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AOL AND TIME WARNER TO OPEN CABLE LINES TO OTHER ISPs: Seeking to stave off federal regulation of broadband cable lines, AOL and Time Warner (TW) outlined "framework" Feb. 29 for offering "a choice of multiple ISPs" to TW cable subscribers once merger of 2 companies is consummated. Partners' 3-page Memorandum of Understanding (MoU) details their commitment to provide open access to rival ISPs, going well beyond earlier AT&T "template" agreement with MindSpring Enterprises. Companies said MoU, announced same morning as Senate began hearings on AOL-TW merger (see separate report, this issue), would greatly hasten "consumer adoption of cable broadband services."

FCC Chmn. Kennard, who has shied away from govt. regulation of broadband cable systems, hailed agreement as "a welcome development" and "a significant step in the right direction." In prepared statement, he commended companies for "their leadership" in finding business solutions to open-access issue. He said he would "keep a close watch to determine if we can continue to forbear from regulation in this area."

Public interest groups also praised voluntary agreement, generally terming it positive and encouraging step. But, skeptical of companies' long-term commitment to open access, most advocacy groups also renewed calls for govt. regulation of broadband lines. They argued that AOL and TW, like AT&T, couldn't be trusted to do something that ran counter to their competitive interests. Groups urged FCC to adopt MoU terms as regulatory requirements for all cable operators. Consumer Federation of America Research Dir. Mark Cooper said: "Our view is: Write this in the rules." Media Access Project Pres. Andrew Schwartzman said, "I've spent 28 years watching voluntary industry agreements disintegrate. Unless open access is made a basic standard with some enforceability, it's going to be downhill."

Consumer Electronics

NEW DVD REGIONAL CODES PLANNED for players and discs loaned or rented by airlines, hotels, others. Stronger encryption to be added. (P. 10)

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Announcement drew applause from other large cable and phone players as well, including AT&T, NCTA, Excite@Home who all contended that deal showed broadband marketplace was developing competitively and no further government intervention was needed. "This is further confirmation that the marketplace is where this issue... ought to be resolved," AT&T spokesman James McGann said. Dave Baker, EarthLink vp-legal affairs, said he was "encouraged" by MoU and said it now is time for AOL and TW to "put their money where their mouth is and work with EarthLink and other ISPs" on open access.

However, Portland (Ore.) Cable & Franchise Comr. Erik Sten called MoU "good step in right direction," but said he was "curious" why AOL still resisted basic govt. standards. Considering that AOL-TW MOU wasn't binding agreement, govt. standards are imperative for others in industry to follow AOL-TW example, he said: "Though it is inconceivable now, what happens if somebody buys them [AOL Time Warner] next year?"

Like AT&T letter with MindSpring 2 months ago, AOL-TW agreement pledged that cable customers would be offered choice of ISP without having to subscribe to any other ISP. MoU said they would provide "a broad choice among ISPs" and "not place any fixed limit on the number of ISPs" that they would carry. They also plan to encourage other cable operators to do same thing. Going beyond what AT&T pledged, AOL and Time Warner also promised to unbundle merged company's online access and content services, allowing independent ISPs to offer and bill Internet access directly to cable subscribers.

In other notable breaks with AT&T, companies said they wouldn't place any limits on video streaming and would seek to end Time Warner's exclusive contracts with Road Runner before those deals start expiring at close of next year. AT&T, which has similar exclusive deals with Excite@Home that start expiring at end of 2002, insists that it can't modify or break those contracts. "I think it shows how far off the mark AT&T was," said Greg Simon, co-dir. of OpenNet Coalition, group partly backed by AOL. "AT&T was really a fig leaf. This is really an oak tree."

NCTA Pres. Robert Sachs said he expects other MSOs to follow leads of AT&T, AOL and TW over next few months, although agreements are likely to vary. "This is an evolving business model," he said. "We'd expect further permutations as other companies negotiate deals." "With the number one and number 2 cable companies having made such a commitment, I think you'll find that that sets a trend for the industry," said AT&T Gen. Counsel James Cicconi. AOL-TW pledge "will force the issue" with MSOs, Arlen Communications Pres. Gary Arlen said. "A lot of shoes will drop. I think they're all going to have to look at this."

Analysts and officials also cited strong business factors for move toward open access. With cable modems now in 1.5 million homes in U.S. and 560,000 in Canada, according to latest estimates by Kinetic Strategies, experts said cable operators increasingly see booming market for unfettered high-speed online service. "The notion that there's lots more money to be made by not being exclusive has really taken hold among the financial wizards at major cable companies," Broadband Intelligence Pres. Cynthia Brumfield said. "There is this momentum independent of the public policy arena."

Adelphia Communications, Cablevision Systems and Charter Communications are considered most likely to follow AT&T and TW because they're largely unencumbered by exclusive deals with Excite@Home and Road Runner. But several also cited Comcast Corp., which, in spite of its exclusive carriage deals with Excite@Home, has made noises recently about opening its systems to unaffiliated ISPs. Spokesman for Cablevision, which ended 1999 with 52,100 cable modem subscribers, declined comment. Representatives of Cox, Comcast and Charter, which ended last year with 187,000, 142,000 and 65,600 cable modem customers, respectively, hadn't returned calls.

Road Runner declined comment on what AOL-TW announcement would mean for its high-speed online service, 2nd biggest in broadband market after Excite@Home's. In spelling out MoU, 2 companies stressed that they would explore idea of introducing other ISPs on TW systems before MSO's exclusive contracts with Road Runner expire at end of next year. TW, which started Road Runner 4 years ago and still co-owns service with Compaq, MediaOne and Microsoft, accounts for 320,000 (60%) of Road Runner's 550,000 subscribers.

CASE AND LEVIN PITCH ACCESS PLAN ON HILL: AOL Chmn. Steve Case and Time Warner (TW) Chmn. Gerald Levin, testifying before 2 Senate panels last week, resisted suggestions that Memorandum of Understanding (MoU) on open access should be applied as condition for approval of AOL-TW merger (see separate story, this issue). Privacy concerns also arose.

At Senate Communications Subcommittee hearing March 2, Sen. Bryan (D-Nev.) repeatedly drew attention to fact that last year Case testified before Senate Commerce Committee asking for "light touch" regulation mandating open ac-

cess, while now he was advocating market approach. Case insisted as he has elsewhere that his position hasn't changed, market has. When Bryan asked "what's wrong with incorporating [MoU] as law," Levin replied that "there's something even higher than the MoU and that's a sense of values." Over snickering among spectators, Levin said that beyond honest corporate culture of TW and AOL, senators could count on competition to ensure cable operators will want to maximize revenue by accommodating ISPs at fair rates.

Chmn. Burns (R-Mont.) called MoU "positive first step" but said he was concerned about its not being binding. Levin said "preexisting arrangements" (such as RoadRunner exclusivity deals) meant deal had to be in form of understanding, not contract.

Senate Judiciary Committee Chmn. Hatch (R-Utah) at Feb. 29 hearing compared MoU with "vaporware," saying document wasn't binding or definitive and was drafted "without any input from the competitor ISPs or consumers the parties profess to be championing." Sen. Feinstein (D-Cal.) also expressed concern that it wasn't binding. However, ranking Democrat Leahy (Vt.) called it "a good start at addressing these concerns."

Several members said that under conventional antitrust considerations merger had good chance of passage but said it raised special concerns. Hatch said some concerns would be resolved if parties accepted terms of MoU as condition of merger approval by FCC. Senate Antitrust Subcommittee Chmn. DeWine (R-O.) said deal "at first glance" doesn't pose antitrust problems, but "it's easy to believe that this deal is merely the opening round in a series of mergers and acquisitions... increasing the size and decreasing the number of competitors in each market." Senate Antitrust ranking Democrat Kohl (Wis.) said merger should pass "in whole or in large part" at FTC and FCC, but said combined company should be forced to sell AOL's stake in DirecTV: "A cable company shouldn't have a stake in a direct competitor."

At Communications panel Sen. Hollings (D-S.C.) said "we're seeing a tremendous merger of content and delivery" that to him suggested companies "are going right down the Microsoft route that got them in [antitrust] court." Sen. Dorgan (D-N.D.) said he was concerned about how media concentration would effect competition, as was Bryan. As Sen. Breaux (D-La.) put it: "Now more and more we have less and less, fewer telecom companies in America. How if you have less and less do you have more competition?" To extent Case and Levin addressed such concerns, they discussed how merged company would benefit consumers with multiple services.

"What the 2 of you are doing will have enormous ramifications for privacy policy," Sen. Wyden (D-Ore.) said. Bryan said privacy "is not a phantom issue... I hear from my constituents virtually every day" on subject. Case said question remained whether privacy was best dealt with in Congress or in market, although he noted that AOL had backed Child Online Privacy Protection Act. Sen. Rockefeller (D-W.Va.), like Feinstein in previous hearing, expressed concern that AOL's privacy policy required subscribers to opt out, rather than opting in, which means material wouldn't be disseminating until subscriber gave okay.

Hatch said he would hold "at least one additional hearing" on merger to hear from "consumer groups, technology and antitrust experts" and others. Burns had 2nd panel of scholars and consumer advocates. Consumers Union Washington Office Co-Dir. Gene Kimmelman said merger should "be substantially restructured under antitrust laws" and subject to "real enforcement through the FCC." Robert Lande of American Antitrust Institute suggested temporary congressional committee be formed to study media mergers, as he felt shift to media oligopoly left "too much control in too few hands." Burns suggested govt. might want to keep "hands off [of AOL-TW] until they show they're not a very good neighbor." Jerry Berman, exec. dir. of Center for Democracy & Technology, replied that by then "horses might be out the barn door," but he acknowledged that MoU is major step that companies didn't have to take.

Citing nonpayment of dues, NAB removed NBC from board seat. Action followed NBC request that NAB cut network's annual dues to \$200,000 from \$400,000. Network also has opposed NAB's continued support of TV ownership caps. In letter to NBC Vp Robert Okun, who held NBC seat, NAB Pres. Edward Fritts said group "had hoped to avert this situation," but said it's "extremely important that broadcasters speak, as much as possible, with one voice to support our common goals and values." NBC's WNBC N.Y.C. is more than 6 months in arrears on dues, official said, and other NBC stations are behind by varying amounts.

Cablevision Systems won highly sought \$23.4 million contract to provide broadband voice, video and data services to N.Y.'s Westchester County for 5 years. Outdueling such telecom giants as AT&T, Bell Atlantic and MCI WorldCom, Cablevision's Lightpath subsidiary said it would spend \$200 million over next 18 months building hundreds of miles of broadband connections. Cablevision, Westchester's biggest cable operator, said broadband network eventually could link more than 500 public buildings, as well as homes and businesses. Other public entities, such as cities of Mt. Vernon, New Rochelle and Peekskill, said they also may use Westchester Telecom network.

CCC BUYING SFX FOR \$4.4 BILLION: Clear Channel Communications (CCC) entered into yet another major transaction last week with acquisition of SFX Entertainment for \$4.4 billion in stock. Price includes assumption of \$1.1 billion in SFX debt. SFX says it's world's largest diversified promoter, producer and venue operator of live entertainment events — including 16 amphitheaters in top 10 markets and 120 other venues in 31 of top 50 markets.

SFX also is major, fully integrated sports marketing and management company, representing more than 650 professional athletes, and produces and promotes TV programs and motor sports shows in U.S. Deal "allows Clear Channel... to gain immediate leadership in the highly attractive live entertainment segment, while taking advantage of the natural relationship between radio [CCC owns and/or operates 867 stations] and live music events," CCC CEO Lowry Mays said. "Additionally, it creates an exceptional platform for Clear Channel to pursue initiatives relating to the Internet and music."

SFX Chmn. Robert Sillerman called deal "a classic win-win situation... There is no question that the combination with Clear Channel will accelerate our growth." Upon completion of deal, CCC said it will own radio stations and/or outdoor billboards "in virtually every U.S. market where SFX owns and/or operates live entertainment venues." Last year, SFX said more than 60 million people attended 26,000 events it promoted and/or produced — including 7,000 music concerts, 13,300 theatrical events (touring Broadway shows), 1,400 family entertainment shows, 520 specialized sports events.

Under terms of agreement, SFX Class A holders will receive 0.6 CCC common share for each SFX common, and SFX Class B holders will receive one CCC share for each SFX share on fixed exchange basis — to be set by closing prices of shares of both companies Feb. 29.

"Recent weaknesses" in Clear Channel stock "creates an excellent buying opportunity," said William Meyers, senior broadcast analyst, FleetBoston Robertson Stephens, in changing CCC recommendation to "buy" from "long-term attractive." He said CCC stock is down 25% this year and fell 11% following announcement of its acquisition of SFX Entertainment for \$4.4 billion. Despite drop, firm "has a consistent track record of above-average organic growth augmented with strategic and accretive acquisitions," Meyers said: "In our opinion, Clear Channel is the best-managed and most diversified independently owned, advertising-based media company, and clearly the most focused on shareholder value."

Meanwhile, Mays recently told analysts that CCC expects to announce within 4-6 weeks spinoff of more than 100 radio stations in acquisition of AMFM Inc. in \$65 billion deal (TVD Oct 11 p9) awaiting regulatory approval. He confirmed that concerns about size of deal have held up Justice Dept. approval, and that it also needs FCC okay. AMFM announced Feb. 29 that for quarter ended Dec. 31 it had consolidated net revenue of \$601 million, up 60.4% from same 1998 quarter, with operating cash flow of \$270.1 million, up 56.1%.

Gilat-to-Home (GTH) will subsidize proposed 2-way high-speed satellite service that will be sold through RadioShack and EchoStar for first 2 years, Chmn.-CEO Yoel Gat told analysts. GTH Internet access service will start in fall and subscribers will number in "few tens of thousands" this year, he said.

HOUSTON FIGHT DELAYED: Retransmission consent showdown between Time Warner and ABC in Houston was averted last week after Mayor Lee Brown brokered deal for 7-day cooling-off period to March 9 and resumption of "serious" negotiations. ABC Houston affiliate KTRK-TV (Ch. 13) had threatened to pull its programming from TW systems on expiration of latest extension March 3. Despite temporary truce, media giants continued to trade accusations on which should be blamed for logjam.

Retransmission fight in Houston is considered litmus case for disputes in other TW markets, including N.Y., L.A. and Milwaukee, where ABC gave MSO 30-day extension until March 31.

In Houston, both sides had made preparations for blackout, offering rebates for purchase of satellite dishes and free set-top antennas. KTRK-TV spokesman said station would go ahead with announced \$99 rebate program for first 1,500 subscribers to purchase DirecTV receivers because "we want to honor our deal." KTRK-TV offered rebate on purchase of DirecTV satellite dish and receiver to ensure "minimum disruption of service" to TW's subscribers threatened by "potential loss" of ABC signal. Spokesman said DirecTV also offered free standard installation to anyone activating service by May 5. In event of pullout, DirecTV also agreed to provide Houston subscribers with free local channel package, including KTRK-TV, until April 2, he said.

KTRK-TV spokesman was skeptical of TW's willingness to resume talks: "There is no guarantee that they will come back to the table, though our goal is to resume talks." TW spokesman, blaming KTRK-TV for breakdown in talks, denied his company refused to negotiate: "We didn't stop the discussions with them. They did not offer any proposal that was acceptable." He said parties had resumed negotiations.

Dispute centers on ABC's demand for carriage of Toon Disney and its new soap channel SoapNet as basic services and for move of Disney to basic from pay.

Meanwhile, TW received another 30-day retransmission extension from Hearst-Argyle TV, which owns several ABC affiliates, after expiration of last one March 2. Renewal of retransmission right is being held up by disagreement over Hearst-Argyle's demand for carriage of its cable channel Lifetime Movie Network.

Intelsat threatened to stop working with U.S. companies if "extraordinary meeting of parties" it has called decides that privatization bill in Congress violates Intelsat treaty. Conference report privatizing Intelsat passed March 1, Senate approved report March 2 and House is expected to adopt it this week. Conferees made some modifications to address White House concerns that national security use of Intelsat satellites could be compromised. In another change, Intelsat spinoff New Skies will have until July 1, rather than April, to hold initial public offering (IPO), with ability to extend it to July 31, 2001, if market conditions require delay. Intelsat board "wanted to come up with a backup plan in case the bill didn't go through the way we wanted it to," Intelsat External Affairs Vp Leonard Dooley said. "We are prepared to move operations and people to another country. We don't want to do that. We are hoping we can resolve all of the issues." Decision could cost U.S. "\$150 to \$200 million each year" in telecom services that it would lose to other countries, he said.

TV CLUTTER AT ALL-TIME HIGH: All TV dayparts reached record highs in nonprogramming clutter in 1999, according to study released at last week's AAAA media conference in Orlando. In network prime time last year, clutter increased 59 sec. per hour to record 16:43 min. and daytime clutter to 20:53 min. from 20:01. AAAA defines clutter as all nonprogramming content, including commercials, public service announcements (PSAs), promotions, closing credits and "other unidentified gaps within a commercial pod."

In 3 other TV network dayparts — news, late night and early morning — "equally strong overall clutter increases" were measured, said study by Competitive Media Reporting for AAAA and Assn. of National Advertisers (ANA): Network news clutter was up more than one min. per hour to 18:53 min.; late night to 19:06 from 18:13 min.; early morning up 39 sec. to 17:32 min. per hour. Findings are based on monitoring of 6 over-air and 19 cable networks, plus part of syndication market, for one week each in May and Nov.

AAAA said increased nonprogramming content "may impact the effectiveness of television as an advertising medium," and some of its members used much stronger language in decrying increase in clutter. Said John Mandel of Grey Advertising: "If the television industry doesn't recognize soon that they are killing the golden goose, they will lose the battle for the attention of consumers to their content and the attention of advertisers as the major advertising vehicle." Steve Grubbs of BBDO Worldwide said factors such as increased competition from cable aren't "the only culprits driving the erosion of network TV audiences. We don't see the same trend affecting the noncommercial pay-cable environment." While he said subject hasn't been measured, "I would suggest there is a direct correlation between the increase in clutter and a diminishment in the effectiveness of our creative campaigns."

Straight commercial time, as distinguished from other elements of clutter, continues to increase steadily each year, AAAA said, with networks collectively adding 9 sec. per hour last year in prime time to average 11:57 min., with local news becoming "least cluttered daypart" in 1999 for first time. Daytime continues as home of most commercials, averaging 15:52 min. per hour last year — up 54 sec. over 1998. For 2nd year in row, CBS-owned King World programming was "most cluttered" of syndicated shows. On cable side, Fox Family Channel was "most cluttered," averaging 18:03 min. per hour of nonprogram time; E! was 2nd in May with 17:19 min. and was replaced by MTV in Nov., also with 17:19 min. Trend toward airing of more PSAs continued on TV and cable networks in 1999, study found, although amount of PSA time wasn't given for either. Copies of *1999 Television Monitoring Report* are available for \$15 for AAAA and ANA members, \$35 nonmembers — 212-850-0777.



Wrapping up months of contentious debate over future of broadband access, group backed by Consumer Energy Council of America (CECA) urged policymakers to promote "vibrant competition" among broadband providers, "a nondiscriminatory access system" for consumers and "regulatory certainty and stability." In 88-page report issued March 2, CECA Broadband Access Summit largely steered clear of such controversial issues as open access and govt. regulation of broadband cable systems. Document, consensus of panel of more than 50, urged such relatively tame objectives as content and ISP choice for all consumers, greater policy coordination among federal, state and local officials, strong consumer protections for Internet users, more extensive broadband access for low-income and hard-to-reach consumers.

Canadian Webcaster iCraveTV was "simply unable to continue with protracted multifront litigation" battle with adversaries with "virtually infinite resources," Pres. Bill Craig said following Feb. 28 announcement that his company had ended legal war with broadcasters, sports leagues and other program rights holders. "Settlement" called for iCraveTV to stop streaming broadcast signals in exchange for copyright coalition's dropping lawsuits in U.S. and Canada — essentially full victory for MPAA-led coalition. Web site already had been shut down by restraining order (TVD Feb 14 p3) pending trial that wasn't expected for months. MPAA Pres.-CEO Jack Valenti said iCraveTV example would "serve as a deterrent to anyone who seeks to take that which they do not own." Webcaster had drawn ire of copyright holders by neither soliciting their permission nor compensating them for streamed programs. However, Craig continued to maintain that his activities "were perfectly legal under Canadian law." His position has been that Webcasting qualifies for compulsory copyright license under comparatively vague Canadian retransmission rules. He said settlement allows iCraveTV to resume what he referred to as "retransmitting broadcast signals" in Canada "once Canadian law is clarified." In meantime, Web site now will focus on negotiating licenses with rights holders to resume streaming video, he said. Craig said suit had benefit for company because it spurred development of "enhanced geographic screening technology, which we believe will have widespread applications in e-commerce." Restraining order required Web site to be able to verify users' location in Canada before offering content to prevent it from running afoul of U.S. law. iCraveTV "will be making further announcements about its screening technology and new broadcasting initiatives over the next few weeks," Craig said.

NTIA Dir. Gregory Rohde last week announced establishment of Wireless Innovations in Communications Initiative to boost sharing of federal spectrum and development of technologies to use spectrum. At news conference at CTIA convention in New Orleans, he said initiative must provide "mutual benefit" for govt. spectrum users and for industry if it's to be successful. Typically, he said, govt. has waited for inventors to propose new service, then has required them to go through process of getting approval to use shared govt. spectrum. New group, Rohde said, will "aggressively seek out" new ideas for spectrum use and help resolve sharing issues. He said Defense Dept., for example, could benefit from getting quicker access to new technology that it needs but that also has commercial application. Result could be more efficient use of govt. spectrum, Rohde said, which in long term could result in making more spectrum available for nongovt. users. Initiative will function primarily as subcommittee of govt.'s Interdepartment Radio Advisory Committee, which is composed of senior spectrum managers in federal agencies. Plan is to schedule series of meetings in which agencies discuss their wireless communications needs and developers of technologies make presentations to agencies. Committee's first meeting is scheduled for March 29.

Northpoint disputed allegations by rival satellite companies and Satellite Bcstg. & Communications Assn. (SBCA) that FCC favoritism had led to unfair advantage in battle over 12.2-12.5 GHz band. Rivals had indicated in letter to FCC Chmn. Kennard that Northpoint's refusal to submit proposal for independent testing could cause harmful interference to consumers and lead to loss of business. In statement, Northpoint said its testing hadn't interfered with DBS, no further testing is needed, and lack of harmful interference already had been confirmed by 3rd parties, including Lucent Technologies and FCC.

KENNARD URGES DEALS: In bid to free spectrum sooner for wireless communications, FCC Chmn. Kennard said he would "urge incumbent broadcasters to voluntarily negotiate" to leave Ch. 60-69 earlier than required. Deals would be with winners of spectrum auctions for those channels. Kennard told Cellular Telecom Industry Assn. convention in New Orleans last week that need for that spectrum now is "pressing" and marketplace deals would be quicker than FCC waivers to make it available to wireless services: "This is prime spectrum that can jump-start wireless competition to modems and DSL." But he said much of spectrum would remain unless "unless we let the market work."

Industry has even proposed private auction to run parallel to FCC spectrum auction for channels, giving broadcasters ability to auction right to move their programming from channels earlier. "This is a very interesting and creative idea that deserves consideration," Kennard said. "This is an important first step to the development of a true spot market for spectrum."

However, FCC Comr. Tristani didn't agree. She quickly issued statement saying that "pressing" broadcasters to leave Ch. 60-69 early might not be in public interest. She said Congress in 1997 Budget Act "specifically protected broadcasters" on Ch. 60-69 during DTV transition "in order to ensure that the public is not deprived of free, over-the-air broadcast service until the transition is complete. We ought to respect Congress's judgment."

Spectrum policy should be made by people who are familiar with spectrum issues and not dictated by budgetary needs, Comr. Ness said at convention. She said some of FCC's less successful spectrum auctions may have been affected by congressional mandates, which didn't provide agency with enough time to consider auction issues.

Allowing broadcasters to negotiate deals to leave Ch. 60-69 early is "at least one avenue we should explore" to make more spectrum available for wireless and other uses, Wireless Bureau Chief Thomas Sugrue told convention, and FCC also should get moving on setting rules for auctioning Ch. 52-59 following DTV transition, with rulemaking to be started by year-end.

FCC probably would move slower on auctioning broadcast spectrum if Congress hadn't set early deadlines for budget balancing reasons, Sugrue said. He said more time would give potential new bidders, including PC and Internet companies, opportunity to "look at" spectrum. Time limits are "pretty daunting" for them, he said, since they have to notify FCC of intention to bid by April 10. Commission also needs to have rules in place for re-auctioning returned spectrum by then, he said, since decisions on broadcast spectrum could be affected by availability of re-auctioned spectrum.

Agency should initiate next stage of auctioning broadcast spectrum next, Sugrue said: "It's not too early to start the process." He said that if it does begin process by end of year, and if Congress doesn't accelerate deadlines, there should be enough time for orderly process on auctioning Ch. 52-59.



RCN Corp. said Vulcan Ventures completed its \$1.65 billion investment in form of mandatorily convertible preferred stock that's convertible into RCN common at \$62 per share. Investment increased RCN's cash balance to nearly \$4 billion, CFO Timothy Stoklosa said.

Committee of FCC senior staffers unveiled process March 1 for completing merger reviews in 180 days unless snags occur. At forum at Commission hq, group issued proposed step-by-step "timeline" that's meant to make process "predictable and transparent." Although timeline would lead to completing reviews in 180 days, it includes several places where clock could be stopped. It starts with 45-day comment period, then public forum on day 60 if necessary, then agency "completeness review" on day 75 to determine whether it has all necessary information, analysis of record through day 110, applicant's submission of major revisions on day 110 if necessary, public forum or en banc hearing on those revisions on day 130, order issued on day 180. Clock could be stopped during completeness review at day 75 if more information were needed or at day 110 if major revisions were submitted. One team member, To-Quyen Troung of Cable Bureau, said allowing deadline to be extended could be favorable to applicants. She said hard-and-fast deadline might lead to more denials because there wouldn't be time to make changes so proposal would be more attractive to agency. Team members also urged applicants to speed process by making sure applications include complete list of all licenses that must be transferred. Deadline for public comment on new plan is March 21. House Telecom Subcommittee Chmn. Tauzin (R-La.) called FCC forum "preemptive strike" because he plans to hold hearing soon on 2 bills that would require deadlines for Commission merger review, said his spokesman Ken Johnson. Tauzin plans to combine those 2 bills, neither of which specifies actual deadline, although combined bill might do so. He said "you always have to be suspicious when an agency says it will reform itself."

Lee Enterprises said it "refocused its strategy in response to media trends" and as result plans to sell its 9 TV stations and 7 satellites and expand its holdings in publishing, online and information services. Trends cited by Lee include consolidation of station ownership, which Chmn.-CEO Lee Gottlieb said has led to conclusion that "relatively small size of our [station] holdings eventually would limit our ability to control our future." He said Lee, based in Davenport, Ia., retained Credit Suisse First Boston and McFarland Dewey LLC to solicit buyers for stations and is "evaluating several potential publishing and online acquisitions." Lee stations: KOIN (Ch. 6, CBS) Portland, Ore.; KRQE (Ch. 13, CBS) Albuquerque and 2 satellites; WSAZ-TV (Ch. 3, NBC) Huntington-Charleston, W.Va.; KSNW (Ch. 3, NBC) Wichita and 3 satellites; KGMB (Ch. 9, CBS) Honolulu and 2 satellites; KGUN (Ch. 9, ABC) Tucson; KMTV (Ch. 3, CBS) Omaha; KMAZ (Ch. 48, Telemundo) Los Cruces, N.M.; KSNT (Ch. 27, NBC) Topeka. Lee also owns 21 daily newspapers (most in medium-to-small markets) and more than 80 weeklies and specialty publications. Lee said TV stations accounted for \$122.5 million of company's \$536.3 million total revenue in fiscal 1999, and about 1,000 of its 6,200 employees are in broadcasting. Online investments include International Newspaper Network and AdOne Classified Network.

European Bcstg. Union (EBU) said it developed scrambling system that works with equipment used to transmit and receive satellite TV signals. Until now, EBU members and other broadcasters had to buy equipment from Tandberg TV to scramble signals over EBU network. EBU said they now can choose among manufacturers. It will test "first-level mode" of system March 26-April 7 and ITU will vote on specifications in Sept. Scientific-Atlantic, Tadiran Scopus, Tandberg TV and Thomson TBS are to test system later this month. Alcatel, Barco, Digital Vision, Divicom, Newtec and Tiernan also have conducted testing.

LOCAL-INTO-LOCAL DEBATED: Cable industry expressed strong reservations at NTIA roundtable March 2 about Goodlatte-Boucher bill (HR-3615) to subsidize technologies to provide local-into-local service DBS service to rural America. Cable officials said legislation would create unfair competition between cable and satellite industries by using \$1.25 billion in federal money to support satellite technology. Bill sponsors, Rep. Goodlatte (R-Va.) and Rep. Boucher (D-Va.) represent mountainous, rural areas and expressed interest in satellite technology as way to get local TV programming to rural areas.

"It's very important people have access to local programs," Boucher said, because 50% of residents of some areas can't receive affiliates of ABC, CBS, NBC. He said he's not aware of satellite industry plans to expand beyond market of top 66 cities, saying "Congress can't expect you to provide a service that's not economic." "There are some other technologies" that could be used to close digital divide, Boucher said, including Local Multipoint Distribution Service (LMDS), wireless cable, Webcasting. Bill, passed by House Agriculture Committee last month, would let such companies apply for funding. "There's a lot more you can do with Webcasting than with TV," said Eileen Galostian, vp-technology, Streampipe.com. Internet won't replace broadcasters, but there's future in hybrid, she said.

Cable doesn't oppose new technologies, Mediacom Communications Senior Vp-Operations James Carey said: "We have a problem with the government money which could hinder our business." He said money from Goodlatte-Boucher bill should be available to all technologies, including cable. Goodlatte said: "Incentives for cable are to be considered in this program."

"This is very analogous to what the government has done historically," Boucher said, referring to programs to provide electricity and phone service to all people in U.S. "This legislation is neutral," he said, and "to argue this is unfair competition is" bit much.

Satellite technology is more economic than cable, National Rural Telecom Pres. Robert Phillips said. That doesn't exclude other technologies, which could be part of group to provide local-to-local service in rural areas, he said. "I think it's satellite's turn to have [more] spectrum." Dennis Haarsager, assoc. vp & gen. mgr., KWSU-TV Pullman, Wash., said time has gone when "we can rely on one technology. Customers need to look beyond DBS." Pine Tree Cablevision Pres. Walter Kemmerer said, "there's a lot of room for everyone."

NAB Exec. Vp Charles Sherman said, "We think competition is very healthy. We're willing to be technology neutral at this point. [We'll] look at what is going to be the best thing to serve customers. We are willing to work with new technologies as long as we can abide by current laws."

Financials: Hearst-Argyle TV profit fell to \$15.8 million in quarter ended Dec. 31, from \$21.7 million year ago. Revenue grew to \$195.2 million from \$115.3 million because of acquisitions, and operating profit to \$60.9 million from \$45.9 million, but interest expense tripled to \$28.9 million... **Mediacom Communications** reported operating loss in quarter ended Dec. 31 increased 89.4% to \$28.4 million and revenue jumped 79.9% to \$62.8 million from year ago. For full year, operating loss widened 44.5% to \$78.1 million, as revenue rose 36.2% to \$176.1 million. Company said changes resulted in part from its acquisition activities.

NCTA Pres. Robert Sachs took issue with broadcasters on DTV-cable compatibility standards, saying "it's time for the broadcast industry to stop blaming others and start taking responsibility like the cable industry, to provide digital services that will attract viewers and persuade them to purchase digital sets." In letter to FCC Chmn. Kennard, Sachs said forcing cable operators to use scarce channels to provide digital channels that duplicate what already is being carried on broadcasters' analog channels would "do a disservice to consumers, cable program networks and cable operators. And it wouldn't do a thing to promote the transition to digital TV." Referring to agreement between cable and consumer electronics industries last week (TVD Feb 28 p1), Sachs said that, contrary to broadcasters' accusations, real progress is being made in transition to digital TV, and "it's largely the result of the efforts of the Commission, the cable industry and the consumer electronics industry." Cable industry wasn't part of any "bargain," as broadcasters charge, he said, and never has asked for, or received, any subsidy to upgrade to digital-ready status. Sachs said it was "somewhat of a stretch" for broadcasters to say they have honored their end of "bargain" they struck with Congress. "HDTV was the broadcasters' mantra when they were seeking additional free digital spectrum. But we are not aware of any major commitments on the part of the broadcast industry to use their digital channels primarily to provide HDTV," Sachs said.

In surprise move coinciding with AOL-Time Warner MoU (see separate story), Citizens for Lower Phone Bills withdrew its request for public vote on open access ordinance in St. Louis. Group, which had backing of AT&T, had collected more than 7% of registered voters' signatures for measure, which would have necessitated reconsideration of ordinance by Board of Aldermen. Paul Berra, AT&T regional dir. of franchising, said his company supported group's decision because "AT&T has been encouraged in recent weeks by indications that the City of St. Louis is prepared to undertake meaningful steps to renew the local cable franchise." He said group had decided to forgo its planned Nov. ballot initiative after consultation with AT&T. "If an agreement can be reached, AT&T contemplates upgrading its cable system in order to offer more programming choices," Berra said.

American adults spend more time watching TV every day than with radio, Internet, newspapers and magazines combined, according to new study by Bruskin/Audits & Surveys for TvB and The Media Center. Survey found that adults spend 253 min. daily watching TV, 128 min. listening to radio, 45 min. on Internet, 30 min. reading newspapers, 19 min. reading magazines. Of 1,003 respondents to telephone survey Jan. 12-15, 93% said they had used TV previous day, compared with 76% for radio, 63% newspapers, 42% magazines, 35% Internet. As for "most authoritative" ad medium, 49% said TV, 24% newspapers, 11% radio, 10% magazines, 6% Internet. TV also was cited by 52% as "medium where consumers were most likely to learn about products," magazines 17%, newspapers 15%, Internet 10%, radio 6%.

Several communications topics are on still-unfinished agenda of Consumer Assembly 2000 in Washington March 16-17. Luncheon speech first day of conference sponsored by Consumer Federation of America (CFA) is by House Telecom Subcommittee ranking Democrat Markey (Mass.), followed by 2 p.m. panel on "digital divide" including ex-NTIA Dir. Larry Irving and CFA Research Dir. Mark Cooper, 3:30 p.m. speech by FTC Chmn. Robert Pitofsky. Second day includes panel on privacy in Information Age. Conference will be held at Washington Plaza Hotel — 202-387-6121.

Sirius satellite radio signed marketing agreement with ATX Technology to add enhanced telematics functions and e-commerce options as part of In-Vehicle E-Commerce Initiative. In addition to Sirius's 100-channel radio service, drivers will be able to make purchases, filter for favorite programs, get traffic reports, receive navigational tools, operate vehicle functions by remote control. Sirius said service won't be available until 2nd generation of satellite radios arrives. Company is to roll out its satellite radio service by end of year. It has deals with BMW, DaimlerChrysler and Ford. ATX Technology contracts include Alpine, Ford, Infiniti, Jaguar, Lincoln Mercury, Mercedes Benz, Nissan.

Hughes Electronics announced March 2 it will buy stake in SkyPerfecTV of Japan, giving latter 2.1 million subscribers, including 400,000 from DirecTV. Hughes will end up owning 6.8% of SkyPerfecTV, whose operations will be suspended following purchase. Hughes spokesman said total cost of transaction has yet to be determined. "Although subscriber growth of DirecTV Japan was improving, we don't believe it was sufficient to achieve our corporate objectives of being the market leader in each of our key businesses while maximizing share value," Hughes CEO Michael Smith said.

High Speed Access Corp. began cable modem service in 17 new communities in 10 states, adding 175,000 homes passed to its overall footprint. HSA, which ended last year with 16,099 residential subscribers and 2 million homes passed, extended service to smaller systems owned by Cable America, Cable Management Assoc., Charter Communications, Classic Cable, Harlan Community TV, Suburban Cable, Watson Cable. CEO Dan O'Brien said HSA would continue to accelerate market deployments this year.

BSkyB and TiVo signed agreement Feb. 29 to retail set-top TV box capable of creating customized programming. Companies are jointly marketing and co-branding video recorders similar to box TiVo sells in U.S. Set-top box has hard disc that can store up to 30 hours of programming. Companies have yet to pick manufacturer. Pricing and distribution plans will be announced later. Venture with BSkyB is first international deal for TiVo.

DirecTV is reported negotiating possible merger with Sky PerfecTV in deal that could result in major consolidation of untapped Japanese satellite TV market. Sky PerfecTV is largest digital satellite TV broadcaster in Japan, with shareholders that include News Corp., Softbank, Sony. News Corp. also reportedly is talking with Microsoft, Yahoo and other companies on purchasing minority stakes in new satellite company being created. Microsoft and Yahoo had no comment.

Senate Commerce Committee scheduled several hearings, at full and subcommittee level, after languid pace so far this session compared with other panels. None of hearings will be presided over by Chmn. McCain (R-Ariz.), currently on Presidential campaign trail, but instead by designated replacements, committee said. Confirmation hearing for FCC Comr. Ness March 22, for example, will be chaired by Sen. Burns (R-Mont.).

NBC said it acquired minority stake in Digital Entertainment Network as part of online company's recent \$24 million private financing. NBC didn't reveal its expenditure or percentage it acquired, but said it's paying in both cash and TV ad time. Other partners include Enron and Intel.

NBC Internet (NBCi) started NBCi.com Web site, portal catering to high-speed users who it said make up 9.3% of its home users. It said it has deals with DSL and cable providers that are carrying customized versions of site. Content comes from 23 partners, including NBC and NBCi affiliates such as MSNBC.com and SnapTV. Company said ads for Web site will run later this year on NBC in all time slots and on ClearChannel radio stations.

Cable operators lost another round in their legal battle to overturn open access ordinance of Broward County, Fla., with U.S. Dist. Judge Donald Middlebrooks, Miami, dismissing petition by Advocate Communications, Comcast Cablevision, MediaOne and TCI for summary judgment that law violated their First Amendment rights. Middlebrooks earlier had thrown out all but one of 7 counts in lawsuit brought by cable companies against county's ordinance, letting stand only First Amendment claim.

Pegasus reached agreement to use Liberate TV platform to deliver interactive TV services to DBS subscribers by end of year. Pegasus has 1.1 million subscribers in rural areas with population it puts at 30 million. "Our agreement with Liberate is an important step in our effort to introduce a broadening array of advanced digital services," it said.

As result of what it sees as "unprecedented growth" of business transactions on Internet, NAB has added April 11 session at 9 a.m. to its Las Vegas convention agenda titled "Electronic Commerce: It's E-Business or No Business." Session will be keynoted by NTIA Dir. Gregory Rohde, with other participants to be announced.

NCTA named Peggy Binzel exec. vp, replacing David Krone, who left for Global Crossing's GlobalCenter division in Feb. after only few months in job. Binzel, who will join NCTA March 27, has been News Corp. senior vp-govt. relations in Washington for more than 4 years. Earlier, she was News Corp. vp-govt. relations and before that Turner Bctg. dir.-govt. affairs. She also worked as legislative staffer on Capitol Hill for 9 years.

CTAM will host March 10 digital and pay-per-view conference at Century Plaza Hotel, L.A. Participants include John Sie, Starz Encore Media Group; Curtis Symonds, Black Entertainment TV; Morgan Guenther, TiVo; Allan Thygesen, Wink Communications; Dave Watson, Comcast; Michael Willner, Insight Communications — 703-837-6546.

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Personals

Craig Hunegs advanced to exec. vp, Warner Bros. TV... WB promotions: **Dana Abel** to vp-finance & accounting, **Jody Horwitz** to vp-human resources... **Dennis FitzSimons**, exec. vp-media operations, Tribune Co. and pres. Tribune Bcstg., elected to board, Robert R. McCormick Tribune Foundation... Advanced TV Technology Center board changes: **Howard Miller**, chmn., replaced by **Edward Caleca**, PBS senior vp-technology & operations; **Robert Hopkins**, vice chmn., replaced by **Philip Livingston**, vp-strategic technical liaison, Panasonic Bcst. & Digital Systems.

Daniel Webster, ex-KPIX-TV San Francisco, appointed vp-west coast, FeedRoom... **Todd Romero**, ex-KUSA-TV Denver, named news sports dir., KSHB-TV Kansas City... **Gene Chao**, chmn., appointed CEO, National Captioning Institute, succeeding **Bill Merriam**, who returns to his exec. consulting practice... **Kevin Klose**, pres., National Public Radio, speaks at March 30 National Press Club lunch.

Mindy Herman, ex-Demand, named CEO-pres., E! Entertainment TV Networks... AT&T Broadband leadership team additions: **Joseph Bagan**, senior vp-chief information officer; **Jodi Heady**, senior vp-media services... **Que Spaulding** promoted to pres.-distribution, Starz Encore Group... **Robert DeBitetto** advanced to pres.-original programming, Turner Network TV (TNT)... **Art Bell** advanced to exec. vp-programming & mktg., Court TV... A&E TV Networks promotions: **Brad Westerman** to vp-national sales mgr., L.A., Detroit, Chicago; **Macie Huwiler** to vp-ad sales, Midwest... **Brad Shipp**, ex-Fleet Financial Group, named dir.-information technology, Cox... **Richard Turner** promoted to exec. dir.-business affairs, programming, Starz Encore... **Perry Tanner**, Scientific-Atlanta corp. officer & pres.-Media Networks Div., adds vp-mktg., replacing **Steve Necessary**, named CEO, PowerTV... **Steven Jones**, ex-Academy of Managed Care Pharmacy, named exec. dir.-administrative offices, Cable TV Public Affairs Assn (CPTAA).

Fred Yentz, Enterprise Systems Div. Radisys, elected chmn., MultiMedia Telecom Assn. (MTA); **John Ahearn** advanced to vice chmn... **Niel Bainton**, ex-Security First, appointed dir. & vp-mktg., mp3radio.com... **James Ashurst**, ex-American Society of Travel Agents, named communications dir., Satellite Bcstg. & Communications Assn.

Citing increased consumer demand, Scientific-Atlanta (S-A) is boosting manufacturing capacity of its Explorer line of digital cable set-top boxes. S-A said it will increase capacity at its Juarez, Mexico, plant to one million set-tops per quarter by early June, from current 800,000, to relieve backlog of orders. Thanks to pent-up demand, company said it expects to ship 1.15 million digital boxes in first half.

Mediacom Communications plans to start digital cable service in 5 more markets this month, including smaller cities in N.C., Minn., Miss. With 5 launches, Mediacom will be pitching digital cable in 17 markets with 200,000 basic subscribers and more than 300,000 homes passed. Mediacom, which has 747,000 basic subscribers in 21 states, said it intends to offer digital to at least 50% of customer base by year-end.

Evans Bcstg. is buying KNVN (Ch. 24 NBC) Chico, Cal., and low-power K18AO Oroville from Grapevine Bcstg. for \$9.2 million. Evans also obtained local marketing agreement for KNVN.



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Belo exercised option to acquire KONG-TV (Ch. 16, Ind.) Everett-Seattle and KASW (Ch. 61, WB) Phoenix for \$16.1 million cash. Belo, which owns KING-TV Seattle and KTVK Phoenix, currently operates stations under local marketing agreement. Acquisitions give Belo ownership of 18 TV stations covering 14% of U.S. TV households.

Deadline for comments on FCC rulemaking on measuring broadcast signals for Satellite Home Viewer Improvement Act purposes has been delayed to March 14 from March 7, Commission said. Extension was sought by major network affiliate groups.

Consumer Electronics

A Section of *Television Digest* with *Consumer Electronics*

STATE OF THE INDUSTRY

Sales to dealers, from CEA, for week ending Feb. 18 and year to date:

	FEB. 12- FEB. 18	1999 WEEK	% CHANGE	FEB. 5- FEB. 11	7 WEEKS 2000	7 WEEKS 1999	% CHANGE
TOTAL COLOR TV.	514,077	430,778	+ 19.3	411,016*	2,936,658*	2,720,549	+ 7.9
DIRECT-VIEW**	487,610	409,552	+ 19.1	389,578*	2,781,134*	2,604,738	+ 6.8
TV ONLY#....	410,987	352,832	+ 16.5	323,492	2,389,187	2,259,667	+ 5.7
TV/VCR COMBO.	76,623*	56,720	+ 35.1	66,086	391,947*	345,071	+ 13.6
PROJECTION....	26,467*	21,226	+ 24.7	21,438*	155,524*	115,811	+ 34.3
TOTAL VCR**....	263,463	277,076	+ 4.9	344,889	2,244,993*	1,960,461	+ 14.5
HOME DECKS...	216,840	220,356	- 1.6	278,803	1,853,046*	1,615,390	+ 14.7
CAMCORDERS (a)...	53,016	28,948	+ 83.1	58,183*	461,727*	297,706	+ 55.1
DVD PLAYERS....	76,184*	23,592	+222.9	54,508*	555,334*	180,419	+207.8

Direct-view TV 5-week moving average#: 2000-394,242; 1999-361,419 (up 9.1%).

Projection TV 5-week moving average: 2000-25,576*; 1999-19,132 (up 33.7%).

VCR deck 5-week moving average: 2000-319,554; 1999-255,070 (up 25.3%).

TV/VCR 5-week moving average: 2000-66,079*; 1999-57,426 (up 15.1%).

Camcorder 5-week moving average: 2000-76,034* 1999-46,644 (up 63.0%).

DVD player 5-week moving average: 2000-92,013*; 1999-29,772 (up 209.1%).

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

DVD REGIONAL CODING HAS 'TWILIGHT ZONES': As DVD rollout proceeds worldwide, work is in progress on new regional codes that won't be tied to geographic areas. Instead, discussion document circulating among studios and CE manufacturers proposes additional Regions 7 and 8 — at least one of which will be dedicated to commercial uses such as airline and hotel viewing and other emerging applications.

