What types of secular music would fit that description? (4) “Is a program disqualified from being considered to be responsive to public needs simply because it suggested that a particular religious viewpoint provided the exclusive path to salvation?”

Tauzin also challenged decision on procedural grounds, asking why commissioners would “think it was appropriate to issue this policy without following the normal APA [Administrative Procedure Act] procedure of public notice and comment. Do you believe that the FCC would not benefit from the public’s perspective on this matter?” He asked what circumstances require notice and comment, and why FCC released decision on years-old case during week between Christmas and New Year, when Congress was out of session.

Meanwhile, National Religious Bcstrs. (NRB) began lobbying Congress for reversal of decision, saying at least 15 religious broadcasters have noncommercial licenses. In letter to Hill, FCC Chmn. Kennard had said new rules would affect only small number of stations since most religious broadcasters have commercial licenses. Asked NRB spokesman: “Does that mean it’s acceptable to restrict religious speech when it only affects a small number?” Kennard told Hill that Commission didn’t set new rules, merely clarified existing ones. Cornerstone’s Eagle added that Kennard’s response showed decision wouldn’t be overturned except by court order or legislation, either of which would take longer than Cornerstone could afford to wait. NRB said it has written to all members of Congress telling them FCC has violated First Amendment protection for religious expression.

“We kind of welcome... this debate about what constitutes education,” said CIPB Exec. Dir. Jerrold Starr, who became involved in noncommercial TV issues during fight to stop religious broadcaster Cornerstone from taking noncommercial license in Pittsburgh. Although that license transfer was approved, Cornerstone has backed out of deal because of new guidelines, despite Commission’s original claim that religious broadcaster understood terms and was ready to comply with them. Starr estimated 45 noncommercial licenses are held by religious programmers, and “I have read that there are abuses of these licenses.” Commission’s “clarification” was conservative one, Starr said, and his group will urge it to go further, spelling out explicitly what showing community group must make for agency not to allow religious organization to hold license. Among those joining so far are National Education Assn. (NEA), People For The American Way (PFTAW), Americans United for Separation of Church and State, Benton Foundation, Center for Media Education, National Writers Union. Starr said of members of his coalition, “when they think of education, they think of reason, evidence, more than one point of view, critical thinking.”

Members of Starr’s coalition are circulating sample letter for their members to send to Congress that decries Commission’s decision to approve noncommercial license for station that “routinely preaches bigotry against other religions, gays and lesbians, public school teachers, organized labor, environmentalists and others.” Once Oxley introduces bill, “we’ll generate letters to the House,” Starr said. He said his group will seek sympathetic members of Congress to start legislative countercampaign.

Three years after passage of Electronic Freedom of Information Act (E-FOIA), “stunningly high number” of federal agencies aren’t registered with Justice Dept. as having complied with requirement to create useful electronic reading room, OMB Watch said in report. It said that of 64 agencies examined, 7 have no useful compliance and 57 have varying degrees of compliance, but none comply fully. Report said Congress hasn’t provided necessary funding, Office of Management & Budget (OMB) hasn’t provided adequate guidance and assistance and there’s no accountability for agencies. Among agencies getting failing grade was FCC, which report considered to have “partially” compliant reading room but no FOIA link from home page, no list of frequently requested documents, no index of major information systems.

Belo’s Internet subsidiary Belo Interactive invested undisclosed sum in DigitalConvergence.com, gaining exclusive license to use latter’s enhanced TV products.

Senate Banking Committee will hold hearing on DBS service to rural areas, 10 a.m., Rm. 628, Dirksen. Witnesses will be Senate Communications Subcommittee Chmn. Burns (R-Mont.) promoting his \$1.25-billion loan guarantee program that would help get local network affiliates for rural areas carried on DBS birds; Sen. Baucus (D-Mont.); and U.S. Copyright Office Senior Attorney Bill Roberts. Loan fund was deleted from Satellite Home Viewer Improvement Act (SHVIA) late last year after Senate Banking Committee Chmn. Gramm (R-Tex.) objected that such language should have passed through his committee first. Gramm and Burns agreed then that issue would be revived this year.

Matra Marconi Space said it received Intelsat contract to build “largest and most powerful” satellite ever procured by Intelsat. Satellite, to be located at 310° E, is to provide variety of communications services, Matra said.



**WEB STREAMER SUED:** Legal proceedings have started against Canadian Webcaster iCraveTV, more than month after company defied cease-and-desist bids (TVD Dec139 p6). Separate lawsuits, one by coalition of MPAA, 3 networks and others, other by National Basketball Assn. and National Football League, accused Web site of copyright violations, calling for immediate injunction shutting down site and eventual finding for damages of up to \$150,000 per unauthorized program transmission. Both cases were filed in U.S. Dist. Court, Pittsburgh, where iCraveTV Pres. Bill Craig's consulting company registered iCraveTV.com Web site. Company streams live signals of all broadcast stations in Toronto, including those of several American stations in Buffalo, without obtaining permission or compensating stations. It generates revenue by selling ads, which run around border of program.

"This is one of the most brazen thefts of intellectual property ever committed," MPAA Pres. Jack Valenti said. "The simplest way to put this is stealing." He said case has "no ambiguities... There's such clarity to this." Legal claims are based on alleged violations of general copyright law rather than retransmission rules, which iCraveTV claims it follows.

MPAA was joined by 20th Century Fox, Disney, Columbia TriStar, Columbia Pictures, MGM, Orion Pictures, Paramount Pictures, Universal City Studios, Time Warner, ABC, CBS and Fox, but not NBC. NBC spokeswoman said company "is 100% supportive" of other broadcasters' lawsuit and is "evaluating legal actions" that "could include joining the suit or starting one of our own." Two lawsuits were coordinated, Valenti said. NAB Pres. Edward Fritts said stations "strongly support the actions taken today." Action still may be forthcoming from Buffalo stations whose signals are being streamed. "We're still very much up in arms," said Greg Schmidt, vp-gen. counsel for LIN Bcstg. "You can expect that we'll be involved, although we haven't made a determination how. NAB will be involved, too."

Valenti said content companies "have no problem" with Web sites that obtain permission and pay license fees. Studios and broadcasters are "in the business of licensing programs," he said, and "if iCrave wants to go straight, sure, we'll negotiate whatever is reasonable." He said it's important to make example of first company that doesn't do so: "We want to nail them to the wall now."

iCraveTV says on its Web site that only Canadian users should use its services, and it asks users to input their area codes as proof of location. That's "total sham designed only to give defendants' service the false appearance of legitimacy," plaintiffs said. Suit said company sells ads to U.S. companies, and its international sales mgr. is Pittsburgh resident. Even if barriers were effective, studios still would have claim since they license material to Canadian broadcasters, suit said.

MPAA was "not the author of" amendment floated in Congress at end of last session that specifically would prevent Internet companies from obtaining compulsory copyright license akin to those used by cable and satellite operators, Valenti said. He said general copyright law and Digital Millennium Copyright Act provide sufficient protection on Web, and no further legislation is needed.

Although Canadian broadcasters haven't sued iCraveTV, and Craig has said that Canadian law protects his company,

Valenti said he believes "this is illegal in Canada as well... We don't believe Canadian law would permit them to take Canadian stations' property." Canadian lawsuit against iCraveTV is likely to be filed in next 10 days, N. American Bcstrs. Assn. (NABA) Secy.-Gen. Bill Roberts said. He said plaintiffs will be "similar collective" of broadcasters and content companies. Legal arguments also probably will be similar, Roberts said.

Sports leagues said Webcasting interferes with their exclusive contracts with broadcasting partners in addition to violating copyright rules. They said allowing company to sell ads around programs "could eventually destroy the value" of sponsoring sporting events. Craig has stated intention to sell extra ads for Jan. 30 Super Bowl telecast, leagues said.

iCraveTV said it wouldn't comment on filings. It said it believes it complies with all relevant U.S. laws, and "will defend itself actively and vigorously."

**Financials:** "Strong double-digit" earnings increase at NBC in 1999 helped boost parent GE to \$3.1 billion profit, up 16% from 1998. NBC profit also jumped 16%, to \$433 million. GE profits also were boosted by \$252 million gain on NBC's contribution of assets to publicly traded Internet company NBCi.com. GE said NBC was boosted by strong ad market and good performance at CNBC. NBC revenue was up 31% to \$1.75 billion... Tribune Co. broadcast and entertainment operating profit grew 18% in 4th quarter ended Dec. 31 to \$113 million, including 20% gain in TV station profit. Revenue was up 17% to \$348 million... Shaw Communications posted income of \$39.9 million in quarter ended Nov. 30, vs. \$8.6 million loss year earlier. Cable subscribership edged up 0.5% in quarter, up 8,402 to 1.8 million, while Shaw@Home added 37,000 subscribers, up 28%... Driven by DirecTV, Hughes Electronics said revenue soared 53.6% to \$1.7 billion in quarter ended Dec. 31, but it lost \$231.8 million, vs. \$123.1 million profit last year... AOL said revenue jumped 41% to \$1.6 billion in 2nd quarter, including 79% rise in ad revenue to \$437 million. Earnings soared to \$271 million from \$115 million, although figure includes one-time gains and company didn't provide pro forma figure.

If FCC adopts specific rules for retransmission consent for DBS operators to carry local TV stations "it would place a sledge hammer in the hands of every MVPD [multichannel video provider] negotiating with a local TV station for retransmission consent," ALTV said in comments to agency. Group said DBS operators "essentially seek to have local TV stations gift-wrap their retransmission consent in brightly wrapped, tautly taped packages with shiny bows and deliver them gratis." It said local TV stations have "no demonstrable bargaining power" over DBS and "every incentive to be carried by satellite carriers... This is hardly a recipe for a stew of failed negotiations."

**AT&T and MediaOne filed suit** against Henrico County, Va., challenging open access condition in its franchise transfer approval. AT&T spokeswoman said complaint filed Jan. 20 in U.S. Dist. Court, Richmond, said county's "forced access" requirement violates federal and state law. Spokeswoman said companies also believe Henrico County "lacked legal authority under Virginia law to impose such a requirement."

**Streaming media** now account for 10% of all Internet traffic in N. America and voice and fax more than IP 2-3%, according to new study by RHK.



**TAUZIN CRITICAL OF DRUG ACTION:** House Telecom Subcommittee Chmn. Tauzin (R-La.) said he plans to "raise a certain amount of hell" about networks seeking White House approval for antidrug messages in TV shows (TVD Jan 17 p4). He said he wasn't sure exactly what action he would take in response to issue, saying "give me until we get back in session and we will see." FCC officials, meanwhile, said they had received no formal complaints that White House funding violated sponsorship ID rules and wouldn't comment on whether Commission might act on its own initiative.

"If ever there was a frontal assault on the First Amendment, this is it," Tauzin said. He compared funding by White House Office of National Drug Policy to govt. giving tax credits to newspapers that publish stories White House agrees with: "Everyone dedicated to the preservation of the First Amendment ought to be outraged, and for the TV networks to play a part in this is equally outrageous."

White House "ought to be reviewing the policy and apologizing to the American people," Tauzin said. He said drug office "is doing very important work, and I sympathize with it, but I don't think you should sacrifice the Constitution to do it." Although he said he wasn't sure what specific action he would take, Tauzin said: "I've got a good podium in the House and I intend to use it."

Public interest and First Amendment lawyers said arrangement, in which TV networks were able to avoid carrying antidrug ads or PSAs in return for antidrug messages in shows themselves, probably violated Sec. 317 of Communications Act, which requires broadcasters to identify anyone providing any consideration for content on shows. Rule would apply, they said, because networks could sell ad time to others, although one lawyer said that could depend on exact facts of case.

White House, meanwhile, said it clarified its policy on antidrug messages, although networks still could qualify for financial benefits based on content of programs. Under new guidelines, govt. won't review programs until after they air to determine whether they qualify. Office also said it would separate process of providing guidance to networks or program producers, including making technical experts available, from process of awarding credits. Legislation enacted in 1997 provided money for antidrug ads on TV, but only on condition that bought ad time be matched by free time or PSAs provided by broadcasters. Concerns arose when govt. decided that content of shows themselves could meet requirement for matching time, freeing broadcasters to sell ad time to others.

Controversy overshadowed ABC's effort to tout its audience turnaround in presentations to TV critics in Pasadena last week. ABC TV Pres. Patricia Fili-Krushel said network balked at submitting scripts in advance in order to receive credit for programming: "We told them that we would only take the matching funds for PSAs... Therefore, we were not eligible for the programming content match the 2nd year."

Along with UPN and WB, ABC also disputed notion that networks pressured show producers to alter scripts in order to increase number of credits for in-show antidrug messages so they could reduce their PSA requirements. UPN CEO Dean Valentine termed whole controversy "biggest nonstory ever."

**ABC TOUTS AD REVENUE:** Fueled largely by runaway success of *Who Wants to Be a Millionaire*, ABC TV Network ad sales topped \$1 billion in 4th quarter 1999, first time network surpassed billion-dollar mark in any quarter, executives told TV critics. In addition to recent ratings success, ABC TV Pres. Patricia Fili-Krushel promoted ABC's vision of extending its brand and content to as many new models as possible — such as cable and Internet.

Fili-Krushel cited launch of SoapNet, cable channel that will feature same-day repeats of ABC's daytime soap operas. She said further integration of some functions of various Disney subsidiaries was under way, including merging of ABC Sports and ESPN advertising sales depts., but stressed network wasn't in cost-cutting mode.

ABC executives dismissed statement by competitors that *Millionaire* would provide only short-term benefits and in fact might harm network by diverting long-term focus away from traditional program development. "I actually think *Millionaire* is going to afford us the opportunity to take more chances in our dramatic and comedy [development] because of this promotional platform we're going to have and the ability to bring in a very significant audience to sample a show," ABC TV Group Co-Chmn. Lloyd Braun said. He said ABC will continue to lead in putting out original and different programming in summer.

Fili-Krushel said ABC's agreement with NAACP earlier this month was significant step in right direction. Coverage of race issue may be having impact on content already, with Peter Berg, executive producer of new ABC hospital drama *Wonderland*, saying he added prominent minority cast member after viewing pilot.

**Saying it was "striking a blow"** to defend future of American movies, MPAA and 8 major Hollywood studios filed separate federal suits in Conn. and N.Y. seeking to bar 4 Web sites from continuing to disseminate hacked encryption codes they said would facilitate unlawful copying of DVDs. Unlike separate suit filed earlier in Santa Clara court by licensing entity DVD Copy Control Assn. that charges 72 sites with misappropriating trade secrets, MPAA and major movie companies cited violations of anticircumvention rules in Digital Millennium Copyright Act enacted in 1998. MPAA Pres. Jack Valenti said posting DVD decryption formula on Web site "is no different than making and then distributing unauthorized keys to a department store."

**ViaSat said** it will acquire satellite networking businesses of Scientific-Atlanta for \$75 million. Deal, subject to regulatory conditions, is expected to close within 120 days, ViaSat said. Acquisition includes Scientific-Atlanta's product lines for broadband satellite network gateways, data transactions, telephony, mobile asset tracking, automated meter reading, remote monitoring and space imaging as well as satellite network operations center.

**U.S. Supreme Court declined** to hear challenge to Internet domain name fees, without comment, apparently ending 3-year court battle. In case, group of Web site owners sued then-monopoly Network Solutions Inc. (NSI), saying \$70 fee for 2-year name registration was well above costs. They also said 30% of fee that then was given to National Science Foundation was illegal tax. Case had been dismissed by 2 lower courts following congressional action in 1998 that explicitly allowed NSI's fees.



**CABLE PUSHING ADVANCED SERVICES:** Cable revenue on advanced services rose estimated 117% in 1999 from 1998 to total of just over \$1 billion, FCC said in latest competition report (TVD Jan 17 p6). While figure still is dwarfed by video revenue of more than \$28 billion, agency said, increase in advanced services — on top of 129% growth year earlier — suggests why MSOs are investing so heavily in upgrading their plants to 2-way digital. Cable rates rose 3.8% last year, report said, but industry spending on new plant and upgrades jumped estimated 40.9% to \$10.8 billion. Figures in report are based on MSO surveys from last summer, but include some year-end 1999 estimates.

Comcast has spent more than \$2 billion in last 4 years upgrading its plant, it told FCC, and estimated that by year-end 1999 it would have 85% of its subscribers at 550 MHz or better and 63% at 750 MHz. MSO said it had 285,000 digital video subscribers at time of survey last summer and anticipated 400,000-450,000 by end of 1999. Cox spent \$650 million in upgrades in 1999, it said, and estimated that by end of 1999 65% would be 750 MHz 2-way, with additional 11% upgraded to 550 MHz. MSO said it had 144,000 digital video subscribers.

Report reflected explosion in high-speed Internet access via cable modems, which has maintained its lead on telco-offered DSL. Leading cable Internet providers @Home and Road Runner reported 840,000 (up 300%) and 420,000 subscribers, respectively. Among leading MSOs: (1) Cox passed 3.2 million homes with @Home, had 112,000 subscribers. (2) Comcast passed 2.4 million homes with @Home, 46% of its subscribers, had 100,000 customers and estimated another 30,000 end of 1999. (3) Not listing subscriber figures were Adelphia, passing 425,000 homes; AT&T, 1.6 million; MediaOne, 5.8 million; Cablevision Systems, 650,000 in Conn. and Long Island; Time Warner, 3.8 million; Charter, more than 300,000.

Social contracts with FCC have been factor in upgrades, report said. Of MSOs that reached social contracts with Commission in settling rate cases: (1) Time Warner is "on track" to spend \$4 billion over 5 years on upgrades, having spent \$2.9 billion in 3 years. It also must provide all of its subscribers with 550 MHz and 50% with 750 MHz. (2) MediaOne surpassed financial commitment of \$1.7 billion over 4 years, having spent \$2.5 billion in that period. It told FCC it expects within year to fulfill commitment to provide 100% of subscribers 550 MHz service and 750 MHz to 50%. (3) Comcast fulfilled contract commitments by upgrading 80% of subscribers to 550 MHz and 60% to 750 MHz.

**Cable open access** will be top priority for House Telecom Subcommittee ranking Democrat Markey (Mass.) this session, chief of staff David Moulton told us. Markey already has introduced resolution on issue, "and he will be pushing it," Moulton said. "There's a lot of speculation about AOL being less interested in open access," he said, "but AOL at least rhetorically denies that." Despite talk that AOL-Time Warner merger and AT&T/MindSpring agreement would negate need for national policy, Moulton said, "if you're an ISP other than Excite@Home or AOL, you probably think the need is more desperate than ever."

**FCC Chmn. Kennard** began week-long European trip following Commission meeting Thurs. Trip includes stop at World Economic Forum meeting in Davos, Switzerland, plus meetings with regulators in France, Netherlands, Portugal, Spain.

**FCC EYES LICENSE BUREAU:** Team of FCC staff is considering formation of new licensing bureau to concentrate functions now scattered among several bureaus, Chmn. Kennard said. In briefing on agenda for year, he said idea is being considered as part of agency's plan to reorganize along functional lines, providing "one-stop shopping."

Reasoning is similar to what led to development of Enforcement Bureau — it doesn't make sense in age of convergence for same function to be handled by several bureaus, Kennard said. Big merger or acquisition that involves many licenses can require approvals from multiple bureaus, he said. Kennard said in listing his priorities for 2000 that concentrating licensing functions would streamline licensing procedures and make it easier to get access to licensing information.

Among other Kennard priorities: (1) "Launching a national dialog on the public interest obligations of American broadcasters." (2) Adopting EEO rules "to help shatter glass ceilings." (3) "Keeping the nation's broadband infrastructure open to competition." (4) Tracking deployment of broadband services "to maximize the use of this new technology." (5) Promoting digital TV. (6) "Making DTV compatible with the nation's cable networks." (7) "Making the merger review process faster and more transparent."

Asked whether FCC might initiate open access rulemaking, given Kennard's concern about media concentration, he said "I don't anticipate doing that." He said he had "studied this issue and I still believe the marketplace can work out a solution for open access. You need to first put faith in the marketplace."

**FCC shortened time** for MSOs to comply with horizontal ownership limits if upheld by court in order on reconsideration released Jan. 19, with dissents from Comrs. Furchtgott-Roth and Tristani. Original rules written after 1992 Cable Act and new ones adopted last Oct. have been stayed pending legal challenges in U.S. Appeals Court, D.C. In most significant change for MSOs that would have to come into compliance should stay be lifted, Commission changed start date of 180-day compliance clock from day court issues mandate to earlier point of when court opinion is issued. Commission said move "provides more certainty to the public and affected parties" because there can be "wide variance" between opinion and mandate dates. Furchtgott-Roth said decision "does not, of course, increase 'certainty' for regulated entities and the public... Instead, what this new selection does is shorten the time to come into compliance." Tristani took opposite tack, saying "decision represents a move in the right direction," but "I would have lifted the voluntary stay... immediately." Another change by Commission reflected fact that court last year separated constitutional challenge to FCC's statutory authority from content challenges to rules themselves. Again potentially speeding up clock, as court is addressing statutory challenge first (on theory that if statute is overturned, review of rules would be moot), FCC said stay would be lifted "effective upon the issuance of a decision upholding the statute." Previously, language had said decision on statute and rules had to be issued. Issues may be moot, however, as AT&T and MediaOne told FCC in Nov. that as combined company they would be in compliance with most recently adopted horizontal ownership rules.

**DTV coverage area maximization** applications should be handled on first-come, first-served basis, Fox TV Stations said in ex parte filing at FCC. Fox also said mutually exclusive applications should be evaluated simultaneously because increased power of each could cancel enough of other's interference to make it de minimis.



**HUNDT DESCRIBES TENURE:** Ex-FCC Chmn. Reed Hundt said he lobbied Congress, sought support of Silicon Valley titans and mounted public relations battles against views of other commissioners, in book scheduled to be available in March. According to advance copy, Hundt took actions primarily to forward 2 goals that he believed were his reasons for being at Commission: Wiring classrooms throughout country and bringing competition to local phone industry.

"You Say You Want a Revolution: A Story of Information Age Politics" (Yale U. Press) chronicles Hundt's development from naive idealist to political operative. "I thought I had a judge's job — discriminating issue by issue, case by case, among competing legal arguments and factual assertions," he said. Later, he found himself strategizing behind scenes with White House staff member Ann Lewis in coffee shop meetings and becoming deliberately "intransigent," refusing to give ground on anything in fighting "Gang of 3" (then-Comrs. James Quello, Rochelle Chong and Andrew Barrett who became Gang of 2 when Barrett left). He said tight deadlines imposed by Congress for enacting Telecom Act "were a stroke of luck" because "they permitted my team to rush the items past the other commissioners to votes, insisting on our interpretations of the law and brooking no delays... The deadlines denied the lobbyists and the Gang of Three the use of delaying tactics to build opposition to our recommended decisions."

Hundt's lobbying activities targeted Sen. McCain (R-Ariz.), among others. Although McCain opposed some FCC actions, Hundt in 1996 sought and gained his support for free broadcast time for candidates, according to book. On meetings with White House's Lewis, he explained that "as a matter of law, the White House could not tell the FCC chairman or the commissioners how to vote. But naturally I, and any agency head, preferred the White House to approve my agenda."

Confirming that he viewed himself on mission to forward Clinton-Gore Administration's positions, he said: "Our agenda was stated in the campaign. We won. Now we had to fulfill the campaign promises." He said he knew compromise was rule of Commission in past but he didn't think he could advance those goals through compromise: "A constant concern was my lack of a reliable majority. To avoid losing the support of either Congress or the Gang of Three, I could try... to write our rules by consensus. I rejected this option as both impractical and unlikely to lead to a truly procompetitive result."

Hundt and staff visited Microsoft's Bill Gates and Silicon Valley luminaries such as Intel's Andy Grove to seek their support for key programs. In March 1995, they tried to interest Gates in fighting for digital TV spectrum that Hundt wanted to auction. He and his aides told Gates that such spectrum could be valuable to computer companies as they moved into communications.

Text is interspersed with humor. Early in Hundt's term, after reporter called him "aloof and arrogant," he wrote: "Of course, I consoled myself, if you're arrogant, you're doing people a favor to be aloof." He told of meeting with Quello before his confirmation to gain veteran FCC commissioner's support. As they sat at Palm restaurant, Hundt leaned forward when Quello said he had advice: "Kid, don't order the special" because it cost twice as much as other items on menu. Hundt chronicled advice he got from others, such as Rep. Dingell (D-Mich.), who told him to "grow thick skin" and "don't be like"

ex-Chmn. Mark Fowler, "the sneaky one who didn't do what I wanted."

Early in his term, Hundt said he hadn't expected proposal for 3 hours of children's TV per week to be so controversial: "I could not imagine that this humble request would be rejected, especially given that we also proposed to eliminate unnecessary regulations on commercial matters." He said he apparently added to problem by traveling abroad rather than speaking at NAB convention: "I was sure that foreign policy deserved more of my attention than domestic television." According to book, Quello told him later, "you've got a lot of learning to do."

Emmis and Sinclair sued each other last week over St. Louis radio and TV stations. Sinclair asked Baltimore County Circuit Court to rule that former Sinclair CEO Barry Baker didn't have right to acquire St. Louis stations and couldn't transfer them to Emmis. It said deal with Baker was unenforceable because of "vagueness" and Baker couldn't assign rights to Emmis. Sinclair said suit "is an attempt to bring finality to lengthy negotiations between the parties." Emmis immediately countersued, saying it properly purchased option for stations from Baker in June. Price of \$366.5 million was set by appraisal in Nov., it said. Among other things, Emmis said its claim charges Sinclair with refusing to negotiate in good faith.

House Commerce Committee Chmn. Bliley (R-Va.) said he plans to take over chairmanship of a subcommittee when his term expires but he's not sure which one. Some have assumed Bliley has eye on Telecom Subcommittee, but he said that would depend on whether current Chmn. Tauzin (R-La.) is tapped for Bliley's seat. If someone else, such as Rep. Oxley (R-Ohio), is picked, another subcommittee chairmanship may become open, he said. Bliley spoke at Competitive Carrier Summit sponsored by Lucent, ALTS, CompTel and Kelley, Drye & Warren.

FCC is seeking comment on proposal for computer model to predict ability of household to receive TV signals. Rulemaking (FCC 00-17) is 3rd proceeding intended to implement Satellite Home Viewer Improvement Act (SHVIA). Model would be used to determine consumer's eligibility for receiving distant TV signals via satellite under SHVIA. New model proposes to include impact of vegetation and buildings on signal quality, FCC said. Comments are due Feb. 22, replies March 7.

Time Warner (TW) would receive not only termination fee but stock options if AOL breaks off merger, according to latest filings with SEC. After receiving up to \$5.4 billion in termination fees from AOL, TW would be eligible to buy up to 19.9% of AOL stock (452.5 million shares) at price subject to adjustment of \$73.75. Option would cost TW \$33.37 billion, not counting offset from termination fee.

CBS-Viacom merger "may pose a serious threat to localism," Belo Corp. said in FCC filing opposing deal. It would give company "control over too many television stations, networks, syndicated program suppliers... radio station and outdoor advertising outlets." Belo particularly opposed waiving 2-year divestiture period under dual network and ownership cap rules, saying they are "most important" to preserve localism. It noted that merged company would top ownership cap by 6 percentage points and create "major concentrations" in 6 markets.



**WB AND UPN SPLIT:** WB and UPN quest for audiences has split into battle of sexes as fledgling networks offered different strategies for reaching key 18-34-year-old viewing demographic at TV critics tour in Pasadena. UPN Pres. Dean Valentine said network's recent audience improvements have been tied largely to success with young males, saying of future: "If it has testosterone in it, we'll air it." WB CEO Jamie Kellner said his network's focus remains on young female viewers and quipped: "I think we're hormonally probably further apart from UPN than we've even been."

UPN has ridden shows such as *WWF Smackdown!* to 35% overall increase in ratings, with viewing among males age 18-34 up 90%. Overall, UPN has drawn virtually even with WB. In announcing several new reality-based programs — unlike Fox, which blames such shows for its poor season — UPN Entertainment Pres. Tom Nunan said: "We're not going to rely exclusively on reality programming, but we're not going to shy away from it either."

WB has seen huge drop in viewing from last season, which network blamed primarily on decision to disengage from WGN Cable on Oct. 7, 1999. Kellner also conceded that former hit shows, such as *Dawson's Creek* and *Felicity*, lost momentum, which network hopes to regain this year.

There was little of competitive sniping between UPN and WB that has been evident in past critics' tours. "Every network is competitive with every other network," Valentine said. "But I think it's clear that they're skewing more female and will continue going that way and we're skewing more male and going after a different audience."

Both networks are facing potential implications from pending mergers involving their parent companies. Valentine refused to speculate on impact of Viacom-CBS merger on UPN, saying: "I wish I could say what's going to happen, but I'm not sure what the ultimate outcome will be." As for proposed AOL-Time Warner merger, Kellner refused to speculate on potential impact for WB, but said: "My first reaction was the more power... you have behind your distribution efforts... the better off you're going to be." He predicted that traditional TV distribution would undergo changes in coming years and "AOL has a good chance of being at the leading edge of those kinds of changes, in which case we'd be in great shape."