Specifications aren't complete and applications still are amorphous. Few studio or manufacturing executives we polled had more than vague acquaintance with issue, let alone plans or timetable for introduction. Among studios, only Universal Studios Home Video expressed commitment to exploit new regional code for emerging commercial markets. "Region 8 is for airlines. We will be providing Region 8," spokesman told us.

Region 8 products will have 2nd-generation encryption system called Content Protection for Prerecorded Media (CPPM), now being developed for DVD-Audio and other uses following hacking of current Content Scrambling System (CSS). But source familiar with deliberations told us different encryption system for Region 8 already had been planned before CSS was breached — for reasons of distribution.

To reduce incentive for theft, airlines want "special purpose" DVD player that can't be used to play current Regions 1 to 6 discs, source explained. Same applies to disc itself, which wouldn't be playing in current consumer DVD equipment. Different encryption and regional code also is desirable because movies made available through commercial channels would be so-called "early window" releases that might not yet be available to home video market in any DVD region.

Addition of Regions 7 and 8 first emerged as proposal in year following DVD debut, we're told. There has been little progress on issue as studios and vendors pursue rollout through current 6 geographic regions. In fact, there currently is no application for Region 7 that we could determine. Sources uniformly told us it's so far unallocated and being held "in reserve." We broached issue with industry executives after discovering codes for Regions 7 and 8 in "loopholes menu" of Apex brand DVD player.

Meanwhile, airlines are evincing stronger interest in DVD format. American Airlines last week broadly expanded policy of distributing portable DVD player and selection of 20 discs as first-class perk. Airline began practice on selected flights in Sept. but now has expanded it to wide roster of international and domestic long-haul trips. Loaner for first-class customers is Panasonic portable with 5.8" LCD screen, along with Bose noise-canceling headphones. Separately, we're told retailers and distributors are doing boom business in portables of all brands, selling them to operators of airport kiosks that rent DVD players and discs.

Regional coding has been expanded in past. Before DVD launch, 4 and then 5 regions were proposed. Region 6 was added for mainland China toward end of DVD Consortium's deliberations. It's possible that new Region 7 could be used as buffer zone in event piracy, transshipping or parallel import concerns arise in existing regions. Fear of parallel imports was among reasons for shifting Mexico to Region 4 from Region 1 (Canada and U.S.). May 1, 1996, letter circulated among consortium said Mexico was excluded "to protect the U.S. market from imports, since many Mexican DVDs may require lower pricing than the U.S. due to lower per capita income."

Sanctity of regional coding has been breached from outset. In U.K. alone, we counted 14 decks last week that can be reset to remove regional coding (see separate report, this issue). Latest instance in U.S. is Apex-brand DVD player that has "loop-holes menu" to reset regional codes, defeat Macrovision copy protection and turn off CSS encryption (TVD Feb 28 p11).

That Apex deck probably won't be on market much longer. Source familiar with operations of DVD Copy Control Assn. (DVCCA) told us group approached Ontario, Cal.-based Apex Digital and its OEM in China last week, and manufacturer said it would change player to be in compliance with licensing requirements. Suppliers of key components also were contacted by DVCCA, as was retailer Circuit City (CC) — primary outlet for Apex AD-600A. Source told us suppliers and retailers were informed of deck's illicit operation, and CC was asked to use its leverage with supplier to make player street-legal. Issues such as disposition of remaining inventory or decks in transit hadn't been resolved yet, source said.

* * * * *

Addendum: Following information was omitted from last week's report on Apex AD-600A (TVD Feb 28 p11) and should have followed paragraph beginning "Menu modifications worked as reported...":

Meanwhile, defeating CSS seemed self-defeating. Variety of Region 1 and 2 discs we tried failed to play correctly without CSS decryption. Typical symptoms of scrambling included stuttered audio accompanied either by no picture, or by fragmented and pixelated images. These, like occasional clear frame, ultimately froze onscreen — and image wouldn't change when movies were advanced to subsequent chapters on discs, although in some cases stuttering soundtrack did advance. Exception to failed playback was PAL version of *Bean* (Polygram), which ran just fine with CSS turned off. Although labelled Region 2, disc in fact has no regional coding — rare for big title from major studio though not unusual for budget titles from smaller labels. Other DVDs lacking regional coding, including test discs and samplers, also played properly with CSS turned off. When CSS was restored, all discs played correctly. As expected, setting of CSS function had no effect on performance of VCDs or audio CDs of any type, including MP3-compressed discs.

TV GLASS SUPPLIERS TO SEEK PRICE INCREASE: TV glass suppliers are likely to seek 5-8% increase in prices as they struggle with severe panel shortage brought on by boost in demand for flat-screen tubes and 10% rise in 32-36" sets, industry officials said.

Shortage, which is estimated worldwide at 200,000 tons, is stunning reversal from year ago when glass companies were battling oversupply issue that forced Corning Asahi Video to close State College, Pa., plant temporarily (TVD Aug 2 p13). Techneglas year ago also sought 15% increase in pricing for projection TV glass (TVD Jan 25/99 p13), but later settled at 10%.

Shortfall is leading Corning and Techneglas to weigh abandoning production of 19-20" panels as they seek to focus on larger sizes and shed category that industry sources said has "double-digit" negative margins. Techneglas won't produce 19-20" this year, while Corning will continue to fulfill preexisting contracts, officials of both companies said. Even larger sizes are "marginally profitable," they said.

Techneglas will seek 5-8% increase and Corning is likely to pursue "more than 5%" in 2001, companies said. "There really is a need for an increase to stop the bleeding," said Techneglas Sales & Mktg. Vp Lawrence Weaver, whose company along with Corning spent millions in mid-1990s to expand capacity for larger sizes. "We have suffered severe price erosion in 19 and 20-in. and we need an increase to help retire debt" from cost of plant expansion. In face of pull-back by Corning and Techneglas from 19-20" panels, demand may go "unsatisfied," said Weaver, noting that other potential suppliers of midsize glass, such as Samsung, largely build for own consumption.

Principle cause of glass panel shortfall has been increased demand for flat glass, industry officials said. Technology, which has been around for years, caught fire in 1998 with Sony's introduction of Wega TVs, and its competitors have rushed to join market. Because flat panels use 25-40% more glass, they strain capacity of most plants for conventional models, industry experts said. Corning, for example, typically relies on Asahi glass operations in Japan to provide additional capacity. But with demand for flat glass increasing in Asia and Europe as well as U.S., additional production has vanished, Corning Commercial Operations Dir. Alan Herklotz said. Corning is weighing adding flat glass to mix at State College plant, but isn't likely to start production until 2001, he said. Techneglas currently provides some flat glass for Sony Wega sets.

"The flat-glass situation is having worldwide impact because the people we have been able to rely on in the past don't have additional capacity," Herklotz said. "We are just totally filled up and asking for more supply."

TV tube makers said market already has seen some spot shortages in 25-27", and brunt of impact is likely to be felt in 2nd half of year. Tube makers we canvassed said they hadn't reached final decision on whether to pass on increase to customers. But Thomson already has moved to impose 5-10% increase in tube prices in Latin America, N. American Tube Div. Vp Thomas Carson said. "The problem is that it's [rise in glass prices] a big increase and I'm not sure we can absorb it all," he said. "It's a big dollar increase and the 2nd half of the year could be extremely tight."

ITA ASKED TO REVOKE TUBE TARIFFS: Commerce Dept.'s International Trade Administration (ITA) is weighing request to revoke duties that have governed picture tubes imported from Japan, Korea and Singapore for 13 years and that were applied during height of antidumping battles (TVD June 29/87 p17).

ITA's 1987 ruling applied stiff dumping margins on tubes built largely in Far East and helped lay groundwork for major shift of production to plants in U.S. and Mexico. Indeed, while imports surged to account for 26% of U.S. picture tubes in 1986, amount is now negligible since most Japanese and Korean manufacturers localized production in face of sharp pricing for TVs. ITA, which heard testimony in late Feb., is expected to issue decision in April.

"The Japanese and Korean manufacturers have moved to local markets and in the global market localized production is what most major companies are doing," said Toshiba Senior Engineering Mgr. Michael Milostan. His company was hit with 33.5% dumping margin in 1987 and since has moved tube production to Horseheads, N.Y., and assembly to Lebanon, Tenn.

But Thomson, along with glass suppliers Corning-Asahi and Techneglas and IBEW, which filed original complaint along with 4 other unions in 1986 (TVD Dec 1/86 p11), have argued that duties should remain in place. Thomson said emergence of widescreen digital TVs (DTVs) has raised specter of dumping again. Thomson is sole widescreen tube (38W, 34W) manufacturer in U.S., with rest of 16x9 tubes being imported from Japan and Korea, said Thomson N. American Tube Div. Vp Thomas Carson. In addition to widescreen, industry officials said Korean manufacturers including Daewoo, LG Electronics and Samsung have capacity for 14-20 million conventional tubes, but domestic market for 3 million. In Japan, meanwhile, capacity exceeds domestic demand by 2 million, although precise figures weren't available.

"We would prefer that our Japan and Korea-based customers that are here in North America make picture tubes rather than an arbitrary decision be made in Tokyo or Seoul to utilize some of the unused capacity that exists in Asia," Techneglas Pres.-CEO Timothy Hickey said. "Only one company has invested in 16x9 in the United States and all the players that are covered by the dumping order have the capacity, but it's not in the NAFTA [N. American Fair Trade Act] area. The perplexing thing is going to be that if the ITA looks at the raw numbers, they won't see very many imports at all, but there is an opportunity to do that in the future."

Hardest hit under original order were Toshiba (33.5%), Matsushita (32.91%) and Hitachi (22.29%), followed by Hitachi Electronic Devices of Singapore (5.33%), Samsung (1.91%), Matsushita (1.34%), Mitsubishi of Canada (0.65%). Roster has changed dramatically since original decision. In addition to Toshiba, Matsushita (Troy, O.), Hitachi (Greenville, S.C.) and Samsung (Tijuana) all have established tube plants in N. America. Mitsubishi, meanwhile, has quit direct-view tube business (which it largely built in Canada and assembled in Barzelton, Ga.), but continues to assemble projection TVs in Mexico. Companies also have shown signs of expanding production. Samsung is expected to add capacity for 25-27" tubes at Tijuana plant in April in addition to 19-20" already produced there.

But none of Japanese or Korean manufacturers have made commitment to add widescreen in N. America. Thomson is building 38W and 34W sets at Marion, Ind., plant and is weighing addition of 32-34" flat-faced tubes at factory in Mexicali, Mexico, Carson said. Philips, which has remained neutral in ITA case, also is weighing production of 16x9 at its Ottawa, O., facility.

SONY EXTENDS DTV, DVD, DV CAMCORDER LINES: Full-court press on DTV front and expanded roster of DVD-based home theater systems were highlights of Sony's 2000 line showing in N.J. last week. Company also added new MiniDV camcorders and introduced series of Walkman CD portables with innovative system that prevents skips and interruptions induced by vibration or shocks.

New DTVs include 2 direct-view and 4 rear-projection sets, all with integrated DTV tuner/decoder. Line is split evenly between 16:9 and 4:3 aspect ratio sets — but even latter display full 1080i HD resolution within letterbox image. Direct-view sets include 34" widescreen (\$5,500) and 36" model (\$5,000), each with flat Wega CRT. Widescreen projection models are 57" and 65" at \$6,000 and \$7,000, respectively, while 4:3 DTVs come in 53" (\$5,500) and 61" (\$6,500) sizes. Vic Pacor, Sony senior vp TV-digital media, pointed out that letterbox area within 4:3 sets is virtually same size as full-screen picture on 16:9 DTVs.

Same is true of 53" and 61" HD-ready models (\$3,200 and \$3,700) in new HiScan (HS) line. Pacor told us it's not certain how consumers will react to viewing 4:3 pictures between vertical bars on widescreen set, so Sony will field broader line to gauge reaction. HD-ready HS sets will display 1080i or 480p signal from outboard DTV decoder connected through HD component video inputs. Like Sony's HD sets, they also have Digital Reality Creation (DRC) circuitry that upconverts NTSC 480i images to 960i. But they lack IEEE-1394-based connector with Digital Transmission Content Protection (DTCP) that Sony has vowed to incorporate on all DTV sets and other digital video devices (TVD Feb 28 p10, Jan 10 p11).

Pacor told us little progress was made on DTCP issue in recent meetings with major Hollywood studios. So far, only Sony Pictures and Warner Bros. have endorsed DTCP, although neither has stated specific plans on movie releases for DTV broadcast. Studios have been sitting on DTCP proposal for more than year, with some insisting on copy protection system that goes beyond home network and prevents retransmission over Internet. In other TV product introductions, Sony is adding 13", 20" and 24" models to flat-tube Wega line (\$330, \$450 and \$600, respectively). Aiwa earlier introduced flat-screen 24" but doesn't use Sony's Wega tube. Pacor said Wega sets 27" and larger will have component video inputs while 32" and 36" add DRC.

New skip-proof CD Walkman doesn't need buffer memory currently used to ensure playback continuity when players are used for jogging or other applications where vibration could interrupt music. Instead, new Sony models with G-Protection have sophisticated laser pickup servo that tracks disc through unwanted movement in vertical and lateral planes. Fringe benefit of dispensing with buffer memory is longer battery life, as there no longer is need to siphon juice for memory. Sony said that and other improvements in laser pickup extend battery life in top-shelf model to 76 hours, and 32 hours in entry-level CD Walkman — double previous models. Laser servo mechanism is 60% smaller than current version, permitting portable as small as half-inch thick with diameter not much greater than CD itself.

Besides announcing G-Protection technology, Sony Electronics Pres. Fujio Nishida said company is out to expand awareness of digital audio among "Generation Y" through "new multimillion-dollar advertising campaign" that will kick off later this year. Campaign is designed to "reinvigorate the power of the Sony Walkman brand," he said.

Despite popularity of CD recorders over past year, Sony still has opted to stay out of that arena and is continuing to concentrate on its MiniDisc (MD) format. New on that front were company's first 2 Walkman packages that allow recording of CDs or Web audio files onto MD. Packages consist of 2 of company's previously introduced MD Walkman player/recorders — pocket-sized MZ-R55 and MZ-R37 — that come bundled with Internet Audio Recording Interface allowing for easy connection to PC. MZ-R55PCIF bundle is \$280, while MZ-R37PCIF is under \$200.

Only thing new from Sony on DVD front was full line of DVD-Video home entertainment systems that join its already introduced DAV-S300 "DVD Dream System." Line now includes 8 systems, each with DVD player, Dolby Digital processing, 6 speakers. SA-VAD900 Sava system, shipping in July at \$1,000, includes 5-disc DVD/CD changer and built-in amps and subwoofer. Company added DVD to 2 "Home Theater in a Box" packages — HT-5000D with 5-disc DVD changer (Aug., \$800) and HT-1200D with single-disc DVD player (May, \$700). Sony also added DVD to 3 rack systems shipping in June: DAV-L8000 at \$1,000 with silver components, including single-disc DVD player, designed to complement company's Wega TVs; R-7000 with 5-disc DVD player and high-speed dubbing cassette deck, also at \$1,000; R-6000 with single-disc DVD player at \$800. Also new is DHC-ZX70DVD minisystem (July, \$700).

Although Sony has thrown its support behind DVD+RW platform for PC-based applications, it has yet to select recordable platform for its CE hardware, Sony Senior Home AV Mktg. Vp Mike Fidler told us last week. Company continues to feel that ability for recordable DVD hardware platform to address HDTV broadcasting is of primary importance and doesn't see point of coming out with "interim solution," he said, noting that "you're going to need a 20 to 30 giga-

byte format" to do HDTV recording justice. Common denominator of most current recordable DVD proposals is that they will use rewritable discs that have capacity of only 4.7 GB, which Sony feels is not nearly enough (TVD Oct 25 p11). On that front, Fidler said "we're getting much, much closer" to being able to achieve that, referring to optical HDTV DVD recorder Sony is developing that company claims will offer single-sided capacity as high as 20 GB. Fidler also said Sony's position on DVD-Audio remains same: It's concentrating on Super Audio CD but isn't ruling out DVD-Audio products at some point in future.

New hi-fi components from Sony include CDP-CX400 CD megachanger at \$299 and step-up CDP-CX450 at \$399 that adds Graphic User Interface with dedicated monitor output and 2-way remote with LCD that lets user see disc titles. Both ship in June. New features this year on megachangers also include artist name search function, included in both. CDP-CX335 will replace current CDP-CX300 next month, HiFi Components Mktg. Dir. David Bent told us.

Bent said Sony also has strengthened its receiver line this year in recognition of what company sees as "tremendous potential in the industry" because of DVD growth and still-untapped market among consumers to upgrade their systems from Pro Logic to Dolby Digital. This year's line includes 4 Dolby Digital/DTS models — up from 2 Dolby Digital/DTS and one Dolby Digital-only models that Bent said were introduced last year. This year's line has price range of \$249-\$499 and is headed by top-of-line STR-DE945 that ships in June.

Sony also unveiled new line of Mini DV camcorders including top-of-line DCR-VX2000 — successor to DCR-VX1000 — with new 3-chip CCD system that company said records up to 530 lines of horizontal resolution. New model also now allows user to capture digital still images either direct to Memory Stick media or from single frame of video footage. Additions on new model also include 200,000-pixel 2-1/2" plasma LCD monitor. It ships in May at about \$3,000. Also in new line are 2 models compatible with Memory Stick media as well — DCR-TRV20 with mega-pixel CCD and 3.5" SwivelScreen color LCD at \$1,700, and DCR-TRV11 at \$1,300. Both ship next month and, like DCR-VX2000, come packaged with 4 MB Memory Stick. DCR-TRV6 entry-level model minus Memory Stick compatibility ships in April at \$1,100.

Also last week, Sony launched Musicclub Web music portal at www.sony.com/musicclub. Portal is being touted by Sony as "one-stop shop" for Internet music, where consumers can get latest music news, artist information, access to secure downloadable music, packaged CDs. Although Sony designed portal as complement to its latest digital music player hardware, Senior Personal Digital Products Mktg. Mgr. Richard Armstrong said it can be accessed and used by anybody regardless of brand of their hardware. Sony said portal includes links to more than 300 Web sites where music can be downloaded. It also links to affiliated sites including Listen.com for content, Launch.com for music news, Sony-affiliated CDNow for purchase of prerecorded music.

Extent of home copying of pay-per-view (PPV) programs in U.K. and France is subject of study released last week by copy protection vendor Macrovision. It said 47% of respondents who had purchased PPV programs in past year admitted to copying at least one, while 11% said they had copied 10 or more programs. "Most vulnerable" genre was newly released movies, Macrovision said. Survey found 62% of respondents said PPV movie was program they were most likely to videotape. Sports was next most popular, at 14%. Macrovision said unauthorized copying of PPV movies transmitted without copy protection had potential to cannibalize content owners' revenue from packaged goods home video. It said copying rate was higher in France (60%) than in U.K. (41%) because French PPV programs aren't copy protected, whereas substantial percentage of PPV in U.K. is Macrovision-encoded — including all PPV from satellite service BSkyB. Extent of home copying could be even greater than survey suggests because of "relatively high proportion" of respondents who refused to answer questions, Macrovision said. Survey didn't cover U.S., but Macrovision executives recently conceded that copy protection hasn't been activated by any U.S. satellite broadcasters (TVD Feb 21 p21). DirecTV in past has said that Macrovision activation is available at request of content owner.

Stereo sound was feature in 53.6% of analog color TV sets sold in Jan. (excluding projection and VCR combos), up from 52% in same month year earlier, CEA reported. In Jan., total color set sales declined 1.5%, while stereo sound sets rose 1.4% to 730,097 from 720,105.

Hurt by disappointing sales of Dreamcast in Japan, Sega Enterprises last week warned that its losses this year would be ¥44.9 billion (\$408.2 million) — more than double its Sept. forecast of ¥19.8 billion (\$180 million). Company said it now expects to sell only 4.3 million software games in Japan through March — less than half its previous forecast of 8.75 million. Sega now expects domestic sales of its videogame console for Sept.-March period to be only 600,000 units instead of its original 1.1 million estimate. For help, company said it's turning to its biggest shareholder — computer sales and management company CSK — by selling it stock worth ¥101.4 billion (\$920 million). Although Dreamcast has posted strong sales for Dreamcast in Europe and especially U.S., platform has failed to catch on in Japan, where company is based, since debut there in Nov. 1998. On more upbeat note, Sega said it's teaming up with watch manufacturer Swatch on several interactive initiatives. One calls for development of Swatch watch that will feature Sega's most popular character, Sonic the Hedgehog. Companies said they also will introduce Swatch's ".beat" Internet time unit into Dreamcast's online games and services.

Acclaim Sports is shipping *Jeremy McGrath Supercross 2000* game for Nintendo 64. Debut is being supported by nationwide marketing campaign including online ads, print, radio, TV. Acclaim said versions of game for Game Boy Color, Sega Dreamcast and Sony PlayStation will follow in spring.

PROJECTION TV SALES RISE SEEN: Unit sales of projection TV (PTV) will soar 18.2% in 2000 to 1.55 million as market for digital sets (DTV) triples to 400,000, U.S. Precision Lens (USPL) said in its annual global consumer market report.

Strengthening market for DTV will come largely at expense of analog, which is projected to post first decline since 1987. USPL forecast market would drop to 1.17 million sets from 1.2 million year earlier. CEA has forecast more severe 9% drop to 1.12 million.

PTV sales rose 36% in 4th quarter, leaving industry with inventory of 87,400 sets (3½ weeks supply) at end of 1999, USPL said. Inventory of projection DTVs was "almost nonexistent" at year-end, totaling 2,741 in early Jan. Indeed, several CE manufacturers conceded they underestimated DTV market in 1999, which led to shortage throughout holiday selling season (TVD Nov 29 p7).

Strong PTV sales have been spurred by increase in personal income coupled with "generous incentive programs" offered by manufacturers and retailers. Combination has "helped keep sales on a path of rapid growth," USPL said.

Major draw at retail was emergence of DTV, which accounted for 7.5% of overall sales in 1999. High-definition (HDTV) sets, nonfactor in 1999, are likely to supplant both analog and HD-ready sets by 2003-2004 and help fuel continued "double-digit" growth in PTV, USPL said. Dominance of HDTV in PTV market will be tied to both lower costs for ATSC decoders and greater availability of digital programming.

Linchpin to expansion of HDTV will be cable, which delivers programming to more than 60% of U.S. households. While cable companies have been slow to add digital programming to lineups, USPL said, "there is ample business incentive for increasing the bandwidth of the infrastructure that will provide ATSC signals to our homes."

Despite DTV's inroads in U.S., its widescreen format "is still not accepted," USPL said, but there are signs market is changing. While 43% of DTVs sold in 1999 were widescreen, figure rose to 53% in Jan. Despite increase, USPL said popularity of widescreen format will remain limited until 16x9 broadcasts are widely available.

International PTV market, led by sharp increases in China (67%) and Europe (38%), is projected to rise 37% to 710,000 units in 2000, USPL said. PTV sales in China will jump to 200,000 from 120,000 year earlier, and Europe to 145,000 from 105,000. Despite increase in China, there are no more than 10 million "prospects" for PTVs, less than 1% of population. Chinese market will remain below one million units through 2004, USPL said. On downside, Japan and Latin and S. America are expected to remain flat at 30,000 and 120,000 units, respectively, USPL said. TV sales in Japan fell 33% to 30,000 as market became "saturated" because "the size of the homes simply is not conducive to further penetration of" PTV, USPL said.

While alternatives to CRT-based PTVs, including plasma and microdisplays, emerged in 1999, "significant impact" of technologies won't be felt for "at least" 5 years, USPL said. "Performance parity" with CRTs can be achieved, but at "considerable cost premium," USPL said. Another challenge for flat-panel makers is finding "cost-effective" lamp with small arc

length and long life that can match peak brightness of CRTs. Cost of low-end CRT-based PTV is expected to fall 15% over next few years, USPL said.

Strongest challenge to CRTs is likely to be mounted by Liquid Crystal on Silicon (LCoS) microdisplays. Technology "appears to have the greatest potential to achieve a cost-performance ratio that will support market acceptance," USPL said. Three-Five Systems and newly formed Hana Microdisplay Technologies (HMT), among others, are championing LCoS technology (see related story, this issue).

Internet TV set for mass market goes on sale in U.K. this week under Bush brand. It's 13" set with built-in modem and priced at \$359. Pressing yellow button on remote control makes set dial preprogrammed number for ISP. Opening flap on remote reveals small keyboard for e-mail and page searching. Viewer pays no subscription and signs no contract with ISP from British company Alba, which now owns rights to Rank Organisation's Bush name. Set also has socket for printer and uses built-in proprietary browser that can handle e-mail and e-commerce with Java, HTML, SSL security. Printer port is designed for well-known brands such as Canon and Lexmark; keypad has built-in mouse. Bush said Internet TV will cope with at least 90% of Web pages. Bush also will sell Internet set-top box for \$179.

Sony is giving earful to John Bull. Company in U.K. is marketing new QS series audio components "tuned specifically for the British ear." Ads for series say Sony understands "how demanding the British ear can be. And... felt obliged to tune to suit that ear..." Company said trick to tweaking audio for U.K. taste involved "tilting the circuit board within each component by 2 degrees." Sony won't be first company in U.K. or elsewhere to exploit national vanity as marketing ploy. NAD and Rotel already do so in U.K., much as U.S. speaker companies used to tout "east coast" and "west coast" sound.

MPEG-4 digital camcorder with 1.31 megapixel CCD will be released by Sharp March 16 in Japan. Internet Viewcam PoKeVi VN-EZ5 (\$750) supports advanced streaming format (ASF), enabling users to view camcorder videos on PC with Microsoft Windows Media Player. With 64 MB SmartMedia flash memory card, camcorder can record 2 hours of video, or up to 4 hours of audio saved in WAVE format. Camcorder has 2" LCD monitor, USB connector, AV inputs.

Internet users in U.K. are spending 38% extra per year in home telephone charges because of slow access to Web via modems, London-based digital connectivity research firm Hermstedt reported. Company's report said Web surfers with analog modems spend 3 times as long waiting for Web pages to download, compared with those using ISDN — equivalent of 360 hours or 15 days wasted each year. Cost was revealed to be biggest reason why consumers don't switch to ISDN, with 58% of those polled citing it as No. 1 factor.

Musicmaker.com received broad U.S. patent coverage for production of CDs and video-files-on-demand over Web. Patent — No. 5,959,944, "system and method for production of Compact Discs on demand" — was 3rd company had received since Sept. 28 covering custom CDs and custom videos online. It also announced creation of business development department for gift sales as part of new marketing initiative.

MITSUBISHI GOES WIDESCREEN: Mitsubishi, in aggressive move that could boost widescreen, will dispense with conventional HD-ready sets in new line in favor of 16:9 format, sources said.

Mitsubishi will have 46W (\$2,999), 55W (\$3,999) and 65W (\$4,999) HD-ready sets, but it will no longer offer 4:3 versions, limiting those to analog, sources said. Mitsubishi Mktg. Dir. Robert Perry declined comment on plans pending dealer meeting in May.

"It's a pretty risky move because not everyone thinks this is going to be the year of 16:9," said retailer briefed on plans. "They're taking the high road when it comes to high-definition and 16:9 is going to happen, but the question is when."

Mitsubishi also has affixed stickers to its analog and digital sets warning of "premature aging" that could be caused by displaying 16:9 image on 4:3 set over extended period of time. Program, which began last fall, was tied to emergence of DVD movies, which often are shot in 16:9, rather than limited amount of digital programming, Perry said.

"The purpose is to be very clear to the consumer that they need to buy a TV where the shape of the set matches the majority of the images that they are going to watch," Perry said.

Mitsubishi sets have suffered screen burn-in problems in past (TVD Feb 22/99 p9), but it has largely been limited to retail display models that were tied to Sencore box that provided HDTV video. On consumer side, number of burn-in complaints Mitsubishi has received "I could count on one hand," Perry said. "We do not have an uneven aging problem with consumers," he said.

Three-Five Systems has delivered first preproduction samples of 0.47" Liquid Crystal on Silicon (LCoS) microdisplay to Inviso for Internet appliance. Display, which has 800x600-pixel resolution, 250 lumens and 100:1 contrast ratio, will start volume production in 3rd quarter at less than \$100, Three-Five Senior Sales & Mktg. Dir. Al Davis said. Device is designed for "near-eye" applications such as Web browsing, he said. Agreement with Inviso is first of 3 that Three-Five expects to sign for LCoS this year, others targeting front projectors and PC monitors (TVD Jan 31 p14)... Hana MicroDisplay Technologies (HMT) and Philips signed co-development agreement for LCoS technology, with first products expected in 2001. Deal calls for companies to build LCoS displays at HMT's 18,000-sq.-ft. fabrication facility in Twinsberg, O., which it bought from defunct S-Vision last Aug. Venture is expected to focus on mobile computing at start before expanding into front and rear projection. HMT also recently signed agreement with Colorado MicroDisplay (CMD) to build 0.47" microdisplays for headsets and viewfinders. Pact gives CMD 500,000 unit annual capacity at start and provides for additional assembly capacity at HTM facilities in Thailand and China. New agreement with Philips will bring HMT into competition with Three-Five, which bought S-Vision's microdisplay technology from creditors last year (TVD Aug 23 p18). Venture with Philips will focus at start largely on 0.7-0.8" displays with resolutions ranging from XGA (front projectors) to UXGA (PC monitors), HMT COO John Erdmann said. Twinsberg facility has maximum capacity of 150,000 monthly, but is operating now at 40,000-50,000, he said. S-Vision also had developed 0.97" XGA MicroLCD Imager design for PC monitors, product that remains in HMT line.

CEA HDTV GROUP SPLIT: Technical group will continue work on definitions for HDTV display after CEA Video Div. members failed to reach agreement on initial proposals, sources said.

Group, largely composed of engineers from CEA member companies, was charged in Dec. with drafting definitions after DTV Definitions Committee voted to clarify requirements for HDTV (TVD Jan 3 p10). Latter vote reversed earlier decision that defined HDTV in way that excluded some 4:3 aspect ratio HD-ready monitors sold by Hitachi and Toshiba (TVD Dec 27 p8).

While members of definitions committee were tight-lipped about technical group's initial findings, sources said issues raised included setting minimum standard HDTV in terms of lines of resolution.

"The problem is the recommendations are good, but they're only for projection TV and in truth it doesn't fit plasma, LCD or DLP [Texas Instruments' Digital Light Processing] technologies," source said, noting that alternative technologies aren't measured in terms of lines of resolution.

But other CE executive countered that existing definition, which defines HDTV as having 1080i or 720p scanning lines or greater and capability of displaying 16:9 aspect ratio, remain until changes are made. Point of contention has been effort to extend definition to 4:3 monitor labeled DTV-ready or upgradeable. While such models marketed by Hitachi and Toshiba scan 1080i lines on entire screen, when 16:9 program is displayed in letterbox area, resolution of image drops to 810i.

Palm Inc. priced its shares at \$38 last week after more than doubling price range of upcoming IPO (TVD Dec 20 p18) to \$30-\$32 in response to heavy investor interest. Palm Pilot developer, whose parent 3Com will own 94.8% of shares outstanding following IPO, now expects to net \$874 million from sale of 23 million shares. Palm stock soared to \$150 at peak on first day of trading March 2, but had fallen back to \$80.25 at week's end. America Online (AOL), Motorola and Nokia all have agreed to buy 1.5% of initial capital stock, although value has increased to \$225 million from \$60-\$80 million, according to SEC filing. Palm will use proceeds to pay 3Com \$50 million dividend, although amount is likely to jump to \$184 million based on \$31 share price. Money also will be used to make additional \$58 million intracompany payment to 3Com and \$30 million to cover increased marketing costs, Palm said. In 6 months ended Nov. 26, it said, income jumped to \$22.5 million from \$16.1 million as revenue soared to \$435 million from \$263.3 million. Gross margin declined 1% to 43%. Ingram Micro accounted for 34% of revenue, Tech Data, 8%. Palm also faces 3 new lawsuits, including one filed by WaveWare that alleges breach of contract in connection with proposed sale of company to 3Com. Telxon also charged that Palm's operating system contains graphical user interface (GUI) that was copied from company's software. E-Pass Technologies said Palm improperly included its security technologies in Palm Pilot. Palm spokeswoman declined comment. Interest in Palm IPO drove 3Com stock up to \$119 last week, but it dropped back to \$83.10 at week-end. At one point volume hit 41 million shares, 4 times heavier than average. After IPO, Palm will have 532 million shares outstanding, \$17.4 billion market capitalization... Palm rival **Psion** signed separate alliances with Motorola and Qualcomm. Motorola will license Psion for its advanced GSM cellular module while Motorola will get latter's next-generation Halla processor. Qualcomm agreement covers development of Psion-led Symbian technology for CDMA cellular phones.

PEGASUS INTERNET DEAL SET: Pegasus Communications signed alliance with Liberate Technologies that's likely to yield DirecTV IRD/Internet access device that will tightly target its rural customers.

Pegasus, major distributor of DirecTV service in rural markets with more than 700,000 subscribers, will use Liberate's interactive software to market product separate from DirecTV/AOLTV device that's expected by midyear. Liberate, which operated as Oracle subsidiary Network Computer Inc. before going public last July, also is supplying software for AOLTV service.

Many details of Pegasus product including memory size, price and availability haven't been finalized. But unit is likely to have recording capability and feature ISP package, Multi-channel Operations Vp Howard Verlin said. Pegasus will seek wholesale agreement with ISP that would cover 80-85% of its markets. Rest will be handled on local basis in wholesale pact, joint venture or co-branding, Verlin said.

Also undecided is whether service will be one-way or 2-way, latter option possibly pushing introduction into 2001, he said. Service will continue to receive programming from DirecTV satellites, but Pegasus is likely to use set-top box maker other than current suppliers Thomson or Hughes Network Systems. Among those under consideration are Acer and Pace Micro Technology, Verlin said.

"There might be people that want AOL but can't get it on a local dial-up basis and therefore we're a very good substitute," Verlin said. "AOL's focus will be on a national approach and we feel we can do some things in rural markets that will differentiate us."

Liberate has been reborn in recent months in gaining agreements with Cable & Wireless and U.S. West. It had inauspicious start as NCI, which licensed software technology to Thomson for ill-fated NetChannel service (TVD Sept 22/97 p10) that shut down after less than year in operation (TVD May 11/98 p16).

As Pegasus was announcing agreement with Liberate, Hughes Electronics reported plans to sell its money-losing DirecTV unit in Japan to rival SkyPerfecTV for \$84.8 million. Hughes said financial effect from sale is expected to be "minimal" and it will retain 10% stake in SkyPerfecTV. Hughes Chmn. Michael Smith said company will record any losses from its Japan unit at rate lower than that taken in 4th quarter. While DirecTV unit, which had 413,000 subscribers, was gaining customers, growth rate was too slow to meet Hughes objectives, Smith said. Acquisition will increase SkyPerfecTV to more than 2 million subscribers and leave it as only direct-to-home satellite service in Japan. SkyPerfecTV is partly owned by Sony, Softbank, Fuji TV Network, Itochu Corp. and News Corp., each with 11.75%. DirecTV owners included Matsushita (11.45%) and Mitsubishi (5.72%).

Possible merger of DirecTV and SkyPerfecTV had been rumored for nearly 2 years as former lagged well behind rival (TVD July 13/98 p18). But Hughes tried several strategies to jump-start business including buying stake in partner Culture Convenience Club and issuing \$29.5 million of convertible bonds last fall that were allocated to Matsushita, Mitsubishi and Dai Nippon Printing (TVD Sept 27 p17). De-

spite revival efforts, DirecTV was slow in gaining subscribers, ending 1999 with 372,000. Strong market for product existed in Japan, but DirectTV Pres. Eddy Hartenstein conceded that service lagged in "execution at retail with mass merchants" (TVD Oct 18 p18).

While DirecTV was leaving Japan, personal video recorder (PVR) provider TiVo, in which DBS company has stake, finalized agreement British Sky Bctg. (BSkyB) to unveil products in U.K. later this year. Agreement will give TiVo access to BSkyB's 5 million satellite subscribers and follows similar agreement with DirectTV for U.S.

Philips, which markets standalone TiVo PVR in U.S., began promotion offering to upgrade device's hard drive to 30 MB from current 14 MB for \$299. Consumer will cover cost of mailing product to Philips, which will pick up return price and is promising 48-hour turnaround. Philips markets TiVo PVRs in 14 MB (\$399) and 30 MB (\$699) configurations and is expected to face competition from Sony in spring. Matsushita sells device for rival ReplayTV service. ReplayTV last week set IPO at 8.5 million shares that will sell at \$13-\$15. ReplayTV stands to gain \$109.6 million in net proceeds based on \$14 price, and underwriters Morgan Stanley Dean Witter, Bear Sterns and Chase H&Q have option to buy 1.2 million shares to cover overallotments.

Staples fiscal 4th-quarter income jumped 69% (see financial table), but office-supplies retailer forecast wider loss in online business. Shares slid 18% on news to \$21.56, but finished week at \$21.75. For quarter ended Jan. 29, income was \$120.9 million, up from \$71.3 million year earlier that included \$49.7 million charge to cover acquisition of Quill. Sales rose 25%. Staples.com unit is projected to double loss to \$150 million for fiscal year ending Jan. 2001 on revenue of more than \$250 million. For year just ended, unit had \$16.4 million loss on revenue of \$94.3 million. Online business will be more tightly tied to in-store kiosks this year that will enable it to offer "business solutions" including Web hosting and DSL service, Chmn.-CEO Thomas Stemberg told analysts in conference call. Average weekly revenue per store rose to \$125,000 in recently completed fiscal year from \$123,000 year earlier. Chain's build-to-order (BTO) PC business, which includes Compaq and Hewlett-Packard, is "ramping very well" and is "becoming a much more profitable part of the PC business," Stemberg said. Chain plans to open 175 stores worldwide in 2000, down from 215. Among them will be airport locations to expand on those operating in Philadelphia and Boston... OfficeMax, minus PC write-off of year ago, reversed \$6.7 million 4th-quarter loss to post \$23 million profit as sales rose to \$1.39 billion from \$1.25 billion. Online OfficeMax.com business had \$622,000 4th-quarter loss vs. \$55,000 profit year earlier as sales increased to \$20 million from \$3 million. Online expenses are projected to hit \$100-\$110 million in current fiscal year, up from \$80 million, Chmn.-CEO Michael Feuer said. For full year, OfficeMax.com reported loss grew to \$3.9 million from \$188,000 although sales rose fivefold to \$40.2 million. Fourth-quarter sales of PCs and related products slid 11% to \$86.5 million and were down 27% on same-store basis. OfficeMax recently signed agreement with Gateway to create store-within-a-store format aimed at stemming falling PC sales... Grupo Sanborns completed tender offer for CompUSA last week at \$10.10 per share. Mexican retail conglomerate proposed buying CompUSA for \$797.7 million in Jan. (TVD Jan 31 p14).

DEALER DEFIES REGIONAL CODING: Guerrilla warfare against DVD regional coding in Europe broke into open battle last week when U.K. retailer Richer Sounds prominently advertised new DVD player factory-preset to play discs from all regions. Move followed by 2 weeks letter from top U.K. supermarket demanding end to regional coding.

Although DVD players whose regional coding can be modified are widely available in U.K. stores, retailers don't advertise multiregion capability. First to do so is Richer Sounds, discount CE chain with 32 stores in U.K. and Ireland. Retailer's ads for \$269 Ariston-brand deck guarantee it will "play discs from any region."

Richer's catalog repeats promise and adds reassurance that because player was designed to be code-free and hasn't been modified, it's legal and comes with full warranty. Other players on sale either require owner to pay 3rd party to make unauthorized modifications or come with instructions for changing control menu. In most cases, way to change menu — or fact that deck is preset to play all discs — is spread by word of mouth, magazine reviews or over Internet.

Richer is first supplier to stop playing games and state in plain English it sells what Region 2 customers want. Long sidebar in ads explains regional coding issue and legal aspects of owning multiregion player. Ariston is house brand for Richer's, as are Cambridge Audio and Sherwood. Retailer obtains rights to brand names dormant in U.K. and sources own products from OEMs. Ariston formerly was venerable British maker of high-end LP turntables — one had vacuum-pump system that sucked LPs flat against platter to remove warp-induced distortion.

Including Ariston, tally of multiregion DVD players in U.K. was 14 last week. Others brands are Bush, Philips (2), Proline, Revoy, Sampo, Shinco (2), Smart, SMC, Sony, Wharfdale, Yamaha. Several are Chinese-made and some also offer ability to turn off Macrovision anticopy protection. Rationale is that it lets owner loop DVD video through VCR to TV with insufficient inputs — or only RF input. Macrovision normally prevents that.

Letter from U.K. supermarket chain Tesco to Warner Home Video Pres. Warren Lieberfarb remained unanswered at our Fri. deadline (TVD Feb 21 p11). Christine Cross, international sourcing dir. for 400-store chain, wrote on Feb. 17 demanding end to regional coding as well as lower disc prices on par with U.S. Spokesman for Cross told us no reply had been received by Fri. Warner executives haven't returned our calls for comment.

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Radica Games income and revenue dropped in 4th quarter ended Dec. 31. Bermuda videogame developer said income plummeted to \$2.9 million from \$17 million year earlier and revenue to \$44.5 million from \$47.4 million. For year, income fell to \$17.1 million from \$51 million and revenue to \$133.5 million from \$159.4 million. Pres.-CEO Pat Feely called 1999 "a difficult year for Radica and our shareholders as a result of the significant decline in sales of our hit fishing games." During year, Radica moved to position itself as company with diverse line of products. As part of that effort, company, which has hq in Hong Kong, is trying to strike balance among electronic handheld games, youth electronic products under its Girl Tech division, LMP videogame controllers, recently announced Plug & Play TV games utilizing Xavix technology (TVD Feb 7 p20).

X-BOX ANNOUNCEMENT EXPECTED: Microsoft is expected to finally make official announcement of its new "X-Box" videogame console at this week's 14th annual Game Developers Conference in San Jose.

Microsoft Chmn. Bill Gates is slated to give one of event's keynote speeches Fri. Company also is scheduled to be among those participating in affiliated GAMEXecutive Conference in Monterey this week. Microsoft spokeswoman didn't return calls for comment by our deadline.

As we reported (TVD Feb 14 p13), X-Box is expected to ship in U.S. by Sept. 2001 and in Europe soon afterward. British press report recently provided specs and said console pricing would be between \$149-\$349, depending on price of Sony's competing PlayStation2 (PS2) in 2001. Report said information was discovered after Microsoft held secret meeting with small group of 3rd party game developers. Although X-Box operating system is derived from Windows, game titles for system won't be PC-compatible. But console will have DVD drive that can play DVD-ROM discs and DVD-Video movies and offer Internet connectivity, as we reported when word of videogame console was revealed (TVD Sept 13 p12).

In related news, Microsoft recently completed purchase of "xbox.com" Web domain name, ZDNet News reported last week, and game developer UbiSoft indicated, in apparent slip of tongue, that its new game based on TV show *VIP* would run on X-Box console.

Also on interactive game front, Microsoft unveiled 3 new products in its SideWinder line of PC game devices: Force Feedback 2 joystick at \$109.95, Game Voice stereo headset at \$74.95 that allows users to talk with one another through Web or LAN connections, Strategic Commander left-handed gaming device at \$64.95 that enhances use of keyboard and mouse. All 3 will ship in Oct.

Microsoft unveiled new interactive version of its MSN Mobile platform at Wireless 2000 show in New Orleans last week. MSN Mobile 2.0 extends to wireless customers Expedia.com online travel service, MSN Hotmail Web-based e-mail service, MSN MoneyCentral online personal finance service, MSNBC.com news service.

At Embedded Systems Conference in Chicago, also last week, software giant introduced new DirectX Platform Adaptation Kit for Windows that it said enables OEMs to create CE-based devices that take advantage of multimedia capabilities including streaming audio and video.

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Digital camera built into Windows CE handheld PC from Sharp hits stores in Japan this week at about \$1,400. Telios HC-VJ1C has 350,000-pixel resolution digital camera and features 7.1" TFT-LCD screen with 800x400-pixel SVGA resolution. Other features include 32 MB system memory and 2 MB video memory, 56 kbps modem, USB port, PCMCIA card slot, Compact Flash Card. Sharp said it expects to ship 5,000 monthly.

THIS WEEK'S YEN RATE

Yen values have been converted to dollars in this week's issue at ¥107 = \$1, except where noted.

MUSICMAKER.COM REVENUES SOAR: Following trend that has become increasingly prevalent among Web's most popular music sites, Musicmaker.com reported widening net loss but huge boost in revenues and traffic in 4th quarter ended Dec. 31.

Musicmaker.com posted revenue of \$787,000 in quarter, up from \$29,000 year earlier and \$189,000 in 3rd quarter 1999. It said net loss for 4th quarter widened to \$12.7 million (-39¢ per share) from \$1.6 million (-26¢) year earlier and \$8.8 million (-29¢) in 3rd quarter 1999. Latest loss included noncash charges related to preferred stock warrants and license fees.

For year, Musicmaker.com revenue was slightly more than \$1 million, up from \$74,000 year earlier, but net loss plunged to \$27 million (-\$1.33) from \$4.8 million (-94¢).

In conference call with analysts and investors before class action suit was filed against company (see separate report, this issue), Musicmaker.com Chmn. Robert Bernardi said sales in 4th quarter were driven in large part by Beastie Boys custom CD promotion in conjunction with EMI that ran from early Nov. through Jan. He said company "sold over 11,000 double CD sets" from that promotion in which consumers were able to compile double custom CD set of 20 songs or 65 min. of music per CD for \$17.85 plus shipping by picking from over 100 Beastie Boys tracks.

Bernardi said company produced "almost 27,000" custom CDs overall in 4th quarter, compared with 3,000 in 2nd quarter 1999 and 11,500 in 3rd quarter.

Company also signed deal with Microsoft in quarter for 100,000 Musicmaker.com tracks to be encoded and made available for digital download in Microsoft's Windows Media format. But Bernardi said that although "we completed all that... for accounting purposes, we're going to account for that in Q1 [of this year] as opposed to Q4."