**CableLabs** said consultant Rouzbeh Yassini will take on new responsibilities. He's credited with CableLabs development of standard for interoperable high-speed cable modems, known as DOCSIS (Data Over Cable Service Interface Specification). With multiple manufacturers certified in DOCSIS for modems and qualified for headend equipment, Yassini now also will advise OpenCable (interoperable set-top boxes) and PacketCable (IP services) in their certification activities and will increase coordination among processes, CableLabs said. He was founder of late LANcity Corp., first cable modem manufacturer, and for several years has been active consultant for CableLabs. Meanwhile, CableLabs said OpenCable has released 1.0 interim specification for point-of-deployment (POD) copy protection system. (In interoperable set-top, MSO provides POD that's inserted in box and allows scrambled signals to be converted.) Standard requires use of 5C copy protection system, which cable has insisted is essential but consumer electronics industry has suggested should be optional in DTV sets.

**TiVo is latest** to be sued by Gemstar for patent infringement, with latter filing in U.S. Dist. Court, San Francisco. Suit charges TiVo "willfully infringed certain Gemstar intellectual property" by selling video recorder devices "containing an unlicensed interactive program guide." Gemstar has more than 85 patents in U.S. and 90 abroad, most related to electronic program guides, and aggressively pursues litigation involving them. Often cases are settled out of court, with most recent example seeing TV Guide agreeing to be purchased by Gemstar at same time multiyear case was settled. Against TiVo, Gemstar is seeking injunction and monetary damages.

**Comcast completed** acquisition of Lenfest Communications and its cable arm Suburban Cable, adding 1.25 million subscribers for total of 8.2 million, clear No. 3 MSO. Lenfest founder Gerry Lenfest, who for years had resisted overtures of Pa. neighbor Comcast to sell, said "I did not take lightly the importance of turning over the ownership of Suburban Cable, the company we built over the last 25 years, to the right successor," adding he was "pleased" Comcast is buyer. When first persuaded to sell last year, Lenfest believed he was selling to AT&T, but as part of deal allowing Comcast to back out of its bid for MediaOne, right to purchase Lenfest was shifted to Comcast.

**House Telecom Subcommittee Chmn. Tauzin** (R-La.) will be featured speaker Jan. 24 (today) in New Orleans at joint session of ALTV and NATPE conventions — marking close of ALTV's meetings, start of NATPE, which will run through Jan. 27. "The Grand Inquisition" is title of ALTV session during which FCC Comrs. Ness and Furchtgott-Roth and NTIA Dir. Gregory Rohde will answer questions from panel of broadcasters. American Enterprise Institute scholar Norman Ornstein, co-chmn. of White House advisory committee on TV public interest standards in digital era, will keynote ALTV convention and group's Distinguished Service Award will go to James Dowdle of Tribune Bcstg.

**Scripps Networks** announced restructuring involving promotion of several executives and creation of New Ventures Group to "pursue growth opportunities." Scripps owns Do It Yourself (DIY) Network, Food Network, Home & Garden TV. Scripps Networks Exec. Vp Susan Packard was named pres. of New Ventures Group, with Exec. Vp Ed Spray appointed to new position of pres. of Scripps Networks.

**At request of NAB and MPAA**, FCC agreed to delay deadline for comments on video description rulemaking (MM 99-339) to Feb. 23 from Jan. 24 and replies to March 24 from Feb. 23. NAB and MPAA requested delay to allow them to complete surveys of members on technical capabilities. MPAA also said it needs more time to study copyright and contractual issues.

**Source Media expects** to have its interactive program guides appear on all platforms as result of sale of VirtualModem to Liberate, Source CEO Stephen Palley said. VirtualModem technology was product of joint venture of Source and No. 8 MSO Insight Communications.

**Allbritton Stations** began free ISP service at all TV stations' Web sites using CMGI's 1stUp.com, which also powers free ISPs of AltaVista and Excite@Home. Allbritton Pres. Robert Allbritton said free ISP business model closely parallels ad-supported free TV.



## Personals

**Robert Quicksilver** advanced to pres.-network distribution, Fox... **David Stainton** promoted to exec. vp, Walt Disney TV Animation... Added at Warner Bros. Domestic TV Distribution & Telepictures Distribution: **Jack Brandon** as dir.-eastern sales, **Damon Zaleski** as dir.-central sales... **Lucie Salhany**, ex-co-chmn.-Fox Bcstg, named CEO and co-pres., LifeF/X... **Donald Cass** promoted to senior vp, Belo.

**Julian Brodsky**, co-founder, dir. & vice chmn., Comcast Corp., joins NDS board... **Joseph Cece**, ex-Suburban Cable, appointed CEO, Digital Access... **Carl Meyer**, ex-Marigot Communications/Hong Kong, named regional mgr.-Asia Pacific territory, History Channel... **Greg DePrez**, ex-City Media, named vp-subscription video-on-demand, Starz Encore Media Group... **Michael Fleshman** promoted to chief technology officer, Nickelodeon Online... Appointments at ESPN Internet Group: **John Skipper**, senior vp-gen. mgr./ESPN The Magazine, named vp-gen. mgr.; **John Walsh**, senior vp-exec. editor, ESPN Inc., will add senior vp-exec. editor of Internet Group... Appointed at Women in Cable & Telecom Foundation: **Erica Gruen**, Erica Gruen Consulting, chmn.; **Kathleen Marron**, Robin, Kaplan, Miller & Ciresi, vice chmn.; **Pandit Wright**, Discovery Communications, secy.; **Gina Friedrich**, MCI-WorldCom, treas... **David Zagin**, ex-NBC Cable, appointed senior vp-affiliate sales, A&E TV... **Tim Brooks**, ex-USA Networks, named senior vp-research, Lifetime TV.

**D'Artagnan Babel**, vp-gen. mgr., WHBQ-TV (Fox) Memphis, named vp-gen. mgr., co-owned KRIV-TV Houston... **Steve Cabezas** promoted to gen. mgr., Radio Unica (AM), Fresno... **Bill Davis**, WUNC(FM) Chapel Hill gen. mgr. and NPR board member, named NPR senior vp-programming, new post, effective Feb. 29... **Hilary Hattler**, ex-Primedia Bcstg. Group, appointed exec. vp, Spanish Bcstg. System (SBS)/Puerto Rico... **Gina Quintana** promoted to gen. mgr., Radio Unica, Phoenix... **Robert Meyers**, vp-investor relations, Scientific Atlanta, retires.

**Thomas Nagel**, vp-business development, Cox, elected to Liberate board ... Promoted at Consumer Electronics Assn. (CEA): **Karen Chupka** to vp-events and conferences, **Michael Petricone** to vp-technology policy, **Evan Shubin** to vp-sales & mktg.

**Coverage of political campaigns by TV network news declined 44% in fall 1999, compared with same 1995 period, said study by Center for Media & Public Affairs. Center Pres. Robert Lichter said networks "became niche players" in campaign coverage, "ceding much of the story to the 24-hour cable news networks." He said decline was even more surprising since both parties' nominations are contested this year, unlike 1995 when President Clinton was incumbent. Campaign coverage was down 55% on CBS, 39% on ABC, 37% on NBC, study said.**

**CBS created worldwide distribution organization by merging King World, Eyemark Entertainment and CBS Bcst. International. Group, to retain name CBS Enterprises, will be headed by Roger King as chmn.-CEO, Ed Wilson as pres.-COO. Michael King will be consultant. Enterprises will be responsible for all domestic syndication, international distribution and production, media sales, video services.**



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**AT&T in Cal. reduced rates for cable-based high-speed Internet access in parts of San Francisco Bay area, offering access and Excite@Home service for \$30 monthly, down from \$40, for customers who buy their own cable modems. AT&T's \$40 price includes modem. Under separate promotion, new customers who buy own modems also can get free service installation. AT&T's main competition for high-speed home Internet access is digital subscriber line (DSL) service of Pacific Bell, which charges customers who sign 12-month contract \$49 monthly plus \$198 for DSL modem.**



# Consumer Electronics

*A Section of Television Digest with Consumer Electronics*

## STATE OF THE INDUSTRY

Sales to dealers, from CEA, for week ending Jan. 7 and year to date:

	JAN. 1- JAN. 7	1999 WEEK	% CHANGE	DEC. 25- DEC. 31	52 WEEKS 1999	52 WEEKS 1998	% CHANGE
TOTAL COLOR TV.	236,255	253,677	- 6.9	503,711	28,868,500*	26,422,018	+ 9.3
DIRECT-VIEW**	224,905	245,387	- 8.3	472,124	27,636,810*	25,351,807	+ 9.0
TV ONLY#....	192,184	214,536	- 10.4	389,857	23,218,339*	22,204,322	+ 4.6
TV/VCR COMBO.	32,721	30,851	+ 6.1	82,267	4,418,471*	3,147,485	+ 40.4
PROJECTION...	11,350	8,290	+ 36.9	31,587	1,231,690*	1,070,211	+ 15.1
TOTAL VCR**....	185,354	169,545	+ 9.3	463,929	27,227,429*	21,260,157	+ 28.1
HOME DECKS...	152,633	138,694	+ 10.1	381,662	22,808,958*	18,112,672	+ 25.9
CAMCORDERS (a) ..	33,390	21,429	+ 55.8	76,218	4,790,302*	3,829,172	+ 25.1
DVD PLAYERS....	44,191*	13,305	+232.1	164,242*	4,071,938*	1,079,261	+277.3

Direct-view TV 5-week moving average#: 1999-375,225; 1998-332,676 (up 12.8%).

Projection TV 5-week moving average: 1999-28,142; 1998-20,725 (up 35.8%).

VCR deck 5-week moving average: 1999-334,942; 1998-274,329 (up 22.1%).

TV/VCR 5-week moving average: 1999-63,157; 1998-48,071 (up 31.4%).

Camcorder 5-week moving average: 1999-62,146; 1998-39,556 (up 57.1%).

DVD player 5-week moving average: 1999-107,941\*; 1998-39,041 (up 176.5%).

\* Record for period. \*\* Includes TV/VCR combinations. # Excludes TV/VCR combinations. (a) Includes analog camcorders only.

**JUDGE GRANTS MPAA INJUNCTION IN DVD HACKING CASE:** Hollywood claimed victory Jan. 20 when U.S. Dist. Court judge in N.Y.C. granted preliminary injunction sought by MPAA and 8 major studios in suit filed Jan. 14 to bar Internet dissemination of hacked encryption codes they said would facilitate unlawful copying of DVDs.

In filing simultaneous suits in N.Y. and Conn., MPAA said major studios were taking action against 4 Web site operators in "striking a blow" to defend future of American movies. Unlike separate suit filed earlier in Santa Clara court by licensing entity DVD Copy Control Assn. (DVDCCA) that charges 72 sites with misappropriating trade secrets, litigation by MPAA and major movie companies cites violations of anticircumvention rules in Digital Millennium Copyright Act (DMCA) enacted in 1998. MPAA Pres.-CEO Jack Valenti said that posting DVD decryption formula on Web site "is no different than making and then distributing unauthorized keys to a department store. The keys have no real purpose except to circumvent the locks that stand between the thief and the goods that he or she targets."

Electronic Frontier Foundation (EFF), which is defending sites in all 3 suits, said "these cases are not about piracy or hacking," but about "censorship of speech critical to science, education and innovation." EFF Exec. Dir. Tara Lemmey said: "Reverse engineering of DVD security is legitimate and important for systems interoperability, and a right that we must preserve for a healthy, open and democratic society in the information age."

Although Santa Clara judge late last month had denied DVDCCA's motion for temporary restraining order and last week delayed preliminary injunction ruling, N.Y. Dist. Court Judge Lewis Kaplan sided with movie industry after 4-hour hearing Jan. 20. Kaplan's order bars defendants from posting so-called "DeCSS" decryption codes on any Internet site, "or in any other way manufacturing, importing or offering to the public" methods of circumventing DVD's Content Scrambling System (CSS).



Ruling was hailed by Valenti, who said it “represents a great victory for creative artists, consumers and copyright owners everywhere.” He said injunction would serve as “a wake-up call to anyone who contemplates stealing intellectual property.” However, EFF’s Lemmey said Kaplan’s ruling “is very narrowly tailored and does not impact on the rights of others linking to, discussing or publishing technical information on the weak encryption built into DVDs.” Playing on words in Valenti’s written statement that applauded ruling, EFF Co-Founder John Gilmore said decision would be “a major wake-up call” for \$30 billion Linux computing community for which DeCSS formula originally was written. Gilmore said if judge’s reading of DCMA holds, “it will become illegal to build open source products that can interoperate and/or compete with proprietary ones” such as Windows-based operating systems for “displaying copyrighted content.”

Most vehement objection to Kaplan’s ruling was raised by www.2600.com, site which is defendant in both N.Y.C. and Santa Clara suits. Posting said: “We find this to be an outrageous miscarriage of justice which should, simply put, frighten and infuriate everyone reading this. We have been prohibited from engaging in a very basic exercise of free speech, and if allowed to go unchallenged, this will dramatically change our day-to-day lives.” Posting said case would go to trial and “we intend to fight this absurdity all the way.”

**DIGITAL TV TO AFFECT PRERECORDED VIDEO — IRMA:** Video-on-demand delivered digitally by cable and satellite TV will begin eroding videocassette and DVD market within 3 years, according to study recently released by International Recording Media Assn. (IRMA). Meanwhile, separate study by FCC reported that cable TV continued to lose market share to direct broadcast satellite (DBS) services.

IRMA forecast digital TV households would triple globally to 81 million by 2001, for 10% penetration compared with current 3%. At that point, prerecorded media would begin to feel crunch owing to near- and instantaneous video-on-demand (VOD) coupled with inexpensive, high-capacity home storage devices. IRMA study *1999 Worldwide Optical Media and VHS and 8mm Videotape Reports* defines digital TV “over wires” or “through air,” including cable or telco delivery and terrestrial or satellite broadcast.

“As storage costs decline, it is only a matter of time before many of the world’s cable operators begin offering true video-on-demand,” IRMA Pres. Charles Van Horn said. “We predict VOD will begin affecting the business within 3 years.”

Movies available instantly as VOD will have advantage over near-VOD 30-min. start times typical of DBS today, Van Horn said. IRMA study contended movie buy-rates were directly affected by access time, and cited VOD tests by several cable systems that showed 20%-50% increase in VOD movie purchases compared with near-VOD. Meanwhile, studies showed that even households with near-VOD reduced their rentals and purchases of VHS or DVD videos by as much as 60%, IRMA said. Because such households typically are above-average tape renters and buyers, switch to electronically delivery has significant impact, IRMA said.

Impact on packaged-goods video will be slow, Van Horn stressed. “The enormous installed base of VHS and VCRs and growing DVD players overshadows the relatively modest growth of households capable of receiving digital TV,” he said. “But a 7 to 10 percent penetration by digital TV will obviously affect the demand for physical delivery.”

IRMA study counted 23.9 million digital TV households worldwide today — 19.2 million with DBS, 4.6 million digital cable, rest with broadcast reception. N. America accounted for 16 million of digital households (67%), 12 million of those using DBS. Over each of next 2 years, worldwide digital households would increase at compound rate of 79%, or estimated 81 million by year-end 2001.

IRMA study didn’t handicap cable vs. satellite race, but report released Jan. 14 by FCC said DBS continued to eat away at cable’s multichannel video market share. Sixth annual competition report prepared by Commission said cable now held 82% of market, down from 85% last year, while DBS had increased to 10.1 million homes from 7.2 million and had 12.5% of market. Numbers are measured to June 1999 from June 1998. Market share of other competitors, including non-DBS home satellite, multipoint microwave distribution services (MMDS) and open video systems (OVS) also declined.

Number of multichannel video homes grew 5.5% to 80.9 million in year, report said. Of multichannel video users not subscribing to cable, total increased 26% to 14.2 million. Cable subscribership rose just under 2% to 66.7 million. Non-DBS home satellite dish subscribers held 2.2% of market but declined 12% to 2 million, which agency said “is likely due to subscribers’ switching to DBS.” MMDS subscribership fell to 821,000 from one million, with wireless cable holding only 1% of market.



**THOMSON TO CLOSE INDIANAPOLIS PCB PLANT:** Thomson Multimedia, bowing to competitive pressures in printed circuit board (PCB) market, said late Fri. it will close 100,000-sq.-ft. facility in Indianapolis by Oct. Shut-down will affect 105 employees, many of whom were transferred to PCB operation when plastics unit was folded in 1998.

In halting production, which supplied PCBs for TVs and DBS receivers built at Juarez, Mexico, plant, Thomson will switch to sourcing arrangement, spokesman said. Although PCB source has yet to be selected, Thomson will start transition to new supplier in June, he said. While he declined to identify potential suppliers, he said PCB production was likely to be in southern U.S. or Mexico. Among major PCB manufacturers in those regions are SCI Systems, Huntsville, and Flextronics, in Cal.

Closing will remove last vestiges of Thomson operations in million-sq.-ft. building that RCA has occupied in various shapes and forms since facility was purchased in 1929. Building once served as hq and produced records, but Thomson gradually has reduced presence there, including moving hq to new facility in Indianapolis in 1994. Thomson had leased space in building for single-sided PCB production line, agreement that was set to expire this year.

Plant Mgr. Rory Westfall said in prepared statement that while "capabilities of the work force at the Indianapolis facility are among the best in the industry," plant's costs created an "uncompetitive situation for Thomson." He said pursuing "a buy-versus-make strategy will bring our costs in line with our competitors, who today are able to purchase quality components for significantly less than the cost of what we can produce them for here." Thomson spokesman declined comment on potential cost difference, but said move would result in "substantial savings."

Most PCB plant employees have worked for Thomson for 25 years or more and about 60% will be eligible for retirement at end of layoff period, Thomson said. Closing of plant is most recent move company has made in seeking to trim costs. It laid off 1,300 in closing Bloomington, Ind., TV assembly plant and shifting production to Juarez in 1998 (TVD Feb 17/97 p10). Thomson later offered buyout package to 1,300 other employees, most in sales and marketing positions at Indianapolis hq and Deptford, N.J., accessories and components facility (TVD Oct 13/97 p10). More recently, Thomson hired 160 in 1999 mostly in engineering and information technology posts, latter largely tied to RCA.com Web site, spokesman said.

**MGM IS FIRST STUDIO IN STREAMING VIDEO DEAL WITH BLOCKBUSTER:** MGM and Blockbuster announced 2 precedent-setting deals last week, one for revenue-sharing and one to test Internet-delivered video.

Revenue-sharing agreement for VHS rental titles is first to encompass entire spectrum of studio's product, both new releases and catalog titles, MGM Home Entertainment Pres. David Bishop said. Previously revenue-sharing deals were used mainly on new releases and ran for 26 weeks, but in this deal studio will get share of rental revenue over entire length of multiyear deal on all titles in library, he said. He wouldn't disclose terms, such as upfront tape cost and revenue split. New arrangement, in effect now, comes as MGM officially ends distribution deal with Warner Home Video Feb. 1.

Blockbuster announced streaming video deal concurrent with new revenue-sharing arrangement. Nonexclusive pact calls for testing and developing business model for Blockbuster to make selected MGM films available for digital streaming and downloading via Internet and other unnamed home video technologies. Blockbuster CEO John Antioco said agreement furthers company's goal of "providing in-home entertainment in whatever form our customers want it delivered." He said "as for the revenue-sharing agreement with MGM, which now encompasses a portion of the studio's renowned classic library, customers can be assured that more MGM films will be in stock at Blockbuster."

Streaming video arrangement, which Bishop described as being "tied together" with revenue-sharing pact, could result in MGM films being delivered via Blockbuster.com to some degree as soon as year-end or early next year, he told us. First meetings on specifics of plan haven't taken place yet, he said, but it's likely that activity will start small, perhaps with trailers to "stimulate consumer behavior," before expanding into delivery of complete films. Studio will need to look at installed base and also will wait to see "when we can copy-protect" complete films before it releases them to Internet, he said.

Internet agreement doesn't involve TiVo, Bishop told us, in reference to Blockbuster's recently announced agreement to deliver films via personal video recorders as soon as year-end. He didn't rule out future deal for TiVo delivery, however.



**GEMSTAR SUES TIVO:** Gemstar's filing of patent infringement suit against TiVo could have wide implications for nascent personal video recorder (PVR) market.

Although TiVo licensees Philips and Sony weren't named as defendants in suit filed in U.S. Dist. Court, San Francisco, last week, action does "have implications" for them, Gemstar Gen. Counsel Stephen Weiswasser said. Gemstar alleged that TiVo violated patents held by subsidiary StarSight Telecast covering technology involved in interactive program guide (IPG). Gemstar purchased StarSight in 1997. Weiswasser declined comment on whether Gemstar would file similar action against TiVo rival Replay Networks, which counts Sharp and Panasonic among its licensees.

"The fact that we bring one suit at one time doesn't preclude us from filing others in the future," Weiswasser said.

Suit seeks temporary injunction, request that, should it be granted, presumably could slow rollout of TiVo product. Sony has said it will ship PVR with 30 Gb drive at \$399 in April (TVD Jan 10 p20), while Philips combo PVR/DirecTV IRD is expected in 2nd quarter.

DirecTV Pres. Eddy Hartenstein, whose parent Hughes Electronics is investor in TiVo, told analysts in earnings conference call that "there is a portfolio of IP [intellectual property] that Gemstar has and I'm sure it can be resolved between the parties."

Gemstar has been aggressive in protecting its patents, suing cable box manufacturers General Instrument, Pioneer and Scientific-Atlanta in past. It also engaged in long-running legal battle with StarSight before buying company.

Separately, Gemstar gave major boost to market for electronic books (e-books) in agreeing to buy NuvoMedia, maker of Rocket e-Book, and Softbook Press, in exchange for less than 7 million shares valued at \$564 million.

Gemstar, which is expected to complete \$7.72 billion merger with TV Guide later this year (TVD Oct 11 p15), is working with PageNet to link its IPGs to wireless paging transceivers (TVD July 26 p21). Product is expected to debut with one-way transmission this year and expand to 2-way in 2001 that would make device "totally suited for books" that are ordered in electronic form, Gemstar CEO Henry Yuen told *N.Y. Times*.

Acquisition will give Gemstar foothold in 2 separate e-book markets. While NuvoMedia's Rocket e-Book has largely targeted consumers, Softbook has focused on business applications. It also will give boost to category that has sold 10,000 units since launching year ago.

Major barrier has been price, with NuvoMedia's product retailing for more than \$300 for most of 1999 and only recently falling to \$199. NuvoMedia's earlier distribution agreement with Franklin Electronic Publishers (FEP) suffered from weak sales and latter later wrote down inventory (TVD Aug 9 p18). But in recent weeks, NuvoMedia's prospects have been buoyed by Microsoft and Barnes & Noble's combining efforts to promote e-books.

While e-books currently download content from PCs and direct Internet connections, that "can just as logically extend to the television set," NuvoMedia Pres. Douglas Klein told *Reuters*. "We've talked about doing that kind of thing in the past."

**TWEETER TO BUY UNITED AUDIO:** Week after filing new SEC registration for 2.5 million share public offering to raise up to \$69.5 million for general corporate purposes and acquisitions, Tweeter Home Entertainment announced agreement in principle to make 7-store United Audio Centers specialty chain its newest purchase prize.

Tweeter and United said they expect to complete deal around April 1, pending regulatory approvals and meeting unspecified terms and conditions. Purchase terms include agreement to exchange Tweeter common stock worth \$6.5 million at current value for 100% of United Audio common. Privately held United Audio, which has operated in Chicago market for about 40 years, has annual sales of \$48 million, Tweeter said. United Audio CEO Shelley Miller will move to Tweeter hq in Canton, Mass., where he will become senior vp.

With acquisition of 7 United Audio stores, Tweeter said it now expects to add total of 21 outlets in its various markets in current fiscal year ending Sept. 30. Tweeter Pres.-CEO Jeffrey Stone said it will expand United Audio's presence in Chicago area and use it as "springboard" to move Tweeter into "other surrounding cities." Tweeter statement praised Miller as 26-year industry veteran who will "add depth" to Tweeter executive team "and play an important role in the continued expansion of the business."

Meanwhile, Tweeter said profit rose 78.2% for first quarter ended Dec. 31 to \$8.1 million (48¢ per share) from year-earlier \$4.6 million (32¢) on 43.8% revenue increase to \$124.8 million from \$86.8 million. Same-store sales rose 11.9%, excluding results of recently acquired Home Entertainment and Dow Stereo/Video chains.

**Electronics Boutique (EB)** has expanded test of handheld scanner based on Palm Pilot operating system to more than 300 stores. Device, which features 8 Mb of RAM and 160x160 pixel LCD display, allows store staff to use portable barcode scanner to record consumer purchases. It has 33 MHz Motorola Dragonball processor, can transmit data via 2.4 GHz RF, with \$900-\$1,500 price, depending on configuration. Scanner, manufactured by Symbol Technologies, has optional credit card swiper (\$200) that attaches to bottom of handheld device and printer (\$575) that delivers 203 dots per inch (DPI). Device has standard Palm Pilot features such as scheduling, but can be customized to handle specific applications. EB started testing new handheld in Oct., will use it for both checkout and inventory management.

**Samsung will be Sensory Science's (SS)** supplier for \$199 dual-deck VCR that's expected to ship by midyear, sources said. While SS will continue its OEM ties to Shintom, which builds current \$299 deck, it chose Samsung because of its volume production capabilities for VCRs, sources said. SS Senior Sales & Mktg. Vp Ralph Palaia declined to identify low-end dual-deck supplier. Separately, SS reported deal with Best Buy to carry its RaveMP media player in 354 stores, joining models marketed by Creative Technologies and S3's Diamond Multimedia. SS is planning to introduce additional media players this year, including one based on Iomega's Click drive (\$299). It also is planning joint promotions, including one with CDNow, Palaia said.

#### THIS WEEK'S YEN RATE

Yen values have been converted to dollars in this week's issue at ¥105 = \$1, except where noted.



**RADIOSHACK.COM TO BE RELAUNCHED:** Redesigned RadioShack.com e-commerce Web site will be relaunched in late summer, Senior Operations Vp David Goynes said last week.

Goynes said Microsoft's \$100 million investment in RadioShack.com (TVD Nov 15 p10) will allow his company "to help us build our Web site into a world-class Web site and a showcase for Microsoft technology... and also allows us to drink from that fire hydrant of customer traffic that the Microsoft portal will help us realize."

Comments came on panel on e-commerce partnerships at National Retail Federation (NRF) convention in N.Y.C. last week.

Lucy.com Business Development Vp Kate Delhagen agreed with Goynes on benefits of online partnerships but said e-tailers need to be careful on what companies they opt to make deals with. One problem can be conflicts of interest, she said, giving as example editorial partnerships. Delhagen also cautioned against "aligning with 50 partners" because too many partnerships can, among other things, confuse consumers.

Goynes said "weekly, if not daily, we receive phone calls from people who [say they] have the best thing since sliced bread." He added: "You have to be able to sort through all of that, spend your time wisely and you have to determine what [partnership] really does fit. You do not abandon your corporate values — those things that make you unique... When there is obvious synergy, then you explore it further. For every agreement that we sign, there are probably 6 to 10 that we've gone deep in discussions with that we do not sign and hundreds that never get past the first phone call."

Among other deals that company has signed in recent months is one with Thomson that, like Microsoft arrangement, includes agreement to build store-within-a-store section at RadioShack brick-and-mortar locations throughout country to showcase RCA products (TVD May 3 p11). Before Thomson deal, Tandy had similar relationships with Compaq and Sprint. RadioShack.com plans include building links between its site and all of company's corporate partners (TVD Oct 25 p14). In Oct., Tandy officials said they were working on direct link between RadioShack.com and Thomson's RCA.com.

In discussions with Microsoft before deal, Tandy kept in mind impact on not only its 5,000 company-owned stores but also its 2,000 stores run by independent dealers, Goynes said. He said Microsoft store-within-a-store format "is scalable so that it can fit a smaller or more diverse dealer store." He said "dealers love the plan because there was no buy-in [requirement] for them. What's going into their store is paid for either by Tandy or Microsoft." He said that in "programs we've had with other partnerships with other companies like Sprint and Compaq and, before Compaq, IBM — and RCA — there is some dealer buy-in."

Goynes said that while company is eager to take advantage of personalization and one-to-one marketing possibilities that Internet allows, personal information that it already has collected on its consumers and will amass about them in future will be kept under their control. He said: "We have always had a privacy policy that said we will never turn that data [over] to anyone outside of our company" and that policy will extend to its online business as well.

In addition to expanding product assortment, Tandy plans to use RadioShack.com "to expand our reach into [other] customer segments — demographics that aren't traditionally RadioShack shoppers, which includes the female shopper" and small businesses.