Noting that Musicmaker.com has been taking part in joint custom CD promotion with Pizza Hut and CDNow that kicked off at same time as Super Bowl, Bernardi said that in one month alone, company already had shipped "over 600,000 CDs" that include tracks from popular artists such as David Bowie, Dixie Chicks, Spice Girls.

Based on results so far, he said, "we're projecting now that we'll certainly do better than \$1.5 million" in revenue in first quarter 2000. Throughout this year, Musicmaker.com will be taking part in more such promotions, Bernardi said.

Company already has signed custom CD joint promotion deal with what Bernardi described as "a very large beverage company" that "will begin the end of May and... run through the summer." More details on that promotion probably will come late this month, he said, and it will involve not EMI but "another major label."

Although Bernardi didn't name other label, it could be Warner Music, which is in process of getting approval for merger with EMI (TVD Jan 31 p11). He said that if that merger were finalized, it would have "a very, very positive spin for Musicmaker" because his company's contract with EMI would carry over to joint venture as well. Also improving position is pending Time Warner merger with AOL (TVD Jan 17 p16),

which if finalized would mean that "AOL will be a shareholder ultimately in Musicmaker" as well, Bernardi said. Company's presence on AOL's properties already is being boosted as result of new promotion for Jimmy Page-Black Crowes custom CDs and digital downloads.

As for custom CD production capacity, Bernardi said company is "up to 30,000 CDs a day" and will have capacity for 100,000 by end of May. To help improve capacity, it will be "moving our facility from where we are right now by the middle of March to a 35,000-sq.-ft. facility," he said, and company is boosting capacity to produce custom DVDs of music videos.

Although Bernardi said digital downloads accounted for only \$100,000 of revenue in 4th quarter, he said that area of its business would start increasing as more Internet users gain access to broadband: "We're looking at that in the next 2 or 3 years to get some penetration in the market."

Meanwhile, Musicmaker.com is gearing up for late April deployment of its custom CD kiosks for brick-and-mortar retailers. It has been running pilot kiosk program since Nov. in select cities (TVD Nov 8 p17). Bernardi said company is "still working on" getting EMI to allow its songs to be used, along with those from independent labels that have licensed Musicmaker.com, as part of kiosk download program. In Nov., Musicmaker.com said it intended to place as many as 5,000 kiosks in high-traffic areas in 2nd half of 2000. In addition to music stores, company plans to target airports, shopping malls, theme parks, train stations.

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MPEG-4 Version 2 was demonstrated at recently concluded Audio Engineering Society (AES) Convention in Paris. With final standard about to be published following approval in Dec., workshop brought AES participants up to date on latest features. MPEG-4 covers multimedia applications, MPEG-1 with storage and retrieval, MPEG-2 with digital video. Version 2 emphasizes error robustness for wireless transmission, among other things. Error robustness, error resilience and "graceful degradation" were demonstrated during AES workshop. Standard is said to be backward compatible and gives more attention to computer-generated synthetic audio. It also includes virtual reality drag-and-drop for media scenes. Audio errors and their correction were demonstrated. "Error robustness in audio is useful, especially in wireless applications — broadcasting, music distribution, high-quality conference systems," said Sanai Hotani of NTT DoCoMo. Motion Pictures Expert Group is developing MPEG-7, to be approved by July 2001. It's designed to be "Multimedia Content Description Interface" for multimedia information search, filtering, management, processing. There's also work in progress on MPEG-21 — multimedia framework expected to be delivered as technical report in spring.

Sony has issued recall of 415,000 InfoLithium battery packs that have overheated and/or smoked during recharge. Models NP-F750 (\$100) and NP-F550 (\$60) were manufactured March-June 1999 in Japan and 160,000 were distributed in U.S. Battery packs, which are being replaced as part of recall, power HandyCam camcorders, Digital Mavica and professional still cameras, Glasstron A/V eyewear, portable DVD players. Replacement batteries will be returned to customers via UPS Next Day Air and U.S. Express Mail at Sony's expense.

MUSICMAKER.COM SUED: L.A. law firm filed class action suit against Musicmaker.com charging Internet music company violated federal securities laws.

EMI, which took 50% stake in Musicmaker.com in June (TVD June 14 p17), also was named in suit. When EMI bought stake, companies also signed 5-year licensing agreement that allows Musicmaker.com to sell custom CDs using songs from EMI's catalog.

Lawyer Lionel Glancy, who is handling suit, told us last week that his clients' "major claim is that Musicmaker and EMI do not disclose the difficulty or inability for EMI to give Musicmaker access to the A talent that would really provide the content for their Web site." He questioned why EMI has yet to provide Musicmaker.com with music from such top-name artists as Beatles and Frank Sinatra, especially in light of EMI's having stake in Musicmaker.com.

In announcing suit, Glancy said: "Plaintiff claims that defendants' material omissions and the dissemination of materially false and misleading statements regarding the nature of Musicmaker.com's operations drove the company's stock price to a class period high of \$28.125 per share and enabled insiders to profit from sales of Musicmaker.com common stock at artificially inflated prices. Musicmaker.com common stock fell substantially below its offering price and market trading price, inflicting enormous damages on investors." Glancy told us goal of suit is to recover those damages, which he said were "in excess of \$10 million."

Responding to suit, Musicmaker.com said last week it "has reviewed the allegations of the complaint... and believes that it has made full and complete disclosures as required by law." It said it "intends to defend the action vigorously."

Neither EMI or Musicmaker.com returned calls last week for comment on why EMI has yet to provide large portion of its catalog to Musicmaker.com or when it would do so. But in Nov., Musicmaker.com Chmn. Robert Bernardi warned that company's 4th quarter revenue would be lower than analysts' forecasts because of delay in clearing top artists from EMI for its custom CD promotions (TVD Nov 8 p15). At that point, EMI New Media Senior Vp Jay Samit said his company "is committed to clearing and delivering its top artists for custom CD promotions on Musicmaker.com" Web site. But he said: "Due to the complexities of record contracts, the program has taken longer than expected to get off the ground."

Glancy declined to reveal how many investors are taking part in suit but said "hundreds of investors have contacted us." He said he expects case to take "at least a year or 2." But what wasn't clear last week was what would happen with suit if in interim much of EMI catalog were indeed made available to consumers for custom CDs through Musicmaker.com. Glancy said: "We'll have to see that. We have to see how it comes out and the extent of the content."

In conference call with analysts and investors day before suit was filed (see separate report, this issue), there was no indication that any of participating investors perceived Musicmaker.com wrongdoing.

Feb. Retail Sales: Best Buy said sales rose 25% in 4th quarter ended Feb. 26 to \$4.31 billion from \$3.46 billion in same quarter year earlier. Sales for 12 months climbed 24% to \$12.49 billion from \$10.07 billion. Same-store sales rose 11% in quarter, 11.1% in year, surpassing Best Buy expectations. Chmn.-CEO Richard Schulze said: "Consumer demand for digital technology products, which was stimulated by the increased popularity and affordability of products such as DVD players, satellite systems, phones, digital cameras and camcorders, again contributed to higher-than-expected sales." He said sales of large-screen TV sets, PCs and music and movie software "benefited from better in-stock levels and improved retail execution." Meanwhile, **RadioShack** sales climbed 19% in Feb. to \$338.2 million from \$284.8 million, same-store sales rising 14%. Pres.-CEO Leonard Roberts cited growth in all major product categories, especially satellite receivers and wireless communications.

Denon authorized Denver brick-and-mortar retailer ListenUp to sell its products at KnowledgeLink's GetPlugged.com Web site. Only other dealer to have received Denon authorization since company finalized its e-commerce policy is Tweeter Home Entertainment, which sells CE products online through Tweeter@Outpost.com joint venture with Cyberian Outpost (TVD Nov 1 p8). Manufacturer said it selected ListenUp after deciding that retailer met Denon's "rigorous standards for quality and customer service." Among Denon's requirements are assurance that all products shown at e-commerce Web site are actually in stock and that retailer will have "dedicated Internet staff" and live technical assistance online and through toll free phone number for minimum of 10 hours each day. Also playing role in decision, Denon Sales and Mktg. Vp Stephen Baker said, was fact that "ListenUp has been a loyal and trusted Denon retailer for many years. They have one of the best service departments in the country, and their knowledgeable staff is fully capable of communicating Denon's... message to consumers."

NXT may seek listing on Nasdaq to complement its London Stock Exchange seat. Analysts said it could happen in several months as NXT seeks additional funds for product development. NXT Mktg. Dir. Jon Vizor told worldlyinvestor.com that "we're always aware that our shareholders would like that [Nasdaq listing] and we've said we'd consider it at some stage in the future." NXT has 166 licensees for its flat loudspeaker technology, 40 of which are expected to start releasing products with NXT technology this year. NXT recently moved to expand its SoundVu technology into laptop PC and automotive applications from its base in home market (TVD Oct 4 p21).

Consumer intentions on buying TV sets remained virtually unchanged in Feb. from Jan., according to preliminary data in Conference Board monthly survey. Of 5,000 households polled, 6.7% said they planned to buy TV set in next 6 months, vs. 6.6% in Jan., 8.2% in Dec., 7.7% in Feb. 1999. Consumer Confidence Index fell slightly in Feb. Conference Board blamed "declining consumers' expectations" for next 6 months as major reason for "overall dip in confidence."

New magazine for classical music titled *International Record Review* will be published in U.K. by former business and editorial staff of respected *Gramophone*. Latter, founded in 1923, was taken over last year by Haymarket Magazines group, which publishes British enthusiast magazine *What HiFi*.

NINTENDO STILL TARGETING 2000: Despite rumors that upcoming Dolphin console and Game Boy Advance (GBA) handheld are being delayed until 3rd quarter 2001, Nintendo of America (NOA) Mktg. Vp George Harrison said last week that company still plans to introduce GBA in Japan in Aug., with U.S. debut shortly after that and Dolphin worldwide for holiday season 2000.

However, Harrison said ultimate decision on shipping dates for new platforms is up to parent company in Japan and he wouldn't categorically rule out that any delays were possible, saying "everything's a possibility." He said NOA also has passed along to parent company in Japan concerns of some in U.S. on timing of planned GBA introduction.

Various distributors, publishers and retailers recently told us they questioned why Nintendo wanted to introduce new handheld platform when current Game Boy Color (GBC) still is in such high demand (TVD Feb 7 p15). Some fear rollout of GBA will confuse consumers. Harrison last week said dealers' main concern is that GBC supplies have continued to be low. As of our deadline, he couldn't say when GBC supplies would be back up to normal.

Colin Gordon, dir. of development, Boss Game Studios, said many reports on Dolphin delay are fueled by developers aware of how long it takes to make games for new systems. "I think it's all just speculation," he said. "When did Sony first show their stuff [for PlayStation2] — last March? And look how long it's taken them to get to market. Nintendo doesn't have any secret formula. It's still going to be 12 to 18 months."

Gordon said there are no 3rd party developers with Dolphin development systems at this point that he's aware of. "We hope that they'll be available very soon," he said, because developers already are beginning to plan their games for holiday 2001.

However, one prominent game executive who requested anonymity said Nintendo may not be in hurry to get 3rd party publishers on board since they want early software sales for Dolphin to themselves. Nintendo traditionally has launched systems with only first party games. N64 made debut in 1996 with *Super Mario 64*, *Wave Race*, *Pilot Wings* — all Nintendo-developed product. Part of that strategy may be that software is where most companies make their profits, executive said. "If you figure that they're going to lose money initially on the hardware, then they can make it up with software," he said. "Look at the N64. They launched with just their own titles and you ended up with Mario selling 1-1 with the hardware."

Meanwhile, Nintendo has kicked off \$10 million marketing campaign in conjunction with its new Funtastic series of N64 game consoles that come in 6 colors, now shipping at \$99.95.

As GBC supplies continue to be low, retailers have been increasing promotions to help move their current N64 consoles as new colored N64s arrive. In promotion akin to one earlier by Best Buy (TVD Dec 20 p15), CompUSA recently offered \$10 rebate for N64 Atomic Purple package that essentially brought price down to \$89.99 — \$10 below Nintendo's MAP. Toys "R" Us has offered customers \$20 gift card with purchase of either N64 or PlayStation.

Echoing what he said at time of Best Buy promotion, Harrison said CompUSA and Toys "R" Us hadn't discussed

promotions with Nintendo before offering them, but Nintendo takes neither pro or con position on them, although promotions meant that retailers essentially had opted out of Nintendo's voluntary MAP program and bonus dollars that program entails.

In other Nintendo news last week, Reuters reported company signed deal with Japan ad agency Dentsu to start new company — ND Cube — for development of game software. Nintendo will own 78% of joint venture, Dentsu 13.3%, with remaining 8.7% yet to be decided, report said, adding that IPO is targeted for 2002. Nintendo previously entered into Mobile 21 joint venture with Konami for software development (TVD Sept 6 p17). Nintendo also plans to acquire 3% stake in convenience store operator Lawson, which will carry Nintendo's videogame machines and software. News followed similar announcement by Sony of signing deal with Seven-Eleven as another distribution point for its PlayStation2 software and e-commerce services that are expected to play key role in game platform in future (TVD Feb 14 p14). At our deadline, PlayStation2 was slated to launch in Japan March 4.

3dfx Interactive posted increased revenues but net loss in 4th quarter ended Jan. 31. San Jose-based company said revenue for quarter was \$109.4 million, up from \$60.7 million year ago, but it wound up with \$31.9 million loss from \$2.1 million profit year earlier. Results included one-time restructuring charge of \$2.6 million that company said was associated with cost-reduction efforts including cutting work force 20% (TVD Feb 14 p22). 3dfx, maker of computer graphics accelerator chips, boards and software, said results also included noncash expense of \$3.6 million related to merger with Specialized Technology Group (STG) and one-time write-down of \$1 million for costs in sale of STG. Pres.-CEO Alex Leupp said company continues to take steps to reduce costs and wants "to return to profitability as soon as possible," but said "we believe our financial results will lag our actions by several months." He said "real impact" of efforts won't be reflected until 2nd quarter ending July 31.

Sales tax on e-commerce for video, music and PC software sold online has been proposed by European Commission (EC). Brussels group would require e-tailers, including those based in U.S., to charge, collect and remit value-added taxes (VAT) that are included in cost of products sold in Europe. EC proposals still are under development and need to address complex issues such as how retailers could apply correct VAT — rates vary from 12% to 20% among European countries. There often is difference in tax rate between consumer and corporate purchases. EC contends that besides substantial loss of revenues to member govts. when European customers make online purchases from overseas, lack of VAT charges on goods originating in U.S. gives American Internet retailers advantage over those in Europe.

Call for proposals for Phase II screening technology has been issued by Secure Digital Music Initiative (SDMI). Group said proposed technologies are required to be compatible when layered with Phase I watermark. Deadline for first responses is April 24, with final proposals due June 18. SDMI said that when Phase II screening technology is completed, it will allow music players to accept files in open and protected forms, but will detect and reject pirated copies of music released with new Phase II encoding. Phase I technology now in use permits players to be upgraded for Phase II operation.

Consumer Electronics Personals

Sai Naimpally appointed pres.-COO, Panasonic AVC American Labs, succeeding **Jukka Hamalainen**, retired... **Joseph Clayton**, ex-Thomson, drops Global Crossing vice chmn. title, remains head of N. American operation... Changes at Samsung: **Thomas Rhee** promoted to vp-mktg. for digital convergence from digital mktg. dir.; **Kevin Procter** advanced to vp-mktg. & sales for home appliances from national accounts sales dir.; **James Sanduski** shifts to mktg. dir. for visual media products from mktg. dir. for A/V products... **Steve McNally** promoted to Toshiba vp-sales for national accounts from mktg. dir. for TV; **Scott Ramirez**, Toshiba product planning dir., adds TV mktg. responsibilities... **Jesse Greene**, ex-Eastman Kodak, joins Compaq as CFO.

Donald Huebner, ex-Lockheed Martin, appointed Antennas America principal consulting engineer... **Frank Calderoni**, ex-IBM, named SanDisk CFO, replacing **Cindy Burgdorf**, who retires... **Jeff Scoon**, ex-Xtant Technologies, joins JL Audio as vp-Electronics Div... Changes at Good Guys: **Cathy Stauffer** becomes vp-mdsg., having served in post on interim basis since July; **Richard Gazlay** advanced to vp-operations from dir. of operations; **Ted Hayashi** promoted to dir. of stores; **Jeff Linden**, ex-Cost Plus Worldwide Market, joins as dir. of distribution & logistics... **Gary Peterson**, ex-Blockbuster, named OfficeMax pres.-COO... Sears executive **Al Zagorniak** elected a dir., Assn. Of Progressive Rental Organizations.

William Savoy, Vulcan Ventures pres., named Mercata chmn... **John McLean**, Citicorp Capital Asia CEO, elected to Music.com board... **Robert Weitzner**, ex-N2K Entertainment, named vp, EMusic.com N.Y.C. office... **Loren Jensen**, Tandy vp-treas., shifts to finance vp, replaced by **Martin Moad**, investor relations vp... **Randy Mott**, ex-Wal-Mart, named Dell Computer senior vp-chief information officer, replacing **James Schneider**, senior finance vp, who had been filling post on interim basis.

Neil Jones, ex-Pioneer Electronics, joins Pace Micro Technology as vp-new business development; **Graham Williams**, commercial engineering dir.-Europe, promoted to engineering vp... **Ralph Whitworth**, Apria Healthcare Group chmn., elected to Mattel board... **Michael Polacek**, National Semiconductor vp-gen. mgr.-information appliances, joins Boca Research board... **Gene Chao**, National Captioning Institute chmn., appointed CEO, replacing **William Merriam**, who returns to consulting business... **Kenneth Soohoo**, Planetweb co-founder and chief technology officer, shifts to pres.-CEO, succeeding **Jan Gullett**, resigned, plans unknown.

Sony Memory Stick technologies will be licensed to Texas Instruments (TI) for use in mobile terminals that incorporate latter's digital signal processors. Sony said it has agreed to let TI use its Magic Gate copyright protection system and ATRAC3 audio compression technology. Company also announced it has signed Memory Stick licensing agreements with 19 other companies including Compaq, General Motors, Hitachi, Mitsubishi and Samsung, increasing total licensees to 46.

But does it have V-chip? TV set that doubles as night lamp is available in Japan from Tokyo-based Erotic Design Works. New ERO TV101 (\$300) has translucent white cabinet and fluorescent bulb in back to emit accent lighting in blue, pink or purple. Light can be switched on or off during TV viewing, manufacturer said.

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
Ampex 1999-year to Dec. 31 1998-year to Dec. 31	32,559,000 16,107,000	(15,371,000) 10,438,000	.22
Boca Research 1999-qtr. to Dec. 31 1998-qtr. to Dec. 31	32,767,000 70,042,000	(22,277,000) (14,610,000)	.--
Battery Technologies^b 1999-year to Dec. 31 1998-year to Dec. 31	1,516,000 1,091,000	(1,360,000) (3,208,000)	.--
Comcast 1999-year to Dec. 31 1998-year to Dec. 31 1999-qtr. to Dec. 31 1998-qtr. to Dec. 31	6,209,200,000 5,145,300,000 1,831,600,000 1,446,900,000	1,065,700,000 972,100,000 (174,200,000) 421,600,000	1.38 ^c 1.29 ^d .29 ^e .57 ^d
Gilat Communications 1999-year to Dec. 31 1998-year to Dec. 31 1999-qtr. to Dec. 31 1998-qtr. to Dec. 31	337,873,000 155,335,000 108,856,000 49,659,000	19,611,000 (79,393,000) (15,773,000) (97,279,000)	.96 .-- .-- .--
Hollywood Entertainment 1999-year to Dec. 31 1998-year to Dec. 31 1999-qtr. to Dec. 31 1998-qtr. to Dec. 31	1,096,841,000 763,908,000 315,586,000 243,153,000	(51,302,000) (50,464,000) (24,853,000) (69,864,000)	.-- .-- .-- .--
MediaOne Group 1999-year to Dec. 31 1998-year to Dec. 31 1999-qtr. to Dec. 31 1998-qtr. to Dec. 31	2,695,000,000 2,882,000,000 693,000,000 643,000,000	3,531,000,000 26,305,000,000 3,653,000,000 (338,000,000)	5.65 ^e 42.14 ^a 5.79 ^e .-- ^e
OfficeMax 2000-year to Jan. 22 1999-year to Jan. 23 2000-13 wk. to Jan. 22 1999-13 wk. to Jan. 23	4,842,698,000 4,337,768,000 1,391,051,000 1,249,865,000	48,620,000 48,620,000 23,038,000 (6,657,000)	.09 .40 ^e .20 .-- ^e
Recoton 1999-year to Dec. 31 1998-year to Dec. 31 1999-qtr. to Dec. 31 1998-qtr. to Dec. 31	710,250,000 703,538,000 250,374,000 245,502,000	(28,030,000) 4,330,000 7,898,000 (6,184,000)	.-- .36 ^e .67 .-- ^e
Sigma Designs 2000-year to Jan. 31 1999-year to Jan. 31 2000-qtr. to Jan. 31 1999-qtr. to Jan. 31	50,324,000 43,540,000 11,124,000 13,078,000	2,348,000 (151,000) 637,000 190,000	.14 .-- .04 .--
Staples 2000-year to Jan. 29 1999-year to Jan. 30 2000-13 wk. to Jan. 29 1999-13 wk. to Jan. 30	8,842,460,000 7,106,303,000 2,587,754,000 2,069,322,000	315,718,000 185,370,000 120,126,000 71,260,000	.69 .43 ^e .26 .16 ^e
3DFX Interactive^f 2000-year to Dec. 31 2000-qtr. to Dec. 31	360,523,000 109,388,000	(63,287,000) (31,886,000)	.-- .--

Notes: ^aIncludes special credit. ^bIn Canadian dollars. ^cIncludes special items. ^dAdjusted; includes special credit. ^eAfter special charge. ^fComparable results not available.

Thomson profit skyrocketed in 1999 as expected on strength of 18.9% rise in revenues over previous year (TVD Feb 14 p11). Now publicly traded RCA parent also is debt-free for first time in years following long string of red ink under French govt. ownership. For 1999, Thomson Multimedia reported net income of 231 million euros (\$223 million) — increase of 215 million euros (\$207 million) over 1998 based on March 1 exchange rate of 1 euro = \$0.965. Operating income reached 366 million euros, up 254% from 144 million euros in 1998 and representing 5.5% operating margin. Revenue was 6.69 billion euros, up from 5.63 billion in 1998, when debt was 510 million. Company said positive net cash position at end of 1999 was 41 million euros. Board will propose 2-for-1 stock split at upcoming May 26 shareholder meeting.



TELEVISION DIGEST WITH CONSUMER ELECTRONICS

The Authoritative Service for Broadcasting, Consumer Electronics and Allied Fields

MARCH 13, 2000

VOL. 40, NO. 11

SUMMARY-INDEX OF WEEK'S NEWS

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NBC ENDS 50 YEARS WITH NAB by pulling out of membership over deregulatory dispute related to ownership cap. Action called 'shortsighted.' (P. 1)

DTV-CABLE DEAL NEAR: Parties have almost resolved labeling of digital sets and copy protection technology. Broadcasters, cable, set makers feud. (P. 2)

FCC INVESTIGATES 45 STATIONS for possible disclosure violations in airing anti-McCain ads in N.Y. sponsored by childhood friends of Bush. (P. 3)

BLILEY RETIRING: House Commerce Committee head faced losing his chairmanship under GOP rules. Wouldn't pick successor. (P. 3)

FCC QUESTIONS DTV REPLICATION: Receiver standards, modulation, service area replication, channel selection deadline in FCC biennial review. 8-VSB included. (P. 4)

SBC MAY SELL CABLE SYSTEMS: Ameritech Mich. system has been suspended with sale possibility. RCN rumored buyer. (P. 4)

NBC ENDS 50 YEARS WITH NAB: Non-support of deregulatory proposals — particularly lifting 35% national broadcast ownership cap — sought by TV networks was reason cited last week by NBC in formally withdrawing its TV stations and network from NAB. Said NBC Pres. Robert Wright, in letter of resignation "with genuine disappointment," to NAB Pres. Edward Fritts:

"An effective and vibrant NAB should be debating what new regulatory structures are needed to allow free, over-the-air television to compete with the newly dominant pay services... Instead, the NAB has chosen to either stand on the sidelines, drag its feet, or flat out oppose the changes that NBC seeks. This is a course that we believe is directly contrary to NBC's future success as a broadcaster... Rather than acknowledging the challenges that our industry faces, the NAB's actions appear to be guided by supporters [TV affiliates] of the current regulatory structure who find a narrow competitive advantage for their individual companies in today's anachronistic regulations."

In addition to repeal of ownership cap, Wright told Fritts NAB should be working for end to cable-broadcast cross-ownership limits, duopoly restrictions, network affiliate rules, dual network ban. "Given the changes in the marketplace," Wright said, "the NAB should be advocating business strategies and regulatory policies that will make over-the-air broadcasting a strong, growth business rather than one that time and technology pass by... NBC could not, in good faith, continue to acquiesce to policy positions that so clearly go against our best interests."

NBC had telegraphed its intentions last spring when NAB TV board refused to overturn Assn.'s opposition to repeal of ownership cap after Fox TV resigned over same issue (TVD June 14 p2). Board again refused to change its position in

Consumer Electronics

THOMSON BACKS X-BOX CONSOLE as Sony attempts damage control in Japan on technical problems with PlayStation2. (P. 11)

UNITY SEEN FOR RECORDABLE DVD: Proposed 'DVD-3' logo would cover DVD-Video decks that could play incompatible DVD-RAM, -RW and -R formats — but not maverick DVD+RW. (P. 13)

DTV STANDARDS NEARER as industries discuss set labeling, copy protection. CEA blasts broadcasters for lackluster programming slate. (P. 13)

THOMSON-SENSORY SCIENCE PACT to cover RCA mono dual-deck VCRs that are expected to hit \$199 this fall. Distribution could more than double. (P. 15)

ULTIMATE ELECTRONICS EARNINGS RISE on strength of DVD and digital TV sales. Roberds awaits final court approval on debtor-in-possession financing. (P. 16)

SAMSUNG, ECHOSTAR TALKS are said to be at 'exploratory' stage regarding product. Samsung DirecTV receiver due later this year. (P. 16)

Jan. following presentation by NBC Exec. Vp-Gen. Counsel Richard Cotton (TVD Jan 17 p3). Network finally acted just days after NAB withdrew TV board seat of NBC Washington Vp Robert Okun because some NBC TV stations were in arrears in dues payments (TVD March 6 p3). Sources said NBC's action was at least partially motivated by finances, pointing out network had asked for reduction in its NAB dues from about \$400,000 annually to \$200,000.

NBC TV affiliates had lobbied network to stay within umbrella of NAB, arguing that network's withdrawal would hurt industry's overall efforts in Washington and pointing out many areas of agreement. Reaction of Post-Newsweek Stations Pres. Alan Frank, also chmn. of NBC TV affiliates and member of NAB TV board, was typical: "It's unfortunate and shortsighted... but they [NBC] run their business and do what they want to do."

NAB had no official comment, but spokesman noted that decision "wasn't unexpected" and NBC withdrawal will have virtually no economic impact on group. Asked about impact on NAB's lobbying clout, he said "the strength of the NAB comes from the fact that we have stations in virtually every city and hamlet in the United States" and that hasn't changed.

DTV-CABLE DEALS CLOSE: Two weeks after agreeing on technical standards for hooking up new DTV sets to digital cable systems (TVD Feb 28 p1), cable, consumer electronics and movie studio negotiators are nearly finished hammering out deals on 2 remaining issues — labeling of digital sets and copy protection technology, we're told. While some minor differences remain, sources in all 3 camps told us elusive set-labeling agreement is particularly close, with both cable and consumer electronics trade groups now floating proposed terms to their members. CEA and NCTA officials hope to announce labeling deal by early this week, when electronics manufacturers meet in Washington for their annual spring conference.

Meanwhile, feuding among industries continued last week as NCTA and CEA urged FCC to steer clear of proposed rulemakings on 2 remaining issues unresolved by their agreements 2 weeks ago on DTV-cable compatibility. In joint letter to FCC Chmn. Kennard, NCTA Pres. Robert Sachs and CEA Pres. Gary Shapiro said DTV-cable deals "constitute clear breakthroughs in the interoperability of cable systems and digital television sets" and "should not be minimized." Disputing earlier letter to Kennard from MSTV Pres. Margita White, Sachs and Shapiro contended that govt. rulemaking "would retard, not advance, the day by which consumers will be able to buy digital television sets that work with cable television." They said groups are "working aggressively" to resolve 2 unsettled issues — labeling of digital sets and copy protection technology.

Broadcasters aren't trying to delay DTV buildout, White protested in letter to FCC about DTV transition. "CEA does the receiver industry a terrible disservice in trying to deflect criticism onto broadcasters," White said: "What is called for instead is an honest acknowledgment of first-generation shortcomings in the implementation of 8-VSB, and a specific game plan, backed by a sense of commitment and urgency, for curing those shortcomings."

Broadcasters are skirting DTV obligations by transmitting upconverted NTSC programming rather than "compelling" true HDTV, Shapiro said in yet another letter to Kennard. If broadcasters don't transition to DTV, Shapiro said, they should "use it or lose it." He said consumer electronics industry has committed billion dollars to DTV: "Even as the broadcast industry offers DTV excuses, our industry offers an increasing array of DTV products." In order to hasten transition, Shapiro said, FCC should consider only imposing DTV must-carry for stations that originate HDTV programming: "Such a rule would encourage the sort of compelling programming that would drive even more consumers to purchase DTV receivers."

NCTA/CEA agreement on DTV-cable set compatibility "breaks little new ground and leaves unresolved the very issues that have delayed the development of cable-ready DTV receivers and stalled the DTV transition," White said in another letter. She said agreement doesn't deal with 2 "most nettlesome" problems — 1394 connection and copy protection. FCC should seek public comment on agreement, White said, in order to correct "failing" of process that it was done behind closed doors.

NCTA issued statement criticizing MSTV for attacking deal. Arguing that MSTV letter "does not make sense," NCTA said proposed FCC rule-making sought by MSTV would "derail fast digital deployment."

Of pending agreement, one consumer electronics official said: "On our side, we're reaching across companies, waiting to get consensus." "It would not be unusual if something happened in connection with our spring conference next week."

Few details of proposed labeling agreement were available. In past, 2 sides have bandied about such terms as "cable-ready," "cable-compatible," "one-way" and "2-way" to distinguish between digital sets made with and without 1394 "firewire" connectors favored by cable industry. Cable interests have pressed for all digital sets labeled "cable-ready" to incorporate 1394 connectors, while TV makers have sought greater flexibility, especially for smaller sets with lower profit margins.

On copy protection technology dispute, sources familiar with negotiations said movie studios and technology developers are narrowing their differences over 5C standard favored by Silicon Valley and cable industry but opposed by some studios. With talks proceeding almost daily, sources expect further progress by March 15, when studio lawyers and tech firm representatives will meet in L.A. But, unlike set-labeling issue, announcement of deal isn't expected.

In fact, sources told us, 2 sides may not fully bridge their differences. Instead, they said, negotiators will likely leave it up to each studio to decide whether to license 5C technology or possible alternatives. Intel executive Michael Moradzadeh is heading 5C group in negotiations, while new MPAA executive Brad Hunt is coordinating movie studio strategy.

CAMPAIGN ADS INVESTIGATED: FCC was investigating complaint by Sen. McCain (R-Ariz.), in which he asked FCC to forbid stations to air ad paid for by group calling itself "Republicans for Clean Air." Commission hadn't acted on complaint by our deadline. FCC Comr. Tristani issued statement calling for quick action, saying "relief delayed in this case would amount to relief denied." McCain campaign also filed complaint at Federal Election Commission, seeking \$2.5 million in fines against Bush campaign.

At least 45 TV stations were asked series of FCC questions about carriage of ads supporting Presidential campaign of George W. Bush. Responses were expected to lead to relatively quick FCC decision on possible action, FCC officials said. Actions could include fines against stations that didn't require adequate sponsorship identification, or FCC notice that ads weren't adequately identified. Fines in past have amounted to several thousand dollars per violation.

Robert Baker, head of FCC Office of Political Programming, said stations were asked about contents of their public file on ads, as well as factors that went into decision-making on whether to carry ads, including whether they were notified by McCain about concerns about ads. "The FCC would never direct the stations to take the ads off the air," Baker said. "That has too many First Amendment implications." Instead, we're told, stations would be able to air ads at own risk, could be subject to later FCC fines if identification rules are violated. There were indications that suspension of McCain campaign after Super Tuesday could have impact on whether FCC acts, since McCain campaign may choose not to pursue complaint.

Complaint said ads should be banned because they don't fully identify persons paying for ads, which he identified as Charles and Sam Wyly, long-time contributors to Bush campaign who McCain said are officially designated as senior fund raisers for campaign. He said they personally spent \$2.5 million on ads in N.Y., Cal. and Ohio, violating "in kind contribution" rules.

McCain campaign also sent letters to individual TV stations, saying they might violate FCC rules if they air ads. Letters also said ad is "demonstrably false" and "we believe you have an obligation not to run an advertisement that has been shown to be untrue." Republicans for Clear Air "exists, if at all, for the sole purpose of producing and distributing this advertisement," McCain campaign said.

In statement, Tristani noted that investigation wasn't complete, but said stations should "proceed with reasonable diligence to satisfy themselves" that sponsors of ads were properly identified: "It will do little good to find, after the presidential primaries are over, that these advertisements should no longer air."

BLILEY TO RETIRE: House Commerce Committee Chmn. Bliley (R-Va.) confirmed rumors March 8, saying he'll retire from Congress at end of this session. Following standing ovation from staff and supporters at press conference, Bliley said that even though he's retiring, "that doesn't mean that I'm not going to be around" for the rest of 106th Congress as active chmn. Bliley has been facing sunset of his chairmanship at end of this Congress as result of new party rules imposed by Republicans after capturing House in 1994.

Bliley said term limits are good "on balance," as they have moved House past era of "old chairmen who stayed forever." He wouldn't answer "hypothetical question" of whether he'd stay if he could retain his chairmanship, but he acknowledged it was factor in his decision-making, and said he feared that when successor "ruffled some feathers" other committee members might try to persuade Bliley to step into fray. He also wouldn't say who he would prefer to replace him, Vice Chmn. Mike Oxley (R-O.) or Telecom Subcommittee Chmn. Tauzin (R-La.), saying "that's not my decision." He also said he didn't know what he'd do after Congress.

Committee staff distributed long list of accomplishments under Bliley's leadership. In communications, most prominent was Telecom Act, of which Bliley was cosponsor. Other items included moratorium on new Internet taxes, Child Online Protection Act, Digital Millennium Copyright Act, satellite privatization legislation. Addressing string of accomplishments in recent years, Bliley said he wanted to "go on the crest of the wave."

Speculation immediately shifted to who will replace Bliley as chmn., even though that was inevitable anyway. Staff for both Tauzin and Oxley have suggested their candidate has upper hand in race. Many observers believe Bliley is quiet supporter of Oxley but he repeatedly has refused to take position.

Numerous communications companies praised Bliley and lauded his accomplishments, particularly in areas that benefited their businesses. EchoStar CEO Charlie Ergen called him "consistent champion for the consumer's right to have a competitive choice in television viewing." AT&T Chmn. Michael Armstrong also portrayed Bliley as "champion for consumers," citing Bliley's "insistence that local telephone monopolies be opened to competition." Consumer Electronics Assn. commended him for his "fervent support and perseverance in the passage of the Digital Millennium Copyright Act and the Telecommunications Act."

NCTA Pres. Robert Sachs called him "one of the real giants of Congress." Comcast Pres. Brian Roberts noted Bliley's "forceful yet gentlemanly leadership." Statements also came from DirecTV, Global Crossing, MCI WorldCom, NAB, Nextlink, PanAmSat, TIA. Oxley issued statement saying "I regret today's retirement announcement" and said Telecom Act was one of Bliley's most noteworthy accomplishments.

FCC QUESTIONS DTV REPLICATION: DTV receiver standards, adequacy of current DTV modulation system, DTV service area replication, deadline for choosing DTV channels, and how to handle competing bids to expand DTV service are among issues raised in FCC biennial review of DTV transition (MM 00-39). Rulemaking says DTV transition appears to be going well, with most stations meeting startup requirements and relatively few facing technical difficulties. Comments are due May 17, replies June 16.

As expected, rulemaking seeks comment on status of 8-VSB modulation (TVD Feb 14 p2), as well as on FCC authority to impose DTV receiver standards. Rulemaking doesn't specifically mention COFDM modulation, but said Commission is "particularly interested in the progress being made to improve indoor DTV reception" and asks for information on NTSC replication using 8-VSB. On receiver standards, FCC asks for comment on its authority, desirability of adopting minimum performance standards, how standards could be structured, and timing.

One of key issues is likely to be service area replication requirements. FCC noted that it gave DTV stations flexibility to operate at lower-than-authorized power levels, and at locations apart from NTSC facilities. As result, it said, it didn't adopt specific requirement that DTV stations replicate NTSC service area, even though it's protecting their NTSC areas. FCC said it's concerned that lack of explicit replication and city-grade service requirements may encourage licensees to locate DTV facilities outside communities of license, negatively affecting DTV transition.

People within stations' NTSC service area, but outside DTV area, could lose service at end of transition, rulemaking said: "We question whether this loss of service would serve the public interest." Commission asks whether it should set replication requirement, how it should be framed, when it should become effective, what penalties it should include, how to determine if station is replicating its service area. FCC suggested requirement should take effect May 1, 2004, or possibly at end of DTV transition.

As stations move to expand DTV coverage areas, conflicts could occur, resulting in mutually exclusive applications, FCC said. It said alternatives include allowing both to serve expansion area, and resolve interference issues among themselves, using new-station application procedure to resolve exclusivity, even using competitive bidding. Commission asked for other suggestions.

Rulemaking seeks comment on rules for stations to choose between NTSC and DTV channels for their final DTV channel allocation. It asks when stations should have to make choice, but suggests it should be no later than 2004.

FCC expressed general pleasure with stations' DTV efforts, saying: (1) 81% of all stations and 97% of commercial stations have filed DTV applications. (2) 316 stations received DTV CPs, with 119 on air. That includes 33 of 40 major network stations in top-10 markets, with 6 others having CPs. (3) In next 20 markets, 78 of 79 big network stations have applied for CPs, 75 have DTV operating authority, and 42 are on air. (4) "Initial evidence indicates that stations are facing relatively few technical problems," and have had fewer-than-expected tower problems.

SBC CONSIDERING SALE: Ameritech's cable systems may be up for sale, based on pronouncements of company officials in at least one Mich. community. SBC had put on hold Ameritech New Media's deployment of new cable operations to review business operations of company it acquired for \$61 billion last year (TVD Jan 17 p5). SBC spokesman confirmed sale of cable systems is one of options company is considering, but declined comment on speculation that overbuilder RCN may be buyer.

Officials in Troy, Mich., were told at recent informal meeting by Ameritech officials that SBC was considering selling cable operations, according to Neil Lehto, lawyer involved in negotiations. Officials said SBC was weighing 3 possibilities: (1) Selling cable systems in Mich., Ohio, Ill. (2) Entering into joint venture, retaining some of fibers for certain telecom uses. (3) Continuing status quo but with no new franchises sought. With more than 200,000 subscribers, Ameritech is one of largest overbuilders in country. It has cable franchises for more than 100 Midwestern towns, with concentrations in Chicago, Columbus, Cleveland and Detroit areas.

Asked about speculation that RCN would buy Ameritech's suburban Cleveland, Detroit and Chicago systems, SBC spokesman said: "We do not discuss prospective buyers." Ameritech official said "no final decision had been made on the business."

Rick Maultra, dir., Cable Communications Agency, Indianapolis, who sought FCC review of cable portion of Ameritech acquisition in filing, expressed disappointment at reported SBC plans to "dump" cable systems. There was not even "footnote" on cable among about 30 provisions for compliance or requirements in companies' merger, he said, and given SBC's history of dropping video properties, it comes as no surprise.

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Tribune Co. said it will be lead investor in iBlast Networks, which will aggregate broadcasters' DTV spectrum for use nationwide. L.A.-based iBlast plans to use portion of stations' DTV spectrum to deliver broadband video, data and other services to consumer PCs. iBlast said it already has spectrum agreements with 143 local TV stations in 102 markets, covering more than 80% of U.S. households. Service is to launch in early 2001. Other iBlast investors include Cox, Gannett, Lee Enterprises, Media General, Meredith, McGraw-Hill, N.Y. Times, Northwest, Post-Newsweek, E.W. Scripps, Smith Bctg. Post Newsweek Stations Pres. Alan Frank said iBlast is "a very significant, significant development... [It's] one specific answer about what to do with the digital spectrum. A number of companies worked very hard to make it happen." iBlast said even "aggressive" estimates indicate only 1/6 of Internet users will have broadband access by 2002, leaving opportunity for its broadcast broadband service.

In wake of Tex. Gov. George W. Bush's overwhelming victory in Republican Super Tues. primaries, speculation about who Bush might put on FCC next year has centered on Tex. PUC Chmn. Pat Wood. Wood, at last week's NARUC meetings, had no comment about possibility of his appointment as FCC chmn., saying Nov. is long way off and first priority for Republicans is getting Bush elected. Wood, whom Bush appointed to PUC, has been enthusiastic backer of Bush's presidential bid. He is strong believer in market solutions and is highly regarded in regulatory community.

MPAA SAYS BAHAMAS PIRATING: Trinidad and Tobago plans to introduce "compulsory license" that allows commercial use of satellite signals by local cable operators for "minimal fee," according to MPAA, making it latest Caribbean nation to use govt. measures to bypass license fees for programming. MPAA, which believes law allowing cable and others to retransmit programming at below-market fee, would cost program producers millions of dollars, filed complaint with U.S. Trade Representative (USTR) Feb. 18. TV Assn. of Programmers (TAP), Latin America, joined MPAA complaint.

MPAA spokeswoman said Jamaica is expected to adopt similar policy, also following lead of Bahamas, first govt. to adopt provision last Jan. USTR has made no decision on filing by International Intellectual Property Alliance (IIPA) made on behalf of (MPAA) that accuses Bahamas govt. of allowing "unauthorized" commercial use of satellite signals. Deadline for comments is April 30, but MPAA hopes Bahamas will stop practice voluntarily before USTR decision. If not, MPAA will ask for special 301 rule violation that would take away trade benefits. USTR spokesman wouldn't comment until after final decision.

MPAA spokeswoman said "piracy" is major concern of members who lose "millions of dollars" in fees when satellite signals are used without paying full license fee. MPAA accused Bahamas of violating Berne Copyright Convention, "transgressing international standards" prohibiting theft of satellite programming, and circumvention of conditional access measures. MPAA Vp-Trade & Federal Affairs Bonnie Richardson said there's evidence that premium channels such as HBO and Disney have been aired in Bahamas under new policy.

Bahamian law gives retransmission rights to cable operators with compulsory licenses there. No other compulsory license extends to cable or satellite programming, MPAA said. Under Bahamas law, cable operators reaching less than 1,500 premises pay fees of 14 cents per month per premise, increasing to 50 cents per premise for more than 6,000. Rate for smaller companies is fixed at \$72 per year. MPAA is concerned because fees are same whether one signal or 40 signals are retransmitted. Licensed operators in Bahamas are exempt for fees when signals are transmitted to hotel rooms, hospitals, nursing homes, schools, health or education facility. In U.S., fees are typically in range of 50¢ per subscriber per channel per month for basic channels, and more for premium channels.

MPAA called new law "disruptive" of international programming and said it would "cause a serious, adverse impact on U.S. filmed entertainment and program packages." Richardson said practice could have devastating effects on satellite broadcasts: "If this spread, broadcasters would lose a lot of money. This is a very bad precedent. They are getting duty free entry." MPAA said it has been unsuccessfully attempting to solve problem for 7 months. "There has been some intensive negotiating," Richardson said. "But on our latest filing, we have not heard from them." Spokeswoman at the Bahamian Embassy didn't return phone calls.

FCC Chmn. Kennard has been away from office since March 6, "taking time for a family matter," FCC spokeswoman said. He canceled several scheduled appearances, including speech in Boston on March 6 and NARUC keynote speech March 8. Spokeswoman said there may be rumors as result, but it's family matter, he's not ill and was in N.Y.C. March 10 participating in financial conference.

DANIELS DIES: Bill Daniels, 79, chmn. of Daniels Communications and founder of Daniels & Assoc., died March 7 after long illness. Death is expected to have little impact on companies he founded, but to result in large charitable contributions.

Cable industry pioneer, Daniels introduced cable to such western communities as Casper, Wyo., in early 1950s and started Denver-based Daniels & Assoc. in 1958 as financial broker for cable deals and investments. In one notable deal, Daniels led cable industry consortium that bailed out Ted Turner after Turner's purchase of MGM film library in 1986. He also was a co-founder, chmn. and pres. of NCTA. NCTA Pres. Robert Sachs said Daniels was "a giant in our industry" and "champion of ethics and values in business." Sachs said Daniels' life "exemplified the adage that it is possible to do good for others while doing well in business."

Death should have little impact on Daniels & Assoc., financial brokerage firm and investment bank he founded more than 40 years ago and headed for most of its existence, according to executives. Although Daniels started privately held firm in 1958 and ran it for many years, he sold 90% of company to 24 limited partners in 1991 and retired from its day-to-day operations several years ago, said Bob Russo, exec. vp, marketing & administration. He said his will calls for Daniels' remaining 10% stake in firm to be offered for sale to existing shareholders. Denver-based company, headed by Chmn.-CEO Brian Deevy and Pres.-COO Brad Busse, has 65 employees and closed record of \$16 billion in cable transactions last year.

Daniels' other company, Daniels Communications, will go out of business eventually after liquidating all of cable and sports magnate's estimated \$1.4 billion in public and private holdings. Russo said Daniels' will calls for most of that money, or more than \$1 billion, to go to newly established Daniels Fund.

First of 3 planned memorial services for Daniels is March 15 in Denver. Service will be in Magness Arena at Ritchie Center on U. of Denver campus at 1:30 p.m. (MT), followed by reception in Ritchie Center's Hamilton Arena at 2:30 p.m. Other memorial services are still in works for San Diego and Hobbs, N.M. He's survived by younger brother and 2 stepchildren.

Senate Banking Committee approved S-2097 by Chmn. Gramm (R-Tex.) March 8, helping Gramm keep his promise to deliver to floor by March 30 \$1.25-billion loan program to provide local broadcast signals to rural areas. House Agriculture Committee already has passed similar legislation (HR-3615) by Rep. Goodlatte (R-Va.), and Senate Agriculture Committee has bill pending (S-1980) by Sen. Baucus (D-Mont.). While Goodlatte bill backs 100% of loan, Gramm capped backing at 70% to provide additional incentives to pay it off. He said measure is "aimed at maximizing the chances that we will have access to local television signals in our more rural areas and doing it in a way in which we preserve the taxpayers' money that will be invested." All bills are technology-neutral, meaning DBS is not only possible method that could receive loan guarantees.

PanAmSat said Galaxy XR satellite is delivering cable and telecom service to N. America from 123° W. following 4 weeks of in-orbit testing. Satellite eventually will migrate to 127° W. Galaxy XR has 24 C-band and 24 Ku-band transponders.

ACCESS RIVALS DEBATE: Proponents and opponents of opening high-speed cable lines to rival ISPs kicked off Legg Mason telecom investors conference March 9 with spirited debate over whether federal govt. should intervene in emerging broadband market. While FCC and NCTA officials vigorously defended Commission's current hands-off approach, OpenNet Co-Dir. Gregory Simon provoked biggest reaction by predicting that such other major cable operators as Comcast, Cox and Charter will likely follow lead of AT&T and proposed AOL-Time Warner union in promising to offer multiple ISPs to high-speed online subscribers.

Simon said he's also looking for AOL Time Warner to carry other ISPs by end of year. He sees combined entity moving relatively quickly to end its exclusive contracts with Road Runner, slated to expire at end of next year, because of AOL's strong desire to place its new broadband service on cable systems. If AT&T tries to block that move through its pending acquisition of MediaOne Group, co-owner of Road Runner with Time Warner, "then they're begging for trouble from the Justice Dept.," he said.

Comment by Simon came amid fresh speculation that Justice Dept. might make AT&T divest its stake in either Excite@Home or Road Runner in exchange for approval of MediaOne purchase. Excite@Home and Road Runner are by far leading cable high-speed services, controlling more than 1.7 million of estimated 2 million cable-modem subscribers in U.S. and Canada. In written statement, AT&T reiterated its intent to "honor its current contract with Excite@Home, including its exclusivity provisions." AT&T stressed that it "does anticipate a long-term relationship with Excite@Home."

With both sides awaiting key decision in Portland case by U.S. Appeals Court, San Francisco, FCC Cable Bureau Chief Deborah Lathen disputed contention by open-access proponents that broadband market needs regulation. "We have not seen any signs of a market failure that would justify regulation at this point," she said, citing open-access pledges by 2 biggest MSOs and emergence of DSL, wireless cable and satellite systems as high-speed rivals to cable: "We see competition flourishing and thriving." In light of AT&T and AOL-Time Warner moves, Lathen said she thinks "we'll see parties put more meat on the bone."

David Olson, dir., cable communications and franchise management for Portland, predicted "a tremendous number of local governments" will mandate open-access provisions for their cable franchises if U.S. Appeals Court, as he expects, upholds Portland ruling: "It's simply going to happen because it's the obvious thing to do, it's the right thing to do." He said communities are taking action because of FCC's unwillingness to set market rules. "Because of federal inaction," he said, "the battle is being left to be fought hand-to-hand, city hall to city hall."

Daniel Brenner, NCTA senior vp-law & regulatory policy, said open-access regulatory attempts continue to flounder in Canada more than year after rules were mandated there. Citing surge in DSL rollouts in recent months, he argued that cable-modem deployments have proven to be spur to competition.

TV ad revenues grew 8.6% in 4th quarter 1999, TvB said, including 6.8% growth in local spots, with 0.3% decline in national spot. TvB said syndicated TV ad revenue grew 12.1%, network TV 14.7%.

ROAD RUNNER GOAL ONE MILLION: Hoping to keep AOL from gobbling up his company, new Road Runner Pres. William Gordon is looking to nearly triple cable-modem service's customer total to more than 1.5 million by year-end. In first interview since being promoted from senior vp-CFO post, Gordon said addition of one million subscribers should make it harder for merged AOL-Time Warner entity to fold Road Runner into AOL's own high-speed service, AOL Plus. Road Runner ended year with 551,000 subscribers, vs. Excite@Home's 1.1 million cable-modem customers.

Gordon, who joined Road Runner last June, also set ambitious growth target because of pending threat that both of company's cable backers — Time Warner and MediaOne — might soon junk their exclusive carriage contracts with firm. AT&T, which backs rival Excite@Home service, intends to close purchase of MediaOne by summer. AOL and Time Warner executives, hoping to consummate their merger by year-end, said they'll explore ending Time Warner's exclusive deals with Road Runner before those contracts expire at close of next year.

"Clearly a bigger Road Runner has a brighter future," said Gordon. "At the end of the year, if we're sitting here with 1.5 million happy subscribers paying cable systems \$40 a month, that's a huge business. I think a lot of people would think twice before tinkering with it."

If open-access drive leads to premature end of exclusive contracts, look for Road Runner to pursue carriage deals with Excite@Home affiliates and explore such competitive technologies as DSL, Gordon said: "The bottom line there is that it [open access] cuts both ways."

Gordon's plan calls for offering Road Runner to at least another 10 million cable homes this year, which would make it available in more than 25 million homes, over 80% of combined Time Warner-MediaOne universe. Service is already largely deployed in all MediaOne territories.

Despite fiercer competition from telephone company DSL rollouts in recent months, Road Runner doesn't plan to cut price or mount big national marketing campaign this year. With demand for service steadily rising and most DSL offerings still priced higher than \$39.95 a month, Gordon said he sees no reason to change strategy.

After 2 years in limbo, Child's Online Protection Act (COPA) Commission met March 7 at Commerce Dept. to develop proposals for govt. funding and to issue report on solutions to protect children from adult-oriented Internet sites by Nov. 30 deadline. Commission, appointed by Congress and made up of 16 representatives from Internet companies, advocacy groups and others, also elected Network Solutions Consultant Donald Telage chmn. There currently is no funding for Commission staffing or activities, which many members said should come from Congress. "We need to take a look at cost" and structure, global commerce issues, law enforcement in addition to filtering technology, said Arthur DeRosier, pres.-Rocky Mountain College. Commission formed subcommittee headed by Robert Flores of National Law Center for Children & Families, to draft letter to Congress outlining Commission's financial needs. Commission members include 3 govt. officials who don't have vote: NTIA Dir. Gregory Rohde, Justice Dept. Chief of Staff Michael Horowitz, FTC Div. of Ad Practices Assoc. Dir. Lee Peeler. Commission plans 4 meetings before issuing final report, with next meeting being April 14 at yet to be determined location.

IN-FLIGHT TV PLANNED: News Corp. and Rockwell Collins signed agreement to provide live TV, recorded video, audio, Internet and e-mail to airline passengers in flight and on ground, with launch of In Flight Network. Startup is to be 4th quarter 2001. Spokeswoman said no airlines have signed up for service, but "it will happen in next few months."

"Our business plan is based on 30% market penetration of aircraft," Rockwell International Senior Vp John Cohn said. "The airlines will ultimately determine what kind of pricing there is going to be. What's different about this is the ability of our system to provide real-time programming for passengers." Most airline entertainment systems allow passengers to access only limited number of audiotapes or movies. IFN offers 80 video channels. Spokeswoman didn't know if participating airlines would charge for service, but said IFN revenue is ad-driven and airline fee-based. In Flight plans to lease C- and Ku-band satellite transponders for service. Network will support multiple video channels with programming automatically tailored to flight and destination.

Advertisers can deliver full-motion broadcast video spots to aircraft in flight throughout world. Web-based video spots and banner ads can be delivered to PC users. Internet and e-mail connectivity will be available through laptops or Personal Data Assistants through wireless network on aircraft.



AOL's merger with Time Warner (TW) could be justified by "tactical synergies" alone, meaning marketing and distribution savings, but that's not why deal got done, AOL Pres. Robert Pittman told PaineWebber conference in N.Y. last week. He said companies will be able to create new businesses that neither could begin alone, with online music distribution and AOLTV first examples. Combined companies' financial, intellectual property and technological resources are enough "to create whatever our imaginations can devise," Pittman said. Past attempts at interactive TV have been hampered by necessity of partnering companies with differing agendas, he said, but AOL/TW will have all elements under its own control. Companies aren't "waiting for the merger to close" to meld businesses, he said: "We're working on it everyday." Pittman projected combined company will see revenue growth of 12-15% annually, with cash flow growing even faster as TW's investment in cable infrastructure starts to pay off. On cable open access, he said TW's cable executives are "looking forward to choice," which they expect to increase cable modem subscribers. AOL isn't afraid to compete, Pittman said: "We love choice. We do very well." He said AOL hasn't offered wide scale DSL service yet because it doesn't want to let down customers by promoting service not available to them. Company is working on program with Bell companies that will individually pitch DSL to those subscribers with upgraded homes, Pittman said. AOL hopes to turn Internet into equivalent of electricity, element necessary for every other segment of economy, he said, with company targeting every major appliance in home, including computer, TV, stereo and phone. As ISP adds new services, it's becoming harder for subscribers to leave, reducing churn rate, Pittman said. Customers with calendars, pictures and stock portfolios online find "if you want to give up AOL, you have to give up a whole lot of stuff," he said. PaineWebber released bullish report on merged companies at conference, valuing AOL (which has traded around \$60 per share) at \$92. One analyst told us AOL is "nobrainer" buy right now, since if merger goes through its benefits will be apparent, while if deal fails stock will shoot back to its preannouncement price.

Tenth annual media conference "The Big Picture: The Business of Entertainment" April 4 has outgrown its former hotel in N.Y.C. and it will feature 3 keynote speakers — Steve Case of America Online, Michael Eisner of Disney, FCC Chmn. Kennard. CBS's Mel Karmazin and Viacom's Sumner Redstone, who are awaiting govt. approval of Viacom takeover of CBS, will be interviewed by David Frost. Participating on TV, cable and new media panel: News Corp. Pres. Peter Chernin, ABC TV Network Pres. Patricia Fili-Krushel, DirecTV Pres. Eddy Hartenstein, CBS TV Pres. Leslie Moonves, NBC Pres. Robert Wright, Comcast Pres. Brian Roberts. "Movie Business" panel includes International Creative Chmn. Jeffrey Berg, Arnon Milchan, founder of New Regency Productions, New Line Cinema Chmn. Robert Shaye, Miramax Films Co-Chmn. Harvey Weinstein and Alex Yemenidjian, chmn. of MGM Studios. Internet panel, to be moderated by NBC's Tom Brokaw, will include Excite @Home Pres. George Bell, Amazon.com CEO Jeffrey Bezos, NBCi CEO Chris Kitz, DoubleClick CEO Kevin O'Connor and Jay Walker, vice chmn.-founder of Priceline.com. One-day conference, co-sponsored by Schroeder & Co. and *Variety* magazine, will shift from Pierre Hotel to Grand Hyatt.

Disney's Go.com is preparing for enhanced TV with its online offerings that seek to complement TV programs on ABC and other networks, executives said. Exec. Vp Dick Glover pointed to Super Bowl telecast, during which 650,000 people logged on to Go.com site for at least half hour, along with Drew Carey Webcast. TV programs with such integrated Web elements see their ratings go up, not down, he said. When platform convergence arrives and Internet elements are available on same TV as broadcast, accessing both simultaneously "will be natural for our users," Glover said. Meanwhile, Go.com sought to reposition itself as portal that focuses on entertainment, sports and leisure. "The Internet is growing too fast for a portal to be all things for all people," executive said, and different portals "will become known for different things." He said new focus will "provide a more compelling, differentiated experience." Senior Vp-Ad Sales Scot Schiller said Disney for first time this year will offer Internet ad sales as it sells upfront for ABC TV Network. ABC sells \$3.5 billion worth of ads during that time, he said, and it would be "significant" if Go.com could capture just 1% of that. TV ad industry "has been resistant to change," he said, but this isn't "new model we're selling — it's simply a new medium."

Extending its global reach, Discovery Communications intends to unveil regional versions of its health and travel networks in Europe, Latin America, India and Asia this year. Plans call for launching Discovery Health as 24-hour channel in U.K. and Latin America this summer, placing it in at least 8 million digital broadcast and cable homes by year-end. At same time, health network will supply weekly, 2-hour programming blocks for Discovery Channel viewers in India and Asia, reaching another 58 million households. Similarly, Discovery Travel & Adventure, already available in U.K., Scandinavia and parts of Eastern Europe, will roll out as 24-hour channel in rest of Europe and Latin America, as well as weekly 2-hour programming block in India, during 3rd quarter. In conference call with reporters, Discovery executives said \$100-million effort is part of cable programmer's drive to develop its "15 entertainment brands" worldwide. Discovery Kids and People & Arts joint venture with BBC seem likely to follow as full-time international networks. "There really is no end point," said Dawn McCall, pres., Discovery Networks International. "We're always looking at which ones make sense to roll out globally."

ADS TO DRIVE INTERNET: Internet conference began sounding like ad conference as new media companies tried to convince analysts at PaineWebber gathering in N.Y.C. that ad money would make them lucrative — and soon. Most companies gave deadlines (usually 1-2 years down road) to start showing positive cash flow, and ad revenue from increasingly targeted spots accounted for lion's share of optimism. Women.com CEO Marleen McDaniel said her site now projects mature balance sheet will show 80% of revenue from ads.

Excite@Home CEO George Bell demonstrated new ad customization program that doesn't just target ads to customers, it creates new ones for them, changing images, colors and ad copy. Technology will appear in company's new broadband portal, which Bell said will launch this month. Within 3-4 years, he said, high-speed services will face same price wars as dial-up services, so broadband must have ad revenue lined up to replace monthly fees.

New ad delivery technologies created for Internet will have applications across media and telecom worlds, several speakers said. David Moore, CEO of ad network 24/7 Media, said cable and especially video-on-demand will be ideal platforms for targeted ads.

Internet holding company CMGI is "getting focused on wireless and broadband," and wireless is pulling away to become leading market for new Internet ventures, said Exec. Vp-Corp. Strategy Hans Hawrysz. Whereas last year most business plans presented to him dealt with broadband content, "wireless has clearly taken over," he said. Hawrysz said his company's MyWay subsidiary will launch wireless content venture with BellSouth, which owns 10% of MyWay, in "middle of this month." He said CMGI is talking to all major wireless manufacturers and carriers and "you can expect in the next 3 months a number of announcements."

He said ad-supported media "will be true global phenomenon" in next few years, repeating predictions other companies made day before. Internet now has "11% of eyeball time and 2% of the ad dollars," he said. "That's an arbitrage opportunity." Hawrysz said CMGI "will be taking a stronger position in the next couple of months" on why privacy regulations shouldn't be allowed to kill targeted ads, although he said CMGI has better record than many other companies, with most of its information-gathering on opt-in basis. So far, company has been working behind scenes on issue, talking with privacy advocates and industry councils working on standards, Hawrysz said.

Basic cable network viewership climbed to record levels first week in March, according to Cable Ad Bureau. In its latest analysis of Nielsen research data, CAB said advertiser-supported cable's primetime delivery rose to 23.9 million homes for week, up 1 million homes, or 4.2%, from year ago. Similarly, ad-supported cable's prime time rating rose 0.6 points, or 2.6%, to 23.7, and cable's prime time audience share increased 1.6 points, or 4.3%, to 38.7. In contrast, CAB said, 7 broadcast networks saw their collective prime time delivery drop to 34 million households, down 1.1 million (3.2%), from year ago. Likewise, CAB said, collective prime time rating for 7 broadcast networks fell 1.6 points, or 4.5%, to 33.8, and their prime time audience share slipped 1.9 points, or 3.3%, to 54.8.

Excite@Home isn't worried about losing cable affiliations when exclusive deals start ending, CEO George Bell said, because as "practical matter" company's infrastructure is embedded so deeply into 600 cable headends around country. "Who would want to rip that out" to switch cable ISP, he asked: "We're literally married to the headend." Even if company must share platform with other ISPs, Bell said, they won't have same cacheing ability as Excite@Home, which he said by end of year hopes to be able to store 65-70% of accessed content on local servers for faster downloads. He said Excite@Home's future is "platform agnostic," seeking partnerships on DSL as well as cable, although so far it has had "no incentive to go outside cable" since it already struggles to meet rising demand. That will change, he said, especially as company with its new Work.com partnership with Dow Jones increasingly targets commercial customers. Bell said Excite@Home is increasing its backbone capability this summer to 13 Gbps from current 2 Gbps to meet what it expects to be surge of cable modem users. He said current average penetration in ready markets is 5%, but in "mature" markets where service has been available 3 years, it's often 25-30%. This is "not a time to be harvesting profits," he told analysts who wondered when company would show one. "This is 'customer capture' time." We're "sharply undervalued" as result of fears about open access regulation and speculation that MSOs won't renew, Bell said, but "value of our franchise is much larger than the cable partnerships."

In long-awaited decision, FCC created new class of commercial license called "Guard Band Manager license" and voted to prohibit cellular-like services in 6 MHz of guard band spectrum reserved in Ch. 60-69 band. Use of guard bands became contentious issue because private wireless users were urging FCC to give them exclusive use of spectrum, while others were lobbying Commission to put up all spectrum for auction without setting restrictions on types of services that could be offered in band. Comrs. Furchtgott-Roth and Powell partially dissented from decision. FCC said new rules are designed to ensure that public safety licensees, which will use 24 MHz of spectrum in Ch. 60-69 band, will operate "free of interference from any new commercial users in that band." Agency said auctions will be used to assign guard band spectrum to band managers, who will be responsible for leasing spectrum to 3rd parties, which agency said could include "both commercial service providers and private parties." Entities operating in guard bands will be required to comply with specified "out-of-band" emission criteria, and with certain prescribed frequency coordination procedures. Licenses will be auctioned for 2 MHz and 4 MHz guard bands on basis of 52 major economic areas (MEAs), which FCC said will provide opportunity for both "aggregation and partitioning of geographic areas to suit a wide variety of possible business plans."

Despite their reputation as financial quagmires, cable overbuilds may actually start making economic sense because of potential for new services, according to Strategis Group. In new study, it found that overbuilds might work in medium and large markets once alternative cable systems begin offering digital programming, high-speed Internet access and telephony in addition to traditional cable services. Under best-case scenario, municipally owned utility with cable system passing 150,000 homes could enjoy \$22 million increase in net present value if it offered digital video, high-speed data and telephony, report said. Consulting group also found that adding voice services alone could boost overbuilder's operating cash flow by 26-37%. "While the numbers are far from making a compelling case in favor of overbuilds, they clearly demonstrate the potential represented by offering a full slate of voice, video and data services in bigger, densely populated markets," said Robert Jones, exec. vp, Strategis Group.

Forging 2nd joint marketing agreement in 2 weeks, AT&T will pitch cable and telephone services in 2 upstate N.Y. cities with Time Warner (TW) systems, companies announced. Starting next month, they said they will market combined packages of local telephone, long distance, cable and Internet access to consumers in Albany and Syracuse, where TW has combined customer base of 600,000. Although companies won't hand out price discounts, they will offer such incentives as AT&T prepaid calling cards, free AT&T long-distance minutes and free pay-per-view coupons from TW. Companies said they will explore expanding joint marketing drive to other N.Y. markets if pilot is successful. They dismissed notion that marketing deal is prelude to larger, now stalled, agreement between 2 to offer AT&T telephone services over TW's cable lines. "The 2 things are not linked," said TW Cable spokesman. But, he added, "this is a good first step in the relationship." AT&T, which boasts 175,000 customers for its new "all-distance calling plan" in N.Y., struck similar marketing accord with Cablevision Systems in N.Y.C. metropolitan area Feb. 23.

Full House joined Senate last week in approving conference report for S-376, satellite privatization legislation, in voice vote. Bill now goes to President Clinton. While Administration hasn't voiced position on bill, feeling on Hill is that S-376 has more than sufficient support to override veto. House Commerce Committee Chmn. Bliley (R-Va.), sponsor of House version of bill, said bill "breaks up a cartel. It ends a monopoly," referring to Intelsat. Commerce Committee Ranking Democrat Dingell (Mich.) noted Inmarsat already has privatized and Intelsat has been working toward that without legislation, and added "more onerous provisions" of House bill were removed in conference and report is worthy of passage. House Telecom Subcommittee Chmn. Tauzin (R-La.), Vice Chmn. Oxley (R-O.), Ranking Democrat Markey (Mass.) and Rep. Deutsch (D-Fla.) also backed bill. Comsat CEO Betty Alewine said legislation "clears the way toward closing the Comsat-Lockheed Martin merger."

FCC is seeking more information from AOL and Time Warner about how their proposed merger would affect multi-channel video and high-speed data markets and benefit consumers. In 3-page letter to lawyers representing 2 merger partners March 9, FCC Gen. Counsel Christopher Wright said neither public nor Commission staff "can provide an informed evaluation of the application" without additional information. Specifically, Wright wants companies to provide explicit details of AOL's investment in DirecTV owner General Motors and substantiate their claim that AOL's stakes in rival cable and DBS providers won't hurt consumers. Wright also wants companies to back up their contention that AOL ownership of Road Runner will not harm Internet users because Road Runner has only 550,000 subscribers.

Electronic "watermarking" system for digital broadcasting is being sought by European Bcstg. Union (EBU), which called on TV industry in other parts of world to help with search. Watermarking would place identifier on digital programming, making it easier to protect copyright of digital broadcasts. EBU said digital makes need for watermarking more urgent, since digital allows perfect copies of original program. EBU issued "call for systems," asking manufacturers to suggest relevant technologies, with goal of agreeing to worldwide system. It plans audio watermarking system later.

ABC backed down from its threat to pull its Houston affiliate, KTRK-TV (Ch. 13), from Time Warner system and instead offered MSO yet another extension until March 31.

CBS's Infinity Bcstg. is by far largest purchaser of radio stations being spun off Clear Channel (CC) in its \$65 billion purchase of AMFM Inc. (TVD Oct 11 p9). CC March 6 announced sale of 72 stations in 27 markets — all dependent on closing of CC-AMFM deal, which still is awaiting spin-off of approximately 50 additional stations and FCC and Justice Dept. approval. Infinity is buying total of 18 stations — some currently owned by CC, some by AMFM — in Cleveland, Cincinnati, Denver, Greensboro, Orlando, Phoenix and San Diego. Other buyers of multiple stations from CC-AMFM include Chase Radio Partners (11), Cumulus Media (11), Salem Communications (8), Cox Radio (7) and El Dorado Communications (5, all in Houston). Remaining divestitures are to be announced "in the near future," CC said. CC continued its spin-off of radio stations last week, announcing sale of 16 more as it prepares to take over AMFM Inc. Sega Communications said it's paying CC \$12 million for WHMP-AM-FM Northhampton, Mass. Inner City Bcstg. is buying 9 stations in South from CC (prices not announced), Barnstable Bcstg. 2 stations in Des Moines, 2 in Greenville, S.C., and Rodriguez Communications is buying KXJO(FM) San Francisco.

Asked if he views AT&T as potential partner or competitor, AOL Chmn. Steve Case told Credit Suisse First Boston conference that it's "unclear." Company "certainly is a potential partner in some markets and a potential competitor in some," he said, noting lines are no longer drawn between "list of friends and a list of enemies." That is "a little naive. I think it's going to be more subtle than that." Without elaborating, he said AOL is holding discussions with AT&T and others: "We recognize people would love some clarity on a number of things." Referring to "framework" that AOL and Time Warner signed last week to offer TW cable subscribers choice of multiple ISPs once merger of 2 is completed (TVD March 6 p1), Case expressed assurance that other cable companies would follow suit. He said, "we believe it's in cable companies' financial interest to provide access" to their network: "We are confident other cable companies will be doing so as well." He emphasized that "we want to support all the major [access] platforms in the future," citing cable, digital subscriber line, wireless as examples.

N. American cable operators will end year with more than 4 million cable-modem subscribers, double current total of 1.5 million in U.S. plus 560,000 in Canada, according to latest projections by Kinetic Strategies. Consulting group estimates U.S. and Canadian MSOs are adding more than 5,000 high-speed data customers per day and offering service to 43 million households, or 40% of cable homes passed. Time Warner continues to lead in U.S., adding 75,000 cable-modem customers in 4th quarter to close last year with 320,000. But AT&T, 3rd in overall total with 207,000 subscribers, enjoyed fastest growth in 4th quarter with addition of 93,400 customers. MediaOne Group, which added 47,000 customers in 4th quarter, ended 1999 in 2nd place with 220,000 subscribers. Cox, which gained 46,444 subscribers in 4th quarter, finished year in 4th with 186,918 customers. In Canada, Rogers Communications overtook Shaw Communications in 4th quarter to end 1999 with 185,700 high-speed subscribers. Shaw closed year with 185,000 customers.

Mallard Cablevision will buy Blackstone Cable's systems in southeastern and western U.S., giving Mallard another 43,000 subscribers for its partnership with SunTel Communications. No terms were disclosed. With purchase, Mallard and SunTel will jointly own cable systems with total of more than 65,000 subscribers.

Personals

ABC News changes: **Bob Murphy**, senior vp-news, will oversee multimedia including ABCNEWS.com, ABC News Radio and ABC NewsOne, **Phyllis McGrady**, ex-*PrimeTime Live*, will oversee 20/20, *Good Morning America* and all specials, **Paul Friedman**, exec. producer-*World News Tonight*, adds exec. vp & managing editor, responsible for all hard-news programs... **Thomas Malanga**, ex-MGM, named senior vp-finance, Buena Vista TV... **Joel Cheatwood**, ex-NBC, appointed vp-news, CBS TV Stations, and news dir.-WCBS-TV, N.Y... **Maureen Walsh**, ex-Fox, appointed vp-affiliate relations, UPN... **David Thomas** promoted to vp-creative services & design for Domestic TV div., Paramount TV Group... **Alan Suhonen**, ex-Belo Broadcast Group's Capital Bureau, named gen. mgr., Network News Service (NNS)... **David Murray**, ex-WTIC-TV, Hartford, named Univision vp-sales development and mktg... **Bill Carey**, ex-WCBS-TV, N.Y., named affiliate relations dir., Zatto... **Roni Mueller** advanced to head of business affairs department, Warner Bros.

James Cottingham, exec. vp-Time Warner Cable, will retire July 1, be replaced by **James Fellhauer**, former senior vp-mktg... **Cindy Commerato** promoted to vp-financial planning, corporate finance group, Cablevision Systems... **Joseph LaPolla** promoted to vp-scheduling, acquisitions and digital, History Channel... **Amy Jurist**, ex-FX Network, named dir.-mktg., E! Entertainment TV Network... **Turner Bcstg.** System additions: **Cynthia Brayton**, ex-Spacenet, named dir.-broadcast operations, **Turner Entertainment Networks** div., **Clifford Calkins**, ex-Slingshot Networks, appointed dir.-engineering maintenance, **Scott Nicholls**, ex-Weyerhaeuser, named dir.-project management... **Wireless Communications Assn.** board additions: **Joseph Sandri**, vp-regulatory counsel, **Winstar Communications**, **Rick Guipe**, senior vp-Wireless Network Systems, **TESSCO**, **Michael Greenbaum**, CEO-pres., **Hybrid**, **Robert Gillan**, vp-Wireless Networks, **Newbridge Networks**, **Richard Mitchell**, vp & gen. mgr.-Comwave div., **THOMCAST Communications**.

Mary Murphy, ex-special counsel to FCC Gen. Counsel Christopher Wright, named chief-Policy and Rules Div. of Mass Media Bureau, FCC... **Ken Jacobsen** promoted to senior vp & dir.-Worldwide Anti-Piracy, Motion Picture Assn., replacing **Ric Hirsch** who will return to N.Y... **Henry Plaster**, ex-office of Rep. Linder (R-Ga.), appointed dir.-govt. relations, NCTA... **Charlie McCullough** promoted to senior vp-engineering, Wink Communications... **Carolyn Jones**, advanced to vp-human resources, Westwood One, N.Y... **Madeline Berger**, ex-ESPN, formed own firm, MB Strategies, N.Y.

As was case in coverage of N.H. Presidential primary (TVD Feb 28 p5), 85% of voters polled in 5 Super Tues. primary states said local TV and radio stations devoted either "right amount" or "too much" time to coverage of campaign. Only 7% of 827 voters surveyed said not enough time was devoted to campaigns, according to survey taken by Wirthlin Worldwide for NAB and RTNDA. Voters were against mandatory free time for candidates with 54% expressing opposition, 34% favoring proposal, and 12% "not sure." TV-radio was credited by 43% of voters with providing "most helpful" information in helping them decide for whom to vote, while 17% said print media, 9% information provided by candidates.



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Broadcasters should have 3-year period to choose between must-carry and retransmission consent for local-into-local DBS service, according to joint filing at FCC by network affiliate TV stations. Three-year cycle should begin Jan. 1, 2002, stations said, and cycle should be staggered on different years from cycle for decision on wired carriage. NCTA, in contrast, said there should be single timetable for decisions on both cable and DBS carriage, saying broadcast proposal would give broadcasters "heads-I-win, tails-you-lose" game.

WRH

Consumer Electronics

A Section of *Television Digest* with *Consumer Electronics*

STATE OF THE INDUSTRY

Sales to dealers, from CEA, for week ending Feb. 25 and year to date:

	FEB. 19- FEB. 25	1999 WEEK	% CHANGE	FEB. 12- FEB. 18	8 WEEKS 2000	8 WEEKS 1999	% CHANGE
TOTAL COLOR TV.	712,068	767,452	- 7.2	514,077	3,648,726	3,488,001	+ 4.6
DIRECT-VIEW**	670,659	727,977	- 7.9	487,610	3,451,793	3,332,715	+ 3.6
TV ONLY#....	550,741	591,794	- 6.9	410,987	2,939,928	2,851,461	+ 3.1
TV/VCR COMBO.	119,918*	136,183	- 11.9	76,623*	511,865*	481,254	+ 6.4
PROJECTION...	41,409*	39,475	+ 4.9	26,467*	196,933*	155,286	+ 26.8
TOTAL VCR**....	781,530*	856,223	- 8.7	263,463	3,026,523*	2,816,684	+ 7.4
HOME DECKS...	661,612*	720,040	- 8.1	216,840	2,514,658*	2,335,430	+ 7.7
CAMCORDERS (a)...	135,851*	170,369	- 20.3	53,016	597,578*	468,075	+ 27.7
DVD PLAYERS....	215,732*	54,516	+295.7	76,184*	771,066*	234,935	+228.2

Direct-view TV 5-week moving average#: 2000-433,481; 1999-419,263 (up 3.4%).

Projection TV 5-week moving average: 2000-29,464*; 1999-23,723 (up 24.2%).

VCR deck 5-week moving average: 2000-407,333; 1999-346,701 (up 17.5%).

TV/VCR 5-week moving average: 2000-76,321*; 1999-76,932 (down 0.8%).

Camcorder 5-week moving average: 2000-87,106* 1999-72,900 (up 19.5%).

DVD player 5-week moving average: 2000-114,900*; 1999-34,207 (up 235.9%).

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

THOMSON BACKS X-BOX CONSOLE; PLAYSTATION2 HAS FLAWS: Sony lost some wind out of its sails in week following PlayStation2 (PS2) Japan launch, when reports that new videogame console experienced technical hiccups were followed by unveiling of Microsoft's "X-Box" game system — and Fri. announcement that RCA-parent Thomson Multimedia will field X-Box technology in future products.

Enrique Rodriguez, Thomson senior vp-multimedia, endorsed X-Box last week in address videotaped for Game Developers Conference in San Jose, Cal., where Microsoft Chmn. Bill Gates, in front of packed audience, finally made his company's X-Box plans official. Rodriguez said: "We see the X-Box as a critical step in bringing advanced software and graphics features to digital entertainment products." He added: "We envision this technology as an integral part of new television, DVD, and interactive devices aimed to broaden the home entertainment experience."

Although Thomson endorsed X-Box, there were no specifics provided by either company on just what products Thomson will come out with, when they will ship, how much they will cost. But Thomson spokesman said announcement didn't mean his company will be exclusive manufacturer for X-Box product. He said his company is "endorsing the X-Box platform and we think there are some new development opportunities for us" with it. He added: "We're interested in the technology itself." Console, he said, is merely one application of Microsoft technology.

Position taken by Thomson leaves open possibility that another game console manufacturer may enter picture before X-Box product actually reaches market. At our deadline, Sega of America Mktg. Communications Dir. Charles Bellfield confirmed widespread industry rumors that have indicated his company has been in talks with Microsoft about possibly becoming X-Box partner. Bellfield said: "There have been many talks between Microsoft and Sega over development of new products in our industry and specifically the X-Box, on top of the strategic relationship Sega and Microsoft have together for Dreamcast." But he said "there is nothing in terms of any agreement at this point in time" although companies "continue to be close partners and talks will continue." At least one report last week indicated companies were close to deal but talks broke off just before Microsoft's Fri. announcement. Microsoft currently provides customized version

of its Windows CE operating system with "DirectX" services for Dreamcast. Industry observers have indicated deal between 2 companies would make sense for various reasons — among them Microsoft's lack of experience in hardware arena and Sega's ongoing financial woes (TVD March 6 p14).

Thomson spokesman had declined to comment on whether or not his company was working on X-Box project with Microsoft when word about new console was first discovered last fall (TVD Sept 13 p12). But Thomson endorsement didn't come as big surprise because, as we have reported in past, TV giant has partnered with Microsoft on variety of multimedia ventures and Microsoft holds equity stake in CE manufacturer. In addition, it was only about year ago that Thomson avowed keen interest in videogame entry. At Thomson dealer meeting in Las Vegas last May, Exec. Vp-COO James Meyer and Chmn.-CEO Thierry Breton said company was investing serious time and money in exploring advanced videogaming options (TVD May 10/99 p12). Breton hinted at acquisitions or joint ventures in game field.

Similarly, although Nvidia spokesman said in fall that its involvement in X-Box was based on "rumor and speculation," Santa Clara, Cal. company said Fri. it will indeed design and manufacture 3D graphics and multimedia subsystem for Microsoft's console. Nvidia said it is designing custom Graphic Processing Unit (GPU) and Multimedia and Communications Processor (MCP) chipset for X-Box that it said is capable of rendering 200 millions polygons per sec. Intel will also indeed be supplying X-Box microprocessor as we initially reported as well — Pentium III processor with Streaming SIMD extensions. Gates said console's microprocessor will be able to run at speeds over 600 MHZ.

On software side, Hasbro Interactive said it plans to ship 6-8 games at console's launch, while Activision said it will come out with *Tony Hawk's Pro Skater* game for X-Box. Acclaim, Infogrames, Konami, Midway, Rockstar Games, Take-Two Interactive were among game publishers expressing interest in new console.

Microsoft said X-Box will ship in fall 2001. Console will come equipped with DVD-ROM drive just like PS2 and Nintendo's Dolphin, which is expected to ship by same time frame. Gates said DVD-ROM drive will be able to play movies. New system will also feature Windows 2000-based operating system, 64 MB of unified DDR memory, 100 MBps ethernet for broadband connectivity. Unlike other consoles, Gates said new system will also have 8 GB hard drive and will be able to execute 1 trillion operations per sec. Pricing of hardware wasn't given last week, but reports continue to suggest that Microsoft is aiming for \$149 launch price.

Gates vowed X-Box performance will be "over twice as good as everything out there." He also said there will be no boot times and no software installation. In another comment designed to ease developers' concern about PC hardware upgrade cycle, Gates insisted X-Box will be "stable" and "over 4 years the platform will stay the same." While one criticism of console games has been poor resolution, Gates vowed that X-Box resolution "goes beyond HDTV."

While actual product is still in development, Gates and other company representatives showed several games levels and other demos running on X-Box simulator that they said only used 25% of box's performance. Gates made open appeal to developers to begin making games for X-Box, vowing that new system will have "straightforward," easy-to-use development tools that incorporate upcoming DirectX 8 API, which is set for beta release next month.

Meanwhile, PS2 launched in Japan, as scheduled, on March 4 and rumors that consumers were having troubles with console quickly started making their way to Internet. Within days of launch, word spread throughout Web claiming PS2's memory cards were defective and would be recalled. Various news and gaming buff Web sites said that after game *Ridge Racer V* was inserted into PS2, DVD drives became corrupted and wouldn't work properly once other DVD discs were inserted. Another complaint was that consoles overheated and froze up when they were left on for extended periods. Concerns about memory cards came on heels of news that not all current PlayStation titles are compatible with new system (TVD Feb 14 p14), as company had promised.

Although Sony Computer Entertainment (SCE) spokespeople for days denied any problems existed with PS2's memory cards, company finally went so far as to admit on Fri. that at least some memory cards it sold with consoles may have been defective. As result, it was asking consumers who had problems with their systems to return consoles or memory cards so Sony could check them out. Despite complaints being linked only to one specific game title, company said it believed problem was with memory card and not with software.

But company still shopped short of saying that memory cards were being recalled or that it had stopped making them.

SCE said Fri. that it received 340 complaints about memory cards alone. Company said it received total of 12,300 customer inquiries about PS2 in all, but it wasn't clear at our deadline what other concerns consumers had.

INTEROPERABILITY SEEN FOR DVD RECORDER FORMATS: Babel of incompatible formats for DVD recording might find common language in DVD-Video player that also could read recordings made in DVD-RAM, DVD-R and DVD-RW decks, we have learned.

New catch-all machine would have "DVD-3" logo and is subject of as yet incomplete discussion among members of DVD Forum. Currently, DVD-RAM, -RW and -R recordings aren't playable in DVD-Video deck. Only format with claim to backward compatibility with DVD-Video is DVD+RW, backed by Philips, Sony, Thomson and others — which doesn't have sanction as standard from DVD Forum.

Technical challenges aren't insurmountable to building DVD-3 machine that bridges differences among 3 recording formats, those familiar with situation told us. Additional manufacturing cost and higher retail price would be main concerns, they said. It's even possible to design deck that could record in any format — although market viability of such a hybrid is questionable, and price still worrisome. DVD-3 hardware would play prerecorded DVD-Video discs. Only acronym not embraced is maverick DVD+RW format, for political as much as technical reasons.

DVD-3 discussion document was hush-hush topic until last week. Koji Hase, Toshiba vp and DVD Forum chmn., acknowledged DVD-3's existence but wouldn't comment further. Philips executives in Europe told us subject was first discussed among DVD Forum in Nov., as forward-looking attempt to devise logo that would inform consumers of multi-format compatibilities. Statement from Matsushita in Japan was most revealing: "The DVD movie player is based on the DVD-Video format, which will not be modified. But because various DVD formats are available now, it will be possible for some manufacturers to make a machine that will include functions based on the DVD-ROM, DVD-RAM, DVD-RW and DVD-R formats."

Statement that DVD-Video format won't be modified is allusion to past comments from manufacturers that future DVD-Video decks would need modifications to play discs made on CD recorders. DVD-3 machines would appear to retain playback characteristics standardized for DVD-Video format, but also accommodate upgrades to handle recordable discs. These would include changes in laser-pickup transport and focusing, rotational speeds of drive mechanism and, in case of DVD-RAM, ability to handle necessary disc-caddy and adjust pickup movement to cope with it. Some firmware updates would be needed too, said Andrew Parson, vp-product development at Pioneer New Media Technologies. "None of these are technically insurmountable, it's just a question of added cost at a time when DVD pricing is coming down," he said. "It's maybe not even a huge cost bite if you can amortize it through volume."

Public awareness of DVD-3 first emerged last week at Samsung news conference in N.Y.C., where company revealed more detail on its DVD-RAM recorder. As yet unpriced DVD-R2000 is scheduled to ship this summer, and will offer variable compression ratios permitting up to 310 min. recording on 4.7 GB disc, said Mark Knox, senior mgr.-digital group. Deck will have analog TV tuner for time shifting, and deck sets compression rate automatically according to recording space remaining on disc. It also has MiniDV input for digital camcorder, and component video outputs — but not IEEE-1394 digital output as copy protection issues haven't been resolved.

"This is simply our concern for the concerns of Hollywood," Knox said. "Politically, it would be a very difficult issue." Samsung will add new DVD-RAM model with digital output when copy protection issue is settled, he said. Our question as to when Samsung would upgrade its DVD-Video players to handle DVD-RAM elicited response about work-in-progress on DVD-3. Meanwhile, Knox said although \$1,999 price of DVD-R2000 wasn't final, sub-\$1,500 price mentioned in some reports was "too aggressive." He pointed out that DVD-RAM deck has applications in professional recording and mastering fields, and that Samsung will distribute through those channels as well as CE dealers. Selection of DVD-RAM format for first Samsung DVD recorder doesn't preclude marketing DVD+RW in future, although company tends to support DVD Forum standards, Knox said.

WORK PROGRESSING ON UNRESOLVED DTV ISSUES: With March 12 kickoff looming for CEA spring conference, industry committees were working at fevered pace last week to resolve outstanding DTV issues such as set-labeling and copy protection (see report, Bcst.-Cable section). Meanwhile, CEA Pres.-CEO Gary Shapiro blasted broadcasters for lethargic DTV rollout and lack of "high quality, digitally originated content."

Agreement on how to label cable-compatible DTVs appeared most likely to emerge first, sources close to negotiations told us. Cable and CE industries reportedly were presented terms to their members last week. At issue is how receivers with and without IEEE-1394 connector should be labeled. Late last month, 2 groups agreed on technical specification (EIA/CEA-775.1) for IEEE-1394 link (TVD Feb 28 p1, 10). Cable industry wants "cable-ready" tag only for sets with IEEE-1394.

Early resolution is less likely for copy protection of DTV signal routed among home entertainment products. That's because Hollywood content owners also have say-so on copy-prevention technology — and stranglehold on programming. Although cable industry backs Digital Transmission Content Protection system developed by Hitachi, Intel, Panasonic, Sony and Toshiba, among major studios only Sony Pictures and Warner Bros. have endorsed it. On CE side, Thomson and Zenith oppose mandating of DTCP, and have proposed jointly developed Extended Conditional Access (XCA) system that uses replaceable smart card. Sources told us last week that there's some softening of positions now, with concerned parties at least recognizing that DTCP and XCA aren't mutually exclusive, but could be used together for extra level of protection. In any event, nothing on DTV is likely to be decided before this week's meeting of cross-industry Copy Protection Technical Working Group in L.A.

Lack of compelling DTV programming was springboard for caustic comments aimed at broadcasters by Shapiro last week. In letter to FCC Chmn. Kennard, CEA top executive complained that broadcasters aren't making investments needed to move DTV transition quickly. He accused broadcasters of "skirting their obligation" to provide programming that would give consumers incentive to buy DTV sets. "Unfortunately, while some broadcasters have aired compelling content, the vast majority of broadcasters are actually passing through lower quality, digitized NTSC programming."

Spectrum should be returned to public by those who don't make transition to DTV, Shapiro demanded. He contended that Congress gave broadcasters valuable spectrum with understanding that they'd use it for high-quality DTV programming. Letter didn't mention standstill over copy protection as reason for dearth of premium movies and programs for DTV broadcast — or cost of acquisition equipment needed for stations to generate digital programming themselves. Shapiro said CE industry had done its part, offering 165 DTV products through more than 250 retailers. Industry has sold 155,410 DTV products to dealers launch-to-date, and forecasts 600,000 wholesale shipments this year. Forecast from research group NPD Intelect puts consumer sellthrough at 375,000 in 2000.

Separately, extension of IEEE-1394 interface standard developed and proposed by Samsung has been adopted by CEA. Concept is called Home Wide Web (HW) and it expands 1394 protocol to control other CE and PC device in home through DTV set. As explained by Samsung at N.Y.C. news conference last week, system uses standard Internet protocols and mark up language to let AV products communicate through 1394 link. Additionally, "home page" in HTML language would be imbedded in all products, so user could display functions and controls such as fast forward, reverse, play, and volume for device on DTV screen and operate device through set's remote control. For products lacking home page, "proxy" page with generic controls could be downloaded from Internet. Web site dubbed HW.com also would link consumer to other Web sites. System is compatible with Home Audio Video Interoperability (HAVi) standard, Samsung said.

Toys R Us, battered by costs tied to Internet site and product shortages during holiday selling season, reported 4th quarter income fell to \$235 million from \$323 million despite 1.8% rise in sales to \$5 billion. Same store sales rose 3% during quarter, but were down 2% in holiday selling season, company officials told analysts in conference call. Earnings were hurt by \$64 million in pretax costs at Toysrus.com, which generated annual sales of \$49 million, but underestimated demand and failed to deliver thousands of packages before Christmas. Chain will continue to expand C-3 format, which has been added to more than 300 stores and features 3,000-sq.-ft. "Our Zone" electronics section, although CEO John Eyler conceded that while concept is "fundamentally sound," chain "needs to work with it." Eyler, who joined Toys R Us earlier this year from FAO Schwartz, plans to implement series of changes including increase in number of proprietary products chain carries and opening of 16 "test" stores that will serve as "labs" for "new concepts and refinements." New outlets will contain electronics, but no videogames, and feature Imaginarium section for educational products. Toys, which unveiled plans to shut 90 stores as part of major restructuring (TVD Nov 23/98 p15), still has 14 outlets remaining to be closed in international markets. While company officials declined comment on speculation that it will spin off 17 stores in Japan, Sanford Bernstein analyst Ursula Moran said move is "likely to be first of several steps" aimed at boosting chain's stock value and predicted it could occur in "next month or 2." Toys R Us officials said that its Japan stores sold 7,100 Sony Playstation II consoles in first 3 days following product's release earlier this month. Overall, Sony sold 980,000 in Japan (see related story this issue).