**MORE TOYS 'R' US WEB SITES COMING:** Toys "R" Us will increase its Web presence later this year with new e-commerce sites, Toysrus.com Vp Joel Anderson said last week on National Retail Federation (NRF) Convention panel in N.Y.C. Anderson said company will open separate e-commerce sites for Babies "R" Us and Kids "R" Us and will restart Imaginarium Web site this year.

News came as Toysrus.com came out of problem-filled holiday season in which it failed to deliver on all orders that were made before Christmas. Spokeswoman told us late last month only "small percentage" of customers who purchased items before Dec. 10 cutoff date for on-time standard delivery of items by Christmas didn't receive merchandise on time (TVD Jan 3 p16). But Anderson said "we had several thousand orders that didn't make it before Christmas." He said \$100 in "Geoffrey dollars" that company sent out to customers that company didn't think would receive orders in time was "a meaningful number" and "less than one day's sales for us."

As we reported last week, lawsuit was filed against Toysrus.com that claimed company "knowingly and deceptively accepted orders for Christmas products the company knew it could not deliver" (TVD Jan 17 p17). Toysrus.com spokesman told us company feels there is "absolutely no merit to the suit."

In giving reason why it couldn't achieve fulfillment for all consumers over holidays, Anderson echoed what Toysrus.com spokeswoman had told us — that company hadn't predicted just how much traffic there would be at site over holidays. "Clearly, we went through a phase where we couldn't handle the traffic on the site," Anderson said: "When you're having 3,000 to 4,000 percent increases over last year and the volatility is day over day and week over week, it's hard to predict, but what it comes down to is if we had one less day of sales we would [have been] like heroes."

Nevertheless, Anderson said, "clearly, if we had to do it all over again, I would have doubled management in Memphis and call centers, [and] clearly, we would have cut off orders a day earlier." Memphis is where company has 500,000-sq.-ft. warehouse with 1,200 employees during peak seasons, 600 in slower periods.

Currently, Toysrus.com has 7,000 products, but Anderson said top "hot, gotta have it toys" represented 60% of all sales during season. Disappointment has been that "we're not [selling] as much of the higher margin product as we would like to and that's our challenge — how do we do more of the higher impulse products." That, he said, is something "we haven't perfected" yet.

Company still is looking to link Toysrus.com up to manufacturer Web sites, Anderson said. Although it expected to finalize agreement to that end with Mattel last fall, project has yet to get off ground.

Anderson also said Toysrus.com subsidiary will be relocated from Toys "R" Us Woodbridge, N.J., hq to either "Silicon Alley" in N.Y.C. or Silicon Valley in Cal.

Separately, new Toys "R" Us CEO John Eyler is said to have signed contract carrying \$1 million annual salary along with options for one million Toys "R" Us and 300,000 Toysrus.com shares. Latter arrangement would appear to indicate that retailer is planning IPO for subsidiary, although company has declined comment on possibility in past.



**RETAIL EXCHANGES EMERGE:** Series of Internet-based exchanges has emerged targeting buyers and sellers of new and surplus CE goods.

Most are viewed largely as business-to-business operations designed to dispense with phones and fax machines in favor of using Internet to handle planning, buying, production and product design. While some such as Retail.com are targeting wide range of businesses from apparel retailers to CE dealers, others are taking more focused approach, such as CETrade.com (TVD Jan 3 p17) and CEA-endorsed TradeOut.com, which specialize in handling surplus goods. Retail.com, which has worked with Home Shopping Network (HSN), is procuring CE products and has program for retailers seeking private label products.

"Whatever [product categories] have a complex buying process will benefit from these," said Michael Fix, pres. of Boston-based Industry to Industry Inc. (i2i), which has begun service with endorsement of National Retail Federation (NRF) that allows dealers to buy, sell and liquidate merchandise on worldwide basis via Internet. I2i has set up Web site that allows dealers and manufacturers to post products via classified ads, auction or straight price exchange. It also has network of "preferred service" partners to handle logistics, inspections, etc., and charges 5% commission on each transaction (4% to NRF members).

While increasing number of exchanges appears to be ideal breeding ground for gray market goods, new Internet barter groups work with vendors to ensure that products move through authorized channels, Retail.com Vp Duncan Angove said. Most exchanges also run background checks on those participating, Fix said.

More nettlesome issue may be whether dealers are licensed to sell business-to-business. Most office superstore chains have thriving corporate sales divisions, but some CE dealers may be licensed only to sell to consumers. Many of them will be suspected of violations of dealer agreements, said George Manlove, pres. of Montana-based Vann's, which has strong Internet business. "Plus we're only licensed to sell to consumers, not to other dealers."

Other companies are forgoing exchanges in favor of seeking to provide Web site design services to small and medium-size dealers. Shops.com has started multitiered service to customize Web sites for \$1,000 and then charges fees based on how many products are offered through site ranging from \$150 per month for 1-10 items to \$650 for more than 1,000. Lower priced model is E-store (\$699 for set-up) that allows for instant orders and real-time credit card acceptance, while Storefront plus is minus some of ordering features, but has \$599 set-up fee. Monthly product fees for E-store range from \$85 to \$400, while Store Plus is at \$60-\$160. While Shops.com can add some back-office features to Web site, retailers continue to handle buying and merchandising, Business Development Vp Jeffrey Friedman said.

**Circuit City will sell SanDisk-branded flash-memory cards and card readers in its 600 stores, latter announced last week. SanDisk said agreement doesn't include Secure Digital (SD) Memory Card, which SanDisk developed with Matsushita and Toshiba. At Las Vegas CES, Sony announced agreement for Circuit City to carry and promote SD-rival Memory Stick products in all stores nationally.**

**ROBERDS FILES CHAPTER 11:** Roberds filed for bankruptcy protection last week and closed loss-plagued Fla. division. Chain based in Dayton that operates 24 stores filed for Chapter 11 protection in U.S. Bankruptcy Court, Dayton, listing \$142.5 million in assets, \$117.8 million in debt. Creditors' list wasn't available.

Roberds, which had said it was weighing seeking bankruptcy protection (TVD Jan 10 p23), closing stores or selling chain, said it will shut 8 stores in Tampa area and one in Springdale, O., and will sell single location in Atlanta.

Fla. market was chain's least profitable division and was rumored last week to be targeted for store closings (TVD Jan 17 p17). Stores, which ranged in size from 49,000 to 83,000 sq. ft., were opened between 1985 and 1994. Chain also will close 250,000-sq.-ft. "Roberds Grand" store in Springdale that it opened in 1995. Fla. stores had 370 employees, Springdale 160.

Decision to close Fla. stores was tied to high cost of advertising needed to reach market that stretched across state from Port Richey to Sarasota, spokeswoman said. Roberds also suffered from double-barreled competition in Fla. with Rooms To Go attacking on furniture and bedding side, Circuit City and Best Buy in CE. Sources have said chain suffered from high operating costs because of separate warehouses that served each market.

Chain had reported string of quarterly losses in recent years. It lost average of \$1 million per month Jan. 1998-Sept. 1999 despite numerous attempts to change merchandise mix, including dropping home office products and shifting CE to home theater displays. Chain, founded by late Kenneth Fletcher in early 1970s in Ohio, later became NATM Buying Group member. It has undergone management changes in recent years, including death of Fletcher in Jan. 1999 and arrival of Melvin Baskin as pres.-CEO in July 1998.

While executives weren't available for comment late last week on whether possible sale still was being considered, *Dayton Daily News* in editorial pushed for salvaging chain. It said Roberds had "conceded mistakes" and was "moving to get back in the black quickly." "What with Roberds' presence and history here, the Dayton community has plenty of reasons to hope the effort [bankruptcy and closings] works," *Daily News* wrote.

**Midway profit jumped to \$18.82 million in 2nd quarter ended Dec. 31 from \$10.69 million year earlier on 17.5% increase in revenues, company said last week. Revenue for quarter was \$147.59 million, up from \$125.66 million year ago. Midway said \$25.38 million of sales came from its 5 Sega Dreamcast games. In quarter, company shipped 13 new videogames for 4 home platforms — 6 for Nintendo Color Game Boy, 3 each for Nintendo 64 and Sony PlayStation, one for Dreamcast. Company said top-selling games were *Gauntlet Legends*, *NBA Showtime*, *NFL Blitz 2000*, *Paperboy*, *Ready 2 Rumble Boxing*. In 3rd quarter, Midway plans to ship 7 new home videogames. Last week, company announced it had signed deal with special interest publisher EMAP USA that gives it exclusive interactive videogame rights to "Gravity Games" special events created by EMAP and NBC Sports. Midway said it will create Gravity Games-themed titles for current platforms it supports as well as for upcoming PlayStation2 and Nintendo Dolphin. Financial terms weren't disclosed.**



**HUGHES POSTS LOSS:** DirecTV parent Hughes Electronics, taking \$272 million charge for restructuring wireless business, reported \$226.7 million 4th-quarter loss on 53% gain in revenue (see financial table).

DirecTV, which added 516,000 subscribers in quarter to end year with more than 8 million, narrowed operating loss to \$58 million from \$94.5 million year earlier (TVD Jan 25 p11) as revenue doubled to \$1 billion. CFO Roxanne Austin projected DirecTV in 2000 would increase revenue to \$5 billion from \$3.4 billion year earlier.

Revenue per subscriber reached \$58 — \$54 for 241,000 former Primestar customers that were converted in quarter — while acquisition costs rose to \$500 per subscriber from \$425 year ago. DirecTV Pres. Eddy Hartenstein told analysts in conference call he expects to keep acquisition costs around \$500 this year, although 2nd-quarter addition of AOLTV service is likely to cost \$700 per subscriber. Service had 1.5% monthly churn rate in quarter, up from 1.4% in previous quarter (TVD Oct 18 p18), he said.

As DirecTV seeks to boost revenue, Hartenstein said proposed merger of AOL and Time Warner (TW) (TVD Jan 17 p16) “answered the question” as to where AOLTV service would obtain programming. Some TW divisions such as HBO and Cinemax already supply programming to DirecTV. Although AOLTV is likely to also migrate to TW’s cable systems eventually, “we are going to be the first truly national platform,” he said. “Where Time Warner has built a specific system to handle AOLTV we’ll go head to head, but that shouldn’t put a strain on our relationship.”

As for lawsuits involving NRTC and Pegasus Communications, Hartenstein said discussions on settlement “are most assuredly going on.” Proposed merger of NRTC program providers Pegasus and Golden Sky (TVD Jan 17 p21) was “inevitable,” he said, “and ‘if we can come to an agreement we can present this as a uniform package’ that would include national joint promotions.

DirecTV also has rolled out local-into-local service in 19 U.S. markets including 17 that are receiving signal from satellite at 101° W and 2 (Greenville, S.C., and Raleigh-Durham) from 110° W. Five more markets will be added in coming weeks and one — Salt Lake City — will get signal from bird at 119° W, he said. Spot beam satellite that will carry local signals is expected online in 18-20 months, Hartenstein said. While 25% of DirecTV subscribers in markets where local channels are available via satellite have chosen new service, figure hit 40% in Denver, San Francisco and Washington, he said.

Hughes Network Systems (HNS) Div., which absorbed \$272 million one-time charge related to its wireless business, reported negative \$242 million in earnings before interest, taxes, depreciation and amortization (EBITDA) on 4% decline in revenue to \$387 million. Wireless business had negative \$275 million EBITDA as revenue shrank to \$6 million from \$78 million year earlier amid sharp sales declines in Russia and S. America. Satellite Systems group, which built 715,000 DirecTV IRDs in quarter, said EBITDA dropped to \$31 million from \$48 million year earlier as revenues slipped to \$199 million from \$221 million. HNS is projecting \$130 million “impact” later this year as result of contract to build IRDs for AOLTV system, Austin said.

HNS’s DirecPC service had 105,000 subscribers worldwide at year-end, slight increase in quarter, company said.

DirecTV’s Galaxy Latin America reported operating loss grew to \$65 million from \$41 million year ago as revenue jumped 40% to \$102 million. Service added 136,000 subscribers in quarter to end year at 803,000. Sharpest rise was in Brazil, where it gained 63,000 to finish year at 328,000. On down side, Venezuela service declined to 120,000 subscribers from 122,000 in 3rd quarter and Galaxy took reserve of “several thousand dollars” to cover nonpaying customers (those receiving service through pirated means), Galaxy Pres. Kevin McGrath said. Average revenue per subscriber fell to \$36 from \$41 year earlier, he said.

DirecTV Japan added 72,000 subscribers in quarter to end year at 372,000. Among other DirecTV service providers, Bell Atlantic Video Systems and SBC Communications accounted for 25,000-30,000 subscribers in 1999, although Hartenstein declined to release financial details. Bell Atlantic has limited sales to Northeast U.S., while SBC launched program in Dallas-Ft. Worth last fall.

**Beyond.com** said it would cut work force 20% and look for new CEO as online retailers continue to experience growing pains. CEO Mark Breier resigned last week and Beyond.com said it would shift focus to govt. and business services market from selling consumer software. Company will trim 75 jobs and will continue to have consumer Web site, but with “minimum staffing,” interim CEO Rick Neely said. As part of restructuring, Beyond.com will increase efforts to create online stores for other merchants and seek to double annual sales of software to govt. agencies to \$60 million. Beyond.com restructuring comes 3 weeks after Value America announced similar overhaul that cut its work force in half and reduced far-flung offering of more than 400 items to 25 focused largely on PC and CE markets.

**Best Buy** will begin sales of digital subscriber line (DSL) Internet access service at 7 Washington, D.C.-area stores. Bell Atlantic’s DSL service carries \$49.95 monthly fee, and Home Connection kit that includes 3Com modem has \$229 retail. Consumers that keep continuous service for 60 days will receive \$130 cash back. Best Buy agreement is major gain for DSL technology, which trails cable modems — 550,000 subscribers vs. more than one million — in race to provide high-speed Internet access to home. Best Buy rival Circuit City has sold MediaOne cable modem service through stores in Boston and Richmond, Va. (TVD June 7 p16). It also expanded sales of Comcast@Home service to additional U.S. markets after test in Indianapolis (TVD Jan 3 p15).

**Boston Acoustics** profit fell for 3rd quarter ended Dec. 25 to \$2.8 million (51¢ per share) from year-earlier \$4 million (75¢) on 18% sales decline to \$30.6 million from \$37.3 million blamed on lower OEM sales to computer industry. CEO Andy Kotsatos said declining computer prices had been “bullish for our core business” because they had freed up “discretionary income” for other consumer purchases, such as component speakers.

**Correction:** Samsung said its goal is to sell 500,000 DVD-N2000 DVD players to dealers worldwide this year (TVD Jan 17 p14).



**E-COMMERCE GAINING ACCEPTANCE:** U.S. online sales will nearly double to \$45-\$50 billion in 2000, Ernst & Young predicted in announcing results of *Global Online Retailing* report last week. Report also said that by 2002, U.S. Internet consumers will spend 1/3 of their total shopping money online — up from current 15%.

Meanwhile, although U.S. remains world leader in e-commerce, online buying also is gaining rapid acceptance in Australia, Canada, France, Italy and U.K., report said.

Highlights of report were provided by Ernst & Young Retail & Consumer Products Global Dir. Stephanie Shern at panel on Internet retailing at National Retail Federation (NRF) Convention in N.Y.C. last week.

Report said 39 million U.S. consumers shopped at e-commerce Web sites last year, up from 17 million year ago; averaged 13 purchases, up from 6; spent average of \$1,205, up from \$280. It also said 39% of online consumers made 10 or more purchases and 48% spent more than \$500.

In all 6 countries surveyed, books, CDs and computers were top 3 product categories of online consumers in 1999. While gender of shoppers was split 50/50 in U.S., males had considerable lead over females elsewhere. Report said role of e-tailers' brand name is large in all 6 countries. Consumers said 2 most frequent ways in which they access Web sites is through clicking on from their "favorites" file or by entering Web address they already know.

While high shipping costs remained No. 1 issue discouraging online shopping in Canada, France and U.S. in 1999, other factors were bigger concerns in other countries. In U.K., high shipping costs was tied for first with need to try on clothes to see if they fit, even though clothing was not one of top 5 items bought online there last year. Half of Australian shoppers polled said their No. 1 concern was that their credit card information might be stolen online. While that also was big issue in Italy, it was edged out there by need to try on clothing for fit even though, again, clothing wasn't one of top 5 items being purchased online there either.

Clear e-tail winner in all 6 countries last year was Amazon.com, which was favorite site in all 6 surveyed. Rounding out top 3 e-tailers in U.S. were eBay and CDNow; in Australia, CDNow and Commonwealth Securities; in Canada, Chapters and eBay; in France, Fnac and CDNow; in Italy, CHL and CDNow; in U.K., QXL and CDNow.

Report said that this year 79% of Italian and U.S. consumers who haven't yet bought items online will try it out, 85% in Canada, 80% in France, 75% in U.K.

On NRF Internet retailing panel, e-tailers representing cross-section of product categories said they are looking to exploit benefits of one-to-one marketing to consumers online.

Office Depot Chmn.-CEO David Fuente touted benefits of his company's having both brick-and-mortar and Web presence, saying research has shown customers tend to shop in "multiple channels." Two sides of Office Depot's business "complement each other extremely well," he said. Nordstrom Co-Pres. Daniel Nordstrom said that although his company has seen positive results from its online business, broadband will take e-commerce to next level. "What broadband is going to do is really take the Internet beyond anything" that is possible today, he said.

**RENT-WAY EARNINGS RISE:** Rent-Way (RW), crediting improved results at former Home Choice (HC) stores and strong revenue from PC rentals, reversed year-earlier \$10.1 million first-quarter loss to post \$10.1 million profit as sales rose 13.7% (see financial table). Same-store sales at "core" RW locations were up 5.1%, while HC was down 0.9%, improvement from 2.8% decline in previous quarter.

RW, which purchased HC in Dec. 1998, also said it had completed integration of Rentavision chain it acquired last fall (TVD Sept 20 p18). In quarter, it merged 17 Rentavision outlets and is planning grand reopenings at 233-store chain in 2nd and 3rd quarters.

In product categories, RW said Compaq PCs accounted for 5.5% of total revenue in quarter, up from 4-4.5% in 4th quarter. Operating margins doubled from year ago to 16%, it said. RW, which is carrying Compaq Pentium-class PCs and negotiating to add Dell, rents computers on 15-month contract. About 75% of rented PCs are returned after fewer than 16 weeks and may be kept in circulation for upward of 12 months, company said. RW pays \$950 dealer cost for PCs.

RW also is readying chainwide debut of prepaid local phone service. It started with test in 70 outlets last fall (TVD Nov 22 p17). Chain has acquired 49% stake in local phone service provider DPI Teleconnect and investment will reach \$7.5 million (70%) provided DPI gets necessary state regulatory approvals to expand beyond initial 21 states. DPI, which sells prepaid local service through 25 other companies with 550 locations in addition to RW's first 70, charges \$49 monthly fee, of which local agents such as RW get \$5. DPI this year will extend service to 60-80 stores per month, including 50 RW locations. About 700 RW outlets lie within DPI territories, Chmn. William Morganstern said. DPI has 14,000 customers and 12% monthly churn rate, he said. Goal is to sign up about 50 customers per RW store by year-end or 5-6 per month, he said.

RW also is seeking agreement to sell Internet access and long distance phone services, Morganstern said. Internet access could be sold at \$4.95-\$13.95 per month and bundled with phone services that could add another \$3-\$6, he said. Prepaid long distance will be sold in \$10 blocks. By year-end phone services could generate 14-15% operating margins, although they are likely to have 1¢-2¢ impact on earnings in next several months, Morganstern said.

Retailer plans to open 52 stores this year, exclusive of acquisitions. It operates 1,088 outlets. "We're getting calls from smaller dealers looking for an exit strategy," said Morganstern, whose chain, along with Rent-a-Center and Rainbow Rentals, has been buying dealers as rent-to-own industry consolidates.

Rental chain is expected to gain majority ownership of DPI by April, Morganstern said. Companies began tests with 70 RW locations last summer in several markets, including S.C. Customer totals have ranged from 300 in some stores in S.C. to 12-15 in other markets, he said.

Vann's continues to weigh options after being ousted from NATM Buying Group despite earlier indications that it might work with Video Only and Queen City to form new organization (TVD Jan 17 p11). "We haven't made any decisions and we're exploring our options," Pres. George Manlove said. Vann's, before joining NATM, was member of Nationwide Buying Group.



**'SMART' HOUSEHOLD APPLIANCES GAIN:** Common household appliances were given high-tech tone at International Housewares Show in Chicago last week as "smart" technology and Internet access spread to kitchens, bathrooms, bedrooms.

Core technology is aimed at linking appliances ranging from microwave ovens to stand mixers and alarm clocks via home networking in much same manner CE manufacturers are seeking to tie together A/V gear. Among major purveyors of technology was Sunbeam, which introduced Home Linking Technology that uses household wiring to join appliances to form network.

Among prototypes Sunbeam showed in large display was "Internet-ready" alarm clock linked to other appliances. For example, coffee maker was "told" to start brewing 10 min. before wake-up time and electric blanket shut off when alarm sounded. Smoke detector "reported" to alarm clock where it was located in house.

Other Internet-capable Sunbeam products included HomeHelper Kitchen Console allows users to surf Internet for recipes while doubling as family message center. Portable version — HandHelper Personal Digital Assistant — also was shown, although pricing hadn't been set for either product. Both devices were developed by Sunbeam subsidiary Thalia Products, which used low-cost microprocessors and emWare's device-networking software to link items in home.

While Sunbeam said some of products will be available in 4th quarter, most will hit market in early 2001. Most will carry prices at mid to high end and will target early adopters.

Despite push into home networking, Sunbeam said it will stress products' benefits as opposed to technological advances. Thalia is seeking licensing agreements for technology, it said.

"When it comes to the types of items that we're merchandising — things like coffeemakers and stand mixers — consumers don't want to hear about the technological details," Thalia Pres.-CEO John Hamann said. "They want to know how it will improve their lives."

As part of effort to set up networks in home, microwave oven vendors unveiled models equipped with modems to link device to Internet. Sharp showcased 900 w microwave (\$999) that allows users to download more than 400 recipes from Web and store them in optional cooking data box. Device then transfers data into microwave oven for automatic food preparation. Already available in Japan, microwave downloads information from Sharp's Web site there. Recipes list required ingredients, heating instructions, preparation steps. Sharp expects to ship product in U.S. late this year.

Other vendors including Samsung, LG Electronics and Matsushita showed microwaves that use scanners to read universal product code (UPC) symbols found on grocery items. UPC codes then are stored in microwave, which links to Internet to download appropriate cooking and temperature information. Samsung and LG models are \$699 and \$599, respectively, and are expected to ship in 2001. Pricing and delivery date for Matsushita microwave wasn't available.

While microwave vendors were adding Internet access to products, they conceded that market for such devices has yet to

be established in U.S. "The trade show gives us the opportunity to gauge trade and consumer interest in the United States," Sharp Assoc. Appliance Mktg. Vp Anne Howard said.

Samsung, LG Goldstar and Panasonic also exhibited microwaves with Internet capabilities. All of ovens use scanners that read UPC symbols, then download appropriate cooking and temperature information. Microwaves also provide nutritional information for specific foods.

**Audio magazine has published its final issue.** Venerable enthusiast publication, founded in 1947, was closed down last week owing to "adverse market conditions" that included eroding advertising and circulation base, Vp/Group Publisher Tony Catalano told us. Editorial staff members also cited competition from smaller audio specialty magazines, as well as *Audio's* inability to diversify into home theater coverage owing to presence of Hachette-Filipacchi sibling magazine *Stereo Review's Sound & Vision*. Catalano said closing would affect 10 employees, but publisher was attempting to locate opportunities elsewhere in company for them. Editorial staffers likely to depart include Editor-in-Chief Michael Riggs, Technical Editor Ivan Berger, Senior Editor Allan Lofft, Managing Editor Kay Blumenthal. Demise of *Audio* follows that of *High Fidelity* magazine, and leaves *Stereo Review* as remaining mass-circulation audio buff book. *Audio* was founded as *Audio Engineering*, magazine for radio and movie sound technicians. It became nucleus for infant Audio Engineering Society (AES). At birth of home hi-fi industry, magazine changed named to *Audio* to focus on consumer market, while AES created own member journal. At our deadline, it hadn't been decided whether *Stereo Review* would assume publication of *Audio's* authoritative *Annual Buyers Guide*.

**Transparent VHS cassette** has been approved as part of format standard by licensor JVC. Company said "VHS Clear" standard gives tape vendors ability to market colored or transparent cassettes for lifestyle niches and other applications, such as color-coding by entertainment genre for prerecorded or time-shifted tapes. Technical specifications have been developed to prevent hardware malfunctions, JVC said. They include implementation of "light shade" near left and right sensor holes in cassette. VHS cassette has photo sensor to detect visible or infrared light from stalk that slides into cassette when it's loaded. Purpose of light is to detect clear leader at beginning or end of tape reel and automatically shut down drive motor. Same happens if tape should break, as photo sensors detect light source. When tape is running, opaque magnetic coating blocks light from sensors. Problem with transparent cassette could be leakage of light source around tape, causing sensors to stop motor, JVC said. Light shades prevent such leakage, so deck works normally. New cassettes will carry "VHS Clear" logo to show product meets JVC specs.

**TDK will ship high-end blank CD-R with \$10 price tag in spring.** Company said its PurePro disc has pure silver reflective layer and uses highly rigid polyolefin substrate whose optical characteristics are superior to polycarbonate used in CD-Rs. New material is said to have greater transparency and lower refractivity than polycarbonate, increasing writing accuracy. Disc's lower mass makes it susceptible to jitter or rotational inaccuracy if ink or label are applied to nonrecording surface, so TDK recommends that users apply neither. It said it will position PurePro blanks for critical mastering and recording.



**AMAZON INVESTS IN KOZMO.COM:** Companies led by Amazon.com are investing \$100 million of venture capital into e-tailer Kozmo.com, *Wall St. Journal* reported.

Amazon's \$60 million investment will give it 23% stake in Kozmo.com, article said, also naming Softbank Corp. of Japan as \$30 million investor. Additional investors were unknown, and Amazon and Kozmo didn't return calls for comment.

As we reported, Kozmo.com Web site went online in March 1998, at outset serving only select areas in N.Y.C., but later expanded to Boston, San Francisco, Seattle, Washington, D.C. Company plans to be in 30 markets by end of this year including other U.S. markets and international ones.

Although CEO Joseph Park last month declined to give privately held company's earnings, Kozmo — like most e-tailers — isn't believed to be profitable yet. *Wall St. Journal* article said new investors would wind up owning one-third of company, and Kozmo is valued at \$300 million after investments.

Irony of Amazon deal is that Kozmo.com Pres. Yong Kang told us last month that his idea for company — which delivers CE products, videogames, music, videos and other merchandise in less than hour in select markets — came about after he became frustrated with Amazon.com shopping experience (TVD Dec 27 p15). He told us turnoff for him was having to pay high shipping price just to get something delivered overnight.

Meanwhile, Kozmo.com announced it signed exclusive distribution agreement with TicketmasterOnline-City Search that makes Kozmo.com exclusive "under one hour" general delivery provider at [www.citysearch.com](http://www.citysearch.com).

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**Sony Computer Entertainment (SCE)** said last week it will sell hardware and software online for its upcoming PlayStation2 game console, which debuts in Japan March 4. It said it's setting up new PlayStation.com(Japan) division Feb. 1 to handle e-commerce for game system, and Web site ([www.jp.playstation.com](http://www.jp.playstation.com)) will begin in mid-Feb. Although SCE will sell only PlayStation product at site at outset, it will sell CDs and DVD video software in near future. Unclear at our Fri. deadline was what role Web site would play in N. America, where PlayStation2 is scheduled to start in fall. SCE America didn't return calls for comment by our deadline. *CBS MarketWatch* said new e-commerce division would be established with capital of ¥480 million (\$4.57 million). In conference call with reporters in Sept., Pres.-COO Kaz Hirai and other SCEA executives revealed that company intends to use new system as platform for Internet-based electronic distribution of digital content via broadband networking next year (TVD Sept 20 p14).

**DVD decoding by software** in PCs is on verge of proliferating, thereby saving manufacturers some of \$50 cost now allocated to use of hardware-based DVD decoders. Raviscent Technologies has received Windows 2000 certification from Microsoft for its Software CineMaster DVD decoder. Program received certification for its implementation in Dell Dimension PC running 600 MHz Intel Pentium III processor. Meanwhile, Packard Bell NEC-Europe has adopted MGI Software's SoftDVD Max. PC maker is among top 5 sellers in Europe. MGI's software-based DVD and MPEG-2 decoder runs on PCs with Pentium II and III chips of 300 MHz or greater speed.