Staving off decline of VHS format before it actually starts to happen will be goal of as-yet-unspecified awareness campaign planned by year-old VHS Coalition, sponsor International Recording Media Assn. (IRMA) reported last week. Fujitape executive Stan Bauer, who co-chairs Coalition, said campaign, when it's launched, more likely will target trade than consumers, emphasizing that for applications such as special-interest video, VHS will remain viable format for years to come. IRMA Pres. Charles Van Horn said campaign also will try to persuade retailers not to minimize floor space given over to VHS in favor of DVD. In so doing, Van Horn said, Coalition hopes to learn from mistake of similar IRMA effort to save audiocassettes — campaign which he said was launched well after that format had started to decline. By comparison, IRMA last week trumpeted statistical evidence that VHS has long life ahead of it: (1) Citing CEA figures, IRMA said over 27 million VHS VCRs were shipped in N. America last year, rising 25.9% from year earlier. (2) N. American VCR penetration stands at 93%, with 53% owning multiple decks. (3) Worldwide shipments of T-120 equivalents were 1.4 million last year, on par with 1997 shipments. (4) Unit sales in N. American home video program market reached 1.1 billion last year, rising modestly over 1998. Van Horn said: "The home video industry has done an outstanding job in launching DVD, a digital performance system that commands a higher price than VCRs today. But consumers continue to believe in the VCR and its recording capability." He suggests that industry should "learn to market both products for a worldwide market that is clearly interested in having more electronic entertainment products in the home. It does not have to be nor should it be an either-or decision."

THOMSON-SENSORY SCIENCE PACT: Sensory Science (SS) has signed sales and marketing agreement with Thomson for dual-deck mono VCRs that will expand distribution and lower entry-level price to \$199.

Under one-year renewable pact, Thomson will market RCA-brand dual-deck mono VCRs starting in 2nd half. While it wasn't immediately clear how deck, which will be built by Samsung in Suwon, S. Korea, will be configured, Thomson will have access to 4x4, 2x2 and 4x2-head mono VCR/VCR and VCR/VCP models, said SS Senior Sales & Mktg. Vp Ralph Palaia. SS will continue to market dual-decks through existing dealers and keep hi-fi models under own brand, he said.

Agreement, SS's first with outside brand since short-lived pact with LG Electronics, will likely double distribution of dual-decks to 23,000-25,000 store fronts from 8,000 and grant product access to national discounters like Target and Wal-Mart, sources said. SS supplies dual-decks to Wal-Mart affiliate Sam's Club, but not parent, and has tested category at 100 Target stores with expanded CE sections, sources said. Other leg in effort to expand distribution was hitting \$199 (TVD Jan 17 p18). Price would put dual-deck at high-end of conventional VCR market that plunged below \$100 in 1999, but below \$299 that SS had previously maintained. Overall, average selling price for VCRs was \$160 in 1999, while SS's models were at \$368 (\$420 for 4-head hi-fi; \$301, 2-head mono), according to NPD Group.

Lowering price of entry-level dual-deck to \$199 was seen as key to boosting sales in category that SS relies on to provide revenue to help fund development of Loewe digital TVs, MP3 players and Cal. Audio Labs home theater components.

"We have always known that greater consumer awareness was the single biggest factor in expanding this category to its rightful position in the VCR market," Palaia said. "By ourselves, we couldn't achieve the levels of advertising to create consumer awareness to make this a million unit category. We don't need multiple partners when we have the dominant video brand in N. America."

Thomson officials weren't immediately available for comment, but Video Product Management Gen. Mgr. Randall Staggs said that dual-deck will "significantly enhance our VCR offering, and that company is "optimistic that it will be well received by our retailers." In addition, dual-deck will give Thomson VCR at high-end of category plagued by shrinking margins.

Pact between companies is strictly limited to mono dual-decks at start, although Palaia held out hope that companies could strengthen ties in future. "We're hoping the initial relationship can develop beyond this to working on other products," Palaia said. "This agreement will really get us over the hump with some retailers."

At same time, SS will open small office in Suwon later this month to coordinate engineering work throughout Far East. Samsung builds dual-decks at Suwon factory, but SS also has supply agreements with Japan-based Shintom for stacked version of dual-deck and Saehan in Korea for MP3 players.

SS also forged alliance with Panja to make its Cal. Audio Labs surround-sound processor, video switcher and multi-channel amplifier compliant with latter's Internet Control System Protocol (ICSP).

Panja develops control systems designed to link together CE products via RS-232 and other connectors. Agreement will give Cal. Audio access to custom installers who build systems using ICSP-compliant components.

Innovatv.com is nearing agreement with digital subscriber line (DSL) provider to deliver its PC-based streaming video content service, Mktg. Vp Kent Watson said. Innovatv.com's iMag, which is currently available in 12 markets to about half Time-Warner Road Runner's 500,000 cable modem subscribers, takes existing video and prepares it for broadband on-demand format. It currently has agreements with Golf Channel, Twentieth TV, *Fishin Tales*, *Chef Larry* and 4 other content suppliers, and expects to add Bloomberg TV this week. As currently configured, San Diego-based innovatv.com creates Web site linked to channel's home page. It delivers video at 300 kbps or about 15-16 frames per sec., and allows viewer to "grab" frames in sequence and review or repeat them, get additional information. Video typically runs 22-min. and costs \$3,000-\$10,000 to produce. Service is free to cable or DSL subscribers, revenue generated by ads inserted on iMag page, Watson said. Innovatv supplies 2 Compaq servers to cable head end, which are linked to San Diego facility. While video is currently delivered to Innovatv for redesign on cassette tape, company has launched test with Road Runner in Columbus, O., that supplies content via Internet, Watson said. Innovatv's iMag, which is compatible with Windows Media, RealNetworks and Apple Quick Time, also will be developed for wireless applications, although finished product isn't expected for 2 years, he said.

Boca Research (BR) formally abandoned brief venture into custom manufacturing in selling assets to Boundless Mfg. Services for \$1.7 million. BR, which has refocused its business on Internet-based software and services and continues to sell well-known BR and Global Village PC modems, embarked on plan to custom build Internet appliances on OEM basis in 1997. But one of its first customers — Thomson — was forced to recall about 1,000 BR-built set-top boxes for NetChannel service shortly after launch because of risk of "minor shock" (TVD Oct 20/97 p7). NetChannel service shut down next year. BR started to lessen focus on custom manufacturing last spring, but introduced Internet access device under own BocaVision brand based on National Semiconductor (NS) subsidiary Cyrix's MediaGX processor (TVD April 19 p15). NS has since sold Cyrix to Via Technologies. BR finalized sale as it reported \$8.8 million 4th quarter loss vs. \$170,000 profit year earlier as sales plunged to \$5.6 million from \$18.4 million. Fourth quarter loss included \$2.5 million charge for obsolete inventory. At same time, Infomatec Integrated Information Systems exercised rights under April 1999 agreement to have BR register 1.7 million shares with SEC.

National Semiconductor (NS), riding strong demand for its chips for mobile phones and Internet devices, reversed year earlier \$27.2 million (16¢) 3rd quarter loss to post \$327.8 million profit (\$1.68) on 10% gain in revenue. Figures included one-time gain of \$222.3 million on sale of its stock in Fairchild Semiconductor, \$9.9 million credit for completed restructuring activities and charge of \$4.2 million for Dec. acquisition of Algroex. Minus items earnings were 51¢. NS said analog chips made up 70% of sales, down from 72% previous quarter. But chips used in so-called information appliances such as e-mail devices and TV set-top boxes jumped to 11% from 9% in 2nd quarter.

ULTIMATE INCOME RISES: Ultimate Electronics (UE), crediting strong sales of digital products, reported 4th quarter income rose 50% as sales increased 16% (see financial table) on 13% gain in same store sales.

Gross margins rose in 4th quarter to 29.4% from 28.3% largely on strength of digital TV, camcorders and DVD players. Overall digital products accounted for about 30% of revenues, CFO Alan Kessock said. In quarter, TVs represented 33% of sales, down from 34% year earlier, followed by audio, 25% (26%); video/DVD, 19% (16%); mobile, 12% (13%); home office, 6% (6%). Within video segment, DVD players and camcorders have helped offset sharp drop in VCR prices, Kessock said.

For year ended Dec. 31, income soared to \$8.4 million from \$2.1 million as sales increased 17% on 16% rise in same store sales. DVD sales rose 116% and inventory turns jumped to 5.2 from 4.9. In-stock position for products also improved to "high-90s", 10-15% improvement from several years ago, Kessock said. Chain also benefited from increased sales of accessories including cables, screen savers and camcorder products, he said.

UE, unlike rival specialist Tweeter Home Entertainment, has no immediate plans to make acquisitions, focusing instead on opening new stores, Kessock said. First 2 outlets in Phoenix will open by mid-year, followed by 2 more in fall, 4 in 2001, he said. Chain also will consider expanding into other markets within geographic region, but hasn't finalized plans, Kessock said.

Meanwhile, Roberds, which is awaiting final bankruptcy court approval on \$25 debtor-in-possession (DIP) financing, reported annual loss narrowed to \$13.9 million from \$16.1 million despite decline in sales to \$287 million from \$318.7 million. Roberds, which filed for bankruptcy protection in Jan. (TVD Jan 24 p16) and moved to close 8 stores in Fla. and Ohio, said gross profit fell to 31.4% from 34.1%. Furniture accounted for 42% of sales, up from 38% year earlier, followed by major appliances, 21% (24%); CE, 18% and bedding, 13%, both flat with year ago. Gross margins ranged from 17% for CE to 46% for bedding.

Roberds also disclosed in SEC filing that it plans to take \$17.8 million restructuring charge during current quarter in connection with shutting stores and cutting 500 jobs. Roberds projected taking \$1.2 million loss on Feb. sale of inventory from those stores, which had leases that expire between 2005-2010.

Chain also said that drivers and helpers at 480,000-sq.-ft. Fairborn, O., warehouse voted to join Teamsters Local 957 and that contract negotiations were under way. About 180 sales associates at 7 stores in Ind. and Ohio last year joined United Food & Commercial Workers Local 1099 (TVD May 2 p13).

Apple Computer said it has settled lawsuits against Daewoo and eMachines. Companies agreed to stop making, distributing, selling and promoting PCs that Apple alleged illegally copied design of its popular iMac computer. Without admitting guilt, Daewoo and eMachines agreed to accept court injunction against continued sale of machines. eMachines spokeswoman said court ruling applies only to current model of its eOne computer, which it agreed to stop manufacturing on Jan. 20, cease selling and distributing by March 31.

SAMSUNG, ECHOSTAR TALKS: Samsung, which is expected to deliver first DirecTV IRD later this year, has also had "exploratory" talks with EchoStar on deal that could potentially result in it becoming first CE manufacturer to market products for both DBS services, sources said.

Depth of discussions with EchoStar couldn't be determined. But Samsung is said to be interested in EchoStar's DVB-compliant technology that's based on worldwide standard. WebTV has offered Samsung-branded set-top box in past, although sources said there are no plans for product similar to combo WebTV/Digital Sky Highway (DISH) IRD currently being marketed. Samsung Digital Group Senior Mgr. Mark Knox and EchoStar spokesman declined comment.

Samsung's DirecTV IRD will likely have IEEE-1394 connector and built-in high-definition decoder, although pricing hasn't been set, Knox said. Samsung was early DirecTV licensee, but never brought first generation product to market. "The overall design of all these set-tops has been specifically modular so that as we move forward we're not respinning the transport stream and we simply plug in a new network protocol," he said. Along those lines, Samsung Electro-Mechanics Co. (SEMCO) signed agreement to integrate Liberate Technologies interactive TV software into satellite receivers and digital cable convertors for Europe, Middle East and S. America. Liberate's TV Navigator software will be bundled with SEMCO product starting in 3rd quarter, company officials said.

As Samsung readies satellite strategy, it's winding down original agreement with WebTV agreement that allowed Samsung-branded STBs to be sold through Home Shopping Network and direct marketer Hanover Direct. "We're still in discussions with them (WebTV) about other things, but we're not talking about twisted-pair products," said Knox. Among products being considered is hard-drive based recorder, he said.

In shifting focus to DVD, including DVD-RAM recorder due later this year (see related story this issue), Samsung is moving some focus away from VCRs. Its VCR that promised 15 hours' recording on 3-hour tape (TVD Jan 25/99 p12) has largely been relegated to "niche" applications including security. "We would have been perfectly happy to broadly distribute it, but now that consumers have seen the video quality of DVD vs. VHS things have changed," Knox said. Also remaining in development phase is combined analog-digital VHS recording system that Samsung patented year ago (TVD March 8/99 p17), Knox said. Ability to put analog and HD digital versions of movie on same cassette would eliminate need for dual inventory that retailers and studios hope to avoid in digital age.

Samsung will ship 50W and 43W rear projection TVs based on 0.78" ferroelectric LCD (FLCD) in May and June at \$6,999 and \$5,999, respectively. Delivery is slightly behind original April-May plan. Sets feature 1,280x720p resolution and are expected to have 300 lumens and 200:1 contrast ratio. Samsung, which jointly developed microdisplay with Displaytech, has 2-year exclusive on technology for TV use. Samsung also has patents on sets' lens, meaning that if technology is moved to other products like PC monitors, it could receive share of royalties, company officials said. Samsung and Displaytech had planned to ship product last fall (TVD April 12/99 p18), but postponed delivery to fine-tune software and optical engine.

PROXIMA-INFOCUS MERGER: InFocus Systems' proposed \$478 million acquisition of Proxima will combine top 2 brands of LCD projectors and augurs consolidation that is expected to sweep industry.

Companies, which had combined sales of \$689 million in 1999 (\$391 million, InFocus; \$298 million, Proxima), will have broad range of products stretching from ultra-portable, sub-6-lb. projectors based on Texas Instruments' Digital Light Processing (DLP) technology to larger, LCD models for conference rooms. While InFocus stole march in ultra-light portables last year with 4.8 lb. Dragonfly DLP model (TVD May 24 p18), Proxima has been marketshare leader in conference room and introduced new DLP models in Feb., both weighing 8.6-lbs. but with XGA (\$5,199) and SVGA (\$3,799) resolutions.

But as companies work to mesh product lines, their merger is likely to bring change to an industry where more than 40 brands compete for shelf space in U.S. market that sold slightly more than 300,000 in 1999. In Focus has 21% share of U.S. (14% worldwide), while Proxima has 10-12% (9%), industry officials said.

"I would guess it will have impact elsewhere in the marketplace because it clearly makes a much more powerful competitor," Proxima Mktg. Vp Stuart Schaffer said. Indeed, combination could send competitors scrambling to find niche markets rather than continuing with broad distribution, industry experts said.

"The market is just not large enough to support all these brands so there has to be some additional consolidation or exits," Pacific Media Assoc. analyst William Cogshall said.

Also facing consolidation will likely be workforces and product lines of Proxima and InFocus. Proxima's line-up consists of 14 SKUs, while InFocus's is slightly smaller and better focused, industry officials said. Also still to be appointed are executives to head combined companies' Asian and U.S. operations. InFocus CEO John Harker will be co-chmn.-CEO of new combined company, while Proxima CEO Ole Fredriksen heads European operations.

"There are major overlaps in people and products and they're going to have a larger challenge straightening that out than Ask and Proxima did originally," source said referring to \$87 million merger of Proxima and Ask in 1998.

Also to be decided will be distribution. Both companies sell through A/V resellers and PC distributors and are likely to settle one brand for all products, industry officials said. "I think the experience with 2 brands wasn't very good and the best thing they could have done was reduce it to one very quickly," source said. Indeed combined Ask-Proxima first took latter's name, but switched back to former in Jan. It sold products under Proxima banner in U.S., Ask in Europe.

New company also will have to sort out sourcing arrangements. Proxima has relied on Sony LCD panels and Epson optical engines for its projectors, while InFocus uses latter for both. Proxima also has marketed Sanyo-built projectors, while InFocus is OEM supplier for IBM, Eastman Kodak and Toshiba.

Merging of companies will come at critical time. InFocus is said to be readying new 3-4 lb. projector for Infocomm show in June, but it remains unclear whether it will contain DLP chip or microdisplay. InFocus has worked

with Colorado MicroDisplay in developing 0.9" microdisplay for front projector.

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At same time, InFocus reached agreement to license its Merlin image technology to Pixelworks for \$2.4 million in cash and 156,863 shares of Series D preferred stock at \$12.75. InFocus patents cover automatic phase and frequency correction for digital display applications. Pixelworks filed for IPO in late Feb. Pixelworks has marketed display controller chip under ImageProcessor brand... JVC has introduced new direct-drive image light amplifier (D-ILA) projector that boosts brightness 50% to 1,500 lumens and contrast ratio to 350:1 from 250:1, but keeps price at \$17,995. Projector also has 1,365x1,024 resolution and maximum 82 kHz horizontal scanning frequency.

Production delays at Aiwa's Asian plants shouldn't affect AV product deliveries to U.S. retailers, company spokesman told us last week. Comment came in response to Japanese press reports that company's manufacturing has been stalled in recent months owing to shortage of key parts, such as capacitors and semiconductors, from component suppliers. As result of product shortfalls, inventory costs, currency fluctuations and decline in product pricing, Aiwa is expected to announce \$309 million sales decline for fiscal year that ends March 31 and group net loss of \$91.5 million — first net loss in 13 years. Aiwa Pres. Yoshiro Ishigaki described backlog at Malaysian plant as "shocking." Company produces 90% of its AV products outside of Japan. But spokesman for U.S. subsidiary said company here "has not been seriously affected by product shortages" among 120-130 SKUs "and we don't expect to be." He said Aiwa in U.S. "ordered aggressively" as buffer against potential shortages, but even so "we ran a shortfall of about 10% to 15% each month, which is manageable." Company doesn't expect problems through balance of year, he said.

CEA Chmn. Darrell Issa is "heavy favorite" in Nov. to win House seat in Cal.'s 48th Congressional Dist. now held by Rep. Packard (R), CEA said. Issa defeated 9 opponents to win Republican nomination in Cal. primary March 7. CEA said Issa captured 45% of vote vs. 30% of his nearest rival and that district is "traditionally Republican." CEA Pres. Gary Shapiro said Issa's victory in primary "is terrific news for our association," because rarely does trade association have "a sitting chairman as a major congressional candidate."

TELEVISION DIGEST NOW AVAILABLE IN PRINTABLE FORMAT

Subscribers to Television Digest with Consumer Electronics now can receive their weekly issue electronically in the widely used PDF format, which duplicates the look and feel of the print version on any PC. Delivery of this version will take place the Friday before the Monday publication date. Subscribers who want to replace the print (or non-PDF electronic) versions they now receive may do so simply by sending an e-mail request to tvdinpdf@warren-news.com or calling us at 202-872-9200. "Adobe Acrobat Reader" software, already loaded on most computers and free for downloading from the Internet, is required to read PDF files.

PLAYSTATION2 FALLS SHY OF MILLION: Sony Computer Entertainment (SCE) said it sold 980,000 PlayStation2 (PS2) units during first 3 days of next-generation game console's launch in Japan.

Despite strong showing — which SCE said was about 10 times greater than number of first-generation PlayStation consoles it sold in first 3 days of original platform's 1994 launch — figure still fell short of company's initial aggressive forecast of one million.

Company said last fall that it expected shipments of at least one million PS2 consoles within system's first week of release (TVD Sept 20 p14). SCE indicated last week that it wouldn't be able to meet its initial target by end of week because of shortage in 8MB memory cards that store games and come bundled with PS2.

SCE said it was "experiencing about a 10-day lag in production," adding: "Work is currently under way to expand the manufacturing capacity for the 8MB memory cards, and total hardware shipments are scheduled to reach one million by March 15, and 1.4 million by the end of March." As of our deadline, SCE didn't link 10-day delay to what many in industry were assuming — that it was intentional effort on SCE's part to correct technical troubles in cards (see separate report, this issue).

Of 980,000 consoles sold, SCE said more than 600,000 were sold through by retailers, while 380,000 were sold online at company's new PlayStation.com (Japan) Web site. But Reuters reported last week that of that 380,000, "only 120,000 had actually been delivered" and remaining deliveries "should be completed in 2 weeks."

SCE also said more than 10 new titles for PS2 shipped in time for launch and software shipments topped 1.3 million for first weekend. Company claimed DVD-Video software sales increased 2-4 times for retailers and accounted for 10% of software sales on PlayStation.com (Japan).

According to various reports out of Japan, thousands of consumers lined up outside retail stores day before PS2 launch and most dealers sold out within hour of going on sale.

PS2 is still set for fall rollout in Europe and U.S., where demand for next-generation console has already started. Despite Japan Trade Ministry prohibiting export of PS2, plenty of consoles were up for bid online at eBay auction Web site last week, with U.S. prices ranging from \$600 to \$1,000. PS2 games were also up for sale at site. Situation wasn't exactly shock considering same thing happened between Sega Dreamcast's Japan and U.S. launches (TVD Aug 2/99 p18).

SCE said PS2 console and its 8MB cards are subject to Japan's Foreign Exchange and Foreign Trade law because of high-powered encryption technology used in system. Sony also said "using this product in countries other than Japan may lead to serious accidents due to voltage difference" and other factors.

Different sort of hazard raised its head just before PS2's March 4 launch in Japan: Reuters reported that 44 customers who visited PlayStation.com managed to gain access to private information belonging to about 266 other consumers who had ordered PS2 from Web site. They apparently discovered infor-

mation merely by typing in other people's order numbers. But report said SCE kept such personal information as credit card and phone numbers in different databases and therefore weren't discovered.

In other PS2 news, British press report said Sony will introduce new royalty scheme on April 1 that will enable titles for current PlayStation console and PS2 to be sold as low as \$15.99. Report said plan, unveiled at European software licensees' meeting, wouldn't enable SCE to have control over pricing but would create 5-level royalty structure giving publishers more choices.

SCE also said it will start supplying PS2 motherboard this spring to 8 arcade game machine makers, including Capcom, Konami, Namco, Taito, Techmo. With move, SCE aims to reduce motherboard production cost. Motherboard is equipped with 2 key advanced features of PS2: Emotion Engine processor SCE developed with Toshiba and Graphic Synthesizer image-processing chip. With motherboard, SCE said arcade game creators will be able to develop PS2-quality software.

Legislation to classify imported DVD replication equipment under same duty-free tariff status granted in 1994 to laserdisc (LD) manufacturing gear was introduced by Rep. Collins (R-Ga.). Collins said bill (HR-3778) would reduce production costs for U.S.-based DVD replicators, allowing them to better compete against replicators in Europe, Japan and Taiwan, which are trying to sell DVDs in U.S. for as low as 75¢ per disc vs. \$1.61 for domestically produced media. Collins said legislation passed in 1994 helped firms such as WEA Mfg. "create and save U.S. jobs that were being lost" as result of foreign production of CDs and LDs. However, Collins said Customs has ruled that DVD replicating machines should not be classified same as LD pressing equipment, and that DVD replication components should be classified under 11 separate tariff headings commanding average duty of 3%. Collins said there are at least 17 U.S.-based DVD replicators that produce total of 16.6 million DVDs monthly, all using foreign machinery. They include Panasonic, which Collins said opened first DVD-dedicated replication plant in U.S. and has work force of 1,000 employees in facilities "in my district alone." Panasonic Disc Services replication plant to which Collins referred is in Torrance, Cal.

Circuit City will revamp 30-35 stores in Fla. and Va. starting this spring that features CE and PC products, but is shorn of major appliances. In markets that will be part of test — Richmond, Miami, W. Palm Beach, Tampa, Ft. Meyers and Orlando — appliances will be moved to 8,500-sq.-ft. outlets "close to" Circuit stores. Project is expected to be completed by fall. Pres.-CEO Alan McCollough said goal is to increase emphasis on new CE products as well as such in-store fixtures as America (AOL) Internet Centers and Sony Memory Stick Interactive Universe. Remodeled outlets will carry "full assortment" of videogames and consoles, boost selection of music software and DVD titles and increase assortment of PC peripherals and digital cameras, Circuit said. Also part of mix will be 35mm cameras, chain said. Unclear is how quickly Circuit will move format to other markets. Its rival Best Buy embarked on similar project in 1998 with launch of C-4 format in Boston area that placed greater emphasis on digital products and created elaborate display for videogames and music software. Best Buy has since made C-4 staple of all new stores.

VIDEO DOWNLOADS PLANNED: Valley Media's new kiosks for downloading music in stores someday will download video as well, company said.

Venture announced between Valley and New Media Network (NMN) will beta-test kiosks for downloading music to CDs in several retail locations this summer before being rolled out to wider store base in following quarter, said Chris Bartow, mktg. mgr. for Woodland, Cal.-based music and video distributor.

Technology used by kiosks is "format-agnostic" and will be able to accommodate video, most likely on DVDs, or "any type of digital format," Bartow said. He said video application will come once factors such as bandwidth and digital rights management copy-protection for video have been put in place.

Bartow said system will compete with Digital on Demand (DOD) (TVD June 14 p14). Now owned by Valley competitor Alliance, DOD had roots in digital downloading system from New Leaf Entertainment joint venture of Blockbuster and IBM formed in mid-1990s that never got off ground. Other new kiosk systems for downloading music include Liquid Audio and MusicMaker.

NMN has rights to music from 60 independent music labels for system, and Valley is hoping to bring major record companies on board, Bartow said. Consumers will be able to download specific songs or entire albums, along with album's actual packaging, he said.

Kiosks can be linked to different retailers' Web sites, Bartow said, which will allow consumer to log onto retailer's Web site at home and tell it to burn song onto CD in local store, where customer can go to store to pick up CD. There also will be "synergies" with amplified.com, digital music distributor in which Valley is in process of merging parts of its Internet operation. Agreement with Amplified will give Valley 50% ownership of amplified.com.

Terms of agreement with NMN give Valley warrants in NMN. NMN's Pres.-CEO is Ian Duffell, former Pres.-CEO of Virgin Entertainment Group. NMN currently is affiliated with start-up retailer eGroove, through which it's testing system, but entities are in process of separating. Backend and transmission solutions for NMN's satellite delivery system are being provided by broadband and Internet service provider and integrator and PPV programmer TVN Entertainment Corp., NMN's lead investor.

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Pioneer was duped out of estimated \$9 million in CD recording equipment by individuals claiming to broker deal with NATO and Pentagon, company conceded following news report published last week in Japan by *Daily Yomiuri*. Pioneer spokesman in Tokyo said fraud occurred in fall 1996 when L.A.-based subsidiary Pioneer New Media Technologies (PNMT) was approached to provide CD-ROM changers for evaluation as fingerprint-storage security system. Individuals soliciting Pioneer claimed they had relationship with Defense Dept. official who could negotiate contract for NATO. After PNMT shipped samples, capable of loading data onto 500 CD-ROMs at once, middleman cut off contact. *Daily Yomiuri* didn't cite sources for report. But Pioneer spokesman confirmed it and said: "The amount of loss is insignificant, thus it won't affect earnings." Statement said company hopes to take legal action against unidentified brokers.

REPLAYTV VOD SERVICE: ReplayTV has forged agreement with Starz Encore for satellite-based video-on-demand service that would counter rival TiVo's pact with DirecTV.

While DBS provider wasn't identified, EchoStar would presumably have inside track since it's equity investor in ReplayTV and recently expanded programming agreement with Encore to 15 channels including 9-channel Starz Encore Super Pak (TVD Feb 28 p15). EchoStar officials weren't immediately available, and ReplayTV spokesman said no agreement has been reached.

Under agreement, Starz Encore will offer Super Pak customers subscription (S-VOD) and pay-per-view (PPV) VOD based on ReplayTV's personal video recorder (PVR) service. In part, Starz Encore service will be similar to package it's offering for cable systems that operates via server at headend and is expected to begin field trial with MediaOne in Atlanta in Dec. Encore-ReplayTV system is expected to begin market tests later this year, full rollout scheduled for 2001.

While pricing for DBS service hasn't been finalized, one scenario being studied has Super Pak subscribers charged an extra \$6 for on-demand movies which may consist of 30-70 titles at any one time, Encore spokesman said. PPV would likely offer early windows of availability before films hit wide distribution in cable, he said. Encore typically offers about 800 movies per month through its 13 domestic channels.

Both S-VOD and PPV movies will be available for download to ReplayTV PVR, which has 20 GB hard drive, but would need 30 GB for service, Encore spokesman said. Encore has distribution agreements with several studios including Sony Pictures, Disney's Buena Vista, Destination Films and Shooting Gallery, producer of *Sling Blade* movie. Time-Warner also is ReplayTV investor presumably meaning that Warner Bros. films would be available to service, although no agreements have been reached, ReplayTV spokesman said.

On hardware side, it's unclear who would build PVRs for proposed service. ReplayTV currently uses contract manufacturer Flextronics to build its PVR, which contains Quantum hard drive. But Matsushita, which is expected to ship ShowStopper PVR in April after delaying earlier launch to upgrade drive (TVD Nov 22 p18), will eventually take over manufacturing responsibilities, ReplayTV spokesman said. Matsushita Consumer Video Gen. Mgr. Andrew Nelkin wasn't immediately available for comment. Meanwhile Sharp, which along with Matsushita is equity investor in ReplayTV, isn't "actually searching in that realm" of S-VOD and PPV, but will have access to all PVR company's alliances, Sharp Assoc. Mktg. Vp Robert Scaglione said.

Separately, ReplayTV has lowered suggested retail price on PVR \$100 to \$599, although on-line retailers Amazon.com and 800.com have advertised it at \$499. ReplayTV will continue to sell PVR both online and direct to consumers after branded product hits retail, spokesman said. Matsushita and Sharp haven't priced their ReplayTV PVRs, but have said they will be "competitive" with Sony and Philips-branded TiVo hardware that will hit \$399 for model with 30 GB hard drive.

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Buy.com and Roxy.com have become "Premier sponsors" at CE section of CNet's informational Web site. New strategic marketing relationships give e-tailers premium placement and positioning at CNet's site.

MUSICMATCH PLANS IPO: Internet music software company MusicMatch is looking to file IPO "in the next 6 months," CEO Dennis Mudd told us.

News came as company unveiled MusicMatch Jukebox 5.0 — next-generation version of its software for management of downloadable digital music.

Mudd also told us company closed \$16.6 million deal in which Redpoint Ventures has become latest major investor in MusicMatch. Redpoint is Palo Alto-based venture capital firm formed by Institutional Venture Partners and Brentwood Venture Capital.

Peter Gotcher, Redpoint venture partner, said his company decided to make investment because of potential it sees in MusicMatch jukebox software and "we are big believers in the future of digital distribution." He said Redpoint sees MusicMatch as "legitimate contender to Real [Networks] for the top spot" in online jukebox software.

Redpoint capital will help MusicMatch step up its "marketing expenditures dramatically," Mudd said, and means "we will be much more aggressive marketeers over the coming period." Although most of company's ads have been online up to now, it will increase ads in other media, including billboards, print, radio. On print side, Mudd said company will be advertising in "mostly consumer publications," including *Rolling Stone* and PC magazines.

MusicMatch Mktg. Vp Bob Ohlweiler said last week that current print ads will run through April. Company will also have online presence in form of banner ads and sponsorships at Web sites, including CNet, MP3.com and Yahoo through mid-April. After that, company is "planning on continuing [with] the ones that are pulling the best results," he said.

First to make major investment in MusicMatch was Thomson Multimedia, which took 20% stake in April (TVD May 3 p14). At time, Thomson said alliance would lead to "new and exciting" digital audio products for its brands, including RCA. Week later, Thomson unveiled details of its Lyra portable digital audio device (TVD May 10 p13), which it since has shipped. In early Feb., MusicMatch Jukebox started being bundled with Lyra.

Jukebox 5.0, which MusicMatch says offers free unlimited CD-quality MP3 recording at up to 320 kbps, is now available online at www.musicmatch.com. Company is offering consumers choice of standard version for free or "Plus" version for \$29.99 that company says offers advanced equalizer features, maximum CD burning speed of up to 8x, music library and CD jewel case insert printing, 20% faster MP3 encoding.

Although previous version of Jukebox — 4.5 — offered personalized music recommendations to those who wanted them, new version adds "community-based music matching engine" that company said allows consumers to receive recommendations that match type of music they're listening to at any time or based on their overall listening history with MusicMatch. Personalization service is done on opt-in basis, Mudd said, and when customer does opt in, "we don't use the information for anything except to give our users better recommendations — we don't sell it or share it with anyone."

Also added to new Jukebox are integrated CD-burning capability for those who have separate CD-R hardware and more extensive online information, including album notes, artist bios, sample clips. Like version 4.5, 5.0 includes integrated tuner. Downloadable music formats software currently supports are MP3, MP2, Microsoft's Windows Media, WAV. From tuner consumers also can use Real Audio streaming as long as they already have Real Jukebox — MusicMatch's main competition — installed on their PC.

New version of Jukebox is available exclusively online at outset, but brick-and-mortar stores will probably start carrying it in one to 2 months, Mudd said. Retailers currently carrying Jukebox 4.5 include Best Buy, CompUSA, Staples, Wal-Mart.

Mudd declined to give MusicMatch's net loss last year, but said it "finished 1999 at about \$6.5 million [in net] revenue," up from \$800,000 at end of 1998. He said about 12.4 million copies of MusicMatch Jukebox software had been downloaded so far and company has about 5.2 million active users, adding about 20,000 new ones every day. Company also is distributing about 50,000 copies of software every day: "Half come from our site or our partners' sites, where we can track the distribution... and then about half come from our various OEM partners."

Consumers who pay for \$30 gold version of Jukebox have accounted for about 4% of those who use software. Mudd said "we make about a penny or so every time" banner ad from another company is shown at MusicMatch Web site.

"Larger opportunity" for MusicMatch "is to be able to participate in the selling of downloadable music to consumers as well as revenue sharing," he said, but "at this point, we're not generating any revenue from selling downloadable music. I'm expecting that's going to happen in the future." MusicMatch has yet to receive licensing from any of major record labels to sell downloads of their music online, but Mudd said company is "in discussions with just about all the major labels." He said hardly any downloadable music sales are being conducted overall online now, but he expects that to increase when more consumers have cable modem connections to Web.

Apex DVD player that circumvents regional coding, Macrovision copy protection and DVD Content Scrambling System (CSS) was still being advertised prominently and sold by Circuit City last week. Similarly, Web site for Apex Digital's OEM in China still solicited distribution and touted code-free operation for line of 5 decks. Apex Digital in Cal. and Chinese OEM had agreed to curtail activities that violate DVD license agreement, source familiar with situation had said (TVD March 6 p11). Situation wasn't clear with Circuit City's inventory of non-compliant decks or shipments in pipeline.

RCA digital cable-modems with advanced features received CableLabs certification for DOCSIS compatibility, parent Thomson announced last week. Company was one of first 2 to receive certification last March. New models DCM215 and DCM225 bring Thomson certifications to 4. DCM225 is first RCA modem with Universal Serial Bus (USB) connectivity, and among only 3 USB models certified worldwide. Thomson said that besides savings in installation cost and time, USB model might reduce liability for cable MSOs because PC case needn't be opened to install modem.

BROADBAND IMPACT DEBATED: Internet and potential of broadband was among major themes of GAMEXecutive Conference (GEC) in Monterey, Cal., last week.

Interactive entertainment industry is in many ways well positioned to take advantage of broadband delivery because of skills in digital production and asset management and familiarity with interests of young demographic, said Packets Video Pres. Robert Tercek. But he cautioned that game industry faces many obstacles, including weak brands compared to other media. Tercek pointed out that interactive entertainment industry has already missed boat on 2 mass market phenomena that have sprung up under their noses online — gambling and game shows.

Rapid growth of broadband connectivity to home will trigger surge in online sales and distribution of entertainment software. Hasbro Interactive (HI) Pres. Tom Dusenberry predicted that within 5 years, 25% of his company's entertainment software revenues will come from Internet-generated revenues such as ads and e-commerce. HI is preparing to launch Games.com Web site this summer, aimed at mass-market consumers. Games.com will feature games and other content mass market.

Dusenberry predicted that video and PC game revenue will soon surpass Hollywood movie business. He added that arrival of new videogame products such as Sony's PlayStation2 (PS2) and Microsoft's "X-Box" (see separate reports, this issue) will firmly entrench multi-purpose game console as mass market essential and that soon they will match U.S. home penetration of VCR. He also said HI has reduced number of software titles it releases by 30% this year. He pointed out that of more than 7,000 PC entertainment software titles released in 1999, less than 500 sold over 50,000, with most of rest losing money.

While inefficiencies of brick-and-mortar retail channel were cited as one culprit, many speakers at conference said e-commerce isn't likely to provide relief for several years. PC Data Pres. Ann Stevens provided statistics showing that e-tailers accounted for only 0.3% of PC game software sales in 1999. Stevens noted those statistics didn't include direct sales from software publisher sites, but added those were small. Brick-and-mortar retail will remain "predominant sales channel for the foreseeable future," she said.

Stevens painted grim portrait of PC entertainment software market as declining retail prices have more than offset minimal gains in unit sales. Average PC game price declined to \$22 from \$33 over past 7 years, she said, while education and "edutainment" market fared even worse, dropping from \$33 to \$20.

Mattel, one of companies hardest hit by education and "edutainment" slump, announced it is planning to leverage much of that content in new educational Web site aimed primarily at growing home school market.

Details were still sketchy and Thom Maslow, senior vp of Mattel's Learning Group, said proposed site hadn't been formally named yet. But he indicated it would contain content for K-12 curriculum and include sections for children, parents, teachers. Company plans to generate revenues from site by providing fee-based assessments of children's educational level and progress, as well as e-commerce. Maslow added site will also serve as promotional vehicle to drive disc-based sales of Mattel's educational software lineup.

While Microsoft's entry into videogame console market is widely expected to pose serious threat to Sega, Sega of America Senior Mktg. Vp Peter Moore told attendees at GEC that his company welcomed challenge from X-Box and PS2. "We know right now that if we stick to our guns and our brand value, we're going to be a major player," he said. He didn't, however, say anything in regard to numerous rumors that Sega had been in talks with Microsoft about possibly becoming X-Box partner.

Nuon-enhanced DVD player from Samsung (\$499) will ship with game pad and joystick remote control to exploit videogaming capabilities of Nuon processor. Mark Knox, senior mgr.-digital group, said dozen peripherals from 3rd party developers also would be available, including \$100 modem/browser kit that connects through player's front panel joystick ports. Nuon-enhanced game titles will number 6 at player's launch and more than 20 by year-end, he said during N.Y.C. news conference last week. Titles will include *Monopoly*, *Myst* and *Riven*; Nuon DVD player doesn't handle titles from other videogame platforms. "We do not intend to go out and do battle with the mighty game makers. We're just offering an enhanced DVD player," Knox said. Big advantage of Nuon processor is that it replaces multitude of usual DVD internal components — and new features can be software programmed. Knox said reprogrammability gives DVD manufacturer shorter time to market with new models, lower retooling costs. Separately, Knox said CEA forecast of 6 million DVD player sales for 2000 might be low-ball. He pointed out that CEA collects forecast data in Oct. — but DVD is highly seasonal, with sales topping out in Nov.-Dec. "Software vendors are planning on the basis of 10 million," Knox said, referring to player sales. He said that last year saw shift in DVD market from 1997 and 1998, with 85% of DVD players sold costing below \$400.

Samsung will continue underwriting of CBS-TV high-definition programming with another 20-25 sports, movies and other programs expected this year, said Steve Panosian, senior mktg. mgr. for digital products. Samsung signed agreement with CBS-TV last year (TVD Aug 30 p17) to underwrite cost of converting movies for HDTV-1080i broadcasts, and 14 programs were completed, Panosian said. Samsung also is working with PBS, which is broadcasting HD in 8-9 markets, he said. PBS programming may be used for demo purposes at retail via Sencore's set-top box, Panosian said. More broadly, Samsung is weighing "umbrella" advertising and marketing campaign that would cover its digital products including digital TVs, DVD and MP3 players, he said. While Samsung's wireless group is sponsor for Olympic Games this year, company is considering forging link to digital CE products. Samsung is expected to deliver wireless phone later this year that doubles as MP3 player (TVD Nov 15 p12).

Fox Interactive is shipping PC version of *Die Hard Trilogy 2: Viva Las Vegas* at \$34.98. Also new from game unit of Fox Filmed Entertainment is *Croc 2* for PC at \$24.98. Both games are also available in versions for Sony PlayStation.

THIS WEEK'S YEN RATE

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

Consumer Electronics Personals

Steve Felsen, ex-Activision, named Extreme Sports Brand Dir. at Acclaim Entertainment... **Brian Goldner**, ex-Bandai America COO, named Tiger Electronics senior exec. vp-COO... Appointed at Take-Two Interactive's newly formed Broadband Studios: **Ramy Weitz**, ex-Pixel Broadband Studios, pres.; **Gary Dale**, ex-BMG Entertainment, CEO; **Jeffrey Braun**, ex-Electronic Arts, chmn... Promoted at Philips Consumer Electronics: **Andy Mintz** to senior vp & gen. mgr. of audio for N. America; **Des Power** to vp-audio systems... **Edward Oppenheim**, ex-Proxima, named Hitachi America multimedia products mgr.- eastern region... Vidikron appointments: **James Wellnitz**, exec. sales & mktg. vp, promoted to pres.-CEO; **Mark Alspach**, ex-Synelec, operations vp; **Hany Hussein**, ex-Public Service Utility & Gas, finance vp; **Allan Russo**, Latin America sales dir., promoted to international sales dir... **Anders Frisk**, ex-Nokia, named Genesis Microchip mktg. vp... **Tae Nam Cheon**, ex-Samsung, named dir. of Sensory Science's new engineering liaison office in Korea... Appointed at Panasonic: **Robert Lopez**, ex-Alpine, joins as national mktg. mgr. for car audio; **James Kiczek**, formerly purchase, sales and inventory mgr. for Panasonic Home Office Div., shifts to product mgr., Portable Audio Div... **Michael Zimmerman**, ex-Compaq, joins Best Buy as corporate support vp... **Kent Foster**, ex-GTE, named Ingram Micro pres.-CEO, replacing **Jerre Stead**, who will remain chmn. until retirement in May... **Diego Piacentini**, ex-Apple Computer, joins Amazon.com as senior vp & gen. mgr.-international... Changes at Toys R Us: **Michael Shannon**, U.S. Stores pres., named administration & logistics pres., replaced by **Gregory Staley**, ex-Federated Dept. Stores; **James Feldt**, exec. mdsg. vp, promoted to U.S. Toy Stores mdsg. & mktg. pres.; **Warren Kornblum**, vp, named exec. worldwide mktg. & brand management vp... **Scott Scharfman**, ex-Bear, Sterns, joins Mercata as CFO; **Warren Meyer**, ex-Honeywell, named exec. vp of We-Commerce Network... **Stuart Goldfarb**, Valuevision vice chmn., appointed to BigStar Entertainment board... **Kenneth Onstad**, ex-Musicland, appointed K-tel International pres... **James Gallagher**, ex-ITT Corp., named Outpost.com chief communications officer... **Cameron Hurst**, ex-Softgen, joins uniView as chief technology officer; **David Thomas**, ex-Omega Environmental Technologies, named finance vp-CFO.

Circuit City Feb. sales rose 24% to \$1.11 billion from \$893.7 million in same month year earlier. Total included 20% increase in core Circuit City sales to \$923.8 million from \$769.8 million. Same-store sales rose 18%, which Chmn.-CEO Richard Sharp said "greatly exceeded our expectations." He said PCs were strongest categories in Feb., but that "pace of growth" in CE categories also "increased significantly." Company estimated that one additional selling day in Feb. contributed 3 percentage points to Feb. same-store sales increase.

Intertan, crediting strong sales of digital products, said revenues increased 24% in Feb. to \$34.4 million on 17.7% same store sales gain. Intertan, which operates 1,100 stores under RadioShack banner in Australia and Canada, said sales in latter country rose 29.2% on 20.5% increase in same store sales. In Australia, where market was making transition to digital, sales increased 10.6% with 10.9% same store sales gain.

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
Blonder Tongue			
1999-year to Dec. 31	56,805,000	59,000	.01
1998-year to Dec. 31	70,792,000	7,113,000	.86
1999-qtr. to Dec. 31	11,086,000	(1,408,000)	—
1998-qtr. to Dec. 31	16,219,000	2,058,000	.25
Electronics Boutique			
2000-year to Jan. 29	728,674,000	22,831,000	1.11
1999-year to Jan. 30	573,919,000	20,286,000	1.12*
2000-13 wk. to Jan. 29	314,564,000	15,545,000	.72
1999-13 wk. to Jan. 30	252,859,000	16,476,000	.82
General Magic			
1999-year to Dec. 31	2,484,000	(47,575,000)	—
1998-year to Dec. 31	2,286,000	(38,908,000)	—
National Semiconductor			
2000-39 wk. to Feb. 27	1,544,600,000	466,900,000	2.71*
1999-39 wk. to Feb. 28	1,479,800,000	(226,400,000)	—
2000-13 wk. to Feb. 27	548,900,000	327,800,000	1.88*
1999-13 wk. to Feb. 28	500,100,000	(27,200,000)	—
Roberts			
1999-year to Dec. 31	287,008,000,000	(13,978,000,000)	—
1998-year to Dec. 31	318,710,000,000	(16,123,000,000)	—
1999-qtr. to Dec. 31	74,815,000,000	(8,765,000,000)	—
1998-qtr. to Dec. 31	87,608,000,000	(11,783,000,000)	—
Ultimate Electronics			
2000-year to Jan. 31	384,983,000	8,427,000	.95
1999-year to Jan. 31	326,907,000	2,160,000	.27
2000-qtr. to Jan. 31	130,721,000	5,171,000	.49
1999-qtr. to Jan. 31	112,621,000	3,436,000	.42
Value America			
1999-year to Dec. 31	182,633,000	(143,526,000)	—
1998-year to Dec. 31	42,315,000	(53,616,000)	—
1999-qtr. to Dec. 31	61,195,000	(45,709,000)	—
1998-qtr. to Dec. 31	19,350,000	(24,662,000)	—

Notes: *Pro forma. ^aAfter special charge. ^bIncludes special credit. ^c

Recoton has signed agreement on new 3-year, \$150 million revolving credit facility with Heller Financial. Pact, which replaces \$86.5 million facility Recoton previously had with group of banks headed by Chase, contains "substantially better terms," including lower interest rate, although details haven't been finalized, Pres. Robert Borchardt said. New agreement also comes as Recoton moves to right itself following year in which it consolidated businesses and had maximum amount available under revolving credit agreement reduced to \$86.5 million from \$101.5 million (TVD Jan 25/99 p16). Separately, Recoton also reported that it reversed year earlier \$6.1 million loss, which included \$15 million charge to cover settlement with U.S. Customs (TVD March 22 p19), to post \$7.8 million profit on 2% gain in sales. For year ended Dec. 31, Recoton reported \$28 million loss vs. \$4.3 million as it took \$27.5 million in charges to cover restructuring. Sales rose 1%. Recoton's InterAct subsidiary, which had suffered declining sales in past, rallied in 4th quarter on strength of accessories for Sega Dreamcast, company officials. Also registering strong sales were mobile audio and wireless headphones, Borchardt said. Meanwhile, Borchardt filled out his growing guitar collection by submitting winning \$10,000 bid for Carlos Santana-autographed model as part of National Assn. of Record Merchants' (NARM) scholarship fund's silent auction. Borchardt previously acquired B.B. King, Lyle Lovett and Willie Nelson guitars.

Vacuum-tube CD player is being sold as kit for \$269 in Japan by Fukuoka-based EK Japan. Company already offers line of modestly priced build-it-yourself kits for tube-based stereo components.



TELEVISION DIGEST WITH CONSUMER ELECTRONICS

The Authoritative Service for Broadcasting, Consumer Electronics and Allied Fields

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RURAL LOAN BILL SET BACK: Critical audit of agency set to administer \$1.25-billion loan program for rural TV signals has members looking for changes. (P. 5)

MSOs DEBATING RETRANSMISSION: At least 4 still negotiating with broadcasters, with Time Warner-ABC talks heated. (P. 6)

AT&T INKS PHONE DEAL WITH INSIGHT: Deal covers 1.6 million homes, follows stalled talks with other MSOs. (P. 7)

FCC ADOPTS RETRANSMISSION CONSENT RULES: Moving quickly to set policy under 4-month-old Satellite Home Viewer Improvement Act (SHVIA), FCC announced rules governing retransmission consent agreements between broadcasters and cable or satellite providers March 15. New rules establish 2-part test for "good faith" negotiations and forbid exclusive agreements before Jan. 1, 2006. Order directs Commission staff to expedite resolution of good faith and exclusivity complaints and puts burden of proof on cable or satellite operator.

FCC action comes 2 months before SHVIA's grace period for retransmission consent agreements ends for DirecTV and EchoStar. Under law, satellite providers had 6-month window to recruit broadcasters for their "local-into-local" service before needing retransmission contracts to carry them. EchoStar and DirecTV have been scrambling to sign up stations by late May deadline as they race to launch local signals in major markets. At last count, DirecTV offered local service in 23 markets, EchoStar in 26. Both companies aim to blanket at least 50% of U.S. TV homes with local signals by next fall.

DirecTV, EchoStar, NCTA and SBCA had no immediate comment on FCC rules. NAB, in brief prepared statement, expressed hope that "final FCC rules do nothing to hinder that continued rollout" of local-to-local service.

EchoStar, which pushed hard for local-into-local legislation for 3 years, has complained loudly that broadcasters aren't negotiating in good faith. In letter to FCC last week, DBS provider charged that one unnamed "major broadcasting group" is demanding surcharge of nearly 10 cents per EchoStar subscriber for right to carry its local stations. In addition, EchoStar wrote, unnamed broadcast network is asking satellite provider to pay more than \$500 million for distribution rights to other specialty programming.

Consumer Electronics

PLAYSTATION2 HAS REGIONAL CODE FLAW that lets users watch DVDs from other regions by easily changing system's setting. Console recall is possible. (P. 10)

RCA OFFERS \$2,499 DTV BUNDLE in conjunction with SD multicasts and HDTV feeds of 'March Madness' basketball on CBS. (P. 12)

NINTENDO DELAYS DOLPHIN DEBUT until first half 2001, confirming widespread rumors. (P. 12)

JAPAN IS 'POSTER BOY' FOR DVD FAILURE, Warner Vp Nickerson tells IRMA seminar. Japanese DVD adoption has 'lagged miserably' behind other markets, he says. (P. 13)

SONY RESHUFFLES MANAGEMENT as it seeks to restructure parts of its electronics business to meet broadband strategic challenges. (P. 13)

OFFICEMAX RIGHTS PLAN adopted by board that limits common stock ownership to 15% of outstanding as means for warding off 'abusive takeover tactics.' (P. 14)

"By its demand, the group seeks to impose draconian economic conditions on EchoStar, while at the same time it extends its retransmission consent to cable operators on a far more favorable basis without an apparent competitive justification," company said in letter: "In this present negotiation, EchoStar is suffering discrimination on 2 levels." So far, EchoStar has announced retransmission consent deal only with News Corp.'s Fox Bcstg., while DirecTV has agreements with Fox, ABC, NBC.

Commission's order also comes as broadcasters and cable operators increasingly duel over retransmission consent agreements (see related story) in major markets. More disputes are surfacing as old retransmission consent deals expire and broadcasters roll out new, specialty cable channels.

New FCC rule lists 7 "procedural standards" that broadcasters must meet in first part of "good faith" test. Standards spell out that broadcaster: (1) May not refuse to negotiate with cable or satellite carrier. (2) Must appoint negotiating representative with authority to bargain. (3) Must agree to meet at reasonable times and locations and cannot delay course of negotiations. (4) May not offer single, unilateral proposal. (5) Must provide reasons for rejecting any aspects of carrier's offer. (6) Can't enter into agreement with any party conditioned upon denying retransmission consent to any carrier. (7) Must agree to execute written agreement setting forth full agreement with provider.

Under 2nd part of test, satellite or cable provider may present facts to FCC which, even though they don't specifically violate above standards, could constitute failure to negotiate in good faith. To provide guidance, Commission order lists some conditions that could be competitive marketplace considerations and some that aren't. For instance, it notes that any effort to stifle competition through negotiation process would violate "good faith test."

Order also allows parties to pursue voluntary mediation, which FCC said it will consider favorably for broadcasters. But, unlike earlier reported draft, rules don't call for mediation if parties can't agree on their own.

STATIONS HIT NBC-PAX TV DEAL: In what NBC and Pax TV said was "first of... many" similar deals, they announced last week that NBC's *Twenty One* would be rebroadcast on Pax TV Network starting April 8. Game show airs Mon. on NBC at 9 p.m., will air Sun. at 8 p.m. on Pax — which is 32% owned by NBC — in move widely decried by affiliates.

"This is just the first of what we hope will be many opportunities for NBC and Pax to work together and mutually benefit from creative scheduling of programming," said Scott Sassa, pres.-NBC West Coast. Paxson Pres. Jeff Sagansky called repurposing of NBC show "beginning of a series of programming innovations sparked by our relationship with NBC... These include other time-shifting opportunities now under exploration."

"Disappointing and destructive," particularly to exclusivity and "most upsetting" are typical comments from NBC TV affiliates about network's plan. Particularly upsetting, some affiliates said, was NBC's statement that this was "first of ... many" similar deals to come with Pax TV. While station execs. were reluctant to speak for record ("I've just started negotiations" with NBC for new contract, one said), they were unanimously critical of NBC move. "It's not a positive move for the stations and I have my doubts it will be a positive move for the networks," group head told us.

Couple pointed out that affiliates have deals with ABC and CBS which give them some measure of exclusivity from such programming repurposing. Member of NBC TV affiliates' board (which is expected to take up Pax TV issue during April meeting at NAB convention) said NBC's action is "unfortunate but sort of inevitable... It shouldn't come as a surprise." Another comment: "It just about shoots the hell out of any kind of amicable affiliate-network relationship for the foreseeable future."

Proposed changes in FCC's TV signal strength measurement methods "cannot be adopted as proposed," affiliates of ABC, CBS, Fox and NBC said in joint filing. They said new method would "grossly underpredict" quality of TV signal because clutter loss is minimal. They also said U.S. Geological Survey land use database isn't finely tuned enough to predict clutter accurately, so FCC should wait for new topographical data from Landsat 7 and NASA Shuttle Radar Topography Mission. Existing model for predicting Grade B service contour "cannot immediately be improved," stations said. Methodology is to be used to determine eligibility of households for satellite delivery of local TV signals.

Cable officials in W.Va. scrambled to fend off trouble from SB-133, which would make anyone distributing obscene material to minors liable for fines up to \$25,000 or imprisonment up to 5 years. State cable association was worried about measure's impact on industry because legislation doesn't provide cable-specific exemption. Different versions of bill have passed state Senate and House. Original bill, HB-4075, would have exposed cable operators, programming networks and ISPs to criminal liability for distribution of obscene materials to minors, even when it occurred unintentionally, said W.Va. Cable TV Assn. Group promoted amendment to include cable service on list of FCC-regulated telecom services exempted from criminal liability.

TRIBUNE—NO FCC HITCH IN TM DEAL: Buy of Times Mirror Co. (TM) by newspaper-TV giant Tribune Co. in \$8 billion deal (including \$1.4 billion in TM debt) isn't expected to require FCC approval. Acquisition creates TV-newspaper cross-ownerships in L.A., N.Y. and Hartford, but won't require FCC approval, Tribune said in citing 1978 Supreme Court decision. However, it could face scrutiny from Justice Dept. and/or FTC under Scott-Hart-Rodino Act.

Commission newspaper-TV cross-ownership prohibition requires that newly formed combines spin off one or other within year — or both may be held for length of existing license period for TV stations. Tribune's licenses for KTLA L.A. and WTIC-TV Hartford expire in 2006, WPIX N.Y. in 2007 — and it's acquiring newspaper in all 3 markets. "The company expects that by the time its television licenses are up for renewal, the cross-ownership issue will be resolved favorably" by FCC, Tribune said. However, if that hasn't happened by 2006, Tribune said it would seek waiver of FCC rule.

While no FCC rulemaking abolishing cross-ownership restrictions currently is out for comment, agency has overall look at its regulations under way. Issue could be subject of Commission's biennial report to Congress, due in May as required by Telecom Act.

"Our new company will be the best positioned local market media company for the future," said Tribune CEO John Madigan. He said it creates Internet company with approximately \$55 million in projected 2000 revenues and estimated 3.4 million "unique monthly visitors," putting Tribune in top 20 for "news/information/entertainment interactive services." As for newspaper-TV combines, Madigan said: "As we have learned in Chicago [WGN-TV-AM, Tribune], cross-ownership provides us with an opportunity to provide quality news and information across media channels... and to take advantage of cross-promotional programs."

Acquisition is expected to be 50% cash, 50% stock, Tribune said, with each TM shareholder having option of receiving 2.5 Tribune shares or \$95 cash for each TM share. Price being offered is nearly twice value of TM shares, which closed at 52-week low of \$47.94 day before deal was announced — down from \$72.62 in Nov. Because deal for publicly held company wasn't open to outside bids, other potential buyers have 20 days to top Tribune's offer, according to TM. TM has been controlled for 118 years by Chandler family; Mark Willes, TM CEO since 1995, won't stay under Tribune ownership. Tribune board will be expanded to 16 with addition of 4 TM directors.

In addition to *L.A. Times*, Tribune is acquiring dailies *Hartford Courant*, *Newsday* on Long Island, *Baltimore Sun*, *Morning Call* of Allentown, Pa., *Stamford Advocate* and *Greenwich Time*, last 2 in Conn. With daily circulation of 3.6 million, Tribune will rank 3rd behind Gannett and Knight Ridder as daily newspaper publisher. Tribune also is acquiring several mass circulation magazines, including *Field & Stream*, *Popular Science*, *Golf Magazine*, *Outdoor Life*. Early in 1990s, TM had business publications division and for time owned, among others, *Bctg. & Cable* magazine and *Cablevision*. TM also formerly owned half-dozen TV stations, which were sold off several years ago.

Madigan said acquisition provides Tribune with "an exceptional opportunity to accelerate growth and create value in our core business... We intend to continue aggressively building our televi-

sion group... We see the same consolidation opportunities in the newspaper business." Dennis FitzSimons, Tribune exec. vp and head of broadcasting, said acquisition provides Tribune with "unprecedented opportunities for advertisers to reach any media form."

In presentation to analysts March 13, Tribune said it will own 23% of iBlast Networks, consortium formed by 6 TV groups to combine their digital spectrum and deliver broadband content and services directly to consumers (TVD March 10 p4). iBlast (with Tribune as largest investor) has signed 143 TV stations in 102 markets, including top 25. Tribune had 1999 revenue of \$3.2 billion, with 13,400 employees.

Chided by rival gen. mgr. when he was running WTBS Atlanta for making money with *Andy Griffith* reruns but not having news, Ted Turner said he told himself "some day I'm going to have news. Someday I'm going to be the news king." Turner, vice chmn. of Time Warner, spoke in Washington at Radio-TV News Dirs. Foundation annual First Amendment dinner, where he was awarded First Amendment Leadership Award. "I'm not really a journalist," he said, noting only experience prior to CNN was as child selling newspapers to train passengers, earning penny per paper. Still, he said, "I was part of the [journalism] chain." He said CNN is high point of his professional career, not just because he made 24-hour news work but because he made it work globally. "Of course, I love the Cartoon Network, which has 3 times the ratings of CNN," he said: "People don't always make the right choice, but we make choice available." His current and future bosses, Time Warner CEO Gerry Levin and AOL CEO Steve Case, provided introductions. Case said "Ted Turner is one of my heroes" and recalled hearing him speak when Case was young man. Levin followed up: "Steve applied for a job at HBO and was turned down. Now he's gotten back at us." Levin also praised CNN, calling it "centerpiece of our company." Others receiving awards were ABC anchor Diane Sawyer (Leonard Zeidenberg First Amendment Award) and WISH-TV Indianapolis News Dir. Lee Giles (First Amendment Service Award).

Loral received contract to build 2 EchoStar satellites in extension of existing contract, firms said. Dollar value wasn't disclosed. Delivery of EchoStar 8 is scheduled for late 2001. EchoStar 8 will be used primarily for DISH network, and EchoStar 9 will be hybrid Ku-and-Ka-band satellite used for expanded services. EchoStar 8 will carry 16 high-power Ku-band DBS transponders operating at 240 w, along with customized spot beam signal to expand local-to-local coverage. EchoStar 9 is scheduled to have 32-transponder Ku-band payload operating at 110 w, in addition to Ka-band. Delivery of EchoStar 9 is scheduled for 2002.

China will have \$45-billion wireless market by 2003, House Speaker Hastert (R-Ill.) told govt. affairs officials at EIA conference in Washington last week. "Your companies have a direct stake in the approval" of Permanent Normal Trade Relations (PNTR) with China, Hastert said: "The President and Congress need to work together to ensure PNTR's passage." EIA, which includes as members TIA and CEA, supports PNTR, as does Business Software Alliance (BSA).

Wegener will market new scheduling program that allows TV networks, private corporate networks and other subscribers to automate satellite transmissions. Compel Bandwidth on Demand gives customers ability to set correct frequencies, transponders and other equipment without need for dedicated personnel.

FCC MERGER REVIEWS TARGETED: FCC Comrs. Powell and Furchtgott-Roth joined House Telecom Subcommittee Chmn. Tauzin (R-La.) and Ranking Democrat Dingell (Mich.) March 13 in verbally eviscerating FCC for its review of telecom and media mergers. At Telecom Subcommittee hearing prior to introduction of HR-4019 by Rep. Pickering (R-Miss.), Tauzin said FCC lost its ability to do sweeping merger reviews with passage of Telecom Act. Dingell said he hoped legislation would mean Congress wouldn't have to "abolish the Commission."

Furchtgott-Roth charged FCC not only exceeds its review authority but does so in "secret" meetings to which his staff is denied access, while Powell said part of the problem is that conditions imposed in mergers don't apply to competitors. He also noted that unlike reviews at Dept. of Justice, burden of proof at FCC is on merging parties, not Commission. Kennard in statement noted Telecom Act "charged the FCC with opening telecommunication markets that have historically been closed." He said bill as drafted "would deny the FCC sufficient flexibility to do what Congress told us to do — to promote competition."

Bureau staff at FCC are forcing companies to agree to so-called voluntary agreements to receive approval, Furchtgott-Roth charged, and "much of this quid pro quo is conducted behind closed doors... There are secret deals, some written down, some not." Rep. Wynn (D-Md.) suggested Furchtgott-Roth was "casting aspersions" on FCC staff, since he couldn't know meetings occurred if they're secret. "That's exactly our problem here," Furchtgott-Roth replied, adding that in at least one case Kennard announced meetings but said they would be closed. Powell later said "I rarely know who is in that room."

Powell said FCC still has special role in merger reviews separate from market analysis of antitrust regulators looking for harm to such things as diversity of voices. But, he said he's "uncomfortable with a [merger review] standard that places harms on one side of the scale and a hodge podge of conditions on the other side of the scale. There's a great temptation to load up non-germane wish lists, turning a pebble of harm into a mountain of conditions." Both commissioners agreed there needed to be timetables for reviews so as not to leave companies in limbo, but Powell said bill should allow Commission some flexibility to ensure it didn't have to approve merger just because clock was running out. Powell also said Commission should be brave enough to reject some mergers outright.

"The FCC has refused to accept its role, and Congress must now legislate," Tauzin said. Ranking Democrat Markey (Mass.) agreed that many awaiting approval at FCC complain of delays. But he said review process best was left to FCC: "I do not support eviscerating the public interest standard simply because it's inconvenient... for media moguls."

Recent merger reviews by FCC, Dingell said, have been "remarkable exercise of arrogance, and approaches what might be defined not just as arrogance but extortion." He called "particularly outrageous" process by which FCC "sees some potential competitive harm, then on that basis proceeds to extract concessions from parties that have nothing to with the transaction itself and the perceived threat to competition." "How different is that," he asked, "than protection payments made in Chicago and New York in the days of Al Capone and prohibition?"

Pickering told reporters he hoped to have markup on bill in April and saw it being paired with similar legislation that

has already passed the Senate Judiciary Committee. House Commerce Committee Chmn. Bliley (R-Va.) was speaking at an Internet summit and couldn't attend hearing, but in written statement, he asked of bill, "[I]s it possible that the cure is worse than the disease? That is, will tight time and scope limitations only promote more, and not less, back-room dealing?"

Along with defining FCC's merger authority in manner more narrow than that perceived by Kennard, bill would limit merger reviews to 90 days, with most being capped at 60. Source at Senate Antitrust Subcommittee said it backs time limits, but 90 days "may be a little short." Separate merger review bill has already passed out of Senate Judiciary Committee, and Antitrust Subcommittee Chmn. DeWine (R-O.) and Ranking Democrat Kohl (D-Wis.) would be likely conferees.

Kennard was unable to testify as he was in South America, and when asked about the absence of Comrs. Ness and Tristani, Tauzin said Democrats were encouraged to invite more commissioners if they wished. Staffer for House Commerce Committee Ranking Democrat Dingell (Mich.) said "we would have welcomed more commissioners at the hearing," and in fact Democrats told Tauzin that Republicans — only ones empowered to invite witnesses to hearings — should invite Comrs. Ness and Tristani. At beginning of opening statement, Dingell said: "I regret there are not more commissioners here."

■ ■ ■

Petitions for reconsideration of FCC LPFM rules began flowing into Commission last week, raising expected issues. "Public radio stations are especially vulnerable to the likely interference" from LPFM, NPR told FCC in petition. It also filed for stay of rules, currently scheduled to take effect April 17, until July 15 or until FCC addresses reconsideration request. That would allow completion of tests currently underway by Commission and NPR, organization said. Unlike commercial broadcasters, NPR said it supports "some form of low-power broadcasting," which it believes "can be complementary" to full-power public radio stations. NPR said 1/3 of its members carry radio reading services for blind, operating on wide-band channels that are "inherently less selective in rejecting unwanted adjacent channel signals." It said FCC should maintain 3rd adjacency protection for those stations. Broadcast translator licensees shouldn't be prohibited from holding LPFM licenses, National Translator Assn. said in petition. Group said goal is to increase voices, but translator "by definition, is not a voice" since it's just repeating someone else's voice. United Church of Christ and others said FCC should reverse its decision not to impose public file obligation on LPFM licensees. They also said new LPFM licensees should have more than 2 years to begin localized service, and FCC should further loosen its interference restrictions to allow more LPFM stations. NAB already has appealed rules authorizing LPFM stations to U.S. Appeals Court, D.C.

Citing provision in contract requiring FCC approval by March 16 (which didn't happen), Sinclair Best. Group canceled sale of 3 TV stations — WICD Champaign and WICS Springfield, Ill., and KGAN Cedar Rapids, Ia. — to Sunrise TV for \$81 million cash. Sinclair, which had purchased stations for same price in July from Guy Gannett Communications, said they wouldn't be put back on market.

SUPPORT SLOWS FOR LOAN BILL: Widespread support in House of \$1.25 billion loan guarantee program to provide local broadcast signals to rural areas under HR-3615 was said to have been hurt following criticism by members of Dept. of Agriculture audit. That audit found rural utilities are using low-interest govt. loans to invest in stocks, bonds and investments instead of rural development. Satellite broadcasters were to be major beneficiaries of loan program, Commerce Committee members said March 16.

In 5th hearing held on rural loan guarantees in last 2 months, this was first to focus on Dept. of Agriculture and Rural Utilities Service (RUS), which would be administering program under House and Senate bills. According to figures provided at hearing, RUS handled \$11 billion in loans in 1997, yet less than 1% of those funds went to rural America. Congressional Budget Office also estimated that as many as 44% of companies that received loans could default if legislation is passed. Senate Banking Committee Chmn. Gramm (R-Tex.) expressed concerns about RUS in 2 hearings earlier this year, but cajoling from Agriculture Committee Chmn. Lugar (R-Ind.) persuaded him to include RUS as agency in his bill.

According to highly placed House source, hearing "cast doubt on whether Congress should authorize an additional \$1.5 billion to the Agriculture Dept. for program. After the hearing, it may be tough for Congress to justify handing over more tax payer dollars, when audits make it clear that the Dept. of Agriculture is already wasting taxpayer dollars."

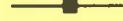
House Commerce Committee Chmn. Bliley (R-Va.) urged Committee to move with caution. "Unlike rural electrification or telephone services, there is immediate and intense competition in the video programming marketplace," he said, wondering if RUS was right agency. Rep. Goodlatte (R-Va.), sponsor of bill, stuck by legislation.

Dept. of Agriculture Inspector Gen. Roger C. Viadero criticized use of funds: "We discovered that borrowers have not become major players in financing America's rural infrastructure, despite the fact that these borrowers hold almost \$11 billion in total investments."

Congressional Budget Office Dir. Dan L. Crippen called loan guarantee plan "risky" and "costly." Crippen proposed guaranteeing less than full value of loan (as is done in Senate bill), requiring borrowers to pay fees, developing underwriting criteria and changing legislation that allows govt. guarantee to be subordinate to private sector financing.

Rep. Largent (R-Okla.) questioned whether taxpayers should be footing bill for private companies to turn profit. "Why should taxpayers continue to loan money to people who don't need it?" Ranking Democrat Markey (Mass.) said "it makes zero sense to make incumbents eligible for loans."

RUS Acting Dir. Christopher McLean defended agency. He reminded legislators that through 60 years and \$42 billion in RUS loans, not one company defaulted. "RUS can't stop making money for these people," said McLean, recently nominated to position he currently holds on acting basis.



Cox Communications sold its 13% stake in Flextech for about \$520 million in private placement. Cox, one of several original investors in British cable operator and programmer, said it will use proceeds to build its domestic cable business.

Despite continuing growth in cable subscribers, DBS providers will rack up record 4.5 million new customers this year, according to latest study by Allied Business Intelligence (ABI). Technology research firm projects that combined gains of DirecTV and EchoStar will more than double cable's projected pickup of 2 million subscribers in 2000, thanks to rollout of "local-into-local" service by satellite operators. ABI also predicts that DBS companies, which gained 700,000 more customers than cable operators last year, will beat cable again next year because of new local-signal service. But think-tank sees DBS growth slowing considerably by 2002, falling behind cable industry gains as cable operators upgrade their systems to offer such new services as digital video and high-speed data. Study estimates that nearly 1.6 million U.S. households now subscribe to both cable and DBS.

FCC should reject bid of InterMart Bcstg. for FM station in Pocatello because firm is really controlled by Citicasters, according to petition to deny filed Fri. by 2nd-highest bidder, Ida. Wireless (IW). InterMart won license in Closed Bcst. Auction Sept. 28, but IW said extensive financial links between InterMart and Citicasters mean Citicasters was real bidder, even though it hadn't filed required paperwork to bid. Citicasters, in earlier filing, had said that shouldn't matter because it would be qualified licensee, but IW said FCC should reject bid because of unfiled paperwork. IW said links that show that Citicasters actually controls InterMart include loans that provided full amount of bid, provisions precluding InterMart from seeking other financing, apparent control of amount bid. Agreements "will make InterMart entirely dependent on Citicasters," IW said.

Former Fla. PSC Chmn. Julia Johnson will stump against open access as chmn. of new Net Compete Now (NCN) coalition. New group has board that includes NAACP Chmn. Julian Bond and educators and minority group leaders pushing for broadband deployments in areas currently on wrong side of digital divide. Spokesman said access issue will be group's "initial focus" but eventually it hopes to advocate elsewhere on deployment questions. He acknowledged cable industry is "part of our membership," wouldn't say what financial contributions cable has made or size of NCN's budget. Coalition has no full-time employees, and spokesman said primary activity at first will come from Johnson — who has full-time job as vp-communications & mktg. of Military Commercial Technologies Inc. — testifying in various venues and recruiting new members.

Online privacy issues "are not that complicated," House Telecom Subcommittee Ranking Democrat Markey (Mass.) said March 16, and he said proposed privacy commission could stall momentum for legislation. "I think that Congress should act this year on privacy issues," he said after speech to Consumer Federation of America conference. Still, he wouldn't flat-out oppose formation of commission: "I have no problem with people who want to learn more about the issues doing so." Responding to Markey, Rep. Moran (D-Va.) said he understands Markey "wants strong legislation immediately, [but] we don't understand the full ramifications of privacy legislation."

American Bcstg. Educational Foundation faces \$7,000 fine for staffing and public file violations at KYCM(FM) Bastrop, Tex., FCC Enforcement Bureau said. Bureau said main studio was left unstaffed Nov. 1998-Jan. 1999, in addition to intermittent staffing at other times.

RETRANSMISSION FIGHTS CONTINUE: At least 4 MSOs are locked in retransmission disputes with broadcasters as latter have begun to use their over-the-air signals as hard bargaining chips to leverage cash compensation or channel space for their cable networks. But, other MSOs we contacted said they have concluded deals with most broadcasters without major hitch. Retransmission negotiations that have spilled into 2000 have turned into bruising battles, especially those between Time Warner and ABC (TVD March 13 p10, March 6 p4) and recent Fox-Cox row.

Time Warner's retransmission renewal negotiations with ABC parent Disney have dragged on for more than 2 months since expiration of earlier agreements on Dec. 31. Dispute involves 7 TW markets, including Houston, where ABC has made repeated threats to pull off affiliate KTRK-TV (Ch. 13) Houston from TW systems, only to relent at last minute with series of extensions. Latest extension is until March 31.

Hearst-Argyle TV is also engaged in retransmission disputes with TW, involving broadcaster's ABC affiliate stations and one NBC station. List of dozen markets includes Orlando, Milwaukee, Kansas City. In Daytona Beach-Orlando, for example, TW is involved in dispute with WESH (Ch. 2, NBC) Daytona Beach-Orlando, Hearst-Argyle owned station. Negotiating points in this market are similar to other TW markets, spokesman said. Like ABC, Hearst-Argyle's latest retransmission extension for TW ends March 31.

Apart from TW systems, Hearst-Argyle is embroiled in retransmission disputes with CableOne, Comcast, Cox. As with TW, broadcaster spokesman said, "discussion points include cash compensation and carriage of Lifetime network," in which Hearst Corp. is shareholder. In most cases, retransmission is continuing under extensions, he said.

AT&T Broadband spokeswoman said all expiring retransmission agreements have been extended, with major digital carriage deals with Fox and NBC concluded last year. Comcast has some pending deals, but nothing under "imminent deadlines," MSO spokeswoman said.

Cable officials say broadcasters have become aggressive in their pursuit of both cash compensation and channel carriage in latest round of consent talks, thanks in part to increase in number of new cable networks. In Houston, TW spokesman accused ABC of hiking cost of retransmission by \$175 million. He also charged that broadcaster wants broadband access on par with that given to AOL. ABC spokesman countered that talk of money was "smoke screen" and real issue is "our content should be given same importance as theirs." He contended that open-access issue was really equal treatment of content "be it on TV, Internet or cable systems."

All broadcast stations except ABC and Hearst-Argyle TV have reached retransmission deals with TW, MSO spokesman said. Row with WBNS-TV (Ch. 10, CBS) Columbus, O., was resolved with latter providing 2-year retransmission deal. Carriage of Ohio News Network (ONN), which was sticking point, wasn't part of agreement, he said, with only condition that ONN carriage talks should continue. WBNS-TV and ONN are owned by Dispatch Bctg. Group.

Oxygen Media signed carriage deal with Cox Communications, giving new women's cable network immediate access to another 900,000 homes. Cox, which will offer Oxygen to additional cable households over next 2 years, said it will carry Oxygen on its expanded basic tier.

Open access pace-setter Portland, Ore., is luring new breed of cable operators who embrace open access policy. City, which is involved in legal fight with incumbent cable franchisee AT&T over its open access franchise condition, has bids from 4 companies, including RCN and Wide Open West (WOW), that want to provide broadband cable to greater Portland market. Mt. Hood Cable Regulatory Commission, which has jurisdiction over Portland area, will consider bids for franchises from RCN and WOW. Three of companies are recently-organized start-ups, while RCN is aggressive overbuilder offering bundled video, voice and data services in such major markets as Boston, N.Y., Washington, Philadelphia, San Francisco.

CableLabs released final version of its OpenCable Network Interface specification, incorporating DTV-cable compatibility technical standards that cable and consumer electronics industries adopted 3 weeks ago. CableLabs officials said revised specs, modified slightly from original version issued last Oct., will clear way for consumer electronics manufacturers to make digital TV sets that work on cable's digital plant. New specs will also allow set manufacturers to test digital equipment interoperability through CableLabs' periodic "interoperability events." CableLabs said it will submit final OpenCable specs to Society of Cable Telecom Engineers for approval as "due process" technical standard.

Clear Channel Communications (CCC) continued its spin-off of radio stations, as part of acquisition of AMFM Inc., by selling 12 stations in 7 markets to minority-owned Radio One Inc. CCC now has sold 100 stations to 18 separate groups (including several minority-owned) in effort to comply with govt. regulations. Meanwhile, expressing concern over "increase in financial risk" taken on by Radio One in purchasing 21 radio stations for about \$1.36 billion, Standard & Poor's (S&P) lowered licensee's credit and bank loan ratings to single B+, with "negative implications." Radio One is buying 12 stations from CCC, 3 stations in Indianapolis from Shirk Inc., plus stations in Charlotte and Augusta, Ga., from Davis Bctg.

RealNetworks offered different interpretation of its licensing Microsoft's Windows Media Audio software. Microsoft had said deal meant its rival effectively was giving up streaming audio war, leaving Windows Media as de facto industry standard. RealNetworks said Windows Media simply joins 8 other audio formats on its RealJukebox player, which now has 27 million registered users and is signing up 100,000 more per day. Minimizing competitor's impact, it said Windows Media licensing adds capability to support only "additional 2% of audio programming available on the Internet." RealNetworks said what's important isn't controlling audio format but having dominant player, with licensing deal removing "any reason to consider using alternative players."

Clear Channel bid to acquire SFX Entertainment "is the latest example of increasingly high levels of concentration in the media and entertainment industries," Senate Antitrust Subcommittee Chmn. DeWine (R-O.) and ranking Democrat Kohl (Wis.) said in letter to FCC Chmn. Kennard and Joel Klein, Asst. Attorney Gen.-Antitrust. Letter acknowledges that deal "may provide some benefits for consumers," but said FCC and Justice should "carefully scrutinize the merger's competitive effects." Biggest impact could be on music industry competition, they said, since Clear Channel could use its stations to favor artists whose concerts it promotes.

AT&T, INSIGHT SET DEAL: Stymied in efforts to conclude cable telephony pacts with Time Warner, Comcast and other top MSOs, AT&T signed agreement in principle with Insight Communications to offer phone service over latter's cable lines. Deal covers all Insight cable systems, which pass more than 1.6 million homes in Ill., Ind., Ky., Ohio, Ga. and Cal. Insight, 8th largest MSO with 1.1 million subscribers and extensive joint ventures with AT&T, plans to start offering telephony in some systems next fall and extend service to all its systems by early 2002.

Agreement calls for Insight to sell AT&T-branded local and long-distance services, both separately and in bundled offerings with Insight's video and data services, 2 companies said. Insight said it will handle billing, sending one combined bill to cable subscribers. Proposed service will compete mainly against local and long-distance offerings of SBC Communications' Ameritech subsidiary, which is LEC in key Insight states of Ill., Ind. and Ohio. Insight Pres. Michael Willner said he hopes to sign up nearly 500,000 customers for phone service by 2006.

Unlike proposed AT&T cable telephony deal with Time Warner, now on hold because of AT&T's pending purchase of MediaOne Group and America Online's pending acquisition of Time Warner, AT&T-Insight agreement in principle doesn't envision creation of separate joint venture to run phone business. Nor does deal call for AT&T to help upgrade Insight's largely modernized cable plant to digital readiness, pay upfront fee for access to Insight's cable universe or split phone revenue with Insight. Instead, all phone revenue will go to AT&T while Insight will receive local loop fee, sales commission for pitching service and compensation for phone installation and maintenance operations. "We think this is a wonderful working model for the industry," said Willner.

—

FCC will be forced to take draconian measures if Congress doesn't permit it to use \$5.8 million in excess regulatory fees to support its information technology (IT) operations, Chmn. Kennard wrote House Appropriations Commerce Subcommittee Chmn. Rogers (R-Ky.) March 7. Senate approved FCC's request, Kennard noted, but Rogers has proposed rerouting some of FY 2000 money appropriated for rent to IT. Kennard said OMB and GSA told Commission it still would be obligated to pay full rent. Without additional \$5.8 million, "I am forced to implement the following reductions throughout the agency," Kennard wrote: (1) Postpone outside hiring. (2) "Substantially reduce domestic and international travel," which could impact upcoming World Radio Conference and World Trade Organization (WTO) implementation. (3) Curtail \$3.8 million in IT spending, including electronic filing program. "Insufficient support for our network and application systems will affect all Commission functions, including the prompt and efficient collection of both fees and auction revenues," Kennard warned. Kennard is to meet with Rogers on subject later this month.

Broadcast equipment maker Itelco announced availability of first COFDM-modulation exciter for N. American market. Firm said customers were seeking COFDM equipment, and availability would make it possible to compare VSB and COFDM modulation for DTV. Firm said it's neutral on VSB-COFDM debate. It produces equipment for European DTV system, as well as digital audio broadcasting.

Cable ad revenue is expected to total nearly \$13 billion this year, vs. \$11.2 billion in 1999, according to Cable Ad Bureau. In its latest annual report, CAB touts steadily growing household reach and viewership of basic, ad-supported cable networks, which spent \$5.7 billion on programming last year and are projected to spend almost \$6.5 billion this year. Trade group estimates cable programming now reaches 78.1 million homes, or 78.5% of all U.S. TV households, up from 75.8 million, or 77.3% of all TV homes, year ago. Growing universe of DBS households accounts for bulk of increase, adding 8.4 million customers to wired cable's estimated base of 69.7 million subscribers. CAB estimates Americans spent \$34.4 billion on cable programming in 1999, about \$40 per month per home, and will spend \$38.4 billion this year.

AOL and Pacific Century Cyberworks are expected to invest \$5 million and \$30 million respectively in iBeam Bcstg., gaining 0.5% and 5% stakes, sources said. Investments follow agreements earlier this month to supply iBeam service to AOL's 21 million subscribers and launch iBeam Asia in joint venture with Pacific Century. Installation of Dell servers at AOL containing satellite-based service is expected to be completed by month's end. AOL, with its 21 million subscribers, would be iBeam's largest customer. Ibeam bypasses Internet core by sending programming from more than 40 media companies via Telstar-7 satellite to network of 60 Internet service providers.

While cable operators are rolling out advanced services in larger markets, most small and medium-sized markets won't see such services for at least another 2 years, according to new study. Report by Cahners In-Stat Group found that most cable operators serving areas outside biggest markets don't intend to launch digital cable, high-speed data or telephone service in next 24 months. Instead, most plan to add more video channels to their systems, particularly premium movie networks. But 80% said they will offer more than 70 video channels by end of this year.

Intelsat hasn't decided whether to go through with threat to expel U.S. from Intelsat organization following passage of S-376 satellite privatization bill by full House, spokesman said. Bill now goes to President Clinton. "We have not made a decision on whether we will call for extraordinary meeting of parties to determine if there has been a treaty violation," spokesman said. "That decision will be made over the next 60 days."

Cox Communications closed its pending deal with AT&T for cable systems serving 485,000 subscribers, with Cox paying with 50.3 million shares of AT&T stock. Under approximately \$2.7 billion agreement, struck last July, Cox gains AT&T systems in Tulsa, Baton Rouge, and other areas in those 2 states, Tex., N.M., Ark., Nev. and Utah. Cox now has 6 million subscribers, 5th among cable MSOs.

Paxson Communications reached cash flow breakeven for 12 months in 4th quarter ended Dec. 31, with \$800,000 positive cash flow, company said. Breakeven came 16 months after launch of Pax TV network. Operating loss after depreciation and other costs was \$24.5 million for quarter, vs. \$49.4 million previous quarter, and net loss was \$77 million, vs. \$129.8 million. Revenue grew to \$80.7 million from \$58.1 million. Full-year loss was \$160.4 million, up from \$88.3 million year ago, and revenue grew to \$248.4 million from \$134.2 million.

STREAMING FEES CONSIDERED: Library of Congress's Copyright Office is stepping into battle between radio and recording industries over whether stations which stream their broadcast signals online must pay license fees for use of music. At request of RIAA, Copyright Office called for comments on whether Webcasting qualifies for broadcasters' traditional exemption from copyright liability. Comments are due April 17, replies May 1.

Dispute is fallout from Digital Millennium Copyright Act (DMCA) of 1998, which at behest of Webcasters led by Broadcast.com (now Yahoo Broadcast) created new compulsory license for Webcasts. "There is no logical reason why the same radio signal should be subject to liability when retransmitted over the Internet by a third party aggregator acting on behalf of a broadcaster, but exempt when transmitted by the broadcaster itself," RIAA argued in petition.

However, broadcasters maintain they're governed by older copyright law that specifically exempts them from copyright payments. As advised by NAB, about 1,000 stations filed with Copyright Office in Dec. stating intent to seek new licenses, but adding that they didn't believe they needed them.

Negotiations "have not advanced beyond the preliminary stage," RIAA told Copyright Office, because parties can't agree on basic legal question of whether broadcasters should have to pay anything, let alone what they should pay. "Unless and until the Copyright Office speaks to the issue, there is virtually no possibility that RIAA will be able to convince the broadcasters to engage in meaningful negotiations." It said dispute also is spilling over to non-broadcast Webcasters, "who argue, however incorrectly, that their rates and terms should vary depending upon" broadcasters'. RIAA said if Copyright Office doesn't set rules, "various parties could end up engaging in multiple lawsuits in different forums throughout the country." "We have not been in negotiations with the RIAA," NAB spokesman confirmed. "Our position is... we don't believe we are required to pay performance rights for streaming of signals over the Internet."

Broadcast lawyer said radio stations can't afford new fees just "to be a part of the digital age." Harvey Kellman of Rini, Coran & Lancellotta, which represents broadcasters, said stations are finding "a lot of people coming with their hands out" since they started streaming signals, including BMI and ASCAP. "It's distressing for broadcasters," he said, "The position is, 'Hey, we help you guys sell records. Why are you charging us?'"

RIAA lawyer Steven Marks said: "We are looking forward to mutually beneficial and rewarding relationships with Webcasters." He said broadcasters' payment-free use of recordings over air is "historical anomaly" that shouldn't be used as precedent for Internet or any other medium.

Proceeding could be first of several, with many details having to be worked out should broadcasters be found liable for payments. There then would be question of whether payments would be in form of new compulsory license, possibly to be resolved by Copyright Arbitration Royalty Panel (CARP). CARP proceeding "is likely to be one of the most complicated in [Copyright Office] history," RIAA said.

AIRBORNE TV PLANNED: AirTV signed \$1.2 billion contract with Alcatel for global satellite system to provide live TV and Internet for passengers on commercial jets with service to begin in 2002. Alcatel will build and launch 4 geostationary satellites, plus uplink and ground tracking facilities. Plans call for satellites to operate in S-band. Rockwell and News Corp. earlier announced launch of In Flight Network for airlines in 4th quarter 2001. Boeing is considering similar system.

Companies signed agreement for Alcatel's Spacecom to become AirTV partner, with Alcatel receiving undetermined equity in AirTV. AirTV is looking for additional investors, industry analyst said. Company hopes to have new investors in place by Sept., when Alcatel is scheduled to start building satellites. "The countdown for live television on airplanes - anytime, anywhere live news, sports and entertainment for passengers flying on long-haul routes has begun," AirTV CEO John Larkin said. "We are talking about a new media which will open untapped markets for broadcasters and advertisers around the world."

Spokesman said Alcatel will provide seamless, global coverage of up to 40 live TV channels and 300 audio channels providing multi-language programming. AirTV antennas will be manufactured by BAE Systems of Canada.

AirTV is coordinating efforts with international frequency regulators. It has received 2 orbital slots from Canada and one from Brunei, company spokesman said. Unlike In Flight Network, AirTV will use dedicated satellites. In Flight plans to lease satellite capacity.

NSN Network Services plans to market on-demand broadband communications using StarWire satellite networking products from ViaSat. NSN is installing Star-Wire Network Management System (NMS) at its operation center near Denver. Once the NMS is established, NSN said it will deploy at least 100 StarWire terminals this year. Renewable agreement extends through Jan. 2001. StarWire NMS responds to terminal service requests by setting up on-demand connection between subscribers, including setting data rates and bandwidth required by each. When traffic is no longer passing over satellite, NMS frees bandwidth for other network users.

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Personals

CBS board additions: **Peter Lund**, ex-CBS CEO, **James Cornelius**, chmn. Guidant... **Jeff Sagansky**, CEO-pres., Pax TV, elected to board, Fandom... **Jim Thomas**, ex-WMPM-TV Mobile, named news dir.-WRBL-TV Columbus, Ga... **Laurel Whitcomb**, ex-Walt Disney TV Animation, appointed senior vp-media relations, Paxson... **Daniel Webster**, ex-KPIX-TV San Francisco, named vp-West Coast, FeedRoom... **Jerome Martin**, ex-WTIC-TV Hartford, named vp-gen. mgr.-WBDC-TV, Washington.

Louise Sams promoted to senior vp-gen. counsel, Turner Bctg. System... Cable Ad Bureau Board changes: **Steve Heyer**, Turner Bctg. System, named chmn., **Kim Kelly**, Insight Communications, vice chmn., **George Bodenheimer**, ESPN, treas., **Curtis Symonds**, BET, secy., **Wes Hart**, **Judi Heady**, **Ron Pancratz**, **Ron Schneier**, **Jeffrey Wayne**, elected to board... AT&T Broadband changes: **Teresa Elder**, vp-MediaOne, appointed pres. broadband operations-West, **Jim Mazur** advanced to pres. broadband operations-East... **Joel Armijo**, ex-Time Warner, named vp-financial planning & entertainment, Cablevision Systems... CTAM board additions: **Sean Bratches**, ESPN, **Pam Halling**, Insight... **Debby Mullin** promoted to dir.-business development, ad sales, Cox... A&E TV Networks changes: **Dan Davids** advanced to exec. vp & gen. mgr., A&E, **Abbe Raven** promoted to vp & gen. mgr.-History Channel, **Ronald Schneier** promoted to exec. vp-sales & mktg., A&E.

Jonathan Pinch advanced to pres., Clear Channel International Radio... **Ericka Witnauer**, ex-Saatchi & Saatchi, named vp-mktg., Statistical Research... **Beverly O'Brien**, ex-vp, returned as exec.-capital and endowment campaigns, National Cable TV Center.

Rick Ducey resigns as NAB senior vp-research and information group, effective March 24, and will join BIA Financial Network; he'll remain consultant to NAB on Internet-related matters... **Frank Bennack**, pres.-CEO of Hearst Corp., will receive NAB Distinguished Service Award April 10 at opening session of convention in Las Vegas... Added to APTS board as lay members starting April 2: **John Maxey**, representing Miss. ETV; **Ashley Thrift**, vice chmn. of N.C. Center for PTV... **Theresa Beyer** advanced to vp-creative mktg., AMFM's N.Y. station group... Appointed at Hispanic TV Network as dir.-sales: **Rod Rodriguez**, ex-Telemundo, and **Kyle King**, ex-KXAS-TV, Dallas/Ft. **Worth Lee Johnson**, ex-Hughes Network Systems, named vp-operations, ViaCast Networks.