**Funco reported profit** dropped to \$4.41 million for 3rd quarter ended Jan. 2 from \$5.39 million in same period year ago and comparable-store sales dipped 4%, attributing loss to "industrywide shortages of high-demand products such as Nintendo Game Boy Color systems and *Pokemon Yellow* games, as well as an overall lack of 'big hit' title releases for Nintendo 64 and PlayStation game consoles compared to last year." Another contributing factor it cited was price cuts on Nintendo 64 and PlayStation. But retailer said revenue jumped 24% in quarter, \$102.7 million from \$82.88 million. "Strong performance" of Sega Dreamcast as well as increased number of stores helped boost sales, Funco said. It opened 48 FuncoLand stores in quarter for total of 401 locations, compared with 310 year ago. It also said sales at its FuncoLand Superstore Web site grew to \$2.23 million in quarter, gain of 2.7 times.

**New Chinese DVD player** at \$169 is selling at Circuit City, supplementing retailer's Oritron-brand Chinese decks at same price point. New model is Apex Digital AD-600A, which adds Karaoke and playback of MP3-encoded CDs to normal DVD functions. Circuit City spokesman confirmed chain is selling Apex, and told us it's to supplement inventories of Oritron decks at entry-level prices. OEM source of Cal.-based Apex brand couldn't be learned by our Fri. deadline. Sources told us it's assembled in China from Japanese printed circuit board and other imported components they described as high quality. Coincidentally, Apex is name of high-end Japanese autosound brand. Chinese govt. has authorized 27 domestic companies to manufacture DVD hardware.

**EMusic.com said sales** of downloadable music at its Web site reached \$206,000 in 2nd quarter, 390% increase over prior quarter when sales were only \$42,000. It posted revenue of \$423,000, up 135% in 3 months. But loss widened to \$14.25 million from earlier quarter's \$13.51 million. EMusic.com said 8,700 consumers bought average of \$23 of downloadable music each in quarter. In prior quarter, average sale to 4,279 consumers was only \$9, it said.

**WMP-1V Wrist Audio Player** shipping in May at under \$300 from Casio can play MP3 audio files downloaded from computer. Company said watch can store 33 min. of CD-quality music in high-quality mode on built-in MMC (Multi Media Card), 44 min. in medium quality mode, 66 min. in low quality mode. Flashback Title feature displays artist and song names on watch display. Casio also will ship WQV-1 Wrist Camera in May at \$199. Watch functions as digital camera that can store up to 100 images on its built-in one Mb of memory. It comes with built-in LCD monochrome screen that functions as viewfinder during image recording and display in playback.

**Almost 3 million PlayStation videogame consoles** were sold from Nov. 1 through Dec. 31, Sony Computer Entertainment America (SCEA) said. It said N. American installed base is now at 25 million units. It said \$1.5 billion worth of PlayStation hardware, peripherals and software were sold in holiday season, which SCEA said was greater than its \$1 billion projection in Nov. Meanwhile, company also announced it's shipping *Tomba! 2: The Evil Swine Return* game, developed by Whoopee Camp.

**New line of Nintendo 64 (N64) videogame consoles** in 6 translucent colors will ship week of Feb.21 at same \$99.95 price as current unit. Move follows company's success with multicolored Game Boy handhelds. New N64 colors are Fire, Grape, Ice, Jungle, Smoke, Watermelon. Each will come with matching controller.



## Consumer Electronics Personals

**William Sims** resigns as Zenith Sales Co. pres. to join e-Sim as pres. of LiveManuals Div.; **Ronald Snidauf** and **Leonard Coakley**, commercial products and accessories vps, respectively, are given broadened responsibilities and promoted to corporate vps... **Daniel Halaburda**, Sensory Science specialty markets sales dir., promoted to advertising & mdsg. vp; **Mark Kline**, ex-Tripp Lite, named central zone sales vp... **Makoto Nakamura**, JVC PR gen. mgr., shifts to gen. mgr.-World Cup Business Promotion Dept., replaced by **Yutaka Ichijo**... **Mike Fasulo**, senior gen. mgr., Sony Media Solutions Co., advanced to pres... **Jeffrey Conway**, Rent-Way senior vp-CFO, named pres.-COO, succeeding **William Morgenstern**, who remains chmn.-CEO; **William McDonnell**, ex-Bank of Montreal, appointed vp-CFO... **Mark Breier**, Beyond.com pres.-CEO, resigns, replaced on interim basis by CFO **Rick Neely**.

**Daniel Cammart**, Let's Talk Cellular & Wireless CFO, resigns, succeeded by **Alan Feller**... **Jennifer Johnson**, ex-Value America, appointed AuctionRover.com mktg. vp... **Joseph Antonini**, ex-Kmart, elected to MyTurn.com board... **Mark Bilger**, ex-Hyperion Solutions, joins Acclaim Entertainment as exec. vp-worldwide product development... **David Watkins**, ex-RioPort CEO, named pres.-COO, Talk City... **Doris Lynch**, Midway Games regional sales mgr., promoted to national sales mgr... **Ronald DiBiase**, ex-Shoreline Teleworks, named Planetweb sales vp... **Keith Osborne**, ex-NextCard, joins Reel.com as senior vp-chief information officer.

**Anthony Zalenski** resigns as Boca Research pres.-CEO, Chmn. **Robert Ferguson** assumes post on interim basis... **Gary Dale**, BMG Entertainment senior international mktg. vp, joins Take-Two Interactive board... **Joseph Hubach**, Texas Instruments vp-asst. gen. counsel, promoted to senior vp-gen. counsel, replacing **Richard Agnich**, who retires in April... **Kenneth Fay**, ex-Eastman Kodak, named Silicon Film Technologies COO.

## Obituary

**Hedy Lamarr**, 86, actress and co-inventor of radio communications system now known as spread spectrum, was found dead in her Hollywood, Fla., home Jan. 19. Before U.S. entry into World War II, she and pianist-composer **George Antheil** developed idea of concealing messages in handsprad of 10-note chords, then applied concept to transmitting secret code by spreading it across different radio frequencies. Application for "secret communications system" in names of **George Antheil** and **Hedy Kiesler Markey** (her legal name at time) received U.S. Patent 2-292-387 on Aug. 11, 1942 — but military never implemented it until 1960s, after patents had expired and necessary computer processing power had become available. Spread spectrum system is widely used today in cellular and cordless phones, Europe's COFDM digital TV system, and elsewhere.

**Acclaim Sports** re-signed N.Y. Yankees' star shortstop **Derek Jeter** to exclusive multiyear deal in which he serves as spokesman for its *All-Star Baseball* game franchise. As part of deal, Jeter will appear in national TV spots, as well as in all merchandising, packaging and print ads for games, Acclaim Sports parent Acclaim Entertainment said.

**VTech**, seeking to expand share of cordless phone market in U.S., has agreed to pay \$113 million for Lucent's consumer phone assets including rights to AT&T brand. It also will assume \$79.4 million in liabilities. VTech said it will finance deal with \$80-\$100 million loan. With manufacturing facilities in China, VTech has gained 54% share of 900 MHz phone market in U.S. in anchoring low end with own brand. It has 10-year exclusive agreement for AT&T brand and said it will target it for high end of market. VTech will gain 4,800 Lucent employees as well as manufacturing and repair facility in Mexico and R&D operation in N.J. Telecom has been key component of VTech business, accounting for 58% of its \$960.6 million in total sales for fiscal year ended March 31. Lucent has focused largely on supplying telecom since being spun off from AT&T. It briefly ran telecom joint venture with Philips, but agreement collapsed in 1998.

**Samsung**, crediting LCD, multimedia appliance and telecom sales, reported annual net profit rose to \$2.8 billion in 1999 from \$271 million year earlier and sales to \$22.6 billion from \$17.4 billion. Largest contributors to improved earnings were increased prices for LCDs and dynamic random access memory (DRAM) chips, analysts said... **Daewoo Group's** local creditors were continuing discussions at week's end aimed buying \$6.7 billion debt owed to foreign banks. Korean lenders so far have offered to buy overseas debt for average of 36.5% of face value, while foreign lenders are seeking 45¢ on dollar. **Choi Ouk**, official of Corp. Restructuring Coordination Committee, told Bloomberg that "we're hoping for a settlement somewhere in the middle." Agreement for foreign creditors is key to resolving Daewoo's \$78 billion in total debt... **LG Electronics** last week floated \$86 million 9% 3-year bonds that mature Jan. 25, 2000.

**Year-end DTV sales** reached 121,226 with addition of 23,745 shipped to retail in Dec., CEA said. Dec. tally was 5% increase over Nov. and record month despite shortages of HDTV-ready sets as we have reported. CEA said Aug. 1998 launch-to-date shipments to retailers reached 134,402 in Dec. As in past, group doesn't break out ratio of decoder-equipped sets capable of displaying DTV broadcasts.

**Sotec Co.** agreed to halt production of PC that Apple Computer alleged copied its iMac desktop design. Apple, which sued Sotec in Tokyo Dist. Court in Aug., also will receive ¥10 million. Sotec's blue and white e-one 433, which was sold in Japan, featured same translucent design as iMac. Tokyo Dist. Court issued preliminary injunction in Sept. in finding that "consumers could confuse the products." Apple has been aggressive in protecting its iMac design, suing Future Power and partner Daewoo Telecom after former introduced E-Power machine (TVD Aug 9 p19).

**At our deadline**, RIAA filed copyright infringement suit seeking to stop MP3.com from running new Instant Listening and Beam-It services, which it said are built on "unauthorized digital archive of the most popular and valuable copyrighted sound recordings in the world." It said MP3.com constructed database "without making the slightest attempt to obtain permission from the copyright owners to do so." RIAA said "it's astonishing that a publicly traded company would behave so recklessly." MP3.com representatives couldn't be reached for comment.

**Philips** said it moved hq for digital set-top box development to Sunnyvale, Cal., from Netherlands. Its products include cable, satellite and terrestrial receivers as well as Web TV Internet browser and TiVo Personal TV hard disc recorder. Philips said move reflected fact that Silicon Valley is source of convergence technologies.



## Financial Reports of TV-Electronics Companies

These are latest reports as obtained during past week. Dash indicates information not available. Amounts expressed in dollars. Parentheses denote loss.

Company & Period	Revenues	Net Earnings	Per Share
<b>America Online</b>			
1999-year to Dec. 31	3,088,000,000	455,000,000	.20 <sup>a</sup>
1998-year to Dec. 31	2,147,000,000	191,000,000	.10
1999-qtr. to Dec. 31	1,621,000,000	271,000,000	.12 <sup>a</sup>
1998-qtr. to Dec. 31	1,148,000,000	115,000,000	.06
<b>Boston Acoustics</b>			
1999-39 wk. to Dec. 25	81,091,896	5,611,962	1.11
1998-39 wk. to Dec. 26	85,155,939	8,535,371	1.71
1999-13 wk. to Dec. 25	30,567,062	2,799,931	.55
1998-13 wk. to Dec. 26	37,305,613	3,953,438	.79
<b>C-Cube Microsystems</b>			
1999-year to Dec. 31	407,648,000	57,278,000	1.30
1998-year to Dec. 31	351,797,000	46,289,000	1.11
1999-qtr. to Dec. 31	115,726,000	18,620,000	.40
1998-qtr. to Dec. 31	95,800,000	12,424,000	.31
<b>C-COR.net</b>			
1999-26 wk. to Dec. 24	126,894,000	4,004,000	.15 <sup>b</sup>
1998-26 wk. to Dec. 25	74,305,000	(1,804,000)	— <sup>a</sup>
1999-13 wk. to Dec. 24	62,391,000	3,949,000	.14 <sup>a</sup>
1998-13 wk. to Dec. 25	39,651,000	(976,000)	— <sup>a</sup>
<b>Corel</b>			
1999-year to Nov. 30	243,051,000	16,716,000	.27 <sup>a</sup>
1998-year to Nov. 30	246,827,000	(30,448,000)	— <sup>b</sup>
1999-qtr. to Nov. 30	60,932,000	4,582,000	.07
1998-qtr. to Nov. 30	67,242,000	6,782,000	.11
<b>C-Phone</b>			
1999-9 mo. to Nov. 30	1,182,798	(2,630,794)	—
1998-9 mo. to Nov. 30	1,346,776	(2,975,756)	—
1999-qtr. to Nov. 30	416,429	(744,850)	—
1998-qtr. to Nov. 30	441,349	(1,036,712)	—
<b>eGAMES</b>			
1999-6 mo. to Dec. 31	8,638,965	1,177,947	.12
1998-6 mo. to Dec. 31	6,117,326	1,250,335	.13
1999-qtr. to Dec. 31	4,521,390	601,328	.06
1998-qtr. to Dec. 31	3,611,126	846,970	.09
<b>Emusic.com</b>			
1999-6 mo. to Dec. 31	603,000	(27,777,000)	—
1998-6 mo. to Dec. 31	20,000	(1,975,000)	—
1999-qtr. to Dec. 31	423,000	(14,258,000)	—
1998-qtr. to Dec. 31	8,000	(1,125,000)	—
<b>Flextronics International</b>			
1999-9 mo. to Dec. 31	2,661,578,000	72,542,000	.64 <sup>b</sup>
1998-9 mo. to Dec. 31	1,448,558,000	40,574,000	.44 <sup>b</sup>
1999-qtr. to Dec. 31	1,179,488,000	34,325,000	.29
1998-qtr. to Dec. 31	580,395,000	15,796,000	.16 <sup>b</sup>
<b>Funco</b>			
2000-40 wk. to Jan. 2	197,872,000	5,480,000	.87
1999-39 wk. to Dec. 27	151,082,000	6,455,000	1.01
2000-13 wk. to Jan. 2	102,701,000	4,410,000	.70
1999-13 wk. to Dec. 27	82,889,000	5,395,000	.87
<b>Genesis Microchip</b>			
1999-9 mo. to Dec. 31	42,727,000	5,499,000	.29 <sup>b</sup>
1998-9 mo. to Nov. 30	23,069,000	2,459,000	.15
1999-qtr. to Dec. 31	10,059,000	200,000	.01
1998-qtr. to Nov. 30	10,627,000	1,514,000	.09
<b>Hughes Electronics</b>			
1999-year to Dec. 31	5,560,300,000	(291,300,000)	— <sup>b</sup>
1998-year to Dec. 31	3,480,600,000	250,700,000	.68
1999-qtr. to Dec. 31	1,698,000,000	(231,800,000)	— <sup>b</sup>
1998-qtr. to Dec. 31	1,105,200,000	123,100,000	.32
<b>In Focus Systems</b>			
1999-year to Dec. 31	390,691,000	26,887,000	1.20
1998-year to Dec. 31	306,663,000	(671,000)	—
1999-qtr. to Dec. 31	110,516,000	11,532,000	.51
1998-qtr. to Dec. 31	88,535,000	2,221,000	.10
<b>Key Tronic</b>			
2000-26 wk. to Jan. 1	83,060,000	(1,623,000)	—
1999-26 wk. to Jan. 2	90,278,000	1,353,000	.14
2000-13 wk. to Jan. 1	41,285,000	(1,833,000)	—
1999-13 wk. to Jan. 2	47,973,000	860,000	.09
<b>Lee Enterprises</b>			
1999-qtr. to Dec. 31	142,656,000	30,544,000	.69
1998-qtr. to Dec. 31	142,127,000	19,639,000	.44
<b>Meredith</b>			
1999-6 mo. to Dec. 31	526,533,000	43,482,000	.84
1998-6 mo. to Dec. 31	500,761,000	44,234,000	.84 <sup>a</sup>
1999-qtr. to Dec. 31	266,129,000	25,459,000	.49
1998-qtr. to Dec. 31	254,924,000	25,423,000	.48

Company & Period	Revenues	Net Earnings	Per Share
<b>Midway Games</b>			
1999-6 mo. to Dec. 31	254,196,000	30,175,000	.79
1998-6 mo. to Dec. 31	215,000,000	20,497,000	.55
1999-qtr. to Dec. 31	147,594,000	18,828,000	.50
1998-qtr. to Dec. 31	125,661,000	10,690,000	.29
<b>Motorola</b>			
1999-year to Dec. 31	30,931,000,000	817,000,000	1.35 <sup>b</sup>
1998-year to Dec. 31	29,398,000,000	(962,000,000)	— <sup>b</sup>
1999-qtr. to Dec. 31	8,498,000,000	349,000,000	.58 <sup>b</sup>
1998-qtr. to Dec. 31	8,337,000,000	159,000,000	.26
<b>MPath Interactive</b>			
1999-year to Dec. 31	15,522,000	(25,081,000)	—
1998-year to Dec. 31	8,027,000	(11,951,000)	—
1999-qtr. to Dec. 31	6,030,000	(9,145,000)	—
1998-qtr. to Dec. 31	2,862,000	(2,501,000)	—
<b>Navarre</b>			
1999-9 mo. to Dec. 31	223,561,000	(5,778,000)	—
1998-9 mo. to Dec. 31	182,474,000	(40,280,000)	— <sup>b</sup>
1999-qtr. to Dec. 31	99,009,000	10,000	—
1998-qtr. to Dec. 31	74,630,000	(4,082,000)	—
<b>Phoenix Gold International</b>			
1999-qtr. to Dec. 31	6,893,627	211,973	.07
1998-qtr. to Dec. 31	6,665,935	206,336	.06
<b>Pinnacle Systems</b>			
1999-6 mo. to Dec. 31	113,008,000	8,179,000	.35 <sup>b</sup>
1998-6 mo. to Dec. 31	71,445,000	9,048,000	.44 <sup>b</sup>
1999-qtr. to Dec. 31	62,562,000	5,389,000	.23
1998-qtr. to Dec. 31	39,172,000	5,040,000	.24
<b>Rambus</b>			
1999-qtr. to Dec. 31	9,319,000	2,465,000	.10
1998-qtr. to Dec. 31	7,948,000	2,055,000	.09
<b>Rent-Way</b>			
1999-qtr. to Dec. 31	140,911,000	10,128,000	.46
1998-qtr. to Dec. 31	123,959,000	(10,050,000)	— <sup>b</sup>
<b>Silicon Storage</b>			
1999-year to Dec. 31	124,794,000	(4,016,000)	— <sup>b</sup>
1998-year to Dec. 31	69,411,000	(17,588,000)	—
1999-qtr. to Dec. 31	48,328,000	5,743,000	.23
1998-qtr. to Dec. 31	18,083,000	(6,747,000)	—
<b>STMicroelectronic</b>			
1999-year to Dec. 31	5,056,300,000	547,300,000	1.91
1998-year to Dec. 31	4,247,800,000	411,100,000	1.46 <sup>c</sup>
1999-qtr. to Dec. 31	1,478,200,000	184,300,000	.64
1998-qtr. to Dec. 31	1,132,700,000	121,800,000	.43 <sup>c</sup>
<b>Tweeter Home Entertainment</b>			
1999-qtr. to Dec. 31	124,814,000	8,122,000	.53
1998-qtr. to Dec. 31	86,784,000	4,557,000	.36 <sup>c</sup>
<b>Universal Electronics</b>			
1999-year to Dec. 31	105,091,000	7,740,000	1.16
1998-year to Dec. 31	89,036,000	5,638,000	.88
1999-qtr. to Dec. 31	33,277,000	3,754,000	.55
1998-qtr. to Dec. 31	24,455,000	2,371,000	.37
<b>Video Display</b>			
1999-9 mo. to Nov. 30	47,797,000	874,000	.22 <sup>a</sup>
1998-9 mo. to Nov. 30	42,660,000	2,108,000	.54
1999-qtr. to Nov. 30	14,565,000	429,000	.11 <sup>a</sup>
1998-qtr. to Nov. 30	13,859,000	481,000	.12
<b>Warrantech</b>			
1999-6 mo. to Sept. 30	52,033,857	(6,016,337)	—
1998-6 mo. to Sept. 30	70,663,529	(2,871,081)	—
<b>ZiLOG</b>			
1999-year to Dec. 31	245,138,000	(37,890,000)	—
1998-year to Dec. 31	204,738,000	(87,528,000)	—
1999-qtr. to Dec. 31	65,362,000	(4,689,000)	—
1998-qtr. to Dec. 31	54,101,000	(17,122,000)	—

Notes: <sup>a</sup>Includes special credit. <sup>b</sup>After special charge. <sup>c</sup>Adjusted.

3DO is shipping its first videogames for European market — *Army Men 3D* for Sony PlayStation and *Army Men in Space* for PC. Redwood, Cal.-based 3DO said games are being shipped to 25 European countries including France, Germany, Italy, Spain, U.K. European rollout of *Army Men* brand is being supported by extensive marketing campaign including spot that will be shown before screenings of *Toy Story 2* at theaters in France, Germany and U.K. starting Feb. 4.





# TELEVISION DIGEST WITH CONSUMER ELECTRONICS

The Authoritative Service for Broadcasting, Consumer Electronics and Allied Fields

JANUARY 31, 2000

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**RELIGIOUS RULES REVERSED** by FCC, following pressure from GOP lawmakers. Tristani calls it 'sad, shameful day.' (P. 1)

**TAUZIN CRITICIZES TELECOM ACT** as ambiguous. FCC seen as too regulatory. Powell raises concerns about size. (P. 3)

**DTV BACKERS PRESS FCC** to dismiss Sinclair petition. Comment period said to mean inevitable delay. Demo suffers from snow. (P. 4)

**CLINTON PRESSES RATINGS**, seeks end to digital divide in State of Union. Schools' access to Internet also sought. (P. 5)

**GOVT. MINORITY ROLE POSSIBLE**, Mfume says. Network talks could head it off. Deals done with NBC and ABC, 'close' with Fox. CBS talks under way. (P. 6)

**TV BOOSTS DISNEY**: Iger promoted to pres.-COO and member of board. Washington Post broadcast profit down, Scripps up. Other financials. (P. 6)

**CABLE IN COURTS, FCC**: Rush of decisions expected. AT&T-Media deal cited, as well as DTV must-carry, horizontal ownership, Playboy. (P. 7)

**FCC REVERSES RELIGIOUS BROADCASTER RULING UNDER PRESSURE**: Commission reversed its controversial religious broadcaster ruling Jan. 28 on its own motion, revoking "additional guidance" on requirements for religious broadcasters to hold noncommercial, educational (NCE) TV licenses. Move followed weeks of pressure from Republicans and religious broadcasters, who threatened legislation and court action to reverse decision. "This is a sad, a shameful day for the FCC," said Comr. Tristani, only dissenter. "This supposedly independent agency has capitulated to an organized campaign of distortion and demagoguery."

"Additional guidance" was small part of order granting complex transfer of Pittsburgh NCE license that was to leave religious broadcaster Cornerstone TV with NCE station WQEX (Ch. 16), currently 2nd station of PBS member WQED. Paxson would have ended up with Cornerstone's commercial station WCVB-TV (Ch. 40), with Cornerstone and WQED splitting proceeds of estimated \$35 million. FCC allowed Cornerstone to assume NCE license over objections of Pittsburgh citizens' group, which contended that organization didn't provide educational programming. Agency had said that in future it would require all NCE licensees to have at least 50% of programming meet "educational" standards, with church services explicitly not counting toward that quota. Religious broadcasters argued that amounted to censorship, and their complaints took on more resonance when Cornerstone canceled deal, saying new requirements were too onerous.

### **Consumer Electronics**

**QUESTIONS ABOUT ON DEAL** merging EMI and Warner Music, including fate of their respective Internet music ventures. (P. 11)

**STRONG YEN CRIMPS SONY PROFITS** for 3rd quarter, as does sluggishness on PlayStation. Game console shipments down 14.4%. (P. 12)

**TIVO LOSES \$35 MILLION** in 4th quarter, while rival ReplayTV files for IPO, reveals EchoStar alliance. (P. 13)

**COMPUSA SALE PROPOSED** for \$797.7 million to Mexican retailer Grupo Sanborns. Store closings seen possible. (P. 14)

**NEW PC WORKS AS PVR**: Software developer MGI teams with U.K. retailer Dixons on PCs that store TV shows on hard disc. (P. 15)

**CABLEVISION RESTRUCTURES WIZ** as it seeks better link consumer and business telecom to retail, plans up to 10 new stores. (P. 15)

**INTEL DEVELOPING DSC**: Chip maker silent on plans for digital still cameras revealed in patent filings. (P. 16)



Comr. Powell, who along with Comr. Furchtgott-Roth had warned that decision opened “Pandora’s box” of content scrutiny, said agency had “put the lid back on the box... When treading this close to content regulation, the traditional deference the Commission has given to broadcasters in these matters is the most appropriate regulatory course.”

“Regrettably, it has become clear that our actions have created less certainty rather than more, contrary to our intent,” majority said. “In hindsight, we see the difficulty of minting clear definitional parameters for ‘educational, instructional or cultural’ programming, particularly without the benefit of broad comment... We will defer to the editorial judgment of the licensee unless such judgment is arbitrary or unreasonable.”

“Quite the opposite,” Furchtgott-Roth said in concurrence, “the Commission’s further statements... were all too well apprehended by regulated entities, the public and their elected representatives. It was not for lack of clarity that these parties objected to the decision but for infringement of freedom of speech and freedom of religion — and rightly so.” He said it’s not true that “error only became apparent after the original decision was adopted.” Furchtgott-Roth said it was “plainly perceptible... That is why I voted against it then.” He said pullback should make it apparent that FCC “is unauthorized to engage in any formal or informal practice of directly reviewing the substance of stations’ programming or imposing a quantification requirement on educational programming.”

In just 2 weeks, Furchtgott-Roth received more than 1,000 messages from “opposed citizens,” in addition to “strong objections” from “many members of Congress,” he said in footnote. FCC said it has “received many communications from members of the public and others concerning this proceeding,” but didn’t indicate if or how its decision was affected by them.

Tristani cited “pressure campaign,” including “most disturbing charge” — that decision reflected “antireligious bias” at FCC. “I reject and resent this type of attack, reminiscent of a witch hunt,” she said. “It is precisely because of my deep respect for religion, and my deep appreciation for the religious diversity of America, that I supported our additional guidance.” Sectarian religious programming, “by its very nature, does not serve the ‘entire community’ and is not ‘educational’ to nonadherents,” Tristani said. “A government policy that... awards exclusive use of a scarce public resource to permit those views to be expressed would run afoul of the Establishment Clause” of First Amendment, which prevents public from endorsing specific religious views.

Majority “clearly wishes that this entire subject would go away,” Tristani said. “That has been the Commission’s unspoken policy through the years, and would have remained the policy had the people of Pittsburgh not pressed the issue. Now, having stuck their head out of the foxhole and drawing fire, the majority is burrowing back in as quickly and deeply as they can.” She agreed with Furchtgott-Roth that majority’s rationale that decision had made things less clear “would be laughable were the stakes not so high. The problem was... we actually tried to give meaning to our rule. What the majority really means is that they prefer a murky and unenforceable rule to a clear and enforceable one.” Although majority said rulemaking should be required, Tristani said no such rulemaking was issued: “The seriousness of the majority’s rulemaking argument can be judged by how quickly it begins a proceeding. I doubt that a rulemaking on this subject will ever see the light of day.”

Despite pullback, Tristani said she will continue to “cast my vote in accordance with the views expressed in the additional guidance and in this statement.” She said rules remain same, with only difference being that “neither licensees nor the public will have the benefit of specific guidance... I cannot see how anyone is better off, other than those who oppose any enforceable rules in this area.”

House and Senate saw introduction of bills seeking to reverse Dec. FCC ruling restricting content of religious broadcasters (FCC 99-393). Rep. Oxley (R-O.) introduced bill in House (HR-3525) with 77 bipartisan co-sponsors. Sen. Brownback (R-Kan.) introduced companion bill (S-2010) with 7 co-sponsors. Among co-sponsors for 2 bills were Senate Majority Leader Lott (R-Miss.), House Majority Leader Arney (R-Tex.) and House Majority Whip DeLay (R-Tex.). Meanwhile, House Commerce Committee Chmn. Bliley (R-Va.) had called on FCC Chmn. Kennard to withdraw guidance: “If they don’t do their job, Congress will do it for them.”

Oxley claimed “complete and total victory for free religious expression...” I’m thrilled that the FCC has seen the error of its ways.” He said he would watch Commission carefully in future “with regard to conservative and religious speech.” Rep. Stearns (R-Fla.), one of first co-sponsors of Oxley’s bill, said he was “relieved that my colleagues and I succeeded in getting this decision withdrawn.”

Activist Jerrold Starr, who led Pittsburgh coalition to block station sale and now is exec. dir. of Citizens for Independent Public Bestg., said he was “absolutely shocked” at FCC’s latest action. He said he had “lined up more than a dozen national organizations,” including several church groups, with millions of collective members, to back Commission’s guidelines. Had FCC not backed down, Starr said, it would have “discovered it had enormous support.” He said he would file for reconsideration of FCC’s reconsideration.



**TAUZIN CRITICIZES TELECOM ACT AMBIGUITY:** Greatest failing of Telecom Act has been "ambiguity" of its language, caused by political considerations, House Telecom Subcommittee Chmn. Tauzin (R-La.) told NATPE convention in New Orleans last week. He said it has allowed communications companies to grow and compete more effectively at home and abroad, but Congress failed to change language of Communications Act, retaining FCC regulatory "model" from 1930s. "We [Congress] ought to be willing to admit our mistakes" and correct them, but it won't happen this year, he said.