Obituary

Asher H. Ende, 85, retired FCC lawyer who headed Commission task force in early 1970s that first investigated AT&T's long-distance monopoly, died March 7 of cardiopulmonary arrest in Boca Raton, Fla., home. Before that, he was hearing examiner who presided over several TV comparative hearing cases in late 1950s and headed first communications satellite branch at FCC. After retiring from Commission in 1973, he was exec. vp of RCA Globocom and later practiced law. Ende received law degree from Brooklyn Law School in 1937, master's degree from N.Y.U. in 1940, and served in Army Air Force during World War II. Wife, 2 sons, survive.

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N.Y. Supreme Court cleared one block to completion of CBS-Viacom merger last week, dismissing Chris-Craft suit claiming merger would violate Chris-Craft partnership with Viacom on UPN. Decision by Judge Herman Cahn means Chris-Craft must meet terms of UPN buy-sell provision, either buying Viacom's 50% of UPN from Viacom for \$5 million, or selling its 50% to Viacom for same amount. Merger still awaits federal regulatory approval. Chris-Craft officials said only that firm would "review its options." Firm has approached several media firms about partnering with it on UPN.

Consumer Electronics

A Section of *Television Digest with Consumer Electronics*

STATE OF THE INDUSTRY

Sales to dealers, from CEA, for week ending Mar. 3 and year to date:

	FEB. 26- MAR. 3	1999 WEEK	% CHANGE	FEB. 19- FEB. 25	9 WEEKS 2000	9 WEEKS 1999	% CHANGE
TOTAL COLOR TV. (a)	459,505	269,364	+ 70.6	712,068	4,108,231*	3,757,365	+ 9.3
DIRECT-VIEW**	436,982	260,778	+ 67.6	670,659	3,888,775*	3,593,493	+ 89.2
TV ONLY#....	356,132	227,434	+ 56.6	550,741	3,296,060	3,078,895	+ 7.1
TV/VCR COMBO.	80,850*	33,344	+142.5	119,918*	592,715*	514,598	+ 15.2
PROJECTION...	22,523*	8,586	+162.3	41,409*	219,456*	163,872	+ 33.9
TOTAL VCR**....	426,788	197,542	+116.0	781,530*	3,453,311*	3,014,226	+ 14.6
HOME DECKS...	345,938	164,198	+110.7	661,612*	2,860,596*	2,499,628	+ 14.4
CAMCORDERS (a) ..	46,798	68,523	- 31.7	135,851*	644,376*	536,598	+ 20.1
DVD PLAYERS....	61,248*	19,243	+218.3	215,732*	832,314*	254,178	+227.5

Direct-view TV 5-week moving average#: 2000-386,700; 1999-338,990 (up 14.1%).

Projection TV 5-week moving average: 2000-25,449*; 1999-18,231 (up 39.6%).

VCR deck 5-week moving average: 2000-346,477*; 1999-268,633 (up 29.1%).

TV/VCR 5-week moving average: 2000-75,671*; 1999-56,474 (up 34.1%).

Camcorder 5-week moving average: 2000-69,538; 1999-62,168 (up 11.9%).

DVD player 5-week moving average: 2000-92,457*; 1999-25,728 (up 259.4%).

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

PLAYSTATION2 REGIONAL-CODE FLAW MAY FORCE RECALL: Discovery that DVD regional coding can be changed easily by owners of PlayStation2 (PS2) raised new concerns last week that Sony might be forced to recall million consoles already sold in Japan. Word of latest glitch might have implications outside of Japan, in light of our findings last week that PS2 is already available on gray market in U.S. and U.K.

In what's possibly easiest DVD hack yet seen, PS2 users learned that program to change regional coding is included on utility software disc that's used for player set-up, and can be accessed simply by manipulating buttons on game-pad controller. Although PS2 ships as Region 2 (Japan/Europe) DVD player, owners were able to switch codes to play desirable Region 1 (U.S.) discs. Although story broke Fri. in Japan, regional coding modification had been circulating on Internet as early as Mon.

After learning of latest flaw in console, Sony Computer Entertainment (SCE) said it had modified system's software programming to protect regional coding. Company said it will start shipping new PS2s as early as this week with upgraded utility software disc and memory card that will prevent consumers from resetting machine's regional code.

Unresolved though was status of million consoles sold to date — and utility discs that make regional code change possible. "We have not launched a recall or stopped shipments, although we can't completely dismiss the possibility of a recall for now," SCE spokesman told Reuters on Fri. It's not clear, though, what incentive owners would have to turn in console with multiregion DVD operation — or whether Sony would provide such incentive.

Reaction of DVD Forum and Hollywood content owners might be consideration for recall. "Sony could be accused of selling DVD players whose functions on copyright protection can be easily altered," said Hideyuki Irie, director on DVD Forum. "Film makers in Hollywood could file a lawsuit against the maker because of violation of copyright," he told Reuters. "The Sony issue may add to the difficulties in ongoing format negotiations between music providers and DVD manufacturers and even bring a new demand from film makers to reinforce codings." In fact, PS2 regional coding glitch came to light as cross-industry Copy Protection Technical Working Group was meeting in L.A. Relevant MPAA,

DVD Forum and CE industry executives were attending meeting and couldn't return our calls for comment in time for our Fri. deadline. Under terms of DVD license, hardware manufacturer must make regional code settings secure from tampering.

Latest black eye for PS2 comes after word that many customers complained of memory card troubles that caused console's DVD drive to work improperly, and Sony's concession that company wouldn't reach its target of one million players sold in first week of Japan launch.

Regional coding flaw enables Japanese consumers who bought console at least through end of last week to watch DVD movies and other discs from Region 1-U.S. Instructions for changing PS2's Region 2 setting were widely available on Internet, and described 4 different ways to change code. All involve pressing different sequence of game-pad controls during PS2's boot-up sequence.

Availability of PS2 hack in English on U.S.-based Web sites was sure clue that next-generation game console had made early and unauthorized debut outside Japan. We didn't have to look very far last week to buy PS2 in U.S. and U.K., despite fact that exports of console have been prohibited by Japan's trade ministry, and that Sony won't be launching PS2 in U.S. and Europe until fall. Shortly after March 4 Japan launch, eBay auction Web site had PS2 up for bids at \$600 to \$1,000. But it became clear last week that eBay wasn't only place U.S. consumers could buy PS2.

We found PS2 in midtown Manhattan and central London stores last week at \$899.99 and £800 (about \$1,265) respectively — hefty premiums over ¥39,800 (about \$375) Japan price. N.Y.C. retailer Game Express was selling 5 PS2 games for \$99.99 each. Although PS2 console wasn't prominently displayed — as software was — retailer told us by phone that players were in stock. We were told dealer had gone to Japan, bought consoles there and already had sold some in U.S. Same retailer's Web site — www.gexpress.com — prominently displayed PS2 in upper-right corner of home page, along with note telling visitor to call for price.

There's no guarantee gray market PS2's won't be afflicted by same memory card problem many Japanese customers discovered. And how well contraband consoles will work is also questionable, considering that PS2 is built for Japan's 100-v AC electrical service. That won't deter hard-core gamers, who can easily hook up player to inexpensive voltage converter. In Europe, though, Sony might have some legal recourse against gray marketeers. As Japan model doesn't have CE logo certifying conformance with European electrical safety standards, authorities can confiscate players. But it's possible retailers will try to get around law by claiming consoles are for export sale only.

SCE addressed gray market issue at Japan launch, when it said "using this product in countries other than Japan may lead to serious accidents due to voltage differences" and other factors. SCE also said PS2 export was prohibited because console and its 8 MB card use high-powered encryption technology that's subject to Japan's Foreign Exchange and Foreign Trade law.

Among various PS2 consoles up for bid at eBay last week were 3 that purported to be U.S. version of system. It was unclear how that could be possible considering fall timing of U.S. and European PS2 launches. SCE America and eBay executives didn't return calls for comment by our Fri. deadline.

SCE said it didn't meet its original target of selling one million units in first week of Japan launch because of what it said was "10-day lag in production." Company said it did come close, however, with 980,000. At same time, SCE said it was working "to expand the manufacturing capacity for the 8MB cards, and total hardware shipments are scheduled to reach one million by March 15." Whether company was able to achieve that was unclear at our deadline. SCE conceded it had received 340 complaints about memory cards before first week of launch ended. That number had jumped to 1,000 by Fri.

On more positive note, SCE is speeding up its plan to get PS2 customers online. PS2 videogame console users soon will be able to access Web to order merchandise or play games via cellphone links with their consoles, Japan press reports said last week. System will be used until high-speed cable TV network service starts next year.

When unveiling PS2 details in Sept., SCEA Mktg. Vp Andrew House said company will use PS2's Internet connectivity options "to establish broadband distribution of digital content with a target of 2001." SCEA also said it plans to use PS2 as means to expand further into digital downloading and other e-commerce activities.

Although PS2 continues to take spotlight away from current PlayStation, British press report said Sony is considering introduction of redesigned PS1 later this year. Redesigned console will target lower-age demographic — most likely 5-12 year olds — enabling company to keep 2 versions on market.

RCA HYPES DTV WITH HOOPS: "March Madness" collegiate basketball will be springboard for DTV sales promotion by RCA-parent Thomson, timed to coincide with local and national DTV sportscasts by CBS.

Partners began public demonstration of DTV multicasting last Thurs., with CBS Indianapolis affiliate WISH-Ch.8 and 9 simultaneously broadcasting 4 National Collegiate Athletic Assn. regional games live — 3 in standard definition DTV, other in NTSC.

Local multicasts will continue this week, with Thomson installing 36" monitors and DTV set top decoders at 4 H.H. Gregg retail outlets and 3 public venues in Indianapolis area — Adam's Mark Hotel and BW3 restaurant downtown, Joe's Grille in suburban Castleton. Same locations will have RCA 61" widescreen HDTV sets to display semi-finals and championship games, which CBS will carry live from RCA Dome in Indianapolis for HDTV broadcast nationwide on April 1 and 3. Thomson is underwriting production costs for final series.

DTV sales promotion coincides with hoops tournament and runs through April 23, Thomson said. Company's "RCA Slam Dunk of Savings" program offers consumers \$2,499 package price on 36" MM36100 High-Resolution Monitor and DTC100 set top DTV decoder and DirecTV receiver — savings of \$449 from regular MSRP. Buyers also get free DirecTV Plus dish antenna for receiving satellite HDTV signal, and free installation. Same offer is available for online sale from rca.com, Thomson said.

NINTENDO'S DOLPHIN DELAYED UNTIL 2001: Confirming widespread industry rumors, Nintendo announced that it's indeed holding off launch of its next-generation videogame console until 2001.

News came only 9 days after Nintendo of America (NOA) Mktg. Vp George Harrison told us that company's plan was to still launch both its Dolphin console and next-generation handheld, Game Boy Advance (GBA), by end of 2000 despite rumors to contrary (TVD March 6 p21). But at time he also, as we reported, didn't categorically rule out delay of either platform, saying "everything's a possibility" and ultimate decision was up to parent company in Japan.

Nintendo Exec. Sales-Mktg. Vp Peter Main said there are certain benefits to delay: "First, it allows the millions of current Nintendo 64 owners to devote their videogame dollars to the best lineup of new games in our history without having to buy a new system. Secondly, the new launch date for Dolphin means that our system will come to market next year with a portfolio of game names across all genres that simply can't be matched by any other company."

But delay also means that Sony's PlayStation2 will have had longer amount of time on market to gain head start and also puts Dolphin launch closer to slated fall 2001 launch of Microsoft's "X-Box" (TVD March 13 p11). Meanwhile, Sega's Dreamcast by that time will have also gained wider foothold in U.S. homes. Unclear is impact more crowded videogame platform field will have on software development timing — issue that can also conceivably delay launches of Dolphin and X-Box even further if there aren't enough titles ready to ship for each one's launch.

Although Nintendo said it now plans to ship Dolphin in first half of 2001 in N. America, it cautioned that company and its 3rd party publishers "have yet to drop any official game announcements" and "completion of these games will likely determine the actual Dolphin launch date."

Nintendo didn't give reason for delay, but statement by company at its official Web site last week suggested it was software rather than hardware issue: "The games may not be ready, but most of the hardware is ready to rock." Indeed, by most accounts Nintendo had yet to provide 3rd party developers with development systems. Nintendo executives were unavailable for comment by our Fri. deadline.

Also as of our deadline, company was still planning to launch GBA in Japan in Aug. and in N. America shortly after that in fall at price under \$100 despite fact that retailers have expressed concern of GBA timing, but not initial Dolphin launch. Various retailers recently told us they didn't understand why Nintendo was opting to launch new handheld platform when current Game Boy Color is still doing so well and in short supply (TVD Feb 7 p15). On other hand, sales of current Nintendo 64 console have been flat since launch of competing Dreamcast.

As we reported when Nintendo first announced official Dolphin details last year (TVD May 17 p14), next-generation console will feature Matsushita DVD drive. Console will also include Gekko 400 MHz CPU chip that uses IBM's 0.18 micron copper technology, which Nintendo claims has heat dissipation properties that enable console to avoid over-heating and gives console more speed than competing systems. System also uses custom graphics processor from Palo Alto, Cal.-based ArtX that was designed by team headed by Dr. Wei Yen — chief designer of N64's graphics chip. Dolphin graphics chip will come embedded with S3 texture compression technology that Nintendo says will result in

saved game memory because of its 6-1 compression ratio. Company also says that because decompression of textures is handled automatically by graphics chip, result will be elimination of bluriness, blockiness and monotonous repetition of same elements on screen, creating more realistic graphics.

Just before official word of *Dolphin* delay, NOA agreed to start providing protective gloves with padded palms to owners of its *Mario Party* videogame after various reports surfaced about players getting blisters, cuts and other hand injuries as result of playing N64 game. N.Y. Attorney Gen. Eliot Spitzer blamed title for injuries, saying game encouraged players to rapidly rotate joy stick that has grooved tip.

Nintendo agreed to provide up to 4 gloves per household — at cost of about \$80 million to company — and is also providing \$75,000 for cost of attorney general's investigation, Spitzer said. To get gloves, consumer can call Nintendo's *Mario Party* hotline at 800-521-0900 for information. Nintendo didn't return call for comment on this issue either by our deadline. But recorded message on company's hotline admits that "some individuals may experience skin irritation including blisters and/or damage to the control stick if they rotate the control stick with the palm of their hand." Company said problems exist only with original version of game and not *Mario Party 2* that started shipping in Jan.

In more upbeat Nintendo news, company started shipping *Pokemon Stadium* for N64 at \$69.95 — its 2nd *Pokemon* console title. With addition of *Pokemon* — which has already been driving Game Boy sales — to N64, manufacturer is hoping to attract new consumers for its current console who may already be Game Boy owners.

JAPAN MODEL OF DVD FAILURE: Japanese market has been "poster boy for how not to introduce DVD," Stephen Nickerson, Warner Home Video (WHV) vp-DVD worldwide mktg., told International Recording Media Assn. seminar last week in La Quinta, Cal.

Nickerson, former Toshiba executive, said DVD adoption in Japan has "lagged miserably" behind that of other developed markets, mainly because of dearth of quality feature films available on format. However, Nickerson said Sony Playstation2 (PS2) will "have a very definite impact" on DVD awareness in Japan. He said PS2 introduction in single day "effectively doubled" DVD's installed base in Japan.

In U.S., Nickerson said there's market potential to ship 10 million players this year, which he said would fall between CEA's conservative estimate of 6 million decks and 12 million projected by DVD Entertainment Group. He repeated claims that he made while at Toshiba that 10% DVD household penetration — milestone that can be reached by 4th quarter this year, if not sooner — is important because rarely has CE product failed after meeting that benchmark.

Worldwide, Nickerson said, there's potential to ship 20 million DVD players this year, but in meetings WHV has had with top corporate leaders, no one in world believes shipments can top 15 million decks. He warned that lack of accurate sales forecasting can result in product shortages and other "roadblocks" later that can hamper growth. He said other potential roadblocks could include "future format incompatibility" from recordable DVD wars that might confuse consumers and impede market demand. Internationally, Nickerson said, there remains dearth of quality-title availability.

Moreover, DVD market could suffer if chip procurement becomes problem or replication capacity is taxed, Nickerson said. However, he said DVD can stack up favorably in future against competition from video-on-demand (VOD) if 3 conditions are met: (1) Consumer must be nurtured to believe that DVD media is "perpetual and portable," thereby having more utility than VOD. (2) Packing DVDs with as many "special features" as possible will bolster their competitive advantage as "collectibles." (3) DVDs will command pricing premium over VOD, but premium must be "right" so as not to give VOD strong competitive advantage.

SONY RESTRUCTURES AGAIN: In what has become annual rite of spring, Sony announced April 1 restructuring of its U.S. consumer AV operations, latest in apparent bid to meet new broadband challenges.

New Sony Consumer Electronics Group (CEG) combines formerly separate Consumer Products Marketing Group (CPMG), which was responsible for AV products, with Personal Network Solutions Co. (PNSC). Former CPMG head Fujio Nishida will lead new group, while former PNSC Pres. Dick Komiya, serves as deputy pres. Both will report to Sony Electronics Pres.-COO Teruaki Aoki. Previous restructuring in March 1999 was billed as attempt to Sony more effective competitor in Internet world.

New alignment appears, in part, to be nod toward expected AOL Time Warner merger that will combine entertainment and Internet assets. Sony's strategy, like that of AOL Time Warner, will be to provide interactive services over range products including digital music players, cable set-top boxes, cellular phones and game consoles.

Sony has already executed parts of its strategy separately, including agreement to supply digital STBs to Cablevision, but last week's announcement more closely aligns all business segments. Sony has already hinted that its Playstation 2 console will part of strategy to provide interactive services. And it has moved to broaden line of Internet download devices beyond those that use Memory Stick storage (TVD Nov 22 p14).

In addition to forming CEG, Sony also created new business unit within Sony Pictures Entertainment that will provide content to online and game services via broadband networks including digital subscriber (DSL) and cable modem systems. Sony Pictures Digital Entertainment (SPDE) will be charged with using company's film and TV archives to create both online content and interactive programming for video-on-demand, online games and other potential services.

SPDE "demonstrates Sony's intent to marshal" TV, film, new media and content assets to "take a leadership position in the burgeoning field of broadband entertainment," Sony Corp. Of America Chmn.-CEO Howard Stringer said in prepared statement.

OFFICEMAX RIGHTS PLAN: OfficeMax board Fri. adopted rights plan designed to ward off "abusive takeover tactics" by limiting ownership of common by any group or person to 15%.

While no shareholder currently owns such percentage, entities controlled by Carlos Helu of Mexico bought 8% stake in chain earlier this year and has made filing under Hart-Scott-Rodino Antitrust Improvement Act to acquire up to 25%, OfficeMax said. Helu is part of Grupo Sanborns retail empire that has proposed buying 219-store CompUSA for \$797.7 million (TVD Jan 31 p14).

Rights plan won't block Helu from buying up to 15% of outstanding common, but board "believes the acquisition of a larger percentage by any single person or group could enable that shareholder to exercise a degree of control over OfficeMax that could be detrimental to the interests of other shareholders," retailer said.

Plan would be implemented by issuing one preferred share purchase right for each share of OfficeMax common that was outstanding at close of business March 17. Each right entitles holder to buy 1/1000th of a participating preferred share at \$30 initial exercise price. Rights are exercisable if anyone buys more than 15% of OfficeMax's outstanding common.

OfficeMax Chmn.-CEO Michael Feuer, who founded chain, would likely oppose effort to sell it despite fact its trading near 52-week low, analysts said. It closed Fri. up 3/8 at 6-7/16, up from 52-week low of 4-7/16.

While Putnam Investments of Boston is largest shareholder with 9.8 million shares or 8.6% of outstanding, Feuer controlled 2.2 million shares or 3.2% as of March 26, 1999 and had options to buy another 1.4 million. Feuer purchased 188,000 shares in Oct. at \$5.31-\$5.33. Following Feuer, are 6 board members who as group own 157,771 shares headed by Carl Glickman at 60,000.

Helu had been expected to make bid for OfficeMax, which like most office superstores has struggled in recent months. OfficeMax posted \$3.9 million loss for year ended Jan. 29 vs. \$188,000 profit year earlier. It has moved in past year to revamp PC business, which has suffered from double-digit declines in selling prices. Chain recently struck deal with Gateway to create store-within-a-store format at more than 900 outlets.

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New Musicmaker.com promotion teams custom CD retailer with Warner Music and Pepsi, *Wall St. Journal* reported last week. Musicmaker.com Chmn. Robert Bernardi mentioned promotion in recent conference call with analysts and investors but he didn't give any specifics (TVD March 6 p19). He only said upcoming promotion would involve "a very large beverage company" and not EMI but "another major label." At that time, we said it seemed likely promotion would be with Warner considering proposed EMI-Warner Music merger and fact that EMI has stake in Musicmaker.com. Spokesman for Musicmaker.com didn't return call last week for comment, but *Wall St. Journal* report went on to say that deal is part of promotion companies are calling "Choose Your Music" and lets Pepsi customers order custom CDs with 5 or 10 songs, depending on amount of soda they buy from May-July, selected from list of about 200 songs from Warner labels.

Audiovox reported first quarter income rose 76% on 61.8% rise in sales (see financial table) on strength of demand for wireless phones. Overall, wireless sales increased 70% during quarter to \$270 million or about 80% of revenues, up from 77% year earlier. Units rose to 1.85 million from 1 million, company officials said. Average selling price rose to \$140 from \$134 as digital phones accounted for 62% of sales vs. 37%. Digital phones, consisting largely of CDMA and GSM models had \$177 average price, while analog finished at \$77, CFO Michael Stoehr told analysts in conference call. Gross margins fell to 8% from 9.4% on increased competition in CDMA market, he said. Audiovox plans to ship CDMA tri-mode phone for Bell Atlantic service in April and add GSM models from Taiwan suppliers Acer and GCB by April-May. TDMA phone supplier Mitsubishi suffered "horrendous" shortage of components during quarter, but plans to deliver 500,000 handsets by year-end, Exec. Vp Philip Christopher said. Phone inventories soared during quarter to 69 days from 35 a year earlier as company switched to cheaper ocean delivery from air and geared up for Bell Atlantic shipments. About \$78 million in phones were "afloat" as of Feb. 28, factor that would lower inventory to 34 days, Morgan Keegan analyst David Childe said. In electronics business, sales increased 34% to \$63.4 million from \$47.4 million year earlier with car audio revenues rising 50%, company officials said. Despite sales gains, gross margins were flat at 22% as accessories business declined, company officials said. To further spur sales, Audiovox is planning to ship its first car DVD player in May, add other DVD-related products throughout year, Senior Vp Patrick Lavelle said.

DuPont Displays struck agreement to buy Uniax Corp. further strengthening its push into market for organic light-emitting diodes (OLEDs). Terms weren't disclosed. Uniax, which has produced prototype poly-OLEDs up to 6", will target its displays for cellular phone and PDA applications at start, first products containing them to hit market in first quarter 2001, Darlen Keys, chief technology officer at DuPont Displays, said. Uniax's prototype OLED has 25,000 pixels, weighs 1/10-oz. and is 2mm thick, Uniax officials said. Uniax, which has patents covering poly-OLED manufacturing process, has started prototype production at Santa Barbara, Cal., facility, but volume manufacturing will likely be done by 3rd party through joint venture or licensing agreement, Keys said. Samples have been shipped in quantities ranging "10s to 100s" of units, he said. Uniax, which has licensed technology from U. of Cal.-Santa Barbara, will keep hq, but will be under direction of DuPont gen. mgr., Keys said. OLED technology made splash in 1999 when Pioneer rolled out car head-unit featuring display. Sanyo also has made push into market via joint development agreement with Eastman Kodak, which has 38 patents for technology (TVD Feb 22/99 p16)... **OLED market** will grow to more than 100 million units valued at \$714 million by 2005 from "several hundred thousand" units and \$3 million in 1999, Stanford Resources (SR) said. Segmented displays will comprise 90% of market, 56% of which will be one-line models, SR said. Small OLEDs (2-4") will account for 6% of market, while 1" is 2.5% and 5-8", 1%. Transportation business, which includes automotive displays, will represent 12% of volume and 10% of value of OLED market by 2005, SR said. Up to 8 companies, including Siemens and Philips, could be selling OLED technology by year-end and more than 85 companies are developing it, SR said.

Clarification: Samsung, reacting to our report last week (TVD March 13 p16), said there currently are no talks under way with EchoStar.

ECHOSTAR LOSS GROWS: EchoStar, citing increased subscriber acquisition costs, reported 4th quarter loss grew to \$220 million from \$113 million despite 79% gain in revenue (see financial table).

Revenues from Digital Sky Highway (DISH) satellite subscription service, which added 438,000 subscribers in quarter to end year at 3.4 million, increased to \$419 million in quarter from \$211.4 million. DTH equipment sales and integration services, which involve agreements with ExpressVu satellite service in Canada and Telefonica subsidiary Via Digital in Spain, jumped to \$75.4 million from \$64.1 million, while revenues from satellite services, which includes BTV Network, nearly doubled to \$12.7 million.

Total costs and expenses soared to \$675.8 million from \$357.1 million. Promotion subsidies tied to EchoStar's Dish One-Rate and other campaigns jumped to \$210.8 million from \$112.7 million and per subscriber acquisition costs increased to \$425 in 4th quarter from \$300 range year earlier. Quarter also included costs tied to agreement with TV Guide subsidiary Superstar/Netlink Group to convert its 1 million C-band subscribers to DISH service. Under pact, EchoStar paid \$10 million exclusivity fee that requires Superstar to promote DISH to its subscribers, according SEC filing.

For year ended Dec. 31, EchoStar posted \$793 million loss vs. \$261 million year earlier as revenues rose to \$1.6 billion from \$983 million. EchoStar ended year with \$3.1 billion of outstanding long-term debt. Per subscriber monthly revenues increased to \$43 from \$39, while acquisition cost was \$385 vs. \$285 year earlier. Latter cost is expected to rise \$25 per subscriber this year and may hit \$450, EchoStar said.

Pre-marketing cash flow for year jumped to \$554 million from \$300 million. EchoStar added 1.4 million subscribers for year. Marketing expenses hit \$727 million in 1999, up from \$406 million year earlier, while ad costs were \$65 million, against \$48 million.

EchoStar also said it expected to incur "material one-time expenses" in connection with launches of EchoStar 5 and 6 satellites and repointing of subscriber receivers to 110° W. from 119° W. EchoStar projected capital costs of \$350-\$450 million for this year including \$200-\$250 million related to construction and launch of EchoStar 6, 7, 8 and 9 birds. Loral has received contracts for EchoStar 8 and 9 satellites that are to be delivered in late 2001 and 2002 respectively. EchoStar 8 will have 16 Ku-band transponders operating at 240 w and capable of delivering spot beam for local-to-local coverage. Other bird will have 32 transponders and be located at 110° W. Another \$50-\$100 million will fund DISH receiver systems, while \$50 million covers "build-out" of digital broadcast centers in Cheyenne, Wyo. and Gilbert, Ariz.

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As EchoStar released year-end results, it also reached agreement on proposed acquisition of foreign language programmer Kelly Bcstg. Systems, for \$3.5 million cash and 255,000 shares of DISH common. West Orange, N.J.-based Kelly has worked with EchoStar in past in delivering 21-channel Sky Vista package that including Arabic programming and gave DISH access to Alaska, Hawaii, P.R. and V.I. Unclear is whether proposed purchase also will include Kelly's teleport center in Orange, N.J., and electronic news gathering

and documentary operations. EchoStar, which has gradually built international programming lineup, including addition of Russian-language channels NTV and NTV Plus last fall, made brief run at buying SkyView Media Group last Dec. for \$23 million. It abandoned plans month later after reviewing bankrupt company's finances (TVD Jan 10 p19). SkyView had begun as Ethnic American Bcstg. Co. in 1998 to provide foreign language programming for DirecTV.

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Tandy is asking shareholders to approve changing its corporate name to RadioShack in move that would loosen historical ties to its legendary founder Charles Tandy. Company has spent millions on promoting RadioShack brand in recent years and change needs to be made to "accurately reflect" its "single focus" on retail. Change will enable company to "capitalize on the proven and measurable name and brand identity of RadioShack both at the corporate and retail levels," Tandy said in proxy for its May 17 annual meeting. Tandy Center in Ft. Worth that serves as hq and related facilities will keep name. Indeed, Tandy has changed dramatically in recent years in shedding its manufacturing operations, closing Incredible Universe, McDuff's and Video Concepts chains and selling Computer City. Elsewhere in proxy, Tandy paid Pres.-CEO Leonard Roberts \$850,000 salary in 1999, up from \$610,000 year earlier and also granted \$850,000 bonus, options for 325,000 shares at \$48 that expire in 2009. Exec. Vp David Christopher was paid \$330,000 vs. \$308,000 year ago, gained \$330,000 bonus and 100,000 options, while Senior Vp David Edmondson received \$350,000 in salary and bonus, 140,000 options... Good Guys has registered to sell 281,000 shares that could yield \$1.2 million if warrants are exercised. Those selling shares include investment firm Morgan Keegan (160,000), which handled private placement last Aug. and Citron Haligman Bedecarre (121,000), ad agency that designed promotional campaign launched last fall. At same time, Good Guys said it had reached an agreement to carry Parasound audio and home theater products further expanding stable of high-end lines that have recently included Nakamichi and Sensory Science's Loewe digital TVs.

Acclaim said its revenue and earnings for 2nd quarter ended Feb. 29 and fiscal year 2000 will fall below analysts' expectations. Interactive game publisher said it expects to report loss of about \$20 million for quarter while, for year, it expects to post 30% drop in revenue compared to year ago and \$50 million loss. Acclaim blamed results on combination of factors, including slowdown in sales growth of major hardware consoles, company's previous strategy emphasizing N64 software, decrease in videogame software sales, 35% increase in R&D spending, competition from discounters. Acclaim CEO-Chmn. Gregory Fischbach said: "Our industry is in the midst of a major transition, as manufacturers, retailers and game players await the next generation of powerful new videogame consoles. Although the effects of this transition are being felt throughout the industry, Acclaim has been particularly affected, due to our prior emphasis on the Nintendo 64 platform." He added: "Product demand has declined in our first 2 fiscal quarters, and we do not expect a rebound until the fall, when Sony releases its PlayStation2 console." Benefits of new consoles' arrivals won't be seen by company "for another 9 to 12 months after those sales begin," he said. Company said it will release financial results for 2nd quarter in April.

"Strategic partnership" that will include bundling agreement for software to be featured with future Internet audio products was announced by Philips and Voquette, San Mateo startup. Media management software will link to Philips, Voquette and other Web sites to deliver Internet audio content, Philips said.

CDNOW-COLUMBIA HOUSE MERGER OFF: Merger of CDNow and Sony-Time Warner's Columbia House direct marketing joint venture has been terminated, companies said last week. But companies said they reached new arrangement that will result in "significant investments" in CDNow by Sony and Time Warner "and a commitment to explore strategic relationships with CDNow."

As part of new arrangement, Sony and Time Warner said they will commit \$51 million to CDNow through \$21 million in cash as equity investment and converting existing \$30 million short-term loan commitment into long-time convertible debt. CDNow will remain independent public company.

CDNow spokeswoman told us last week decision to call off merger was "a mutually agreed [upon] decision" based on Columbia House not being "exactly in the [financial] position that we were looking for it to be in." Although CDNow expected Columbia House to be able to provide money that would have driven Web music retailer's growth, Columbia House revealed last month that it would be undergoing major restructuring. While CDNow sales and traffic have been growing, it has remained unable, thus far, to become profitable — like many of its Web competitors.

But reason for merger being dissolved offered by CDNow was contradicted by Columbia House Chmn. Scott Flanders in *Wall St. Journal* article, where he was quoted as saying main reason for merger's termination was companies' inability to gain regulatory approval.

Others in industry, meanwhile, questioned whether other factors may have been at play as well — among them possibility that Warner may now see acquisition of CDNow as potential conflict with Musicmaker.com, Web music company that makes custom CDs, which will become affiliated with Warner if pending merger of Warner Music and EMI is approved (TVD Jan 31 p11).

Also possible is that Sony may see acquisition of CDNow as problematic in light of lawsuit NARM filed against Sony Music Entertainment and parent Sony Corp. of America claiming manufacturer is forcing retailers to carry enhanced CDs containing "hyperlinks" that divert consumers to Sony's own online-affiliated stores (TVD Feb 7 p13).

NARM Pres. Pamela Horovitz said last week she wasn't privy to why CDNow-Columbia House deal was called off and noted that development — at this point, anyway — has no impact on her group's lawsuit. Noting that Sony has yet to respond to NARM's complaint, she said: "Until we see what their response is and know what the interpretation of 'a strategic alliance' is as opposed to a merger, we really wouldn't speculate." She added that NARM doesn't "have any sort of understanding about whether or not the special treatment that we were complaining about in the suit wouldn't still take place or not."

Regardless of CDNow's relationship with Sony in future, Horovitz said merger termination doesn't appear to have affect on Sony's relationship with Columbia House, which NARM claims has also been benefited by Sony enhanced CD's hyperlinks.

Sony spokeswoman declined comment. Time Warner spokesman didn't return call for comment by our Fri. deadline.

Proposed CDNow-Columbia House merger, originally announced last July (TVD July 19 p20), would have created new public company with Sony and Time Warner each having 37%

stake and existing CDNow shareholders controlling remaining 26%.

Word that merger had been called off drove CDNow shares — which had already been trading in single digits — down even further. At end of day Thurs. last week, shares were being traded for under \$7 — far below their 52-week high of \$23.26, CNet.com reported.

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America Online along with Pacific Century Cyberworks are expected to invest \$5 million and \$30 million respectively in iBeam Bctsg. to gain 0.5% and 5% stakes, sources said. Investments follow agreements earlier this month to supply iBeam service to AOL's 21 million subscribers and launch iBeam Asia in joint with venture with Pacific Century. Installation of Dell servers at AOL containing satellite-based service is expected to be completed by month's end. AOL with its 21 million subscribers would be iBeam's largest customer to date, surpassing Agis, which is wholesale supplier to ISPs NetZero and Earthlink and provided access to more than 5 million. Ibeam bypasses Internet core by sending programming from more than 40 media companies via Telstar-7 satellite to network of 60 Internet service providers. It has about 40 installations, but backloggers for close to 1,000, sources said. Among other investors are Microsoft, which purchased \$10 million in notes last fall that are convertible to 5 million shares common, and Sony, which paid \$2 million that be exchanged for 1 million shares. IBeam, which is in midst of IPO and is expected to begin trading in April, declined comment on plans citing SEC-mandated quiet period. With combination of Microsoft and Sony as investors, iBeam would appear logical candidate for former's WebTV, which has struggled to bring video streaming to its service. "Ibeam wants to be on their network, they just haven't reached an agreement," source said. Pact with Pacific Century, which recently unveiled plans to buy Hong Kong Telecom, will target 130 million cable households in Asia. IBeam will provide technical staff, while Pacific handles sales and marketing, content acquisition. IBeam also is expected to launch On-Target ad insertion service on network this spring. It tested program with Ziff-Davis TV (ZDTV) last fall using 3Com ad.

Daewoo Group and committee representing its foreign creditors are said to be nearing agreement on final terms of debt buyout deal. Source told Reuters that Daewoo and committee weren't far apart and Oh Ho-keun, head of Corp. Restructuring Coordination Committee said agreement could be reached "any day now." While foreign debt totals \$4.8 billion, total liabilities, including domestic creditors, is \$79.6 billion. Pact with foreign creditors could clear way for sale of key Daewoo units including Daewoo Electronics (DE) and Orion Electric. Daewoo has been seeking sale of DE for more than year, but proposed swap for Samsung's automotive business and later acquisition by Walid Alomar & Assoc., both collapsed. DE lists \$7.6 billion in liabilities against \$4.8 billion in assets. Under proposal, creditors would convert \$1.3 billion of debt into equity and convertible bonds. Orion, which makes PC monitors and TV tubes, has \$1.5 billion in liabilities, \$1.7 billion of assets. Creditors are to grant Orion interest rate breaks on debt while seeking to sell controlling stake.

Rotel's first DVD player is DVD-Audio universal deck planned for summer or fall introduction. Company said pricing of RHDV-20 deck won't be set "until we have established a release date," which awaits final modifications on DVD-Audio encryption. Rotel said RHDV-20 is first in series of DVD players planned for introduction this year.

VIDEOSHARE JOINS STREAMING FIELD: New VideoShare.com Web site enables consumers and small businesses to create and send their own streaming video online.

Site was started by Cambridge, Mass.-based VideoShare, privately-held company founded by CEO-Pres. Gad Ligerant last year. Investors in company include Scripps, he said.

Ligerant said company is focusing on streaming video as quick method for communicating with others online, and said what makes VideoShare.com system unique are its ease of use and downloading times quicker than competing services.

Site is currently in beta stage, Ligerant said, but he didn't provide time frame for final version of site. Revenues are coming through mix of consumers and small businesses, he said. Company is also using banner ads at site — one from Outpost.com was prominently displayed at site last week. But VideoShare spokesman said company isn't concentrating on banner ads as method for earning substantial amount of revenue.

Company has signed non-disclosure agreements with some small businesses, Ligerant said, noting that company is looking to grow business-to-business side of its strategy. Ligerant said "over 7,000 users" visited site since it launched about month ago.

At site, customers can download VideoShare Producer for free. Software allows them to record video from webcam and then import pre-recorded videos formatted in AVI, MPEG1, MPEG2 or QuickTime. After video is created, it can be uploaded to VideoShare's servers by click of mouse. Video can then be streamed anywhere on Web, but to view it one needs to have Microsoft's Windows Media Player.

VideoShare provides users with 10MB of free video storage at personalized "Videocenter" page at site, where users can watch video clips and then send them to family and friends. Those who want more than 10MB can choose either 20MB as part of "Gold Plan" for \$3.95 monthly charge or 50 MB with "Platinum Plan" for \$6.95.

Site also includes VideoShare Gallery, which offers collection of streaming videos from throughout Web. Included are movie trailers, music videos, TV clips, videos submitted by VideoShare users. Highlighted on site's home page last week was trailer for new Brian De Palma movie "Mission to Mars."

As convenience feature, site offers customers option of sending streaming video to eBay to help sell items they might be selling or to Monster.com where they can submit video resumes.

S3's Diamond Multimedia division unveiled its 3rd-generation Rio digital audio players at Cirrus Logic booth at South by Southwest conference in Austin last week. But company said specific features won't be announced until new players ship later this spring. S3 said new Rio players will come bundled with music from several major music labels and will support SDMI, digital rights management from InterTrust Technologies and Microsoft's Windows Media, as well as MP3 and AAC codecs. S3 is one of investors in RioPort, which last week released beta version of its next-generation audio manager software for downloading audio. Audio Manager 3.0 software — available as free download at www.rioport.com — includes new audio and video streaming capabilities. Like recently-announced competing MusicMatch Jukebox 5.0 (TVD March 13 p20) — it offers custom CD-burning capability.

DREAMCAST TO GET MP3 PLAYBACK: New 2.0 version of Planetweb's browser that upgrades Web functionality of Sega Dreamcast system will start being shipped with game consoles in N. America in May.

Sega of America Senior Vp Peter Moore said that improvements in browser will include MP3 compatibility and "will enable us to take gaming to the next level." Sega said players will have ability to listen to MP3 audio files while connected to console and, "eventually," players will be able to download MP3s to removable storage devices as well.

Other improvements new browser will bring include ability to create Force Feedback "interactive sensations" — now only possible while playing videogames — in Web site content as well.

In other Dreamcast news, first videogame with multi-player online gaming capability is being shipped by Sega at \$29.95. Game — *ChuChu Rocket!* — is action/puzzle title created by Sonic Team (TVD Feb 14 p20). Players are able to challenge others around world via Sega's online Dreamcast Network.

Meanwhile, Sega's ad strategy was criticized in U.K. Govts.' Best. Ad Clearance Centre (BACC) suspended all Dreamcast ads that include references to "on-line gaming." BACC objected to Sega's term online "capability," saying it was misleading because game console didn't give consumers ability to play games online yet — only at some point in future. Independent TV Commission (ITC) agreed with BACC, saying it "received ambiguous information" from Sega.

Although Sega has used same "capability" label for Dreamcast in U.S., terminology hasn't been source of controversy here, where it's frequently used in same manner by many companies.

Harvey Electronics, crediting strong sales of digital TV and DVD products, reported first quarter income rose 33% on 54% gain in sales (see financial table). Same store sales jumped 40%. Gross profit margin slipped to 39% from 39.5% due largely to increased sales of video products, which accounted for 30.1% of revenues during quarter vs. 27.2% year earlier. Custom install slipped slightly to 24-25% of revenues from 29-30% it had been at in previous quarters as Harvey placed emphasis on retail business during holiday selling season, Pres. Franklin Karp said. Selling, general and administrative (SG&A) costs increased 43.6% to \$3.10 million as ad expenses jumped to \$350,000 during quarter from \$30,000 year earlier. Chain launched TV ad campaign last fall that carried \$120,000 production cost. HE also is negotiating lease to open Bang & Olufsen (B&O) in Greenwich, Conn., which would be its 2nd, and first outside NYC. B&O store would carry \$350,000 capital cost. HE also is plotting new N.J. outlet which would cost \$650,000. Although Harvey's current Web site functions primarily as information source, Karp told us "we are going to expand it into an active e-commerce site" as early as 2nd quarter this year. This isn't first time Harvey has attempted to enter e-commerce waters: Proposed merger that would have joined Harvey and CoolAudio.com was recently terminated (TVD Feb 14 p15) and Harvey is currently part of GetPlugged.com network that has Web site where various U.S. specialty CE retailers sell products.

NetFlix is partnering with Circuit City in free DVD rental offer to DVD hardware purchasers. Consumers who buy players in Circuit City stores will get coupon for 13 free rentals from NetFlix.com. Promotion runs through Aug. 31.

GILAT TO SUBSIDIZE SERVICE: Gilat-to-Home (GTH) will subsidize proposed 2-way high-speed satellite service that will be sold through RadioShack and EchoStar for first 2 years, Chmn.-CEO Yoel Gat told analysts in conference call. GTH Internet access service will start in fall and subscribers will number in "few tens of thousands" this year, he said.

PCMCIA card that will allow service to be delivered to PC will have \$1,000 manufacturing cost at start, but it's expected to retail for \$200-\$300, he said, and programming will carry \$55-\$60 monthly fee.

Microsoft, which recently invested \$50 million in Gilat, will partly offset cost with subsidy that will be tied to PC buyers' making 3-year commitment to receive service, Gat said. GTH is likely to subsidize service for 350,000-400,000 subscribers projected to be signed up in first 2½ years, he said, with break-even by 2003-2004.

Service will be tested in 4th quarter with 10,000-20,000 subscribers receiving Internet access and programming from single transponder, Gat said, with first "paying customers" added by first quarter 2001, he said. GTH will be capable of supplying downloads at 400 kbps, but is likely to operate at 150 kbps during peak periods such as 6-9 p.m., Gat said.

GTH will be "PC-centric" at start, migrating to TVs in 2001-2002, Gat said. Gilat will build PCMCIA cards and set-top boxes with initial capacity of 50,000-75,000 units, but will add OEM supplier in 2001. While it has yet to sign agreement with PC maker, Compaq presumably would be candidate since it operates store-within-a-store format at RadioShack.

Company has 4-year pact with Microsoft, 15-18-month deal with EchoStar, latter subject to completion of final agreement after first year, Gat said. While Microsoft will own inventory for service, EchoStar will sell product on per-order basis, he said. To receive Gilat service along with EchoStar programming, subscribers will have to install larger, 24"x36" dish, but will be able to "reuse" existing IRD, he said.

Gilat also is targeting similar service for Latin America, with Brazil likely to be first market in early 2001. Servicio Satelital, Argentine-based company in which Gilat is majority owner, will direct distribution of service.

Toshiba raised its projected unconsolidated net loss for fiscal year ending March 31 to \$2.37 billion, widening of \$615.9 million loss forecast earlier. Company attributed revision to extraordinary charge of \$3.1 billion it will take this year to increase reserves to meet expected shortfalls in its retirement funds. Total unconsolidated extraordinary losses are put at \$4.1 billion for fiscal year, more than \$1 billion forecast earlier. Separately, Toshiba said it will ship MP3 player in Japan in April based on Liquid Audio's delivery system. Player will come with SD memory slot and will allow users to access music from Internet in both MP3 and AAC format, new technology that cuts download times. To oversee launch of player and related products, Toshiba said it's forming new Mobile AV Network Div. that starts April 1. Division will be responsible for SD memory cards, which were jointly developed with Matsushita and SanDisk, as well as wireless communications and technologies to compress audio and visual data into smaller packets.

WEB PIRACY REMAINS THREAT: Internet piracy and digital cinema technology were among hot topics at movie industry's annual ShoWest conference in Las Vegas this month.

Leading charge against online movie piracy was MPAA Pres. Jack Valenti, who called it biggest threat facing industry since birth of TV.

Meanwhile, companies hawking digital cinema technologies at conference included Digital Harmony, Kodak, Qualcomm, Secure Media Network (SMN) service provider AndAction, Texas Instruments (TI).

Digital Harmony announced start of new program that it said is designed to ensure interconnectivity between different companies' digital cinema products. Program — Digital Harmony Cinema — will promote company's IEEE-1394 protocol suite and DHIVA board solutions.

Kodak announced it's developing digital cinema system that uses Qualcomm's encryption and compression technology.

Encino, Cal.-based startup AndAction, founded in 1998, promoted what it called "a scalable and secure global media network for the distribution of digital film and entertainment content to theatres." Company said it provides complete network of services, including digital distribution and installation of necessary hardware and software.

TI demonstrated Digital Light Processing (DLP) Cinema prototype projector similar to those it used last year in digital showings of *Star Wars: Episode I — The Phantom Menace* (TVD April 5 p20) and other movies in theatres.

Despite abundance of digital cinema announcements, industry experts still guessed digital movies won't be reaching local theatres on widespread basis for at least 3-5 years — when industry reaches decisions on technological standards for digital films.