"Bigness is necessary" as industry convergence continues, Tauzin said, and it's only bad when it becomes "monopolistic." In answer to question about bigness, FCC Comr. Powell said "yes and no and sometime." Govt.'s only concern about bigness, he said, should be protection of consumers and its effect on diversity in media. Producer Meryl Marshall, pres. of Academy of TV Arts & Sciences, said bigness "certainly can be bad" when it stifles creativity. News Corp. Senior Vp Peggy Binzel said allowing AOL and Time Warner to merge, while "at the same time we can't acquire one new TV station in Buffalo, N.Y., is a crazy system."

Powell, former Justice Dept. antitrust lawyer, said "in terms of theory, the chairman [FCC Kennard] was probably right" when he said there's no antitrust problem in AOL purchase of Time Warner. But Powell said such merger leads "to the next one and the next one... It's the aggregate that causes the anxiety" and law isn't very clear. From antitrust aspect, FCC's 35% station ownership cap doesn't "make sense," he said, but that's not purpose of cap. Viacom-CBS deal, which combines 2 TV networks, points up "quandary that we are discussing," Powell said, and as vertical integration continues, lawsuits will be inevitable.

Tauzin said independence of news from ownership and govt. is "always a concern [but] what concerns me more is the government putting its little nose into content control." He said he's "deeply concerned" by charges White House prescreened scripts in its drug control efforts (TVD Jan 24 p6, Jan 17 p4).

Outside programmers selling to TV networks today are facing network demands for ownership positions in new programs, said Andrew Kaplan of Columbia TriStar TV. Asked whether independent producers will become "extinct," he said: "I think most likely... I can't see us surviving" in face of current network practices.

Tauzin let loose blistering attack on FCC, saying agency's decision on noncommercial religious programming (see separate story, this issue) "astounded me... I can't think of a more stupid thing for a federal agency to do." On its temporary extension of local marketing agreements, he said "the FCC simply has trouble reading the law" in Telecom Act that gave LMAs permanency. And, he said, "it astounds me" that Commission "approves all the mergers yet ignores... arcane" restrictions against newspaper-broadcast cross-ownership: "This agency has become an abetter and agent of corruption" in communications industries and it "needs to be reined in."

On controversy over Internet taxes, Telecom panel chmn. told broadcasters that if they want to remain free, "don't let the government tax it to death." On open access, he said: "You can't tell the cable companies they can't deny access" to Internet users without defining price that must be paid for that access. Tauzin made big push for FCC approval of broadcasters' demands for digital must-carry. He said that issue "continues to trouble me" since Congress has forced TV stations to switch to digital.

ALTV panel on which FCC Comrs. Ness and Furchtgott-Roth and NTIA Dir. Gregory Rohde were to quiz panel of broadcasters instead featured debate on FCC's 35% ownership cap between Kevin O'Brien of KTVU Oakland-San Francisco and Paxson Communications Chmn. Lowell Paxson, whose TV network and stations now are about 30% owned by NBC, which has management contract with stations. Networks always have "behaved in a predatory manner," said O'Brien, and localism "will be severely damaged" if cap is raised. Paxson said market-power argument against raising cap is ridiculous considering megamergers that have been approved or are pending.

Ness asked broadcasters about proposals for voluntary donations of 5 min. nightly to candidates during election cycle. "We will consider [this] difficult proposal... which has some merit," O'Brien said. "We're doing it," said Paxson, but not always at election time or in 5-min. increments. Anthony Cassara of Paramount Stations Group called proposal "interesting... we will consider it." "Instructive suggestion," said Nicholas Pagon of Pegasus TV. Tribune Co.'s Dennis FitzSimons cited problem at Tribune's WPIX N.Y.C., whose signal reaches 35 congressional districts and how to decide which candidates would get free time.

Furchtgott-Roth said "most disturbing of all is what's been going on in the President's drug control office in alleged swapping time with networks for script approval. "We don't think we need to have the government telling us what to



program," said FitzSimons. Cassara, in reference to proposal to increase public interest obligations in digital era, said govt. shouldn't "be in the content business at all... You loaned us this spectrum, you didn't give it to us."

Rohde asked how small-market TV stations will be able to survive in future. O'Brien suggested that FCC should permit duopolies in 100-plus markets and not just largest, as is case now. ALTV Chmn. Stuart Swartz predicted AOL-Time Warner merger would add new dimensions to "term convergence [and] will produce new waves of competitive fire... which will rattle the foundations in every business plan in every corner of the mass media."

**DTV BACKERS PRESS FCC:** If FCC seeks comment on Sinclair Best. bid to allow COFDM modulation for DTV it would mean "inevitable" delay in DTV transition and "grant them [Sinclair] the remedy they seek" by delaying DTV deadlines, said CEA Vp-Technology Policy Michael Petricone. He was among backers of current DTV standard participating in demonstration last week in Washington. Demonstration included prototype of unannounced 3rd-generation decoder chip from Zenith (3rd-generation chips also have been announced by Motorola and NxtWave).

Full consideration of COFDM modulation could take "a number of years," said Richard Wiley, who headed FCC Advisory Committee on Advanced TV Service. Zenith Senior Vp Richard Lewis said time would be needed because there's no final version of COFDM for use in 6 MHz channels. Once 6 MHz version is built it would have to be tested, he said, channel allocation issues would have to be revisited and scarce engineering resources would have to be reallocated from current system to COFDM: "If we stop what we're doing and work on a new system, the consumer will be harmed."

Zenith organized demonstration comparing performance of current system and COFDM in effort to convince FCC and Hill officials to simply dismiss Sinclair petition (TVD Dec 6 p3, Oct 18 p3). Backers acknowledged that effort was hurt by 2-day closing of govt. offices due to snow, leaving only one day for officials to see demonstration.

Demonstration was similar to one Zenith held at CES (TVD Jan 17 p6), but with additional dynamic multipath and phase noise demonstration, as well as 3rd-generation Zenith chip. Zenith officials said chip will be in consumer DTV sets by Oct. and indicated they believe it performs better than 3rd-generation competitors at eliminating ghosts. Chip was developed in partnership with Zenith parent LG Electronics, officials said.

"It's important to differentiate the performance of particular receivers from the capabilities of the standard," said Mark Richer, exec. vp of Advanced TV Systems Committee. Backers of current standard, which uses VSB modulation, repeatedly said that 2nd- and 3rd-generation receivers will solve problems shown in Sinclair demonstrations last year, and that ability of DTV to receive signals with indoor antenna in downtown environment will continue to improve.

Demonstration, using simulated signals, showed VSB with 5 dB better signal-to-noise (S/N) ratio than COFDM, growing to 7 dB advantage in presence of large, simple ghosts. Officials said it showed 3rd-generation chip is 1 dB better than 2nd-generation on large ghosts. For multiple, complex, dynamic ghosts, officials said demonstration showed 2nd-generation VSB receivers with 6 dB advantage of COFDM, 3rd-generation with 7 dB. They said VSB was 20 dB better in handling impulse noise and phase noise than COFDM.

Sinclair official immediately downplayed importance of demonstration, saying: "There are 5 DTV signals in Washington. Why didn't they use one of those for the demonstration? Simulations don't matter; it's the real world that matters."

"Good-faith" clause of Satellite Home Viewer Improvement Act (SHVIA) "only applies to broadcasters," DirecTV said in response to FCC rulemaking on retransmission consent. There's "fundamental disagreement" between parties over meaning of "broadcasters' obligation, imposed by SHVIA," NCTA said. Filing said good-faith "requirement of the statute affords broadcasters much more flexibility than the DBS providers suggest." Good-faith clause shouldn't be routinely used negotiating tool to "force disclosure of the contracts that broadcasters negotiated with competitors," it said. Good faith should be "mutual," said David Kushner, attorney representing 4 major networks (ABC, CBS, NBC, Fox), because "it doesn't make any sense to force one side to negotiate with an empty chair." There's been no lack of good faith between "cable and broadcasters," he said: "We've seen that the market works." Good-faith requirements mean "nothing more than the parties' meeting at reasonable times and places, confer on an agreement and not refuse to deal," Kushner said. Good faith applies to "everyone," BellSouth spokesman said. FCC clearly has jurisdiction to act "specifically" on program access, he said: "We believe Congress clearly intended that the broadcasters do more than just show up for retransmission consent negotiations."

**FCC is open to idea of granting waivers** that would allow broadcasters currently operating in Ch. 60-69 to accept funds from potential users to vacate spectrum sooner than their 2006 deadline, Wireless Bureau Chief Thomas Sugrue said. He said it's "win-win" situation in which broadcasters could use funds to speed their move to digital TV and more quickly free up that spectrum for other users. When FCC adopted licensing rules for Ch. 60-69 spectrum, it said in order (FCC 00-5) it would consider "specific regulatory requests needed to implement voluntary arrangements reached between incumbent licensees and new licensees in these bands." In considering waivers, it said it would review possible benefits from provision of new wireless services or clearance of spectrum for public safety use versus loss of service to broadcast communities. On related topic, Sugrue said one of major goals for public safety spectrum in Ch. 60-69 is to set standards that will enhance ability of different public safety agencies to communicate with one other.

**Blizzard in D.C.** Jan. 25-26 wreaked havoc on first full day of congressional schedules in new session. Senate Banking Committee waited until last min. to postpone hearing on \$1.25 billion loan subsidy program to get local rural stations on DBS birds. New date wasn't set. FCC was closed both days. Other events postponed or canceled included address by House Commerce Committee Chmn. Bliley (R-Va.) to Media Institute, briefing on agenda for year by Senate Majority Leader Lott (R-Miss.), briefing on FY 2001 budget by Senate Budget Committee Chmn. Domenici (R-N.M.).



**CLINTON FAULTS TV RATINGS:** In nearly 2-hour State of Union speech Jan. 27, President Clinton supported recent criticism by First Lady Hillary Clinton that TV content ratings system lacks logic and clarity. Only small part of speech involved broadcasting and technology, but in that brief time he managed to pitch several govt.-sponsored programs, to be funded by budget increases and tax incentives.

"Every parent I know worries about the impact of violence in the media on our children," Clinton said. After thanking entertainment industry for "accepting my challenge to put voluntary ratings on TV programs and video and Internet games," he said "frankly, the ratings are too numerous, diverse and confusing to be really useful to parents."

Referring to speech by Hillary Clinton last month in her U.S. Senate campaign in N.Y. (TVD Dec 27 p2), Clinton said: "I ask the industry to accept the First Lady's challenge to develop a single voluntary rating system for all children's entertainment that is easier for parents to understand and enforce." Hillary Clinton last month called existing system "totally confusing" and "alphabet soup," but MPAA, which monitors ratings, has declined to respond to her critique.

NAB Pres. Edward Fritts said "it would be unfortunate for parents and families to be asked to adapt to a new system of program guidelines" after millions of sets with V-chips have entered market. "We worked for 2 years with the White House, Congress and children's advocacy groups to develop our profamily rating system," he said, and every poll shows guidelines are being used.

Opportunity requires access to computer and knowing how to use it, Clinton said: "That means we must close the digital divide between those who've got the tools and those who don't." He said his budget, expected Feb. 7, will call for funding to train teachers in computers, create 1,000 tech centers in U.S. for adult use and offer tax incentives to high-tech companies to create jobs in struggling areas. He said he would invite "high-tech leaders to join me" on tour of inner cities and rural communities "to close the digital divide."

Clinton praised e-rate program while attributing it to Vice President Gore. As result of e-rate, he said, U.S. has gone from 3% of classrooms connected to Internet in 1994 to more than half today, with 90% of schools having at least one Internet connection. Recognizing wiring difficulties in old schools, he called for funding to upgrade 5,000 schools annually and build or modernize 6,000 more.

Clinton proposed \$3 billion for 21st Century Research Fund, amalgam of civilian research projects. "Information technology only includes 8% of our employment, but now it counts for a third of our economic growth — along with jobs that pay, by the way, about 80% above the private sector average." He said govt. should take credit for technology boom: "We ought to keep in mind, government-funded research brought supercomputers, the Internet and communications satellites into being." He also made brief reference to "protecting our vital computer systems from hackers and criminals."

Number of Clinton's proposals required no real work on part of White House or Congress, but rather requested voluntary action, such as entertainment industry's generating new TV ratings or high-tech industry's upgrading schools. Where he did

request budget increases, he did so knowing Republican appropriators already had frowned on proposals that have been floated.

Information Technology Industry Council praised speech, calling it "a recognition that information technology is an increasingly important part of our economy, our society, and our culture." Mike McCurry, co-chmn. of iAdvance, said "we applaud the President for the measures he proposed to help bridge the digital divide, but we are disappointed by his failure to mention a bridge to the broadband."

Meanwhile, House Commerce Committee Chmn. Bliley (R-VA) said his committee probably will hold hearing this year on access to buildings by telecom competitors. "I want to see more competition [in multitenant buildings] because it will lead to choices for consumers and lower costs," he said. No hearing yet has been scheduled.

Bliley said he also hoped to see action soon on bills on electronic signatures (HR-1714) and Internet database protections. HR-1714, which would permit broader use of digital signatures in contracts, easily passed House in Nov. after 2 earlier votes had indicated strong support over alternative from Democratic leadership. In this session, it's up to House and Senate conferees to work out differences on both bills. Conferees haven't been appointed to carry that out, House source said.

FCC reform, issue that received attention last year from members such as Bliley, House Telecom Subcommittee Chmn. Tauzin (R-La.), Rep. Oxley (R-O.) and Senate Commerce Committee Chmn. McCain (R-Ariz.), is expected to be on Senate and House committee agendas. FCC released 5-year draft restructuring plan in Aug. that laid out plans for accelerating decision-making processes, although industry groups and some members, including Tauzin, have criticized 5-year time frame as too long.

Commission has typical backlog of 12-14 weeks for accepting waivers, which has "a significant effect on our companies' ability to get new products out to the market," Telecom Industry Assn. Vp-Govt. Relations Grant Seiffert said. Several sources said they expect FCC reform issues to be handled through agency reauthorization process.

**Because he's mentioned** frequently in ex-FCC Chmn. Reed Hundt's upcoming book (TVD Jan 24 p8), ex-FCC Comr. James Quello said book is "worth reading" but requires clarification. Among Quello's comments: (1) Quello isn't "pseudo-Democrat." Although he was appointed by Republican presidents, he had strong Democratic support. His bipartisan support occurred because he didn't take any political stance as member of "independent agency." He said he was "somewhat shocked" that Hundt was so "blatant" in "openly admitting being a functionary of the Vice President's and the White House staff." (2) Kidvid controversy occurred even though there were "72 valid weekly children's programs on TV at that time." Quello said Hundt's book shows he mounted kidvid campaign "ostensibly for political gain." (3) Hundt's "strategic intransigence," as it was termed in Hundt's book, led Quello and his staff to "humorously refer to him as 'Attila the Hundt' sometimes in wonderment at his aggressive creative manipulations." Quello said he and Hundt "smoked the peace pipe" as both prepared to leave FCC. Quello said Hundt called him "my most formidable opponent," which pleased him.



**GOVT. MINORITY ROLE POSSIBLE:** Govt. involvement in drive to bring more minorities into mainstream at TV networks "is definitely an option [but] I'm not advocating it right now," NAACP Pres. Kweisi Mfume told NATPE convention in New Orleans last week. But, he said, eventually "there may be a need for some kind of government regulation" on diversity as TV industry shifts to digital from analog. When campaign for increased opportunities for minorities started in July, he said, coalition "wrestled with the possibility of going to the government for help" but rejected it.

Longtime agreements for increasing opportunities for "people of color" have been signed with NBC and ABC, and deal with Fox is "very close," Mfume said, while negotiations with CBS are under way. He refused to disclose areas of contention with those 2 networks and, following closure of rift among minority groups belonging to coalition, he said agreements with CBS and Fox were expected to be finalized within week. Disagreement among coalition members was surprise, Mfume said, because day before deal was announced there had been 2 teleconferences with coalition members.

Network negotiations received jump-start after Nov. 29 hearing in L.A. sponsored by coalition members at which CBS TV Pres. Leslie Moonves testified while Fox, NBC and ABC sent lesser executives who weren't authorized to discuss issues, Mfume said, and walked out after they weren't permitted to appear with Moonves. Day after that meeting, he said, NBC Pres. Robert Wright called and 2 sides spent "10 days back and forth on phone" before first deal was signed.

Asked whether networks decided to negotiate because of pressure, guilt or threat of boycott, Mfume said it was "a little bit of each," plus other considerations. He said one network had 114 writers, 7 of whom were minorities, another had 137 writers with only 3 minorities: "For us, it's just as much a civil rights issue as marching down the streets of Birmingham." He said agreements with ABC and NBC are just "the beginning, not an end."

At NATPE panel on "Digital Daze," Sandra Kersch of PricewaterhouseCoopers was downbeat on HDTV prospects, saying reality of most stations' returning their analog channels by 2006 deadline "is not very good." She predicted most stations will use additional channel space for multicast and datacast, not HDTV, and digital transmissions won't give TV stations competitive advantage. James Goodman of Capitol Bcstg., whose WRAL-TV Raleigh-Durham is HDTV pioneer, said service is opportunity for broadcasters in long run and "it's very much to our advantage to get this transition done... I promise you, if you have several days of watching high definition, you won't go back to analog."

Sinclair Bcst.'s Mark Hyman attacked FCC plans to auction TV analog Ch. 60-69 before transition is complete and praised COFDM system that Sinclair is pushing at FCC. On HDTV, Barbara Lopez of Intel said: "I think consumers will demand it... This is a huge opportunity for broadcasters." Paul Kafno of International Bcstg. Convention said he expects HDTV to be beginning of "a vast and wonderful new enterprise," but warned industry must be cautious, and HDTV works only with large-screen receivers.

**Virage said it has deals** with 15 major media companies to make online video content searchable and interactive. It said clients include PBS, Lifetime, Yahoo, *N.Y. Times*, *USA Today*.

**TV BOOSTS DISNEY:** Disney revenue rose 8% to \$6.8 billion in quarter ended Dec. 31 and income 7% to \$515 million, not including Go.com Internet assets, which will report "substantial loss," company said. Operating income from Disney's share of cable investments increased 31% to \$316 million, with ESPN contributing most of gain through higher affiliate fees and increased ad revenues. Disney also named Robert Iger pres.-COO and member of board. Other companies also reported gains in latest quarter.

Disney's Media Networks unit posted 19% increase in revenue to \$2.7 billion and 73% jump in operating income to \$642 million, credited largely to strong ad market and success of *Who Wants to Be a Millionaire*. Iger had been chmn. of ABC Group and pres. of Walt Disney International. Disney also promoted COO Peter Murphy and CFO Thomas Staggs to senior vps, while forming executive management committee composed of Iger, Murphy, Staggs, Chmn.-CEO Michael Eisner, Vice Chmn. Sanford Litvack and heads of business units.

In other financials: **Washington Post** broadcast operating profit dipped 1% to \$53.1 million in 4th quarter, and revenue was down 9% to \$93.8 million. It blamed soft national ad market, as well as absence of Winter Olympics ad revenue. Cable revenue was up 8%, but operating profit was down 6%... Boosted by growth at Home & Garden TV and Food Network, **E.W. Scripps** said profit increased to \$45.8 million in 4th quarter from \$43.6 million year ago.

**Scientific-Atlanta** profit jumped to \$33.4 million in 2nd quarter ended Dec. 31 from \$19.2 million year ago. Revenue was \$372.7 million, up from \$310.7 million, on strong demand for set-top boxes and transmission systems... **Harris Corp.** had \$13.6 million profit in 2nd quarter ended Dec. 31, down from \$17.4 million year ago, but revenue rose to \$441 million from \$417.5 million... Interactive TV company **OpenTV** loss plunged to \$81.9 million in 4th quarter ended Dec. 31 from \$3.7 million loss year earlier. Startup's revenue grew to \$8.4 million from \$3.4 million... Personal video recorder company **TiVo** loss widened to \$34.9 million in 4th quarter ended Dec. 31 from \$4 million loss year ago. Revenue rose to \$182,000 from zero year ago... Equipment maker **Wegener Corp.** said it retained RCG Capital Markets Group to implement "proactive" investor relations program.

**RealNetworks** reported revenues surged 98% for year ended Dec. 31 to \$131.2 million. Streaming media software company said it had profit of \$8.3 million, vs. \$11.2 million pro forma loss year earlier... **NBC Internet** had pro forma revenue of \$27.3 million for 4th quarter ended Dec. 31, up 38% from \$19.8 million in 3rd quarter.

**U.K. equipment company** Pace Micro Technology could have COFDM receivers in U.S. market by Christmas if FCC moved quickly to approve COFDM modulation, it told Commission. In letter to all 5 commissioners, it said receivers could retail at \$300-\$400, price it said "could stimulate significantly increased consumer demand for DTV and make DTV available for middle and lower income families, particularly minorities, thereby helping close the digital divide." Pace said more than 520,000 COFDM-based DTV receivers have been sold in first year in U.K., and it believes DTV is more successful there because of "ease of reception and low cost." Spokesman for COFDM backer Sinclair Bcst. lauded letter, calling it "a fissure in the consumer electronics manufacturers' wall of silence."



**CABLE IN COURTS, FCC:** Next several months will bring rush of decisions from federal courts and FCC that are of major interest to cable industry, many interrelated.

AT&T and MediaOne executives are optimistic merger will close this spring, about year after AT&T first outbid Comcast. While telling FCC in Nov. that merged entity would have no difficulty meeting horizontal ownership cap if stay were lifted, AT&T and MediaOne since have backtracked somewhat from that position, with latest filing asking for 18 months to meet compliance should stay be lifted.

FCC has granted public opportunity for sur-reply comments on AT&T-MediaOne's 18-month request. While some in public interest community that requested comment window feel they have succeeded in delaying merger approval, FCC sources told us that drafting of order is continuing apace and won't be slowed by sur-reply period. We have heard draft could be circulated on 8th floor in matter of weeks.

AT&T Chmn. Michael Armstrong said his company's stake in Liberty Media and MediaOne's ownership stake in Road Runner also are of concern to FCC. In conference call with analysts, he said he felt company was successful in convincing FCC that AT&T has "no management interest" in Liberty. If FCC sees Liberty as separate, observers said, then AT&T has little to worry about on program access, unlike what's likely to arise in AOL-Time Warner review. Armstrong said company also was doing its best to resolve FCC and Dept. of Justice concerns about its owning stake in both Excite@Home and Road Runner.

There's no good way to judge when 9th U.S. Appeals Court will issue its ruling on open access in Portland, Ore., but analyst Scott Cleland of Legg Mason Precursor Group said that based on other cases decision could come any week now. Cleland, open access advocate, assigned percentages to what he deemed likely outcomes in court: (1) 45% chance that @Home would be ruled cable service, with city of Portland having statutory authority. (2) 30% chance that @Home would be ruled telecom service, kicking issue back to FCC for resolution. (3) 25% chance that AT&T would prevail, that @Home is cable service and that city lacks authority.

Three-judge panel hearing horizontal ownership arguments before U.S. Appeals Court, D.C., last year grilled both sides, not giving clear indication of their leanings. What is clear is that case is bifurcated, with judges now reviewing only FCC's statutory authority to impose rules. Should Commission prevail in that decision, which also could be coming soon, court then would hear separate complaint on rules themselves. In revised order FCC recently said stay of rules now would be lifted not after rules themselves were approved by court, but after positive ruling on statutory grounds, moving up date considerably if Commission wins constitutional argument.

FCC is said to be close to digital must-carry order, although officials have said it might not be complete order. In last few months cable officials have seemed much less concerned about digital must-carry, mentioning it only to sing praises of commercial agreements.

U.S. Supreme Court is expected to rule this term, no later than June 30, on signal bleed statute that effectively bars Playboy Channel from appearing at any time other than safe harbor of 10 p.m.-6 a.m. As with D.C. Appeals Court, Supreme Court justices

displayed little of their thought processes in their grilling of both sides in oral argument last fall. Decision isn't likely to have much impact beyond Playboy, although arguments by some justices suggested channels such as HBO, Showtime and Cinemax that carry racier programming in late evening could be found to be subject to signal bleed statute.

Critics should be as concerned about FCC role in overseeing children's TV content as they are about drug policy office role, NBC Pres. Robert Wright told National Press Club. He said NBC never submitted scripts to White House office for preapproval, but said office's efforts appeared "well-meaning." He said FCC approval of children's programming has been going on for 7 years, "pretty much unnoticed." Wright again was critical of FCC limits on TV station ownership and of NAB's reluctance to attack those limits. He said "rapid changes in technology are fundamentally and irreversibly changing the competitive landscape on which broadcast networks operate," but ownership rules haven't changed since radio was dominant medium. NBC hasn't made final decision on withdrawing from NAB, Wright said, but "it's very expensive" and network "spends a lot of money doing the same thing [lobbying] ourselves." He said NAB dues "could be cheaper" but, more importantly, NAB has "drawn a line in the sand" on deregulating TV: "There are a small group of people [on NAB board] who don't want to make any changes that might affect them." Wright predicted NBC would continue to agree with NAB "on 95% of the issues," but "we really diverge on this one." Internet is potentially "great asset for broadcasters to take advantage of," Wright said. It's no longer enough to reach audiences through traditional means, he said, and broadcasters have some inherent advantages, including brand names and ability to cross-promote, for moving to Internet. Despite that, Wright said, "broadcasting remains at the heart of everything we do" and cable channels, Internet activities and others depend on continuing success of broadcasting. On other issues, Wright: (1) Pledged to continue bringing minorities into broadcasting. (2) Said candidates aren't very interested in free air time unless they can use it however they want. (3) Said personal video recorders aren't big immediate threat to broadcasting. (4) Said NBC doesn't need to merge with studio: "It's hard enough to find a hit [TV show] when you're negotiating with 10 different studios." (5) Said out-of-home viewing accounts for 40-100% of all TV viewing, but Nielsen ratings miss that.

Stephen Mosko, exec. vp-sales, Columbia TriStar Distribution, took over as NATPE chmn. at close of convention, succeeding Susan Grant of CNN Newsource Sales, who remains on exec. committee; Jon Mandel, Media/Com, replaces Mosko as first vice chmn. Newly elected to NATPE board: Marcellus Alexander, KYW-TV Philadelphia; Madelyn Bonnot, WVUE New Orleans; Stephanie Campbell, DirecTV; Lisa Churchville, WJAR-TV Providence; Thomas Frank, RealNetworks; Julie Kantrowitz, Warner Bros. Domestic TV; Garnett Losak, Blair TV; Marleen McDaniel, Women.com Networks; Amando Nunez, CBS Bcst. International; Susan Perry, Endeavor Agency.

Charter Communications signed more than \$100 million deal with Scientific-Atlanta (S-A) for optical equipment and digital set-tops. S-A will upgrade 20,000 miles of Charter's cable network to 870 MHz (rather than industry upgrade standard of 750 MHz) and provide 126,000 Explorer 2000 (25%) and newly issued Explorer 3000 (75%) boxes in first half of year. Charter said it's beginning 3-year upgrade of its 135,000 miles of plant. This was 2nd major deal for S-A and its Explorer 3000 box in week, following contract with No. 1 U.K. MSO NTL.



**NTIA STUDYING DBS:** Public inquiry to assure rural areas and underserved TV markets are able to receive DBS local-to-local TV signals was announced by NTIA Dir. Gregory Rohde, who said comments will be sought as “complementary” to any actions by Congress or FCC. On panel with FCC Comrs. Ness and Furchtgott-Roth at ALTV convention last week, Rohde said inquiry “will look at ways to help fill in the gaps and to look at all options as a means of sustaining localism in rural and small markets.” He said NTIA will host round-table discussion on issue in mid-March.

“Consumers in rural and small markets could fall on the wrong side of the digital divide unless steps are taken to ensure that communities have access to local news and information through new technologies,” Rohde said. Purpose of inquiry, he said, is to explore additional options to ensure viewers in unserved and underserved communities can receive local news and information in satellite and digital era. Comment deadline wasn’t set.

House Commerce Committee GOP aide Justin Lilley said maintaining free, over-air TV service to rural areas is important to Republicans and Democrats. Committee Democratic aide Andrew Levin agreed, but said “you have to be cognizant that the world is changing quickly. Of iCraveTV in Canada,” which has been sued by U.S. networks and program suppliers, he said “what they are doing now is clearly illegal.” Lilley responded “I don’t know” when asked whether Congress would legislate on copyright issue, but said it would get attention of Commerce Committee.

Digital must-carry of TV station signals is concern for ALTV members, Pres. James Hedlund said. He said “battle royal in 2000 will be over cable must-carry of our digital signals. The Congress said ‘yes,’ the FCC seems to say ‘maybe, maybe not.’” Cable industry says private negotiations will solve problem, he said, “and from their perspective private negotiations have worked just fine. With over 100 digital stations on the air today, virtually none have cable carriage.” Assn. also will seek relaxation of duopoly restrictions in small markets and elimination of newspaper-broadcast cross-ownership ban, and “ALTV will vigorously defend the UHF discount in [ownership rules].” Anyone who believes UHF and VHF stations have equal footing is “obviously on some controlled substance,” he said.

FCC Chmn. Kennard aide Thomas Power said of digital must-carry: “I think we will see something in a month or so” out of Commission — “it’s something we’re spending a lot of time on,” but agency’s action next month isn’t expected to be final order, although proposal reportedly has been drafted by Cable Bureau and sent to Kennard (it hadn’t been circulated to other commissioners). Kennard still wants proof from broadcasters that must-carry is necessary, Power said: “We would hope the demand [from cable operators] will be there and this [issue] will just wash out.” Cable Bureau Chief Deborah Lathen cited “complexity” of digital must-carry issue.

Mass Media Bureau Chief Roy Stewart said broadcast ownership restrictions (such as 35% TV station ownership cap) are important and “I’m not sure we want to throw them out.” However, Power said there’s deregulatory trend in Washington and “at the end of the day... you will see some lightening of regulations.” Lilley said “by and large it’s [Telecom Act] pretty much a success at this time.” But, he said, “at the same time you have these [rules] which limit you” in what licensees can do. Levin said ranking Committee Democrat Dingell (Mich.) is watching ownership concentration closely and “future is broadband... We have several pieces of legislation that are deregulatory in nature.”

**NATPE ‘ON A ROLL’:** NATPE officials struck back at critics’ charges that annual programming bazaar is losing its prominence as market for TV shows as 2000 convention was winding down in New Orleans. New Chmn. Stephen Mosko, exec. vp-sales, Columbia TriStar Distribution, disputed claim TV station program buyers stayed away, saying show “attracted key buyers and decision-makers from station groups across the country.” To questions that fewer group heads and program directors attended, NATPE Pres. Bruce Johansen said: “The story is how the business is changing and how we are successfully reflecting that change.” Also, Johansen said, all major decision-makers in program purchasing were present and buying.

Mosko said Columbia TriStar came to NATPE with 2 unsold shows without firm commitments — *Judge Hatchett* and *Men Are from Mars, Women Are from Venus* — and succeeded in “launching both these shows here with major sales.” While overall station attendance may be down, he said, key people were coming, with just about every major station group represented in New Orleans. Disputing published reports that several major distributors won’t participate in NATPE next year, Johansen said every major syndicator had indicated it would be in Las Vegas next year. After 4 straight years in New Orleans, NATPE will be held in Las Vegas in 2001-2002 because programmers prefer that site for “economic reasons,” he said.

Attendance by last day was 17,520, vs. 17,440 total in 1999. International attendance was up 25%, with increase in new media up from 1% last year to 18%.

**Time Warner’s (TW) \$20 billion joint venture with U.K.’s EMI** is likely to be reviewed by FTC, sources said. FTC in recent years has reviewed deals by both Time Warner Music and EMI, and in 1998 approved merger of No. 1 music company Seagram with PolyGram. (Warner EMI Music would surpass Seagram, with estimated \$8 billion in annual revenues to Seagram’s \$6.4 billion.) European Commission also will have to review venture. Only other major music companies would be Sony and BMG, and Senate Commerce Committee Chmn. McCain (R-Ariz.) said “I’m very concerned about this latest development.” FTC sources couldn’t say whether it was likely that handling of TW-EMI would make it candidate to handle AOL-TW, with one suggesting it could be “a factor.” AOL reportedly was informed of TW-EMI talks shortly before AOL-TW deal was announced and gave EMI deal its blessing, and TW officials said EMI would help it “fully exploit the true potential of digital media” TW is getting with AOL. Some raised concerns that AOL-TW could restrict online access to its music and restrict AOL access to others’ music. Deal is joint venture, with EMI remaining listed on London Stock Exchange, but TW would have 6 of 11 board seats, in return giving EMI shareholders about \$1.3 billion cash. Value of deal is based on combined music assets of 2 companies. TW Pres. Richard Parsons and EMI Chmn. Eric Nicoli would be co-chmn. of joint venture, with Warner Music CEO Roger Ames as CEO. EMI would contribute \$1.5 billion in debt to venture. TW was represented by Morgan Stanley Dean Witter and Wasserstein, Perella & Co., EMI by Warburg Dillon Read and Goldman, Sachs.

**JetBlue Airways** said it’s offering live satellite TV broadcasts on its planes, starting with flights between J.F.K. in N.Y. and Ft. Lauderdale Feb. 11 and 6 days later for Buffalo. System will have 24 channels, it said, and passengers will pay “nominal fee” for service.



**TV network affiliate** meetings during NATPE convention were generally quiet affairs, with no discussion of such divisive issues as Big 4 networks' cutting compensation as contracts come up for renewal. It was clear at all meetings, sources said, that networks are at loss as to how to proceed when full digital era arrives and at this point none have any firm plans. WB TV Network Pres. Jamie Kellner said there have been no discussions involving network on AOL takeover of WB parent Time Warner. Fox affiliates asked network to drop unprofitable 2-hour afternoon Kids' Net strip and for 2nd year in row, CBS didn't meet with its affiliates at NATPE because "there was nothing to discuss," network official said. NBC, which is enmeshed in battle on several issues with its affiliates, told stations they have 6-month window to negotiate joint sales agreement, plus other incentives, with Paxson stations in their markets. Opportunity arises because of network's ownership equity in Paxson acquired last fall. NBC now handles national sales for Paxson. ABC meeting was much smoother than year ago, several affiliates said, when they were resisting network's demand that stations help pay for increased rights cost of *Mon. Night Football* — which finally happened last summer along with inventory swap deal. However, affiliates also expressed concern about ABC's repurposing of *Once and Again* and its planned launch of cable soap opera channel with same-day repurposing at night.

**AT&T notified** Petaluma City, Cal., that it will separately bill public, educational and govt. (PEG) access charge to its customers if city persists with 300% increase to \$2 from 50¢ per subscriber it voted last year. AT&T spokesman said city asked company to put separate billing decision on hold for 60-day period ending Feb. 29 while negotiations were continuing. Increase would contravene promise to its customers that rate increases would be made only once per year, spokesman said, and AT&T didn't want "customers to vent their frustration against us." Alliance for Community Media Pres. Bunnie Riedel accused AT&T of trying to "weasel out of their obligations" in franchise agreement with city in which company agreed to funding mechanism to support PEG access. AT&T said separate billing would cost thousands of dollars per month.

**Motorola invested** in expansion of Dynamic Digital Depth (DDD) and its 3D cable TV technology. Companies didn't disclose amount invested, saying only that it makes Motorola "significant participant" in \$3.25 million private placement of equities by DDD. Motorola's investment was influenced by positive response at Western Cable Show to DDD's DeepSee 2D compatible, 3D transmission technology, companies said.

**AT&T won** \$102 million 3-year contract from MicroCase to provide bandwidth for video streaming. AT&T said it will provide 27.4 gigabits of connectivity, enough to serve 500,000 broadband users simultaneously.

**AT&T Chmn.** Michael Armstrong's compensation package totals nearly \$15 million, including base salary of \$1.4 million and annual bonus of \$2.26 million. Company detailed Armstrong's compensation package in SEC filing. In 1999, AT&T awarded him 450,000 securities underlying options valued at \$8.08 million, which must be exercised by Jan. 29, 2009. As part of incentive package, Armstrong received 75,000 performance shares and exercised 150,000 shares last year valued at \$2.46 million. Other compensation, including items such as life insurance, totaled \$958,000. AT&T cited its improved financial performance in 1999 and "progress to position AT&T in critical new markets for the future."

**Pa. House Consumer Affairs Committee** opened hearings on cable open access bill (HB-1516) with testimony from broadband proponents opposed to legislation. Bill would require cable companies that offer high-speed access services for Internet and other data applications to open network to competing Internet service providers (ISP). Assn. for Competitive Technology, which represents broadband hardware and software developers, told House panel measure would retard development of broadband alternatives to cable, diminish incentives for ISPs to upgrade their systems, create litigation explosion that would delay offering of broadband services to consumers.

**Boards of Telewest and Flextech** of U.K. agreed on terms of merger. Telewest will offer Flextech shareholders 3.78 of its shares for each Flextech share. Offer is subject to approval of Telewest shareholders. Liberty Media, MediaOne and Microsoft, which together hold 51.3% of Telewest's total issued share capital, said they will vote in favor of approval of resolution to be put to Telewest shareholders. Companies said combination of Telewest and Flextech would create integrated communications and media group focused on delivering range of voice, video and interactive services across multiple platforms.

**ReplayTV** filed for initial public offering to raise up to \$150 million. Backers of personal video recorder (PVR) company include Disney, Liberty Media, NBC, Showtime, Time Warner, Tribune. For 9 months ended Sept. 30, ReplayTV had loss of \$20 million, with no significant revenue. It said it will depend primarily on ad revenue but doesn't expect to get much this year. It began shipping PVRs in April, moving 6,000 through Dec. 31 (competitor TiVo has reported 26,000), and said it expects to start "full-scale retail distribution through leading consumer electronics companies this year."

**USA Digital Radio** said it agreed to cooperate with Digital Radio Mondiale (DRM) to work toward worldwide standard for digital AM radio broadcasting. DRM is global consortium of broadcasters established nearly 2 years ago, including BBC, Deutsche Telekom, Harris Bcst., others. Goal, said DRM Chmn. Peter Senger, is to allow AM digital receiver to receive programming anywhere in world, as well as to assure easy, inexpensive transition to digital.

**OpenNet Coalition** denounced suit filed by AT&T-MediaOne against open access requirement of Henrico County, Va., saying action "completely contradicts AT&T's earlier pledge to embrace open access." Coalition Co-Dir. Greg Simon said consumers and policymakers should look at what AT&T does and not what it says when it comes to competition for Internet services on cable. Lawsuit shows that "monopoly is not just a board game — it is AT&T's business plan," he said.

**Univision** said it was "extremely disappointed" that Nielsen won't ask for language-spoken information from households in its meter samples. Spanish-language network said language information is "critical" in assuring accurate measurements of audiences in cities with large Hispanic population. Univision said this is 3rd time Nielsen has postponed collecting language information.

**Microsoft is buying** \$56 million stake in Intertainer, streaming video-on-demand company whose other investors include Comcast, NBC, U S West. Terms weren't announced.



## Personals

WB TV Network CEO **Jamie Kellner** signed new long-term contract; **Carl Byrd**, ex-The Gap, joins WB as vp-special projects... **Cox Bcstg. Pres. Nicholas Trigony** to retire at end of year; **Andrew Fisher** named exec. vp., effective Feb. 1, and will be named pres. on Trigony's retirement... **Cullie Tarleton**, Bahakel Communications, elected chmn., Fox TV Network affiliates' board, succeeding Murray Green, Raycom Media... **Mark Mandel** promoted to ABC Sports media relations vp... **Kenneth Lowe** named pres., COO and dir., E.W. Scripps... **Jane Rimer** promoted to Pearson TV International senior vp-sales and development, N. America... **Guy Pepper**, ex-NBC News, named CEO, ByeByeNOW.com, Internet travel service... **Richard Gottlieb** appointed chmn., Lee Enterprises, and **Mary Junck** pres.

Promoted to senior vps, Comcast: **Arthur Block**, law; **Mark Coblitz**, strategic planning; **Robert Pick**, corporate development... Comcast Vice Chmn. **Julian Brodsky** elected to board of SiteLine data services... **Edward Adler**, corporate communications vp Time Warner, promoted to senior vp... **Alan Gershowitz** advanced to senior vp, employee relations, Cablevision Systems; **Rusty McCormack** named senior vp, staffing... **James Aitken** advanced to pres.-gen. mgr., Texas Cable News... **David Salinger**, vp-program planning and scheduling, Starz Encore Media Group, becomes vp-program and acquisitions... **Pam Weisz** advanced to dir.-business strategy and development, Showtime Networks... **Cox Communications** names **Charles McElroy** vp-Cox Business Services... Added at Odyssey: **William Abbott**, exec. vp-national ad sales; **Edward Georger**, senior vp-eastern sales.

NPR Vp-News **Jeffrey Dvorkin** moves to ombudsman, new position; **Bruce Drake** replaces him on interim basis... **Steve Rivers**, chief programming officer, AMFM, resigns to become exclusive consultant and adviser to AMFM Radio Group... **Fran Epstein** named gen. mgr., Radio Disney, Houston.

Former RealNetworks Pres. **Bruce Jacobsen** elected to board of Internet startup Online Learning Network... **Steve Necessary** promoted to CEO, PowerTV... Disney Interactive promotes **Steve Gilbert** to vp-finance and operations, **Thierry Braille** to vp-managing dir., Disney Interactive Europe... **Terry Irving** joins TV on the Web as vp-production... **Bill Rose** promoted to vp-gen. mgr., Arbitron Internet Information Services, and **Dennis Seely** to dir.-mktg., Arbitron Radio Station Services... **Phil Dusenberry**, BBDO N.Y., nominated as chmn., and **John Dooner**, McCann-Erickson WorldGroup as vice-chmn., Advisory Council of American Assn. of Ad Agencies... **Joe Fleischer** appointed vp, MP3.com.

**ABC News** and *N.Y. Times* will share newsgathering resources under new agreement. They said deal means they will cooperate to produce daily political Webcast, and *Times* journalists will appear on ABC news programs and produce stories on technology and health for *20/20* and *Good Morning America*. NBC recently announced similar deal with *Washington Post*.

**Hughes-built** satellite for PanAmSat was launched successfully Jan. 24 aboard Ariane 42L booster, companies said. Galaxy XR is first of 5 Hughes satellites to be launched this year for PanAmSat. Its orbit is to be circularized over next 2 weeks, followed by in-orbit tests of transponders. Satellite, which is to carry cable networks, is to go into service at 123° W in March.



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**DoubleClick** has integrated information from newly acquired direct marketing company Abacus Direct into its database of information from tracking online usage. Move had been expected by privacy watchdogs, who said they would file complaint with FTC next month. In updated online privacy statement, DoubleClick said consumers will receive notice about data use and choice not to participate, generally on Web sites where users are given opportunity to provide information.



# Consumer Electronics

A Section of Television Digest with Consumer Electronics

## STATE OF THE INDUSTRY

Sales to dealers, from CEA, for week ending Jan.14 and year to date:

	JAN. 8- JAN. 14	1999 WEEK	% CHANGE	JAN. 1- JAN. 7	2 WEEKS 2000	2 WEEKS 1999	% CHANGE
TOTAL COLOR TV.	270,920	276,986	- 2.2	236,255	507,175	530,663	- 4.4
DIRECT-VIEW**	254,625	265,126	- 4.1	224,905	479,530	510,513	- 6.1
TV ONLY#....	225,794	238,036	- 5.1	192,184	417,978	452,572	- 7.6
TV/VCR COMBO.	28,831	27,090	+ 6.4	32,721	61,552	57,941	+ 6.2
PROJECTION...	16,295	11,860	+ 37.4	11,350	27,645	20,150	+ 37.2
TOTAL VCR**....	131,473	228,437	- 42.4	185,354	316,827	397,982	- 20.4
HOME DECKS...	102,642	201,347	- 49.0	152,633	255,275	340,041	- 24.9
CAMCORDERS (a) ..	48,168*	43,055	+ 11.9	33,390	81,558	64,484	+ 26.5
DVD PLAYERS....	51,078*	18,256	+179.8	44,191*	95,269*	31,561	+201.9

Direct-view TV 5-week moving average#: 1999-317,644; 1998-294,372 (up 7.9%).

Projection TV 5-week moving average: 1999-23,882; 1998-18,907 (up 26.3%).

VCR deck 5-week moving average: 1999-282,461; 1998-252,635 (up 11.8%).

TV/VCR 5-week moving average: 1999-55,183\*; 1998-44,452 (up 24.1%).

Camcorder 5-week moving average: 1999-55,100 1998-39,859 (up 38.2%).

DVD player 5-week moving average: 1999-93,435\*; 1998-34,130 (up 173.8%).

\* Record for period. \*\* Includes TV/VCR combinations. # Excludes TV/VCR combinations. (a) Includes analog camcorders only.

**QUESTIONS ABOUT ON EMI-WARNER MUSIC MERGER DEAL:** EMI and Time Warner (TW) \$20 billion joint venture proposal inspired variety of questions last week for which there were no immediate answers.

Among issues at least partly up in air were how EMI and Warner Music (WM) planned to merge their respective Internet music plans and whether or not deal would gain regulatory approvals in Europe and U.S. because of fears of trampling of competition — particularly on heels of AOL-TW merger announcement (TVD Jan 17 p16). Meanwhile, EMI and TW talk last week of increasing role digital distribution will play in their business raised hackles of at least one brick-and-mortar music retailer unsure of just what role traditional retail would play in joint venture.

Manufacturers of Internet music devices such as Creative Labs and Samsung are waiting to see whether merger will have impact on what music is made available by record labels for digital distribution. Samsung Senior Product Planning Mgr. Zach Dimenstein said: "Theoretically, for the very short term, this might delay things because instead of being able to work autonomously" on Internet music plans, EMI and WM are "going to have to work together to solve those issues because I'm sure right now they have different strategies and they work with different technologies and different groups. So now they're going to have to combine their Internet strategies. They may do it quickly or maybe they won't." On other hand, Dimenstein said it's conceivable that TW deals with AOL and EMI may lead to "a little bit more consensus in the industry as far as which codecs we should use for digital rights management."

Dimenstein and Creative Portable Audio Program Mgr. Chris Smith said AOL-TW and EMI-TW mergers stand to help accelerate Internet music business. Smith said: "I think these and upcoming announcements — in concert [with] the labels and the portable device manufacturers — are going to be a springboard to get people interested in buying both the devices and EMD [Electronic Music Distribution] content for the 2nd half of this year."

Although source close to WM said it was too soon to talk about what would happen with its specific digital distribution plan if and when companies merged, he did tell us that WM had "been experimenting with several companies that



provide secure streaming and transaction and things like that, and I think probably [will] decide on three" different technologies. "We haven't committed to one in particular and we don't plan on it," he said, adding it currently is WM's goal to make first music employing digital rights management technology available in "early 3rd quarter of this year." But he said it was too early to say how or if merger would change plan.

Dimenstein also said it was too early to say just how EMI and Warner's music labels would be represented on Web. While EMI and Warner have their own Web sites to promote their music, he said, it was too early to say whether merged company would opt for one all-encompassing site including all labels. EMI didn't return call for comment by our Fri. deadline.

Despite concerns of Senate Commerce Committee Chmn. McCain (R-Ariz.) and others (see report, Bcst.-Cable section), in conference call with reporters last week, EMI and TW executives expressed confidence that merger would be approved and argued against suggestion that competition would be dampened by joining of 2 companies. TW CEO-Chmn. Gerald Levin said "Internet is so large" and access to it so simple that "the opportunity for independent activity... is much greater" than ever. He said "no company — no set of companies can possibly" gain control of all music in current environment.

Meanwhile, Virgin Megastores responded to EMI-TW increasing interest in electronic music distribution with threat that it might give up music retailing altogether unless record companies make it clear they still are committed to brick-and-mortar retail. *Financial Times* of London quoted Virgin Megastores COO Simon Wright as saying he was concerned that push toward selling music via Web would undermine traditional retailers. He said: "At the moment, the view is that the terms being offered by the record companies would not justify further investment in music. Ultimately we could pull out of music altogether."

However, source close to WM said: "I'm not sure I understand the argument because Tower and even Virgin have an online presence and to date all the things that we've done in terms of online promotions have been through an online retailer. They haven't been direct." Noting that WM plans to continue handling online promotions in same manner, he said: "Even with our stake in CDNow, we continue to do promotions with Tower and other retailers. Not to mention [the fact that] the vast majority of our revenues from sales still come from brick and mortar and we would be shooting ourselves in the foot to ignore our most important customer." He added: "We've been using [Internet] as a valuable promotional tool and at the point where the bandwidth is high enough where digital distribution becomes a reality, it becomes even more interesting. But our plan now is to stick to our retail partners and they have a lot of expertise in marketing to consumers." To cut brick-and-mortar retailers out of equation "would be suicide," he said.

Despite various concerns raised last week, David Pakman, business development senior vp of Internet music service Myplay, viewed EMI-TW merger as "typical consolidation that occurs as markets mature." But he said "it obviously provides even more incredible music available to be distributed" online.

EMI Recorded Music CEO Ken Berry, who would become Warner EMI Music COO, estimated that over course of 3 years, 3,000 jobs would be cut from areas of business in which there is "degree of overlap." He said one such area is likely to be distribution. EMI-TW executives said they expected completion of deal in 2nd half.

**STRONG YEN HURTS SONY 3RD-QUARTER PROFITS:** Yen's 14.7% appreciation against dollar and 23.5% revenue decline in PlayStation business offset robust income growth in Sony's electronics business for 3rd quarter ended Dec. 31. As result, overall Sony consolidated operating income fell 10.2% to \$1.61 billion (\$1 = ¥102) on 1.8% sales decline to \$18.78 billion.

Sony said consolidated results actually improved on local currency basis, while strong sales of digital AV equipment in Europe and U.S. and "signs of recovery" in Asia actually spurred electronics business to 2.3% sales increase to \$12.85 billion. Electronics operating income jumped 25.2% to \$844 million. But sales declines of 23.5%, 9.2% and 5.8% were incurred by game, music and movie operations, respectively. Operating income in those divisions also fell 23% or more in quarter.

Within electronics, audio revenues fell 9.8% on lower sales of core products such as home stereos, cassette-based Walkman portables, car audio. Video sales overall edged up 2.8%, with sluggishness in analog camcorders and VCRs crimping growth from DVD players, digital still cameras, DV camcorders. TV sales dipped 1.1% on lower sales of color sets in Japan and Europe, but higher set sales in U.S., Asia, Latin America. Overall electronics sales were up 3.7%, but would have grown 15% without effects of stronger yen.

In beleaguered videogame business, sales of PlayStation consoles rose in Europe but fell in Japan and U.S. on anticipated introduction of next-generation machines. PlayStation software sales increased in U.S. and Europe but dropped in Japan, where PlayStation2 is set for March 4 introduction. Worldwide shipments of Sony game consoles fell 14% in quarter to 6.61 million from 7.56 million. Software shipments remained relatively flat at 82 million.



**TIVO POSTS LOSS, REPLAYTV FILES IPO:** TiVo, citing increased sales and marketing costs in debut of personal video recorder (PVR), reported 4th-quarter loss increased to \$35 million from \$3.9 million year earlier as revenue rose to \$182,000 from zero. At same time, rival ReplayTV filed IPO registration with SEC to raise up to \$150 million, disclosing that EchoStar, Matsushita, Sharp and Time Warner (TW) are equity investors and that it sold 6,000 PVRs through Dec. 31.

TiVo's loss was largely result of sharp rise in sales and marketing costs to \$15.1 million from \$567,000 year ago. It also reported \$9.8 million in sales and marketing costs with "related parties" — DirecTV, Philips, Quantum. DirecTV and Philips are marketing products for TiVo service, while Quantum is supplying hard drive.

About 26,000 Philips brand PVRs had been sold by year-end, 18,000 of which had signed up for TiVo service, Pres. Michael Ramsey told analysts in conference call. By mid-Jan., TiVo had 24,000 subscribers, he said, noting that there was 2-3 week lag between initial purchase and sign-up. About 55-60% of subscribers chose "lifetime" package involving one-time \$199 charge, while rest opted for \$9.95 monthly fee, he said.

While Sony's standalone PVR is expected to attract attention when it ships in spring at \$399, Ramsey said DirecTV IRD/PVR "will see fastest growth." Pricing for combo product hasn't been set, but it will be less than current \$499 retail for standalone PVR, he said. At outset, DirecTV and TiVo services will be offered to consumer separately, but are likely to be combined in single bill by year-end, Ramsey said. TiVo also probably will be part of America Online's (AOL) AOLTV service that also is expected to be available through DirecTV by 2nd quarter. Both DirecTV and AOL are investors in TiVo. Philips PVRs were sold through 3,000 retail outlets during holiday season, about 500 more than previously projected, Ramsey said.

While TiVo and Blockbuster unveiled proposed PVR-based video-on-demand service earlier this month (TVD Jan 10 p24), Ramsey said that while "a little bit of development work" remains, service "is basically there." Among issues remaining are establishing conditional access and transactions systems and "providing a reliable mechanism" for distributing video via broadcast bandwidth, he said.

As for patent infringement suit Gemstar has filed against TiVo (TVD Jan 24 p14), TiVo CFO David Courtney said his company still is assessing action and response to it. He said "this activity isn't unusual for Gemstar" and company typically seeks licensing deals, rather than halting introduction of product.

ReplayTV IPO provided first detailed glimpse inside company that was founded in 1997 and has been marketing PVR since April. While ReplayTV agreements with Matsushita and Sharp had been disclosed earlier, new was existence of letter of intent to develop PVR service for EchoStar's Digital Sky Highway (DISH) satellite system. Deal potentially counters DirecTV's agreement with TiVo, but also appears to pose conflict since EchoStar already is marketing hard drive-based WebTV/IRD product. EchoStar Satellite Services Vp Mark Jackson wasn't available for comment. SEC filing didn't disclose size of investments by EchoStar, Matsushita, Sharp or TW.

Matsushita alliance could expand ReplayTV technology to DVD players, Internet devices and TVs, company said. Under current agreement, ReplayTV will provide Matsushita with subsidy for PVR that's being built by Flextronics. As currently configured, device has 20 GB hard drive, although storage capacity will expand to 30 GB by year-end, ReplayTV said. PVR will be sold under Panasonic brand with ReplayTV logo. Standing out among component suppliers were Sony (MPEG-2 encoder) and Philips (semiconductors), both of which are marketing branded TiVo product. Exodus Communications (data center), Tribune (program guide data), UUNET (communications) and Universal Electronics (remote control) also are providing products or services.

On financial side, Replay posted \$20.1 million loss for 9 months ended Sept. 30 vs. \$1.5 million loss year earlier on \$3.4 million in sales. Sales and marketing costs swelled to \$8.7 million from \$293,000 year earlier, while R&D rose to \$4.8 million from \$1 million. Manufacturing and distribution costs were \$4.2 million. ReplayTV had \$14.6 million in cash as of Sept. 30, \$998,000 in inventory, and listed \$51.4 million in assets, \$5.4 million in liabilities. It had accumulated deficit of \$23.6 million.

While ReplayTV will generate hardware sales, it said service will be "particularly dependent" on ad revenues from its ReplayZone theme-based or branded content areas. While ReplayTV service currently is free, goal will be to offer premium packages, near-video-on-demand and TV-commerce, none of which are available with current 2.0 software, company said. However, it doesn't expect to "generate significant revenues" from ads this year as hardware makes it way to retail. In addition to TW, content providers Disney, Liberty Media, NBC, Showtime and Tribune are equity investors. Replay also has agreement with Turner Bcstg. to produce ReplayZones highlighting programming from its TV networks.

ReplayTV also touched on controversy that erupted last Aug. when Advanced TV Copyright Coalition raised copyright issues with respect to PVRs (TVD Aug 16 p5). ReplayTV said it had received "letters and oral indications" from



Disney, Fox and Universal Studios that PVR business will require "approvals and licenses" for programming. Despite its agreement with ReplayTV, Turner also has "reserved the right to assert any claims or rights against us," ReplayTV said.

As for other legal developments, ReplayTV said it hadn't been contacted by Gemstar, whose suit alleges that TiVo has infringed on Gemstar patent on interactive program guides. ReplayTV also said that it, along with TiVo, had been sued by PhoneTel Communications for alleged infringing on patent related to specifying order for playback of recorded TV programs.

ReplayTV's top shareholder is founder Anthony Wood, who controls 8.4 million shares (20.6%), followed by venture capital firm Kleiner, Perkins, Caulfield & Byers, 8 million (19.5%). ReplayTV Chmn.-CEO Earle LeMasters, who had received \$109,154 in salary since being hired in Sept., has 2.5 million shares (5.7%), while board member and Earthlink founder Sky Dayton owns 803,981 (1.9%). Exec. Vp-Business Operations Alexander Gray and CFO Craig Dougherty, both of whom were hired last fall, will draw \$250,000 annual salary and were granted 600,000 shares, 12.5% of which vest after 6 months.

**COMPUSA SALE PROPOSED:** Mexican retailer Grupo Sanborns' planned \$797.7 million purchase of struggling CompUSA may signal start of major restructuring that could result in closing of 10-15 stores, analysts said.

Sanborns is controlled by Mexican billionaire Carlos Slim, who told investors that he views 217-store CompUSA as complement to holdings that include stakes in Internet service provider Prodigy and Telefonos de Mexico (Telmex). Under proposed purchase, Sanborns would control 51% of CompUSA, while Telmex has 36%, SBC Communications 10% and Microsoft 5%, sources said. SBC and Telmex have longstanding ties and latter is designing joint Internet site for Latin America with Microsoft.

Sanborns' proposed acquisition of CompUSA, which was announced Jan. 24, came after just 4 days of negotiations and no due diligence, Slim told investors in conference call. However, Sanborns had purchased 14.1% stake in CompUSA for \$86.4 million in Sept. (TVD Sept 20 p20) as passive investor, but switched strategies in Nov. It also recently acquired 7% interest in OfficeMax.

While no immediate changes are expected, top CompUSA executives have signed 6-month contracts indicating that restructuring is being considered, sources said. Sanborns is expected to take CompUSA private after acquisition is completed.

Chain has struggled for much of last year to reverse fortunes amid sharp drop in PC pricing. It cut 2,300 jobs in Sept. (TVD Sept 6 p15) in eliminating commercial sales operation and earlier had shut down configure-to-order PC center in Grapevine, Tex. It also moved to broaden product mix to include DVD and MP3 players and camcorders (TVD June 28 p17). CompUSA also had recorded sharp drop in per-store sales to \$25 million in recent quarters from high of \$40 million in 1997. Sagging sales were partly result of \$211 million acquisition of Tandy's money-losing Computer City chain in 1998 (TVD Sept 14/98 p16). Computer City stores have yet to reach sales parity with CompUSA and later closed more than half of chain after buying it. Tandy will benefit from new owner, which is likely to guarantee payment of \$136 million note stemming from Computer City sale.

Sanford Bernstein analyst Ursula Moran said "primary challenge" for new CompUSA owner will be to "improve service and profits simultaneously" while also "stabilizing" corporate business. CompUSA is projected to post \$1.8 million loss for 2nd quarter ended Dec. 25, Moran said.

By being taken private, CompUSA is likely to benefit from less intense pressure on earnings growth and may take "less ag-

gressive posture" in market as details of new ownership are finalized, Moran said.

CompUSA also will be able to refocus Cozone.com e-commerce business, which has been wracked in recent weeks by rumors that it would be restructured or shut down following poor sales in holiday season. Head of Cozone.com resigned earlier this month and no successor has been named.

Three-Five Systems said it's near agreements with vendors to build its Liquid Crystal on Silicon (LCoS) microdisplays into front projector, standalone Web browser and PC monitor. While company didn't identify manufacturers, deals are expected to be finalized by end of 2nd quarter, with full production to begin in 3rd-4th quarter. Among possible candidates is said to be In Focus Systems, which is seeking microdisplay for front projector, sources said. Al Davis, senior sales & mktg. dir. for microdisplays, declined comment. First 0.9" LCoS displays are expected to have 1,280x1,024 resolution with 400:1 contrast ratio and brightness varying depending on application: 1,000 lumens for front projectors and 300-400 lumens for PC monitors, Davis said. Smaller, 0.6" LCoS for "near-eye" applications such as Web browsing is expected to be available with 800x600 resolution. Displays are expected to be priced at \$180-\$200, company said. Unclear is what impact Three-Five talks with In Focus might have on latter's microdisplay partnership with Colorado MicroDisplay (CD). In Focus remains CM investor and companies are continuing development of microdisplay for front projectors, CM Mktg. Dir. Rainer Kuhn said. Meanwhile, Three-Five, crediting strong sales of Liquid Crystal Active Drive (LcaD) modules for mobile phones, reported 4th-quarter income soared to \$4.4 million from \$875,000 on 71% gain in revenue (see financial table). Motorola accounted for 89% of revenue in quarter, company said.

TradeOut.com plans to have product surplus exchange available to CEA members in first half. Ardsley, N.Y.-based TradeOut, which formed alliance with CEA earlier this month, will charge \$10 for listing products, \$5 per transaction, Mktg. Vp Dermott Ryan said. Service will handle both surplus and close-out products for retailers and manufacturers, he said. Like other business-to-business exchanges, company's traders will work with buyers and sellers to ensure "legitimate" transactions within structures of dealer agreements, he said. TradeOut, which has 150 employees and went online in June, has spread concept across categories ranging from apparel to electricity, Ryan said. It raised \$22 million in Nov. in 2nd round of financing from Benchmark Capital, E-Bay and Morgan Stanley Dean Witter and numbers Federated Dept. Stores among its customers.



**NEW PC WORKS AS PVR:** Concept of watching TV on PC will get yet another tryout, but with PC that acts as hard disc personal video recorder (PVR). Canadian software maker MGI and U.K. Dixons group retail chains are teaming up on PC/PVR that goes on sale Fri. (Feb 4).

At London news conference Jan. 26, MGI said U.K. debut is trial for worldwide marketing. It already has licensed Hitachi to use Pure Diva in PC/PVRs for Japan market. Although some CE giants already offer set-top PVRs in U.S. — Replay platform in Panasonic's case, TiVo PVR with Philips and Sony — product has yet to emerge overseas. In U.K., Pace Microelectronics is working on set-top PVR with NDS, affiliate of satellite broadcaster BSkyB.

MGI's Pure Diva is MPEG-2 software codec used to compress incoming video digitally for hard drive of Dixons' Advent house-brand PCs. Pure Diva requires Pentium III-class PC and needs 3 GB of disc space for each hour of video recording, MGI said. To preempt complaints from those who try to use Diva on inadequate PCs, MGI at start will preload it "virtually free" on Dixons' Advent models between \$2,475 and \$4,125. Besides TV tuner, PCs have hard discs in 40 GB range.

MGI said it will collate program information from all U.K. broadcasters and post proprietary electronic program guide (EPG) on Dixons' Freeserve Web site. EPG can be accessed free through any ISP, but only by PC running Diva software. Dixons, meanwhile, has exclusive on Pure Diva in PCs. Not available yet on EPG are listings for U.K. digital TV broadcaster OnDigital, MGI said. But Diva-enabled PCs can be used without EPG and programmed like VCR by entering time, date and TV channel.

MGI said Diva PC's can't time-shift Macrovision-encoded material. That means PC can't record Box Office channels on BSkyB or, possibly, future premium program offerings from OnDigital. In U.S., Replay and TiVo incorporate Macrovision copy protection.

At our deadline, it wasn't clear how MGI was compiling EPG for Diva PC/PVRs (see related report, this issue). Week before last, EPG developer Gemstar sued TiVo for patent infringement (TVD Jan 24 p14). Gemstar has patents filed in 1995 (WO 95/32584) for basic concept of PVR (TVD Feb 26/96 p11).

**Best Buy will spend more than \$150 million on new corporate hq in Richfield, Minn.** Project will include 1.5 million-sq.-ft. of office space, with construction to begin in spring 2001 and be completed by summer 2002. City of Richfield granted Best Buy \$30 million in tax increment financing for purchase and clearing of site. Company, founded by CEO Richard Schulze in 1966, employs 6,500 in Minn. and plans to add another 2,000 under expansion plan. Current hq in Eden Prairie, Minn., which chain has occupied since 1994, houses 3,000 employees... **Rex Stores** has authorized buyback of up to 1.5 million additional shares of common. Rex, which has 8.2 million shares outstanding, completed buyback of one million under plan authorized Jan. 12.

**Spring videogame lineup for PlayStation console system** was announced last week by Sony Computer Entertainment America (SCEA). First game to ship will be racing title *Speed Punks* April 18. It will be followed by: *Wild Arms 2* May 2, *MediEvil II* May 9, skating game *Grind Session* May 23, *Legend of Dragoon* June 13.

**WIZ READIES NEW STORES:** Cablevision has restructured Wiz management and plans to add 10 stores this year in making first major imprint on chain since buying it out of bankruptcy in 1998.

Changes came as Cablevision last week appointed Telecommunications Services Pres. Joseph Azznara to head combining of core consumer and business telecom with 41-store retail operation. New structure will reunite Wiz's store and buying operations, which had been separated by former Pres. William Marginson, who has resigned, sources said. New head of retail group is expected to be named this week, although spokeswoman declined to disclose details.

On store expansion front, spokeswoman declined comment on number of outlets that will be added this year, but said it was fewer than 10. Wiz also has opened new format stores in Scarsdale and Bayshore, N.Y., that are designed to provide "hands-on experience" for home theater, car audio and other categories, spokeswoman said. New format is designed for Wiz's existing base of 30,000-40,000-sq.-ft. outlets as well as larger stores, sources said. Stores are expected to make major push in selling cable modems and set-top boxes, spokesman said. Cablevision currently sells cable modem service through stores in Conn. and N.Y.

Chain last year shifted strategy away from discounting and rock-bottom prices to focus on product features, customer service, warranties and in-store financing (TVD May 3 p17).

**Electronic Arts (EA)**, behind strong Sony PlayStation (PS) game sales, posted increases in profit and revenue for 3rd quarter ended Dec. 31. Redwood City, Cal.-based interactive software company said revenue increased to \$601 million from \$520 million year ago while profit surged to \$93 million from \$73 million. EA said that while sales of its PS titles jumped 31%, Nintendo 64 (N64) game sales were flat. In quarter, company shipped 23 new titles for 3 platforms — 3 for N64, 10 each for PC and PS. It has yet to throw its support behind Nintendo's Game Boy and Sega Dreamcast platforms. Best-selling titles for company in quarter included *FIFA 2000* for PC and PS, *Theme Park World* for PC, *Tomorrow Never Dies* for PS, *Knockout Kings 2000* and *NBA Live 2000* for N64 and PS. In quarter, company signed 5-year deal with AOL giving it exclusive rights to provide interactive games on latter's online properties (TVD Nov 29 p13).

**"Development keys"** necessary for designing recordable DVD and other products subscribing to Version 0.9 specification on Content Protection for Recordable Media (CPRM) will become available this week to companies that sign development agreement with "4C" licensing entity — IBM, Intel, Matsushita, Toshiba. CPRM spec covers encryption method for recordable DVD and other physical media. It's believed CPRM will use same "C2" encryption used for Secure Digital Memory Card developed by Matsushita, SanDisk and Toshiba and chosen recently for DVD-Audio as replacement for CSS-2.

#### THIS WEEK'S YEN RATE

Yen values have been converted to dollars in this week's issue at ¥106 = \$1, except where noted.



**INTEL HAS DSC IN WORKS:** On eve of Photo Marketing Assn. show (PMA) in Las Vegas, it's still not clear what chip-maker Intel plans for digital still camera (DSC) designs it has been patenting (TVD July 5 p18, June 14 p20).

Although company has design that would convert conventional film camera into DSC, it has tried to play down significance of its patents. At PC Expo in N.Y.C. last June, Intel spokeswoman denied company was planning to create hybrid camera. Denial contrasted with patents Intel has been filing.

First patent (WO 99/12345) has been filed in virtually all industrial countries of world. It contains very detailed plans for letting owners of standard film camera switch easily to DSC operation. Digital electronics are housed in dummy film canister and secondary lens is incorporated to focus light onto image pickup area, which is smaller than film frame.

Two other patent filings confirm that Intel has major research project running behind scenes on digital photography. More than dozen inventors have been working at Intel's labs in Santa Clara, and company is patenting their designs in more than 125 countries.

Patents WO 99/23817 and 28779 reveal that Intel also is working on dedicated DSC and compact lens. Instead of using usual 6 elements, Intel lens uses 4 injection-moulded components, tightly clamped to give high position-accuracy needed for miniature F2 optics. Patent describes one element as having microscopic ripple etched on surface to avoid moire effects when it resolves fine detail on solid-state image sensor of several hundred thousand pixels.

Intel also is developing dual-mode camera that can be used to capture either still snapshots or moving video for teleconferencing. Patent says that different compression systems are needed for each use and they are integrated into dual-purpose chips. Still pictures are stored on flash memory card, while video images are formatted for transfer to PC and/or modem.

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Fuji has patented method of getting instant prints from DSC, building on instant snapshot film that company makes for its Polaroid-style cameras. DSC described in patent (WO 99/21055) first shoots and stores image in flash memory. Instant film then is moved over printing head, with red, green and blue light sources that expose frame line by line. Exposed film passes between rollers that rupture pod of developing agent and spread it evenly across print. As with conventional instant film, snapshot completes developing after it has been ejected from DSC.

**Tunes.com said revenue increased** in 4th quarter ended Dec. 31 but losses widened. Chicago-based company, which provides online music content to consumers and operates DownBeatJazz.com and RollingStone.com Web sites, said revenue was \$2.4 million in quarter, up from \$1.3 million in 3rd quarter and \$769,000 in 4th quarter year ago. It also reported loss slid to \$9 million from \$6.83 million in prior quarter and \$5.73 million in 4th quarter 1998. Chmn.-CEO Howard Tullman said company had 124 separate advertisers at its site in quarter, including American Express, Dell, Universal Pictures, Warner Bros. He said "number of registered users on our sites grew to 1.4 million representing an increase of over 33% from the previous quarter."

**DIGITAL CAMERAS EXPAND:** Flood of digital still cameras (DSC) is expected to break 3-megapixel barrier at Photo Mktg. Assn. (PMA) show in Las Vegas this week while price wars continue to roil industry.

Prices as low as \$999 are likely for 3 megapixel DSCs, with Casio, Kodak, Nikon, Olympus, Sony and others fielding entries. New models are expected to bring DSC makers closer to holy grail of electronic imaging by attaining resolution on par with standard 35mm film.

New \$999 Olympus model with 3x zoom has 2,048x1,536 pixels resolution and 32 MB SDRAM buffer that allows shots to be taken at 3.5 frames per sec. (fps). It also has QuickTime movie mode that records 191 sec. of video at 160x120 resolution or 46 sec. at 320x240 — each at 15 fps. Model also has universal serial bus (USB) connection. Nikon was expected to unveil 3.34 megapixel DSC at \$999 with 1.8" LCD viewfinder/monitor. Model has 3x zoom with 38-115 mm range, continuous autofocus, manual exposure modes. DSC wild card for PMA is chipmaker Intel, which is known to be developing variety of models (see separate report, this issue).

Break to 3 megapixel cameras comes as industry sorts itself out after sharp pricing in holiday selling season. Fuji, Hewlett-Packard and Olympus led leap to \$299 price for cameras with 1-1.3 megapixel resolutions, action that forced Kodak to match suit last week by dropping retail on its DC-215 by \$50. On even lower priced scale, 640x480 pixel DSCs were advertised at \$79-\$149, with prices often including rebates.

"We came back with a strong response because we intend to be very competitive and we're in this for the long term," said Kodak Digital & Applied Imaging Vp Willy Shih, whose company had 19.8% share of DSC market in Dec., according to PC Data. In effort to remain competitive, Kodak is moving low-end DSC production to new OEM source in Taiwan. Chinon, which is 50% owned by Kodak, will continue to build higher end models in Japan, but shift more focus to R&D, Shih said.

Despite move to lower retails, average selling price for digital cameras remained in \$550-\$560 range in 1999, PC Data analyst Stephen Baker said, but average fell to \$489 in Dec. Sony remained DSC market share leader in Dec. at 28%, Baker said. Kodak said that 2 million digital cameras were sold in 1999, figure that's projected to rise to 7 million by 2005.

**DVD hardware sellthrough** was holiday hit with 1.1 million players bought by U.S. consumers in Dec. alone, research firm NPD Intellect reported. Retail sales for month brought 1999 total to 3 million, and launch-to-date installed base to 4 million, NPD said. For 2000, NPD forecast sellthrough of 8 million decks, based on reports from key retailers that Jan. sales were running 3 to 4 times ahead of 1999 month, when shortages occurred. CEMA said suppliers shipped 95,269 players to dealers in first 2 weeks of 2000, increase of 201.9% from 31,561 shipped in same 1999 period. NPD noted that VCRs, introduced in 1975, took 12 years to reach 8 million annual sales mark. More than 5,600 movies and other titles already are available in U.S., with DVD titles reaching stores faster than VHS, NPD said. CEA has forecast DVD player sales to retailers at 6 million for 2000. But flood of low-priced decks from China is expected to drive entry level models well below current \$159 this year.



**GOOD GUYS EARNINGS RISE:** Good Guys, on strength of lower costs and revamped merchandise mix, reported first-quarter income rose to \$5.6 million from \$1.6 million year earlier despite drop in sales to \$262.2 million from \$294 million. Same-store sales were up 1%.

In quarter, sales costs fell to \$183.4 million from \$222.6 million year earlier, although selling, general and administrative expenses increased to \$72.4 million from \$68.2 million. Earnings included \$1 million gain on sale of land. Company ended quarter with \$249.9 million each in assets and total liabilities and shareholders equity.

In effort to cut costs further, Good Guys is consolidating hq in Brisbane, Cal., to 3 floors from 5 and moving toward "more commissioned-based management structure," Chmn.-CEO Ronald Unkefer told analysts in conference call.

Sales in quarter benefited from digital products including cameras, camcorders and TVs that helped boost gross margin to 30% from 24.3% year earlier. Gross margins are projected to remain in "high 20%" range for year, company said. Year-ago results included home office products that were discontinued last fall (TVD Aug 2 p17). In digital TV category, Good Guys "sold virtually everything we could get our hands on this Christmas," Unkefer said. DTV widescreen design is "being embraced a lot faster [by consumers] than I would have expected," he said.

Following release of first-quarter earnings, Morgan Keegan analyst David Childe boosted projected fiscal year-end earnings to 15-20¢ per share from 15¢ on sales of \$889 million, which would be down from \$916 million. Repricing is based on projection that same-store sales would be flat in 2nd quarter, moving to 10% increase by fiscal year-end, he said.

In new categories, Good Guys sold "several thousand" of Cidco's Mail Station Internet appliance for receiving e-mail in quarter, Unkefer said. It also is negotiating "several" new alliances, although he didn't disclose details. In past, Unkefer has said he was weighing leasing space in stores for software. Good Guys is redeploying cellular phone displays toward front of stores, change that's expected to be chainwide within 6 months, he said.

Company is revamping mobile electronics with "cleaner organization structure and budget" in effort to boost category that has been strong seller for chain, Unkefer said. Chain will broaden mix of mobile products it carries, he said.

Goodguys.com, which is 49% owned by brick-and-mortar retailer, remains on target for debut in late 2nd quarter (TVD Jan 10 p23), Unkefer said. New site will be "very complementary" to Good Guys conventional stores and will maintain vendors' existing minimum advertised pricing policies, he said.

Meanwhile, Intertan, which operates RadioShack (RS) stores in international markets, reported 2nd-quarter profit narrowed to \$12.3 million from \$13.7 million year earlier. Sales declined to \$169.1 million from \$198.3 million on 15.9% same-store sales gain. Year-earlier sales include stores in U.K. that have been sold. Intertan operates 1,100 RS stores in Australia and Canada.

**Future Shop**, free of U.S. operations it closed last year (TVD March 15 p14), said 3rd-quarter income rose to \$17.2 million from

\$4.6 million as sales increased 15% on 12% gain in same-store sales. Chain, which operates 88 stores in Canada under Future Shop (83) and Computer City (5) banners also completed "remerchandising" project in PC peripheral, video and communications categories. It also began limited partnership e-commerce business in Dec. that at outset will be funded by \$7.3 million private placement, with additional capital to be raised this year, CFO Gary Patterson said. Future Shop acquired 7 Canada-based Computer City stores from CompUSA in 1998 and since has closed 2.

**Pager-based interactive TV** is among initiatives for new Gemstar-Thomson joint venture to be called @TV Media. Agreement announced last week extends terms of license for Gemstar's electronic program guide (EPG) to 2010, with Thomson pledging to incorporate EPG in 30 million TV devices for N. America through contract period, including sets 19" and up, and all DTV sets. Separately, companies agreed to launch Gemstar EPG in Europe through Thomson sets next year. With formation of @TV Media, Gemstar and Thomson will roll over respective shares in TDN, joint venture formed in Nov. 1997 to pursue downstream ad revenues from EPG. Companies also will pool technologies for 2-way wireless paging that provides return path for interactive TV, further enabling them to pursue ad and e-commerce revenues through EPG. In Nov. 1998, Gemstar announced it had received patents on 2-way wireless communication between TV devices and central processing service. Since then, coverage of 900 MHz paging has increased while costs have decreased to mass-market level for wireless hardware and 2-way service. Partners said they envision paging device incorporated in tiny transceiver connected to TV. Unit will receive real-time news services for display on TV, including local news and weather. Transceiver also will let viewers use remote control to respond instantaneously to information displayed on TV, such as audience polls, interactive sportscasts and game shows, or to request information or make purchases. Wireless transceiver then relays input to remote processing center for action or fulfillment. Partners said that besides high speed and relatively lower cost, return path using wireless 2-way paging avoids need to connect phone line to TV — and consumer resistance to that. First Thomson interactive products using 2-way wireless technology could appear as soon as next year.

**Latest 'limited play' DVD concept** comes from SpectraDisc, offshoot of Providence-based Spectra Science, which develops optical coatings and laser detection equipment. Company said it's working on coating that turns read-surface of DVDs and other optical discs opaque after exposure by laser, eventually making disc unplayable. Time or number of plays available from disc depends on thickness of coating, SpectraDisc said. It said process would enable sale of limited-play disc or rental title that needn't be returned to store. Coating is applied after disc replication, SpectraDisc said. Company estimated that movie with 2-day play window could sell for under \$3. Process could be available by 4th quarter — sooner if major studio pledges commitment or financing, SpectraDisc said. Company also is working on single-play coating. Similar time-exposure technologies for optical discs have been announced by other companies in past. Although SpectraDisc executives said limited-play concept avoids debit-card transactions and modem-server connections in defunct Divx conditional-access system, they didn't address preference among video retailers for rental returns that generate additional business.

**Borders Vision section** at Borders.com e-commerce Web site featuring free interactive programming, including broadband entertainment, will open in first quarter. Venture was created by Borders and digital media company Centerseat, which will be creating programming for it. Products will be sold there as well, companies said.



**CORNING TO KEEP CRT GLASS:** Corning has no immediate plans to divest itself of CRT glass business despite months of speculation that it would end joint venture with Asahi Glass to focus on growing fiber business, sources close to company said.

Corning has been weighing its options since portions of operating agreement with Asahi started to expire in Oct. 1998. Spokesman confirmed that Corning has no plans to change joint venture with Asahi "for the foreseeable future." CRT business suffered from oversupply of big-screen TV glass last summer that forced temporary shut-down of State College, Pa., plant (TVD Aug 2 p13). Revenue declined 5% in year ended Dec. 31 and was flat in 4th quarter, company said.

CFO James Flaws didn't discuss CRT business at length in conference call with analysts last week in which Corning said 4th-quarter income surged to \$140.1 million from \$104.3 million year earlier on 35% gain in revenues. But Flaws has indicated in past that Corning was weighing all options for CRT business. Rise in quarterly earnings stemmed largely from 56% gain in sales of fiber and networking equipment to \$748.3 million.

Income of Information Displays Div., which includes both CRT and LCD glass, increased to \$25.9 million from \$12.9 million on 15% jump in revenue to \$210.8 million. Revenue at U.S. Precision Lens, which builds lens for projection TVs, rose 20% in quarter, 8% for year.

Gains in information display were largely due to LCD glass business, whose revenue rose 50% in quarter and had \$300 million in sales for year. Corning is planning to double capacity of existing LCD glass factories in Ky., Japan and S. Korea by 3rd-4th quarter and add new plant in Taiwan, it said. LCD business, which includes Samsung-Corning Precision Glass joint venture, produces mother glass that's cut to provide displays for notebook PCs and PC monitors. Flaws conceded that LCD group has been "capacity constrained," prompting move to expand operation with addition of new tanks.

Corning also operates joint venture with Samsung that builds glass for 14"-17" PC monitors. While there are no immediate plans to expand operations at State College facility, capacity for widescreen and/or flat-screen glass could be added with new moldings, but using same equipment, source said.

Glass maker clearly is betting on fiber for growth. It's expected to complete \$1.8 billion acquisition of competitor Oak Industries and buy rest of assets of C-Core joint venture with Siemens. Latter is expected to add \$700 million in sales to consolidated results for fiscal year ending Dec. 31, Flaws said. In addition to supplying fiber for new high-speed communications networks in U.S. and Europe, Corning is major provider of optical filters and amplifiers to Lucent and Nortel.

**Consumer intentions** on buying TV sets fell significantly in Jan. from Dec., according to preliminary data in Conference Board monthly survey. Of 5,000 households polled, 6% said they plan to buy TV set in next 6 months, vs. 8.2% in Dec., 6.8% in Nov., 6.7% in Jan. 1999. However, Consumer Confidence Index rose 3 points in Jan. Conference Board said: "An expanding global economy and a robust job market suggest that consumer optimism and consumer spending could rise even further in coming months."

**ETOYS SALES TOP \$100 MILLION:** EToys said last week its sales jumped to \$106.75 million in 3rd quarter ended Dec. 31 from \$22.91 million year ago. But heavy spending e-tailer did to compete with toysrus.com and other online toy merchants over holidays took toll. EToys, which said it spent \$36 million in ads in last quarter — \$25 million of it for domestic TV spots — lost \$75.48 million, compared with \$9.82 million year ago.

On same day e-tailer released earnings, its stock dropped 20% and shares were trading at all-time low, Associated Press reported.

In last quarter, e-tailer said it nearly tripled number of consumers who bought products from it since it opened Web site Oct. 1, 1997. Etoys said customer accounts reached 1.7 million by end of quarter, up from 611,000 Sept. 30, and repeat purchases represented 34% of orders placed in 3rd quarter. In same quarter, average order size for customers who bought goods from site domestically was \$67, company said, with customer acquisition cost of \$33 each.

Company also started U.K. e-commerce Web site — [www.etoys.co.uk](http://www.etoys.co.uk) — selling toys as well as computer and videogames, educational software, videos. It began shipping goods to Canada Nov. 8.

EToys said it shipped 96% of its orders on time in Nov. and Dec. and said 99% of those placed before Dec. 18 holiday shipping deadline arrived at consumers' homes in time for Christmas. But eToys fulfillment problems were reported during holidays — by both media and consumers, whose complaints could be found online at various chat locations. Late last month, *Wall St. Journal* said eToys offered some disgruntled customers \$10 coupons (TVD Jan 3 p16).

Meanwhile, just before reporting its 3rd-quarter results, eToys settled bitter legal dispute with Swiss art group that started operating Web site [www.etoys.com](http://www.etoys.com) in Oct. 1995 and registered its domain name same year. Etoys didn't register its domain name until 1997, same year it opened its Web site. But eToys sued Swiss art group in Sept. for trademark infringement and said customers mistakenly were going to Swiss etoy site, where youngsters were being exposed to adult material including nudity, profanity, violent images. Adding complexity to eToys charges was timing in which eToys and etoy had registered respective U.S. trademarks.

As legal dispute went on, eToys found itself subject of extensive online campaign by supporters of Swiss group. Pro-etoy camp included Grateful Dead lyricist John Perry Barlow. Among Web sites that were started to combat eToys were [www.etoys-sucks.com](http://www.etoys-sucks.com) and [www.evilttoy.com](http://www.evilttoy.com).

Reason online toy merchant opted to settle dispute wasn't clear last week. EToys spokesman would say only: "We are pleased with the outcome."

As part of settlement, eToys has agreed to pay Swiss group as much as \$40,000 in legal fees and other expenses paid by art group as result of lawsuit.

**Hasbro Interactive** will ship *NASCAR Racers* for PC and Sony PlayStation in fall. Company will showcase game, based on Fox TV series of same name, at Toy Fair in N.Y.C. in Feb.



**E-TAILERS OUT IN FORCE AT NRF:** On heels of most significant year ever for e-commerce, online retailing was among key issues addressed at recent National Retail Federation (NRF) Convention in N.Y.C. Event attracted e-tailers both established — such as Electronics Boutique's EBworld.com, eToys and Toysmart.com, as well as RadioShack.com and Toysrus.com — and newcomers to rapidly expanding field — like sporting goods site Lucy.com.

Toysmart.com Customer Care Dir. Sandra Charest said her company is likely to file IPO in 2nd quarter. By that time, she said company will have added videogames and prerecorded video to product mix. In adding software, she said company wants to make sure that what it picks matches its educational toy-based focus. Charest said: "I'm not really sure you have to have [videogames and PC software] because it depends on your focus and how many markets you want to provide for consumers. But if you're looking from the viewpoint of serviceability, yes, you have to be there. We're trying to get a breadth of product from the time [our customers] are born all the way up the line."

Company received \$45 million investment from Disney last summer (TVD Aug 30 p18). It had \$10 million in sales in Christmas 1998 and was projected to hit \$20-\$30 million in 1999, but Charest declined to release total sales numbers.

Also not providing any Christmas 1999 sales figures was eToys CIO John Hnanicek, who did say his company earned \$25 million in revenues at Christmas 1998 and saw significant uptick in traffic this past season — company's 3rd online. Hnanicek said company went from 5,000 sq. ft. of warehouse space its first Christmas online to 150,000 sq. ft. in 1999 season.

To meet demand for product in 1999, Hnanicek said eToys planned ahead to make sure site could handle traffic and had necessary amount of products and enough space for those products to be stored. He added: "You can not put up an extra 200,000 sq. ft. in 3 days if one of your ads or promotions takes off. You have to be thinking ahead, you have to be planning." Despite such planning, there were reports that — like Toysrus.com — eToys couldn't fulfill all orders it received in time for Christmas (TVD Jan 3 p16). But Hnanicek said "we're pretty happy with the overall performance" in holidays nevertheless, saying site had fulfillment rate more than 90%.

As in brick-and-mortar world, returns are dilemma for online dealers. Although Hnanicek said company doesn't publish its direct return rates, he said "they are a lot lower than traditional retail." Industry analysts have put typical online return rates at 3-5%.

While analysts and various click-and-mortar dealers (with online and offline retail presence) have said repeatedly they see option for consumers to return items bought online to brick-and-mortar store as benefit, Hnanicek said: "There's 2 elements to why that maybe isn't the case. Number one, customers are shopping with you online because they don't like going to stores and if they don't like going to stores or you can provide a better experience than going to the store, why is the customer going to be viewing it as a value builder to go back to the store again to make a return. Second, with the personalized tools that you can offer... [there's] the ability for kids to e-mail their wish lists to their aunts and uncles and grandparents. What that does is eliminate the largest cause of retail returns."

In terms of product shortages at eToys over holidays, Hnanicek said he couldn't give specifics, but said "I think the

normal hot products — the Pokemons and everything [else] — that all retailers struggled with we had our share of in-stock struggles" as well.

EBworld.com Pres. Seth Levy said site — like many e-tailers and brick-and-mortar retailers (TVD Dec 20 p14) — had back-order situation on *Pokemon Yellow* game for Nintendo Game Boy. EBworld.com's back orders hit 6,000 in waning days of season and online retailer was told by Nintendo that no further inventory would be forthcoming, Levy said. EBWorld.com's brick-and-mortar parent intervened and Nintendo freed up product for shipment by Dec. 23, Levy said. EBworld.com took in \$7.5 million in online sales in Nov. and Dec., increasing year-end total to \$11.8 million, Levy said. EBWorld.com, which primarily has sold software, will add other categories later this year, although Levy declined to provide details.

**TeraNex in first half** will ship all-format convertor that it says is first to contain built-in motion compensation. Xantus AFC, which at start will target broadcast and postproduction applications, is designed to complete film conversions to digital in real time. Convertors are based on reconfigurable video processor in 19" rack mount and have 150 parallel processors, each with 1,024 chips. LSI Logic is supplying chipset for AFC that's being assembled offshore. Device has 8" touchscreen LCD with 640x480 pixel resolution that displays TeraNex's graphical user interface (GUI). It's available in upconvertor (\$40,000) and all-format postproduction (\$125,000) versions, Pres. Michael Baron said. Privately held company was formed 14 months ago after acquiring image processing assets and patents from Lockheed Martin, which remains part-owner of company, Baron said. TeraNex also is targeting technology for Internet video streaming and Digital Cinema projection applications. DuArt Film and Video is upconverting 6 films for Digital Cinema using TeraNex AFCs.

**Creative Technology** posted sales of \$436.78 million in 2nd quarter ended Dec. 31, which company called its highest-ever quarterly revenue. Revenue was \$428.69 million year earlier. Creative profit was \$44.48 million, down from \$60.58 million year ago. Creative Labs Pres. Craig McHugh said company "incurred about \$16 million in operating expenses for our Internet initiatives — bringing our total for the first 6 months of fiscal 2000 to over \$25 million invested in advertising, marketing, R&D and infrastructure to develop our Internet-related businesses." In last quarter, it resumed hifi.com CE e-commerce Web site with emphasis on mid to high-end merchandise (TVD Oct 11 p19) and unveiled its first computer products for Apple's Mac platform (TVD Jan 3 p14). Creative said it also continued its stock buyback program, purchasing 1.7 million shares for \$25.3 million.

**StarSight patent** at heart of Gemstar's suit against TiVo (TVD Jan 24 p14) covers "TV Scheduled System and Process." Patent, granted to Patrick Young in Nov. 1987, allows user to select broadcast programs from schedule information. Under patent, data processor is connected to FM receiver, decoder and data demodulator. User has remote control to direct data processor to select scheduled information and store it in memory. System can be used to control TV tuner and VCR. Ironically, patent was among those cited by StarSight during its lengthy legal battle with Gemstar before being acquired in 1997.



**SHERWOOD NARROWS FOCUS:** Sherwood America is narrowing focus to its own and Newcastle brands and will sell or discontinue products sold under Urban and Targa banners, Vp Jeffrey Hipps said.

Sherwood has largely used Targa and Urban brands for mobile electronics in targeting discounters and specialty retailers. It will continue with Sherwood brand mobile electronics, Hipps said.

"We will ultimately focus on Sherwood, and products that we [parent Haitai Electronics] don't build will be discontinued or sold," Hipps said in noting that Targa and Urban products were sourced from other manufacturers. "But there is no specific timetable on this and it could take a year or 2 or it could take 3 months. There is nothing close at this point and we are continuing to support customers, but we're just not introducing new [Urban or Targa] products."

Urban and Targa brands had been used largely for car CD and cassette head units as well as amplifiers.

As part of new focus, Sherwood will ship new DVD/CD processor/player at \$799. Deck will have built-in decoding for Dolby Digital, DTS and Circle Surround, 2x and 4x zoom, 3-scene memory, front-panel jog/shuttle. It uses C-Cube Microsystems' Ziva and Crystal Semiconductors' video and audio processing chips, respectively, and Motorola 24-bit 96 kHz D/A convertor for audio.

In addition to supplying Newcastle brand, Haitai will build DVD player on OEM basis starting in Feb., Hipps said. "That keeps the quantities up and the costs down." Haitai factory in S. Korea has 400,000-unit monthly capacity, he said.

Sherwood introduced 2 Newcastle A/V receivers. Model with built-in Dolby Digital/DTS decoding and Dolby Digital/DTS 6.1 Extended Surround playback capability is \$1,499. Step-up receiver also has 120-w-per-channel power output. Lower priced unit (\$899) has slightly fewer outputs (4 each for digital and audio vs. 6 and 5, respectively) and 100 w output. Sherwood is readying 2 new minisystems for first-half delivery and will add new unit to Lifestyle line of CD players.

**MP3.com** said revenues jumped to \$15.27 million in 4th quarter ended Dec. 31 from \$613,000 year ago, but Internet music company said it lost \$10.6 million, vs. \$102,431 profit. MP3.com Chmn.-CEO Michael Robertson said growth in quarter was "driven by a 297% rise in online advertising and a 310% increase in offline revenues from our previous quarter." He said company "will continue to invest and build [our] technology infrastructure in 2000." In last year, company attracted "registered user base of approximately 8 million by the end of December," he said. Robertson also said "page views" at its Web site "from November to December increased by 14 million" and "number of approved artists in December grew almost 12% from November." Company is subject of copyright infringement suit by RIAA (TVD Jan 24 p21) that seeks to stop MP3.com from running new Instant Listening and Beam-It services, which RIAA said are built on "unauthorized digital archive of the most popular and valuable copyrighted sound recordings in the world."

**Musicmaker.com** said Shania Twain was most downloaded artist in MP3 format at its Web site in 1999. Other performers in company's top 10 last year were Pete Townshend, Eric Clapton, Animals, Miles Davis, Blues Brothers, Creedence Clearwater Revival, Little Richard, Beach Boys, Roger Daltrey.

**KERBANGO INTERNET RADIO DUE:** Start-up Kerbango is readying radio that combines standard AM/FM tuning with ability to receive Internet broadcasts. Combo product, expected to ship in first half, will be priced similarly to MP3 players, Kerbango Pres. James Gable said.

Kerbango declined to release product specs, but said it would use RISC-based processor, have user interface, "minimal" amount of memory. It will be able to use standard telephone modem as well as Ethernet connection for cable modem or digital subscriber line services, Gable said.

Company also has developed Internet Audio Directory software that enables user to search for radio stations, assess their signal strength and test reliability of Internet broadcasts, Gable said. Device will be able to decompress RealNetworks, Microsoft Windows Media and MP3 files.

While Kerbango plans additional models, it won't add storage. "This product is, first and foremost, a radio," Gable said.

First revenues will come from hardware sales, but company also is considering charging monthly fee for service and is seeking ads, Gable said.

Still undecided is whether Kerbango will license technology to hardware makers or build products itself through OEM, Gable said. Whether product will be sold through retail will depend on company's ability to win licensing agreements, he said.

**Eidos Interactive** extended its software publishing deal with Capcom and entered into additional agreements for *Resident Evil Survivor* for Sony's PlayStation and *Resident Evil Code: Veronica* for Sega's Dreamcast throughout Australia and Europe. Eidos also said it will ship *Tomb Raider: The Last Revelation* for Dreamcast in spring in Europe and U.S. Until now, game — whose main character, Lara Croft, also will appear in upcoming movie — has been available only for PlayStation. Game was developed by Eidos subsidiary Core Design. Eidos now is shipping *Legacy of Kain: Soul Reaver* for Dreamcast and, in conjunction with Enix America, *Dragon Warrior Monsters* for Nintendo Game Boy Color. Latter game is based on *Dragon Quest/Warrior* series.

**NewKidCo International** last week said preliminary results for 12 months ended Dec. 31 showed record sales of \$35 million — \$33 million of it from continuing operations — compared with \$3.6 million from continuing operations year earlier. Burlington, Mass.-based children's videogame publisher said it expected \$3.5 million profit, reversing \$14 million loss year earlier. NewKidCo CEO Richard Rabins gave much of credit for sales results to holiday selling season, which he called "by far the strongest revenue producer for the company thus far." Company plans to ship videogames based on Winnie the Pooh stories, TV's *Doug*, *Sesame Street*, Sony Pictures Consumer Products' *Dragon Tales*, Tom and Jerry. First Pooh title will be *Winnie the Pooh: Adventures in the 100 Acre Wood* for Game Boy Color shipping in spring. Company plans later to ship Pooh titles for Nintendo 64 and Sony PlayStation in fall. Promotions will include tie-ins with theatrical release *Tigger Movie* and Disney Home Video releases.

**Colony Wars: Red Sun** game for Sony PlayStation ships March 21. Title is 3rd in its sci-fi series, following *Colony Wars* and *Colony Wars: Vengeance*. In conjunction with new game's release, Psygnosis is launching [www.colonywars.com](http://www.colonywars.com) Web site.



## Personals

**Joe Fleischer**, ex-*HITS Magazine* vp/senior editor, named MP3.com vp... **Polaroid Exec. Vp-CFO Judith Boynton** adds business development responsibilities; **George Hamilton, Thomas Hennigan and Timothy Palmer** promoted to corporate vps... **Timothy Jensen**, Merisel CFO, adds exec. vp... **George Samenuk**, ex-IBM, named TradeOut.com CEO... **Steve Embree**, Office Depot senior mdsg. vp-technology, promoted to exec. mdsg. vp... **Steve Gilbert**, Disney Interactive finance and operations dir., advanced to vp; **Thierry Braille**, global strategies dir., shifts to vp-managing dir.

**Hector de Ruiz**, ex-Motorola, named Advanced Micro Devices pres.-COO, filling post vacant since **Atiq Raza** resigned in July... **Richard Burns**, 3dfx Interactive U.S. retail sales vp, promoted to worldwide sales senior vp... **Paul Bandrowski**, Reciprocal vice chmn., and **Ted Cohen**, Digital Music Network exec. vp, join Earjam.com advisory committee... **Jon Diamond**, CDNow chmn., and **John Sykes**, VHI pres., join Myplay board... **Shuji Nakamura**, ex-Nichia Chemical and inventor of blue-violet laser diode for recordable DVD, to join faculty, College of Engineering, U. of Cal., Santa Barbara.

**EGames** said sales jumped 25% in 2nd quarter 2000 ended Dec. 31 but profit fell to \$601,000 from \$847,000. Langhorne, Pa.-based computer game publisher said its revenues were \$4.5 million in quarter — up from \$3.6 million year ago. Company attributed increased sales largely to entry into new sales channel for company — food and drug retailers. eGames also established relationships with other types of dealers in quarter, including eToys, Nebraska Furniture Mart, N.Y. chain Wiz. eGames attributed drop in profit to international sales being flat because of pricing pressures and increased competition, especially in U.K., as well as costs of changes in business model. Company began direct-to-market sales strategy in April.

**CEA Pres. Gary Shapiro** said he would have no comment on letter sent to FCC by U.K. supplier Pace Micro Technology that it could have COFDM receivers in U.S. market by Christmas if FCC moved quickly to approve COFDM modulation. In letter to all 5 commissioners, Pace said receivers could retail at \$300-\$400, price it said “could stimulate significantly increased consumer demand for DTV and make DTV available for middle and lower income families, particularly minorities, thereby helping close the digital divide.” Pace said more than 520,000 COFDM-based DTV receivers have been sold in first year in U.K., and it believes DTV is more successful there because of “ease of reception and low cost.” Spokesman for COFDM backer Sinclair Best. lauded letter, calling it “a fissure in the consumer electronics manufacturers’ wall of silence.” Shapiro, whose group supports existing 8-VSB modulation system and opposes reopening DTV proceedings, also declined comment on Sinclair’s reaction to Pace letter.

**Wearable PC** input device that can replace mouse or keyboard has been developed by Olympus Optical. Unit, worn on hand, uses sensors attached to fingers and thumb to send instructions to wearable PC. For example, touching finger to thumb enables user to click on icon, Olympus said. It said it hasn’t decided whether to commercialize 1-1/2 oz. device.

**Despite bad press** various e-tailers received over holiday season for failure to deliver products on time to consumers, 89% of 2,560 customers polled by Greenfield Online after Christmas said they were extremely or very satisfied with their online purchasing experiences. Greenfield said that when pressed for more detail, 26% of respondents had negative things to say about shopping online. Of those that did have negative comments, 15% related to shipping or poor packaging, 2% to prices. Survey also said: 58% bought gift online this holiday season; 44% planned to make more online purchases after Christmas; only 9% planned to return e-gifts.

**Circuit City** is among group of nation’s biggest retailers seeking \$8.1 billion from Visa and Mastercard for alleged anti-trust violations in debit-card business. Circuit, along with Wal-Mart, Sears, Safeway, Limited and others, charged in lawsuit pending in U.S. Dist. Court, Brooklyn, that Visa and Mastercard used monopoly power in credit cards to dominate debit cards. Action forces retailers to pay high transaction fees and drives up costs to consumers, suit says. It also seeks injunction to prevent Visa and Mastercard from using their power in credit cards to enter other markets. U.S. Dist. Judge John Gleeson has set trial for Nov. 27 and approved govt. request to intervene.

**Sega Dreamcast Championships** will be held Feb. 5 at GameWorks Las Vegas. Event will feature 4 top scorers from nationwide *Sonic Adventure* contest, who will compete for \$15,000 grand prize. Meanwhile, Sega is shipping *Zombie Revenge* for Dreamcast at \$49.95. In addition to Dreamcast version of arcade game, title includes 2 minigames — *Sega Bass Fishing* takeoff *Zombie Fishing* and memory skill game *Zombie Doubt*. Company also announced it signed Detroit Red Wings hockey star **Brendan Shanahan** as spokesman for *Sega Sports NHL 2K* game shipping in Feb.

**Sharp** has established Shanghai-based parts sales subsidiary that’s to begin operation March 1. Sharp Microelectronics of China will have 15 employees at start and will market locally produced Sharp-made electronic components to foreign manufacturers based in Shanghai area. Subsidiary is projecting first-year sales of \$19 million, doubling that in 2nd year. Sharp annually sells \$66 million of electronic components in China through Hong Kong distributor. It said it’s studying whether to give new subsidiary future capability for custom parts design.

**Zenith** was **Roberds’** top CE creditor at \$402,758, according to filing accompanying 24-store chain’s bankruptcy petition (TVD Jan 24 p16). Other CE creditors included Mitsubishi (\$270,279) and Thomson (\$221,598). Top non-CE creditor was GE Credit Card (\$992,757), with others including mixture of furniture companies, Broyhill (\$278,376), and publishing companies — *Atlanta Journal-Constitution* (\$441,147). Roberds has moved to close its Fla. Div. (8 stores) and 250,000-sq.-ft. outlet in Cincinnati area.

**Harman International** posted \$22.31-million 2nd-quarter profit, reversing year-earlier loss of \$30.56 million on 16.3% revenue increase (see financial table) spurred partly by 17% rise in Consumer Systems Group sales to \$332.2 million. Harman Professional Group reached agreement to buy Crown International, Elhart, Ind.-based supplier of professional audio amplifiers. Terms of deal, expected to be completed in 30 days, weren’t disclosed.



## Financial Reports of TV-Electronics Companies

These are latest reports as obtained during past week. Dash indicates information not available. Amounts expressed in dollars. Parentheses denote loss.

Company & Period	Revenues	Net Earnings	Per Share
<b>AT&amp;T</b>			
1999-year to Dec. 31	62,391,000,000	5,450,000,000	1.77 <sup>a</sup>
1998-year to Dec. 31	53,223,000,000	6,398,000,000	2.39 <sup>b</sup>
1999-qtr. to Dec. 31	16,334,000,000	1,153,000,000	.36 <sup>a</sup>
1998-qtr. to Dec. 31	13,528,000,000	1,988,000,000	.76 <sup>c</sup>
<b>Avnet</b>			
1999-6 mo. to Dec. 31	3,757,094,000	37,278,000	.98 <sup>a</sup>
1998-6 mo. to Dec. 26	3,108,505,000	42,192,000	1.17 <sup>a</sup>
1999-13 wk. to Dec. 31	2,102,771,000	15,132,000	.37 <sup>a</sup>
1998-13 wk. to Dec. 26	1,526,902,000	26,534,000	.74
<b>Burr-Brown</b>			
1999-year to Dec. 31	291,448,000	45,718,000	.83
1998-year to Dec. 31	258,094,000	35,857,000	.65
1999-qtr. to Dec. 31	84,194,000	15,153,000	.27
1998-qtr. to Dec. 31	61,727,000	8,737,000	.16
<b>CDW Computer Centers</b>			
1999-year to Dec. 31	2,561,239,000	98,085,000	2.27
1998-year to Dec. 31	1,733,489,000	65,841,000	1.53 <sup>d</sup>
1999-qtr. to Dec. 31	741,267,000	29,898,000	.69
1998-qtr. to Dec. 31	477,233,000	18,342,000	.43 <sup>d</sup>
<b>CIDCO</b>			
1999-year to Dec. 31	158,593,000	(30,000)	--
1998-year to Dec. 31	174,703,000	(51,439,000)	-- <sup>a</sup>
1999-qtr. to Dec. 31	27,428,000	(4,134,000)	--
1998-qtr. to Dec. 31	30,624,000	(4,758,000)	--
<b>Concord Camera</b>			
2000-26 wk. to Jan. 1	85,760,299	8,413,824	.77
1998-26 wk. to Dec. 31	62,107,412	4,786,185	.43
2000-13 wk. to Jan. 1	44,522,402	4,518,198	.41
1998-13 wk. to Dec. 31	31,083,585	2,327,797	.21
<b>Corning</b>			
1999-year to Dec. 31	4,368,100,000	481,700,000	2.00 <sup>a</sup>
1998-year to Dec. 31	3,572,100,000	394,000,000	1.71 <sup>a</sup>
1999-qtr. to Dec. 31	1,259,700,000	140,100,000	.57 <sup>a</sup>
1998-qtr. to Dec. 31	961,500,000	104,300,000	.45
<b>Creative Computers</b>			
1999-year to Dec. 31	731,955,000	(10,943,000)	--
1998-year to Dec. 31	642,006,000	(17,795,000)	--
1999-qtr. to Dec. 31	221,754,000	(2,281,000)	--
1998-qtr. to Dec. 31	166,322,000	(5,633,000)	--
<b>Eastman Kodak</b>			
1999-year to Dec. 31	14,089,000,000	1,392,000,000	4.38 <sup>a</sup>
1998-year to Dec. 31	13,406,000,000	1,390,000,000	4.30 <sup>a</sup>
1999-qtr. to Dec. 31	3,799,000,000	475,000,000	1.51 <sup>a</sup>
1998-qtr. to Dec. 31	3,563,000,000	272,000,000	.84 <sup>a</sup>
<b>Faroudja</b>			
1999-year to Dec. 31	13,476,000	(2,099,000)	--
1998-year to Dec. 31	12,270,000	(3,469,000)	--
1999-qtr. to Dec. 31	3,877,000	77,000	.01
1998-qtr. to Dec. 31	2,554,000	(902,000)	--
<b>Future Shop</b>			
2000-9 mo. to Jan. 1	1,277,842,000	19,117,000	1.22 <sup>g</sup>
1999-9 mo. to Jan. 2	1,535,427,000	(23,498,000)	-- <sup>f</sup>
2000-qtr. to Jan. 1	558,826,000	17,216,000	1.06
1999-qtr. to Jan. 2	659,109,000	4,686,000	.37 <sup>f</sup>
<b>Geoworks</b>			
1999-9 mo. to Dec. 31	7,702,000	(1,907,000)	--
1998-9 mo. to Dec. 31	4,740,000	(13,261,000)	--
1999-qtr. to Dec. 31	3,129,000	931,000	.05
1998-qtr. to Dec. 31	1,954,000	(3,488,000)	--
<b>Good Guys</b>			
1999-qtr. to Dec. 31	262,212,000	5,619,000	.29
1998-qtr. to Dec. 31	297,098,000	1,652,000	.12
<b>GTE</b>			
1999-year to Dec. 31	25,336,000,000	4,033,000,000	4.12 <sup>f</sup>
1998-year to Dec. 31	25,473,000,000	2,172,000,000	2.24 <sup>a</sup>
1999-qtr. to Dec. 31	6,741,000,000	1,007,000,000	1.03 <sup>a</sup>
1998-qtr. to Dec. 31	6,831,000,000	855,000,000	.88
<b>Harman International</b>			
1999-6 mo. to Dec. 31	807,599,000	27,201,000	1.57
1998-6 mo. to Dec. 31	703,414,000	(22,071,000)	-- <sup>a</sup>
1999-qtr. to Dec. 31	450,826,000	22,307,000	1.30
1998-qtr. to Dec. 31	387,518,000	(30,562,000)	-- <sup>a</sup>
<b>Intertan</b>			
1999-6 mo. to Dec. 31	277,319,000	16,747,000	.56
1998-6 mo. to Dec. 31	320,352,000	13,469,000	.71 <sup>a</sup>
1999-qtr. to Dec. 31	169,221,000	12,360,000	.41
1998-qtr. to Dec. 31	198,429,000	13,764,000	.72 <sup>a</sup>

Company & Period	Revenues	Net Earnings	Per Share
<b>Kimball International</b>			
1999-6 mo. to Dec. 31	572,677,000	23,786,000	.59
1998-6 mo. to Dec. 31	544,726,000	27,498,000	.68 <sup>a</sup>
1999-qtr. to Dec. 31	294,275,000	12,227,000	.30
1998-qtr. to Dec. 31	280,080,000	14,935,000	.37 <sup>a</sup>
<b>Logitech International</b>			
1999-9 mo. to Dec. 31	439,739,000	20,658,000	10.49
1998-9 mo. to Dec. 31	323,338,000	2,933,000	1.51 <sup>a</sup>
1999-qtr. to Dec. 31	185,425,000	14,886,000	7.47
1998-qtr. to Dec. 31	154,506,000	9,555,000	4.93 <sup>a</sup>
<b>LSI Logic</b>			
1999-year to Dec. 31	2,089,444,000	67,174,000	.46 <sup>c</sup>
1998-year to Dec. 31	1,516,891,000	(139,478,000)	-- <sup>a</sup>
1999-qtr. to Dec. 31	584,856,000	93,183,000	.63 <sup>a</sup>
1998-qtr. to Dec. 31	445,385,000	9,757,000	.07 <sup>a</sup>
<b>Media General</b>			
1999-year to Dec. 26	795,408,000	881,316,000	33.30 <sup>a</sup>
1998-year to Dec. 26	816,936,000	70,874,000	2.67
1999-13 wk. to Dec. 26	212,164,000	823,108,000	31.15 <sup>f</sup>
1998-13 wk. to Dec. 26	212,211,000	22,133,000	.83
<b>Musicland</b>			
1999-year to Dec. 31	1,891,828,000	58,380,000	1.65
1998-year to Dec. 31	1,846,882,000	38,033,000	1.10
1999-qtr. to Dec. 31	722,635,000	54,779,000	1.58
1998-qtr. to Dec. 31	699,906,000	50,025,000	1.42
<b>OpenTV</b>			
1999-year to Dec. 31	25,951,000	(9,324,000)	-- <sup>d</sup>
1998-year to Dec. 31	9,468,000	(14,338,000)	-- <sup>d</sup>
1999-qtr. to Dec. 31	8,394,000	(3,988,000)	-- <sup>d</sup>
1998-qtr. to Dec. 31	3,352,000	(3,711,000)	-- <sup>d</sup>
<b>PC Connection</b>			
1999-year to Dec. 31	1,056,704,000	22,730,000	1.45
1998-year to Dec. 31	732,370,000	18,644,000	-- <sup>g</sup>
1999-qtr. to Dec. 31	317,789,000	7,626,000	.48
1998-qtr. to Dec. 31	220,289,000	5,005,000	.33 <sup>a</sup>
<b>Rayovac</b>			
2000-qtr. to Jan. 2	214,800,000	13,900,000	.48 <sup>a</sup>
1999-qtr. to Jan. 2	160,500,000	10,000,000	.34 <sup>a</sup>
<b>SanDisk</b>			
1999-year to Dec. 31	246,990,000	26,550,000	.95
1998-year to Dec. 31	135,761,000	11,836,000	.45
1999-qtr. to Dec. 31	82,771,000	10,028,000	.33
1998-qtr. to Dec. 31	38,220,000	3,574,000	.13
<b>E.W. Scripps</b>			
1999-year to Dec. 31	1,558,766,000	146,933,000	1.86
1998-year to Dec. 31	1,454,555,000	131,214,000	1.62
1999-qtr. to Dec. 31	427,131,000	45,808,000	.58
1998-qtr. to Dec. 31	397,405,000	43,634,000	.55
<b>Sony<sup>h</sup></b>			
1999-9 mo. to Dec. 31	5,030,961,000	158,570,000	385.10
1998-9 mo. to Dec. 31	5,321,928,000	198,371,000	484.20 <sup>i</sup>
1999-qtr. to Dec. 31	1,916,009,000	93,628,000	222.60
1998-qtr. to Dec. 31	1,951,455,000	112,319,000	274.00 <sup>i</sup>
<b>Three-Five Systems</b>			
1999-year to Dec. 31	147,408,000	6,924,000	.67
1998-year to Dec. 31	95,047,000	2,590,000	.25
1999-qtr. to Dec. 31	50,041,000	4,489,000	.37
1998-qtr. to Dec. 31	29,314,000	875,000	.09
<b>Tribune Co.</b>			
1999-year to Dec. 26	3,221,890,000	1,479,990,000	6.16 <sup>a</sup>
1998-year to Dec. 28	2,980,889,000	414,272,000	1.63 <sup>a</sup>
1999-13 wk. to Dec. 26	828,384,000	129,973,000	.53 <sup>a</sup>
1998-13 wk. to Dec. 28	765,464,000	113,241,000	.46 <sup>c</sup>
<b>TRW</b>			
1999-year to Dec. 31	16,969,400,000	468,800,000	3.87 <sup>a</sup>
1998-year to Dec. 31	11,886,500,000	476,800,000	3.93 <sup>a</sup>
1999-qtr. to Dec. 31	4,625,300,000	223,900,000	1.84 <sup>a</sup>
1998-qtr. to Nov. 30	2,927,300,000	117,400,000	.98 <sup>a</sup>
<b>Univision Communications</b>			
1999-year to Dec. 31	693,100,000	80,900,000	.86 <sup>f</sup>
1998-year to Dec. 31	577,100,000	9,900,000	.11 <sup>d</sup>
1999-qtr. to Dec. 31	205,300,000	31,300,000	.31 <sup>f</sup>
1998-qtr. to Dec. 31	159,400,000	7,500,000	.08 <sup>a</sup>
<b>Zoran</b>			
1999-year to Dec. 31	61,674,000	6,659,000	.61
1998-year to Dec. 31	44,225,000	929,000	.09
1999-qtr. to Dec. 31	20,055,000	3,321,000	.29
1998-qtr. to Dec. 31	14,136,000	873,000	.09

Notes: <sup>a</sup>After special charge. <sup>b</sup>Adjusted; includes special items. <sup>c</sup>Adjusted; includes special credit. <sup>d</sup>Adjusted. <sup>e</sup>Includes special credit. <sup>f</sup>Includes special items. <sup>g</sup>Pro forma. <sup>h</sup>In thousands of Japanese yen, except per share. <sup>i</sup>Restated.