Stock Sales: IdealLab Capital Management has filed with SEC to sell 178,812 shares of MP3.com common with value of \$4.6 million... **Wink Communications** CEO Mary Wilderotter has registered to sell 32,500 shares (\$1.7 million) along with Chmn. Brian Dougherty, 50,000 (\$2.5 million) and Senior Operations & Deployment Vp Timothy Travaille, 5,000 (\$292,700)... **Kopin** CEO John Fan is seeking to sell 6,450 (\$486,975), from total 578,106, 3.9% of outstanding.

Shareholders approved Gemstar's \$7.72 billion purchase of TV Guide Fri., creating company that combines interactive program guide technologies with substantial publishing assets. Companies faced March 31 deadline for completing deal which brings together one-time bitter rivals. United Video Satellite, which acquired TV Guide last year, waged unsuccessful take-over bid for Gemstar in 1998.

THIS WEEK'S YEN RATE

Yen values have been converted to dollars in this week's issue at ¥105 = \$1, except where noted.

TERK AWARDED \$6.7 MILLION: Terk Technologies was awarded \$6.7 million after federal arbitration panel found inventor Devan Dockery had violated terms of 1996 agreement that settled patent infringement suit.

Panel found that agreement was "enforceable" and that Dockery had breached contract that required him to supply Terk with customized remote control extenders for sale under LeapFrog brand. Panel also held that Dockery and his company violated portions of federal Latham Act that "provides recovery to those damaged by another's false and misleading act or use of any word..." U.S. Dist. Court Judge Patrick Duggan, Detroit, confirmed decision.

Dockery, who was granted patent for remote control extender technology in 1989 and another for design of transmitter year later, wasn't available for comment. His attorney, Ernest Gifford, declined comment.

Dockery sued Terk, which had hired licensee X-10 to build LeapFrog, in 1995, saying company's product violated design patent. Settlement was reached year later, but panel said Dockery breached contract by refusing to sell device to Terk unless agreement were altered. He later contended that \$17.95 contract price applied to 20,000-unit minimum order, panel decision said.

Panel ruled that Dockery violated Latham Act by "making at least one call" to Tandy's RadioShack and telling retailer that Terk wasn't licensed to carry LeapFrog and that product could be purchased only directly from his company Windmaster. In dissenting opinion, part of panel argued that only claims of "passing off" are "actionable" under Latham Act. Passing off involves defendant's using plaintiff's "well-known product, name or symbol," but majority said that argument ignores "underlying claim" covering "misrepresenting commercial activities by another person."

While Dockery has argued that he didn't authorize "campaign of disparagement... the record is uncontradicted" that inventor and his company "knew about the communications," panel wrote.

Amount of damages was based largely on sales \$3.2 million representing 136,842 units that Windmaster reported 1996-1999, panel said. Dockery also conceded that he received royalties on sales of another 472,776 extenders to licensees. Licensee X-10 sold 399,686 units to Thomson's RCA between June 1996 and first quarter of 1999, plus another 22,540 to other companies, Terk expert said in court documents.

Online toy sales jumped from \$45 million business in 1998 to \$425 million business in 1999, report by Media Metrix and NPD Group said. At same time, report predicted online toy sales will reach \$1.6 billion by 2002 as long as same momentum continues. NPD said online toy sales represented 2% of \$23 billion spent on toys overall in 1999. Meanwhile, report indicated consumers have generally positive opinion of online toy buying — over 95% of consumers said they were satisfied, if not extremely happy, with their experiences during past holiday season — despite many reports about inability of various etailers to deliver products in time for Christmas (TVD Jan 3 p16).

STREAM MACHINE SUPPORT GROWS: On heels of Amoisonic Electronics' introducing VDR (video disc recorder) at CES using MPEG-2 compression system developed by Stream Machine (TVD Jan 10 p 20), 4 more companies unveiled similar decks using same technology at recent CeBIT trade show in Hannover, Germany.

Latest decks, referred to as DVRs (digital video recorders) by Stream Machine (SM), come from Eastern Asia Technology Div., ATLMultimedia, AVerMedia Systems, Cypress Technology, Datavideo Technologies.

Amoisonic deck stores programs on user-replaceable CD+R or CD+RW discs instead of fixed hard drive used by decks that commonly have been referred to as PVRs. But SM says its technology also can be used for time-shifting PVRs like ones being marketed by ReplayTV and TiVo.

SM said DVRs that bowed last month use its Symphony reference design including SM2210 MPEG-2 video encoder/decoder to store programs onto CD-RW discs and drives. Datavideo's DVR-2X is slated to be first of 4 to ship, with expected availability in April. ATLMultimedia's model will ship in May, followed by AVerMedia and Cypress decks in June. Pricing was unavailable at our Fri. deadline.

While Singapore-based ATLMultimedia is best known for its MP3 players and multimedia speakers, other 3 companies are based in Taiwan and manufacture broad range of video equipment.

Also using SM's MPEG-2 video codec are new PCI boards from AVerMedia, AVIOSYS International, Yuan Yuan. Like DVRs, SM says PCI boards help create streaming video with "DVD quality." First to ship will be AVIOSYS's DVD Plus 3000 in April. AVerMedia board and Yuan Yuan's MPG-200S will follow in May.

Amazon.com is asking shareholders to more than triple its number of authorized common shares as online retailer seeks added funds for future acquisitions and partnerships. Under proposal disclosed in proxy filed by company, Amazon would increase to 5 billion from 1.5 billion number of shares it can authorize without seeking further shareholder approval. Amazon, which includes CE products among its many online offerings, has 340 million shares outstanding. Shareholders will vote at Amazon's annual meeting May 10 in Seattle. Elsewhere in proxy, Amazon disclosed that CEO Jeffrey Bezos received same \$81,840 salary in 1999 as he did in 1998. Bezos' holdings as of Feb. 29 totaled 117.5 million shares common, giving him a paper worth in company of \$8 billion... LSI Logic, chip supplier to Sony Playstation and other products, is asking shareholders to approve boosting number of authorized shares to 1.3 billion from 450 million. Shareholders also are being requested to approve increasing number of shares available through employee stock purchase plan by 1.5 million. Meanwhile, CEO Wilfred Corrigan, who has headed company since its founding in 1981, received \$787,897 base salary in 1999, up from \$744,238 year earlier. He also was granted \$1.4 million bonus and options for 1 million shares. He owned 13.2 million shares as of Feb. 4, 4.8% of outstanding.

Dolby Digital encoding has been extended to allow use of HCD technology, Dolby Labs and HCD licensor Pacific Microsonics announced last week.

IFIRE, TDK IN DISPLAY PACT: Westaim subsidiary iFire Technology has signed licensing agreement with TDK for production of 12"-and-under displays using its inorganic electroluminescent technology. iFire, previously named Westaim Advanced Display Technologies, is seeking joint venture with CE manufacturer to build technology into 30-40" TVs that could be delivered in 2-4 years at \$3,000, Pres. Michael Goldstein said. CE deal is expected by year-end, he said.

Under licensing pact, TDK will invest \$7.5 million for 2.5% stake in iFire and will build wafer fabrication facility for automotive, navigation and home appliance applications. TDK, which also has licensing agreement with Kodak for organic electroluminescent displays (OLEDs), will start full production in 12-18 months, Goldstein said. iFire has shown prototype 8.5" display with 150 candelas and 320x240 resolution, although he conceded that "sweet spot" for market TDK is targeting is 5-7". iFire's solid-state technology has low-cost, thick-film manufacturing process vs. more expensive thin film used for semiconductors.

In making leap to larger sizes, iFire has shown 17" display with same specs as smaller version, but intends to boost brightness to 300 candelas and contrast to 300:1 "in the near term," Goldstein said. Major hurdle will be increasing voltage of display's drivers, technology that he said iFire is developing with 2 suppliers. "The drivers we have today are perfect for smaller displays, but not strong enough for the larger ones," he said.

Goal will be to hit \$3,000 price for 42" display, which could provide retailers with 30% margin, Goldstein said. About 30% of manufacturing cost will be tied to display module, which iFire will supply to manufacturer for assembly. While brightness and contrast haven't been set, resolution will be "somewhere between full [high-definition] spec and VGA [640x480]," he said.

Despite plasma's head start on iFire inorganic displays in larger sizes, Goldstein said technologies could co-exist. "I don't think that we're going to overtake PDP, but there are complementary opportunities where we can focus on in 30-40" TVs because they [plasma manufacturers] are looking at larger sizes," he said.

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Antennas America, OEM supplier to Thomson and Jasco, has filed with SEC for 44.5 million share offering as it shifts some focus to wireless applications including laptop PCs. Offering consists of 22 million shares that were sold as part of private placement in Jan., 22.5 million that can be issued with exercise of warrants and options. Among those selling shares are CEO Randall Marx, who registered 3 million of his 8.7 million shares and Hudson River Investments (8 million). AA's wireless antennas for laptops were introduced in Feb. 1999 and connect to PC via wireless modem that inserts into PCMCIA slot. AA's signed agreement with Thomson last June to supply "flat" antennas for reception of off-air signals, while Jasco pact covers GE brand and runs through 2003. Separately, AA said lawsuit filed against Terk Technologies alleging deceptive trade practices, has been settled, terms not disclosed. Suit, filed in 1997, was tied to report that AA argued "falsely disparages" its local TV antennas. Terk responded with countersuit in May 1998 alleging that AA made "false and/or misleading" statements that violated federal and Ill. state law.

Noodle Kidoodle (NK), benefiting from \$6.4 million deferred tax asset, reported 4th income jumped 106% on 32% gain in sales (see financial table). Same store sales were up 5%. Gross profit margin slipped to 38.2% from 39.5% year ago as chain suffered soft sales of plush products including Beanie Babies, which declined to less than 5% of overall revenues from 10% year earlier, Chmn.-CEO Stanley Greenman told analysts in conference call. NK, which spent about \$800,000 in 1999 revamping noodlekidoodle.com site during year, logged \$1 million in online sales and plans to add new features including coupon redemption and gift registry. It also is planning add new youth electronics dept. to stores to take advantage of growing number of interactive products, company officials said. NK plans to open 10 stores this year, down from 16 year ago and add new distribution center in Nashville by mid-summer that will handle 33 outlets at start. Chain also is seeking new 2-3-year credit agreement that would increase facility to \$50 million from \$15 million, CFO Kenneth Betuker said... **Zany Brainy**, also benefiting from \$6.1 million tax credit, said 4th quarter income increased 41% on 36% gain in sales. Same store sales were up 1% as chain suffered "weak" sales of Beanie Babies, company officials said. Downturn in plush products was offset by strong sales from holiday catalog, which accounted for 40% of revenues during quarter. Private label products also were 10% of revenues. Latter 2 categories helped boost gross margin to 35.5% from 33.3%. Chain ended year with \$71 million in inventory, up from \$48 million year ago, but figure dropped to \$65 million in Jan., CFO Robert Helpert said. Retailer didn't disclose sales of zanybrainy.com joint venture with Online Retail Partners, but CEO Keith Spurgeon said chain was "very happy with our return." Site launched in Nov. and had 7% conversion rate, he said. Zany plans to open 25 stores this year, has 17 leases signed including locations in Fla., Miss. and Okla.

Take-Two Interactive (TTI) has formed Broadband Studios (BBS) subsidiary with hq in London that will focus on broadband interactive entertainment. Subsidiary was formed by combining its Rockstar Games and DMA Design divisions with its just-purchased Tel-Aviv-based Pixel Broadband Studios. TTI said BBS will develop and publish original content for next-generation game consoles with focus on development of tools and technologies for delivery of its own and 3rd party games to consumers with broadband access. Company also said BBS will pursue relationships with European and U.S. broadband service providers to market and deliver product. Software BBS produces can be operated on multiple broadband technologies including cable, satellite, and telephone as well as interactive devices including cellphones, TV set-top boxes, videogame consoles. In other TTI news, company said its Rockstar division is developing Bungie Software's videogame *Oni* for PlayStation2. Bungie, meanwhile, is developing game for Mac and PC. All formats will ship at same time, company said, but it didn't provide specific timeframe.

DirecTV will impose \$2 price increase on all programming packages for new customers beginning May 25, partly blaming what it said has been 35% rise in programming costs during past 3 years. DirecTV's existing 8.2 million customers won't be affected, company said. Price increase also will be used to offset costs tied to adding 2nd broadcast center, launching 5th high-power satellite and opening 6 customer call facilities during past year, DirecTV said. DirecTV packages stretch from DirecTV Limited at \$5.99 per month to Total Choice Platinum (\$47.99). Among top sellers is Total Choice, which offers 85 channels at \$29.99.

Game publisher Infogrames has thrown its support behind Microsoft's upcoming "X-Box" videogame console. Speaking at Game Developer's Conference, Infogrames Chmn. Bruno Bonnell said: "A platform like this will give us an opportunity to further expand our successful licenses and franchises, such as *Alone in the Dark*, *Looney Tunes*, *V-Rally*, *Ronaldo* and *Test Drive*, taking them to new heights of entertainment and fulfilling their potential even more effectively." But Infogrames didn't announce any specific plans for games that will be exclusive to X-Box. Meanwhile, Infogrames said it's developing version of its *Demolition Racer* — *No Exit* game for Sega's Dreamcast that will ship in summer. PC and PlayStation versions of game are already available. Also coming from company for Dreamcast is *Stunt GP (Grand Prix)*, to ship in fall. PC version will also ship. Company will also ship *Test Drive Le Mans* for PC and PlayStation in April, followed by version for Nintendo's Game Boy Color in summer.

Nationwide Buying Group is readying new Internet initiative that will launch later this year. Chmn. Edward Kelly declined to disclose specifics, noting that deal is expected to completed within 60-90 days. Presumably, Internet plan will include e-commerce component allowing independent dealers to compete with larger CE retailers like Circuit City and Best Buy. Separately, Nationwide has formed Brand Builders group, collection of its top 25 dealers with revenues ranging \$20-\$100 million that have separate meetings to address logistical, forecasting and other issues common to larger chains. Nationwide, which consists of about 2,500 dealers, also has Nation Brand Direct for former members of Key Buying Group that it absorbed last year, and Core organization consisting of 120 dealers with \$10-\$20 million in annual revenues.

NTN Communications posted slightly better revenue and earnings results for 4th quarter ended Dec. 31 compared to same period year earlier. Carlsbad, Cal.-based interactive game developer said its loss for period was \$1.7 million vs. \$2.2 million loss year earlier, while revenues rose from \$6.3 million to \$6.4 million. But NTN posted \$2.5 million loss for 1999 compared to \$1.8 million in 1998 and \$23.7 million in revenues this time compared to \$24.2 million year earlier. NTN is parent company of Buzztime, which develops and distributes sports and trivia games to variety of interactive platforms, and NTN Network, company's hospitality business, which operates 2 interactive TV (ITV) networks broadcasting games to restaurants, sports bars, taverns.

Thomson has introduced 52" and 61" projection TVs with molded handles, further refining line that targets rent-to-own (RTO) market. Sets have previously featured protective screen, bumpers and casters tailored for RTO. "It goes out on lease and it's returned so the product needs to be fairly durable," Thomson Dealer Sales Vp-Gen. Mgr. Charles Short said. Projection TVs are typically rented on 18-24 month contracts carrying \$150-\$220 monthly fee depending on RTO dealer... While **Aaron Rents** appears to have eased comparison ads that targeted rivals and drew fire from Rent-a-Center (TVD Aug 23 p20), it's continuing to push low-price guarantee. Chain is offering \$100 cash if retail or RTO competitor beats its price.

"**Broad spectrum**" of firms, including all 5 major record companies have signed agreements to license Phase 1 Secure Digital Music Initiative (SDMI) watermarking technology, licensor Verance Corp. announced last week. It said other licensees include Matsushita, NTT East, Rioport.com, Silicon Contents, Sony, ST Microelectronics, TDK, Telian A/V, Toshiba.

TV commercials, print ads and in-store demonstration kiosks are highlights of joint DVD marketing campaign in Europe being launched next month by Sony and Warner Home Video (WHV) to boost format's consumer awareness. Companies are projecting that DVD hardware sales in Europe will grow to 4 million decks this year from million in 1999. Forecast is for at least 60 million DVD discs to be sold in 2000. To cross-promote hardware and software, consumers who purchase any Sony DVD player in Europe will receive 3 free WHV titles. Additional 2 WHV bonus discs will be given free to buyers of selected Sony Home Cinema products. Joint marketing program is scheduled to run through 2000.

Nearly 16% of 20,000 America Online subscribers surveyed in spot poll said they plan to buy DVD player this year, while additional 37.7% said they already own one. However, 22.5% said they plan to buy DVD deck only when VHS is "obsolete," and 13.4% said they'll forego DVD entirely and "stick with VHS." Majority of those polled (56.5%) said they agree with statement that industry innovations such as DVD "are a boon to consumers because the quality keeps improving." However, nearly one in 3 were more skeptical, saying they believe innovations were "too small to be noticed" and merely represent "a new way for the industry to make money."

Electronics Boutique (EB) posted 24% jump in revenues for 4th quarter ended Jan. 29. Meanwhile, interactive game retailer said its income dropped slightly to \$15.5 million from \$16.5 million same period year ago. EB said revenues in quarter were \$314.6 million, compared with \$252.9 million year ago. EB's comp store sales were up 10% in quarter behind strong sales of Sega Dreamcast and Nintendo Game Boy hardware and software, as well as Pokemon toys and trading cards. For year, EB revenues were \$728.7 million compared to \$573.9 million year ago, while income increased to \$22.8 million from \$20.3 million.

Copenhagen-based Toccata Technology was acquired by Texas Instruments (TI), terms undisclosed. TI said acquisition of Toccata, developer of digital audio amplifier technology and board solutions, will enable it to improve digital speaker DSPs for better-quality home theater systems, car stereos, PC speakers. Under agreement, TI said Toccata, which has work force of 15 employees, will become Texas Instruments Copenhagen, and will serve as springboard for additional TI expansion in Denmark.

Joint venture to develop and commercialize technology for high-speed production of rewritable DVDs and other phase-change optical media was announced by Energy Conversion Devices (ECD) and GE Plastics, which will own 51% and 49% stakes, respectively. Venture, called Ovonic Media, will be based at ECD hq in Troy, Mich. ECD spokesman said technology developed by joint venture will be applicable to all types of rewritable DVDs.

Philips expansion in Asia will involve restructuring operations to sharpen focus on growing market in China, company said. Philips has formed new Hong Kong-based East Asia Regional Office that will operate independently from company's Asia Pacific hq. CEO of new group is Rob Westerhof, Philips Electronics exec. vp and pres.-CEO of Philips Electronics China. Latter company, based in Shanghai, employs 25,000 in China and operates 28 wholly-owned and joint ventures there. Company plans to expand manufacturing and R&D in China, and possibly establish additional joint ventures.

Consumer Electronics Personals

Fujio Nishida, ex-Sony Consumer Products Marketing Group (CPMG) pres., appointed pres. of Consumer Electronics Group (CEG), new organization formed in merger with Personal Network Solutions Co.(PNSC)(see report, this issue); **Dick Komiya**, ex-PNSC pres., appointed deputy CEG pres... Promoted at Best Buy: **Robert Davidson** to vp-mdsg. from mdse. mgr. for PCs; **Mary Miller** to vp-brand management from dir. of strategic mktg... **Peter Rudy**, ex-management consulting firm Rudy & Assoc., appointed PS Audio pres.-COO; former Pres. **Paul McGowan** shifts to CEO... Promoted at Lexicon Consumer Products Div.: **Bart Lo Piccolo** to national sales mgr. from western regional sales mgr.; **Andrew Clark** to national mktg. mgr. from eastern regional sales mgr... **Paul Albritton**, C-Phone CFO, promoted to pres.-CEO, replacing **Daniel Flohr**, who remains chmn.; **Kurt Svendsen**, controller, and **Tina Jacobs**, exec. vp-COO, shift to vp-CFO and treas., respectively... **Kay Sedlak**, ex-Blockbuster, joins Expertcity.com as partnership development vp... **Cary Deacon**, ex-ValueVision Interactive pres., shifts to mktg. pres. for parent ValueVision International... **Bernard Carballo**, Seagate sales & mktg. vp, named to Boca Research board... **Scott Kłodowski**, ex-SmartLinc, joins Terk Technologies as national sales mgr., Custom Installation Div., new post... **John Sullivan**, Toys R Us vp, named chmn. of newly formed Interactive Entertainment Merchants Assn.

Thomson and Gemstar, adding to growing list of joint ventures, formed alliance last week aimed at marketing electronic books. Thomson, which has 6.4% stake in Gemstar, will license eBook technology and commit to multi-year product shipment plan aimed at "placing tens of millions" of electronic books "in consumers hands", companies said. Gemstar will operate distribution system for sale and delivery electronic books with Thomson getting share of revenues. Gemstar jumped into electronic book business last year with acquisitions of SoftBook Press and NuvoMedia, both of whom had suffered limited sales of SoftBook Reader and Rocket eBook, respectively, before acquisition. Joint venture presumably will move to cut price of electronic books, which have hovered in \$300-\$400 range. Unclear is who will manufacturer product and supply LCD screens. EBook has 5.6" mono LCD, weighs less than pound and stores dozens of books. It has SmartMedia expansion slot that allows device to store more than 100,000 pages and MP3 music. SoftReader will be step-up piece with 8.2" color LCD containing 640x480-pixel resolution. It has optional Compact Flash memory card that can hold 100,000 pages. Both products can download "books" via phone line in several sec. to 2-3 min. depending on length. Thomson and Gemstar have formed series of joint ventures in recent years including agreement to install PageNet's wireless transceivers in TVs (TVD July 26 p21). In forming @TV Media, companies rolled over respective shares in TDN, venture formed to develop ads and content for Gemstar's Guide Plus Gold electronic program guide.

Lower-cost, smaller-size stereo Class D power amplifier chip was introduced by Texas Instruments, which claimed that device can help audio designers reduce circuit board space and overall systems costs 40%. Company said typical applications for TPA2000D2 device include notebook PCs, PDAs, portable DVD players, USB multimedia speakers.

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
Audiovox 2000-qtr. to Feb. 29 1999-qtr. to Feb. 28	340,156,000 210,266,000	5,300,000 2,982,000	.27 .16
Echostar Communications 1999-year to Dec. 31 1998-year to Dec. 31 1999-qtr. to Dec. 31 1998-qtr. to Dec. 31	1,602,841,000 982,666,000 514,868,000 286,982,000	(792,847,000) (260,882,000) (219,986,000) (113,308,000)	--- --- --- ---
Harvey Electronics 2000-13 wk. to Jan. 29 1999-13 wk. to Jan. 30	9,864,423 6,429,781	440,382 330,670	.13 .10
Merisel 1999-year to Dec. 31 1998-year to Dec. 31 1999-qtr. to Dec. 31 1998-qtr. to Dec. 31	5,188,679,000 4,550,977,000 1,309,972,000 1,209,958,000	(61,168,000) 18,510,000 (25,959,000) 2,162,000	--- .23 --- .03
Noodle Kidoodle 2000-year to Jan. 29 1999-year to Jan. 30 2000-13 wk. to Jan. 29 1999-13 wk. to Jan. 30	135,038,000 107,886,000 64,148,000 48,740,000	11,038,000 3,752,000 16,241,000 7,880,000	1.45 ^a .49 2.14 ^c 1.04
NTN Communications 1999-year to Dec. 31 1998-year to Dec. 31 1999-qtr. to Dec. 31 1998-qtr. to Dec. 31	23,748,000 24,194,000 6,363,000 6,290,000	(2,498,000) (1,793,000) (1,699,000) (2,200,000)	--- ^d --- ^d --- ---
Paxson Communications 1999-year to Dec. 31 1998-year to Dec. 31	248,362,000 134,196,000	(160,372,000) (88,288,000)	--- ^c --- ^d
Soletron 2000-26 wk. to Feb. 25 1999-26 wk. to Feb. 24 2000-13 wk. to Feb. 25 1999-13 wk. to Dec. 24	5,635,300,000 4,363,500,000 2,859,700,000 2,160,400,000	209,900,000 154,400,000 99,900,000 78,400,000	.71 ^c .59 .34 .30
SRS Labs 1999-year to Dec. 31 1998-year to Dec. 31	35,795,583 44,725,040	(1,744,200) (17,557,775)	--- --- ^c
Tektronix 2000-39 wk. to Feb. 26 1999-39 wk. to Feb. 26 2000-13 wk. to Feb. 26 1999-13 wk. to Feb. 26	819,062,000 809,520,000 277,044,000 273,009,000	317,497,000 (76,032,000) 310,793,000 14,502,000	6.74 ^b --- ^c 6.57 ^b .31
Video Update 2000-9 mo. to Jan. 31 1999-9 mo. to Jan. 31 2000-qtr. to Jan. 31 1999-qtr. to Jan. 31	172,019,000 194,569,000 57,468,000 70,692,000	(10,555,000) (21,230,000) 1,058,000 (2,123,000)	--- ^c --- .04 ^b ---
Zany Brainy 2000-year to Jan. 29 1999-year to Jan. 30 2000-13 wk. to Jan. 29 1999-13 wk. to Jan. 30	241,194,000 168,471,000 109,779,000 80,704,000	6,904,000 8,999,000 12,442,000 19,668,000	.44 1.67 .58 3.66

Notes: ^aAdjusted; after special charge. ^bAdjusted. ^cAfter special charge. ^dIncludes special credit. ^eIncludes special items.

One-terabyte DVD with 200x capacity of current 4.7 GB disc is in works at Toshiba. Company told Japanese press it has developed technique using amorphous material to create spots with 20-nanometer diameter need to fit trillion bytes of data on DVD. Capacity could be achieved by etching dots individually with electron beam, but process is too time-consuming and costly for mass production, Toshiba said. Meanwhile, amorphous material arranges itself into necessary uniform, minute pattern when heated. Toshiba said technology should yield high-capacity DVD by 2010-2015.

Radica Games entered into licensing agreement with Tetris that gives it rights to market latter's new handheld games in N. America, S. America, Europe. New Tetris products are slated to ship beginning in spring 2001.



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

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MERGERS SEEN NOT ALARMING by regulators. Klein, Pitofsky cite increases in competition. (P. 6)

DTV/CABLE DEAL MOVES: 'Basic understanding' reached on labeling for sets, not set-tops. Copyright still undecided. (P. 6)

DTV TASK FORCE CALLED EFFORT TO RESOLVE STANDARDS: Still looking to build full consensus around 8-VSB DTV standard, Advanced TV Systems Committee (ATSC) announced formation of task force "on the performance of the RF system." ATSC Chmn. Robert Graves unveiled task force at 6th Digital TV Forum in L.A. March 21, saying: "The reliable reception issue has not gone away."

Creation of task force signals significant change for ATSC, from pure advocate for current DTV standard to neutral forum on merits of standard, said Lynn Clady, NAB senior vp-science & technology: "This is a cleansing move for the ATSC." Clady didn't assess chances that task force would recommend moving toward changing DTV standard, but said there are "no preordained conclusions," despite ATSC's previous advocacy role: "We need a dispassionate verdict on whether the standard needs to be changed." He said, however, there's "no question that if it [current VSB system] can be fixed, that's a much easier path than throwing it out and starting over."

Graves said goal of task force was to address issue with facts and analysis, saying: "We're reaching out not just to ATSC members but... specifically to Sinclair and other broadcasters who filed the petition with the FCC." Task force will look at all technical issues of DTV RF performance, including indoor reception and impact of COFDM vs. VSB, ATSC Exec. Dir. Mark Richer said. Within 6 months, he said, task force is to make recommendations to ATSC executive committee on future actions. Richer wouldn't speculate on options, although he said open nature of task force would mean that all options from doing nothing to authorizing more testing to changing DTV transmission standard would be suggested. He said task force meetings, which begin March 31, would be open to anyone with vested interest — except news media.

Consumer Electronics

SEARS SUES DIRECTV seeking \$23.2 million in damages for breach of contract including breakup of retail agreement year ago. (P. 11)

CE MAKERS DUPED for millions in bogus military procurement deal are suing EDS as purported prime contractor. Sony U.K. sleuths uncovered scam. (P. 13)

GOOD GUYS RESTRUCTURES, shutting personal electronics dept. and shedding more than 300 jobs; \$9 million annual savings projected. (P. 14)

ADAPTER THAT PLAYS MP3 FILES through cassette well is planned by SmartDisc for 4th quarter. First product is for SanDisk MultiMedia card. (P. 15)

WARNER TRIMS DISTRIBUTORS, saying move to sell direct to video retailers is bid to control costs. Ingram to remain. (P. 16)

OUTPOST POSTS LOSS of \$9.8 million in 4th quarter, vs. \$7.8 million loss year earlier. Tweeter venture has \$2.3 million in sales. (P. 17)

Task force was established because of growing understanding that success of DTV technology remains controversial and there's need to achieve resolution, Richer said: "We've created a table for everyone to sit down and have a meaningful discussion. The goal is to resolve this so the industry can move forward." Creating task force, which was decided at ATSC executive committee meeting March 17, was backed even by those supporting current DTV system, he said: "They don't want to slow the transition, but they don't think you can ignore it. Not to do anything would slow it even more."

Belo CEO Robert Decherd said he believes "strong majority" of broadcasters still support VSB modulation for DTV, despite task force. He said it would be "short-sighted" to not review technology in fast-moving environment, but predicted that task force would be "an important exercise, and no more." It would be "fine" if some of benefits of COFDM modulation could be incorporated into current DTV system, Decherd said, but main goal now is to "go to market with a product that the consumers have faith in." He discounted fears that group would generate uncertainty that could slow broadcaster or consumer adoption of DTV.

Decision to start task force is result of "business model change" by broadcasters, CEA Pres. Gary Shapiro said. He said decision to change DTV standard would be "disruptive," but said broadcasters haven't been big factor in DTV sales anyway. Shapiro said he didn't know whether 6-month task force effort would delay DTV transition, but said it "sends a message to broadcasters that they should not rush to the transmission format yet. That's unfortunate, in our view." However Claudy said that regulatory requirements for debut of DTV remain in effect, so task force shouldn't significantly affect broadcaster plans. He acknowledged that some broadcasters may use task force as excuse for delaying action but said "in technology, the biggest risk is to do nothing. It may be convenient to rationalize, but it's not a good business strategy."

Shapiro downplayed panel's effect on DTV set sales, saying most consumers are buying DTV sets mainly to make DVD look better: "Broadcasters are not a reliable deliverer of DTV content at this point. Clearly we're concerned about the effect on the transition to DTV, but broadcasters are not doing a lot anyway." Shapiro said set-makers "would not embrace" change in DTV standards, but said "there are not a lot of broadcasters using it anyway."

Task force may be more indicative of business model change for broadcasters than of problems with current system, Shapiro said. He said set-makers "absolutely believe in HDTV," and consumers will get HDTV "some way." But if broadcasters see better way to make money, "that's something we have got to respond to," Shapiro said. He said, for example, COFDM modulation might work better for mobile reception and data services, and consumer electronics companies would be happy to make those devices: "We are excited about new services. The question is, if they change the standard, what happens to those DTV sets already sold. That's a huge issue."

Despite FCC rejection of its petition to allow COFDM modulation, Nat Ostroff, new technology vp for Sinclair Bcast Group, indicated at DTV Summit that debate on VSB and COFDM was far from over. He said problem continues to be that DTV signals can't be received by consumers with simple antenna. While welcoming recent efforts by cable and satellite industries, Ostroff said: "We cannot as broadcasters advocate our access to the audience by relying more or less solely on the reception that would be provided by cable and satellite services." Ostroff welcomed ATSC invitation to participate in task force, but bluntly suggested part of problem was that ATSC is dominated by people other than broadcasters and Sinclair's business was at risk: "Our point is that broadcasters can no longer sit back and allow their future to be decided by a standard-setting committee... who are not made up predominantly of over-the-air broadcasters."

Ostroff said ATSC has set bar too low by focusing solely on fixed TV receivers. "We need to have to be competitive in the coming world," he said: "We need to be able to talk to PCs, we need to be able to talk to Palm Pilots, we need to be able to talk to personal digital appliances that are in people's pockets and that they're walking around with." As usual, Ostroff was lone voice on panel advocating changing standard. Robert Stokes, dir. of Motorola DTV operations, insisted that problem wasn't with 8-VSB standards, but with implementation of those standards. Zenith Senior Technology Vp Richard Lewis praised Sinclair for pointing out receiver issues to industry, but said: "We don't feel the issue is with the standard, other than to say that we feel there are issues that broadcasters face that we need to enhance the standard around, such as mobile or more reliable datacasting."

Lewis said receiver manufacturers are making improvements with each new generation of DTV receivers, and Zenith research lab already has developed 4th generation even as 3rd-generation hardware is being readied to reach retail shelves. As result, subset of consumers with DTV reception issues is becoming smaller. He said broadcasters, regulators and manufacturers should adopt common language to really address issues and "talk about them in nonthreatening terms."

On earlier panel, NBC Interactive Vp-Business Development Peggy Murphy conceded that local station and station groups were facing financial issues as they sought to upgrade equipment to broadcast in DTV, but new business models

were evolving to assist that transition. Murphy said datacasting eventually may provide viable revenue streams to local stations, adding that NBC started testing datacasting capability at local station level. She said revenues streams aren't there yet and many of stations didn't even have Web master or knowledge of Internet. She said it was up to networks to educate local stations on potential of data delivery.

McCAIN INTENDS TO HOLD COMMITTEE VOTE ON NESS NOMINATION: Senate Commerce Committee Chmn. McCain (R-Ariz.) wants to hold committee vote on renomination of FCC Comr. Ness, according to Communications Subcommittee Chmn. Burns (R-Mont.). Burns chaired Ness's renomination hearing March 22 in place of McCain. Ness received warm reception from Democratic members present, including Sens. Rockefeller (W.Va.), Cleland (Ga.) and Dorgan (N.D.) as well as Md. Democrats Sarbanes and Mikulski, serving as witnesses for Marylander Ness. She was supported at hearing by her husband, 2 children and Comr. Tristani.

Burns told reporters after hearing that "I'm still sitting on the fence" on renomination of Ness and suggested McCain also was undecided. Sen. Brownback (R-Kan.) declined to give his view, although his staff said he too was undecided. He had some tough questions on Sec. 251 and high-cost provisions of universal service, however. Only other Republican to appear, Sen. Snowe (Me.), said she supported renomination of Ness based on her support for e-rate initiative that Snowe and Rockefeller added to Telecom Act. Common theme in support of Democrats at hearing was Ness's role as senior member of Commission, with Dorgan referring to her "institutional memory" as only commissioner to be involved in every stage of implementation of Telecom Act. Ness's 5-year term expired June 30, and her term is extended until Senate acts or 106th Congress ends.

McCain repeatedly has said that "one term is enough" for Ness, longest-serving current commissioner, although he has said one-term limit should apply to other commissioners as well. He has sent mixed signals on his feelings about Ness as commissioner, saying that she was more likely to regulate than he would but that some deference should be given to Democrats to pick their own candidate to fill Democratic seat.

With hearing Ness cleared first of several hurdles to renomination. Next will be committee vote in markup, although Commerce Committee staff said no markup date had been scheduled and wouldn't attempt to predict when one would be, or whether Ness would be on agenda when it was. Majority vote in committee is sufficient to move nomination to Senate floor, and with 11-9 Republican-Democratic split in Committee, unified Democratic front needs to persuade only one other Republican to join Snowe in moving Ness's nomination. While there were few GOP members at hearing, several supplied written questions for Ness via Burns, and he said he also had some questions he wanted Ness to answer privately. Brownback was one of several GOP members with written questions, even though he queried Ness at hearing, and we're told that many of questions submitted by senators were tougher than those posed at hearing.

Burns insisted that McCain wants to see nomination move, which would require passage in committee. Speculation on Hill was that McCain doesn't want to be seen as blocking Ness's nomination by sitting on it. Passing it out of his committee doesn't guarantee reconfirmation, however. While some we spoke with liked Ness's chances in floor vote, Majority Leader Lott (R-Miss.) could prevent it from getting there. Some speculated that Lott was opposed to her renomination, although his office couldn't provide yes or no answer. With shift to appropriations work later in year, Lott easily could hold back nomination or it could have hold placed on it by another member. At end of Congress it's not unusual for such holds to be lifted but often it's part of trade, so Democrats would have to view Ness's reconfirmation as important enough that they would surrender on something important to Republicans. One reason Senate leadership might sit on nomination, we're told, is that Ness's extension would be over when 107th Congress begins next year, and if there were Republican president her seat could go to 3rd Republican.

Ness said it was "timely" to look at cross-ownership rules, which are being examined under FCC's biennial rules review. "The world has changed dramatically over the last couple of years," she said, but she was "hesitant to give an opinion" as to specific revisions such as dropping newspaper-broadcast cross-ownership rule as proposed by Burns. In written statement Burns said one "cannot credibly say that a 'scarcity' of communications voices exists today." In response to question from Snowe, Ness predicted "many more mergers," saying that "one way [for companies] to address uncertainty is to combine." One area "we have not done as well as we should is to do [merger reviews] more rapidly," she acknowledged, saying: "I vow to try harder."

Ness predictably was faulted for Commission's adoption of low-power FM. Burns said "some of your most vocal critics have been folks in public radio," particularly on interference. Ness replied that "I care very much that we do not destroy the integrity of the FM band" and said she also wanted to ensure LPFM wouldn't interfere with radio's transition to digital. "We were told by our engineers we could do this" without significant interference, she said, although she ad-

mitted later in hearing that resources FCC “desperately need are in the engineering area.” Ness insisted she would closely monitor LPFM stations for any interference, but Burns replied that would be bit late, as “it’s pretty hard to recall those licenses.” Ness then returned to original point that under guidelines crafted by FCC “this should not cause interference.” House Telecom Subcommittee next day passed HR-3439 by Vice Chmn. Oxley (R-Va.) banning LPFM.

Financial statement provided by Ness at hearing showed that while on Commission she and her spouse each donated maximum \$1,000 to Clinton-Gore 1996 election effort and her husband, Lawrence Schneider, has given maximum \$1,000 to Gore 2000. Other donations by Ness include \$2,000 to Democratic National Committee’s Women’s Leadership Forum, \$500 to Mikulski for Senate and \$500 to Power & Leadership for Senate. She said she hadn’t spoken to President Clinton about her renomination but assumed he chose her again because of her expertise in communications finance. Ness said future of FCC will involve “less prescriptive regulation,” which will be made possible in part by advances in technology.

DBS MUST-CARRY LOOSENERED: At House Telecom Subcommittee markup March 23 bill to provide loan guarantees for rural local-into-local TV signals (HR-3615), biggest surprise was successful amendment by Rep. Cox (R-Cal.) that significantly reduced must-carry obligations of any DBS provider participating in loan program as means to free up capacity to serve more markets.

HR-3615, co-sponsored by Va. Reps. Goodlatte (R) and Boucher (D), was replaced by substitute bill from Rep. Largent (R-Okla.), which after amendments offered guarantees of only \$1 billion (down from \$1.25 billion), and individual loan guarantee percentages of 80% (down from 100%, but up from Largent’s 50%).

Cox said bill might not be necessary if DBS operators weren’t forced to air every single TV station under must-carry rules set to go into effect in 2002. His amendment, which passed on voice vote, said any DBS provider receiving guaranteed loan would have to carry local channels only if that station aired at least 21 hours of local news, sports and weather programming each week. Ranking Democrat Markey (Mass.) told Cox: “You’ve made me an offer I can’t refuse.”

“The intent of this bill is to free up capacity,” Cox told us on way to floor vote. However, congressional staffer told us that amendment, and Largent substitute language to which it’s attached, might preclude loosening of must-carry requirements in markets already served by DBS providers. Asked about dispute, Cox said: “It doesn’t make any sense to do it any other way. There’s no other way to free up capacity.”

Tauzin said Cox’s first amendment on subject, which called for complete elimination of must-carry obligations, was defeated in part because committee had “concerns of balance” — that it tilted against cable. Now, he said, rural cable operators have more limited must-carry obligations based on their channel capacity, so 2nd Cox amendment “would have some balance.”

Boucher was upbeat following bill’s passage. He told us he was concerned about drop in guarantee ceiling to \$1 billion, but wasn’t bothered by reduction to 80%: “That’s not such a bad number, 80%. We can live with that.” Figure also appears in Senate bill (S-2097) sponsored by Banking Committee Chmn. Gramm (R-Tex.) and Communications Subcommittee Chmn. Burns (R-Mont.).

Boucher said original bill already passed unchanged 41-0 from Agriculture Committee, which is committee of first reference. When Agriculture and Commerce versions are reconciled, Bliley

said, he predicted bill would look more like Agriculture version before moving to floor. One Republican staffer differed, however, saying Commerce Committee version more closely resembles Senate version and thus might be more likely to survive.

Bill now is less technology-neutral than before, thanks to successful Markey amendment that effectively prohibits cable providers from participating: “We must make sure incumbent cable providers are not eligible to do things they are already doing or should be doing,” he said. Subcommittee also adopted Tauzin amendment that he said would ensure translators were “first line of attack” in solving local signal problem.

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DTV set sales in Feb. were 2nd only to Dec. in months since sales began in Aug. 1998, CEA said. However, CEA Pres. Gary Shapiro said sales depend largely on amount of HDTV programming carried by broadcasters: “The overall commitment by local broadcasters to provide high-definition-originated content has been lackluster at best. To put the DTV transition in the fast lane, broadcasters need to provide more substantial HDTV programming.” With adequate programming, he said, DTV penetration can reach 50% by 2006. Broadcasters must give back analog channels if penetration reaches 85% by 2006. DTV sales topped 22,000 in Feb., CEA said, nearly 6 times as many as Feb. 1999, but down slightly from 22,844 in Dec. Total sales to date are 178,254, CEA said.

Consumer recall of commercials shown on ad-supported cable is nearly identical to that for spots on broadcast networks, according to new study by Nielsen for Cable Ad Bureau. National unaided recall survey of 5,800 adults in late Jan. and early Feb. found that basic cable networks virtually matched broadcast networks in 2 measures of commercial effectiveness — claimed commercial exposure and verified recall, CAB said. Trade group plans to continue survey with another 10,000 consumers.

MediaOne Group is preparing to sell up to all of its 15.3 million shares of Time Warner Telecom stock to gain regulatory approval of its proposed purchase by AT&T. MediaOne filed S-1 registration statement with SEC March 23 as first step in selling shares. MSO, which now has disposed of \$12.6 billion in wireless and other assets since May, said sale is consistent with its strategy of shedding noncore assets before planned \$58 billion takeover by AT&T.

Telemundo stations signed new 7-year contract to use Nielsen Station Index, companies said. Ratings will be for Chicago, Houston, L.A., Miami, N.Y.C., San Francisco.

HOUSE MARKUP VOTES TO KILL LPFM: House Telecom Subcommittee voted March 23 to block FCC from launching low-power FM, but bill (HR-3439) by Vice Chmn. Oxley (R-O.) has more opposition than voice-vote passage would suggest. Vote came day after FCC Comr. Ness defended LPFM at reconfirmation hearing (see separate story, this issue) and 2 days after Chmn. Kennard defended program before Senate Appropriations Commerce Subcommittee.

Several supporters of LPFM at markup chose to defer to negotiations between Telecom Subcommittee Chmn. Tauzin (R-La.) and Commerce Committee ranking Democrat Dingell (Mich.) that effectively postponed debate to full committee markup expected tomorrow morning (Tues.). Amendment introduced and then withdrawn by Dingell would suspend rather than terminate program, instead calling for field tests on possible interference to existing broadcasters.

Tauzin expressed concern at markup that FCC already was beginning selection process by holding lottery for launch order today (Mon.). "The FCC's on a mission here," he said: "It's slammed the door on further negotiations [with Congress and broadcast industry] and is moving much too fast."

Dingell amendment as introduced seeks not to forbid LPFM but rather to delay it by holding field tests on interference in no more than 10 markets, with mix of urban, suburban and rural. Amendment would call for 6-month trial period with public comment, followed by FCC report within 30 days to Commerce Committee including analysis of public comment. Following that, Commission would have 3 months to reinstate its LPFM rules, modify them or withdraw them.

Oxley said he saw no reason to modify bill to ban LPFM. Along with interference, he said, LPFM would "jeopardize the conversion to digital radio" and he objected to provision that would allow unlicensed pirate radio operators to obtain licenses.

FCC responded after vote that it was "concerned" about misperceptions among some members of Congress. In statement, Office of Engineering & Technology Chief Dale Hatfield and Mass Media Bureau Chief Roy Stewart faulted "disinformation effort" by NAB in which allegedly erroneous audio samples and figures have been distributed.

However, same dispute on technicalities of engineering studies occurred at earlier hearing (TVD Feb 21 p4), and some members said they weren't comfortable letting LPFM move forward with such open debate, especially since Congress wasn't qualified to pick right side. Kennard, Comr. Tristani and senior FCC staffers were to meet with press today (Mon.) to "address misleading engineering information about alleged LPFM interference," FCC announced.

"We witnessed a battle of experts, and we didn't know who to believe," said Rep. Rush (D-Ill.). "We have to step back" on LPFM when "even friends like NPR" become concerned, Subcommittee's ranking Democrat Markey (Mass.) said. "Usually when we have a shouting match of engineers we defer to the FCC," but that's more difficult here, he said.

Kennard in his Senate testimony was questioned by both Subcommittee Chmn. Gregg (R-N.H.) and full Committee Chmn. Stevens (R-Alaska). On public radio concerns, Kennard said only: "We will try to assure them that this service will not cause harmful

interference... they can coexist in harmony." "Frankly, there's a lot of misinformation swirling around this issue... by incumbent [commercial] broadcasters," he charged, adding "over the last 20 years [in and out of FCC] I've seen incumbents trying to frustrate new entrants... nobody wants competition in their back yard." He told Stevens that FCC has field offices that periodically monitor stations and can assure none go over wattage limits. Gregg, sponsor of bill that would ban LPFM (S-2068), said simply: "I have some concerns about this issue."

Kennard made pitch for Commission's FY 2001 budget request of \$237.2 million, up 13% from previous year. He told Gregg increase comes from "uncontrollable cost increases," mainly rent and govt.-wide pay raises. Most of appropriation, \$200.1 million, would come from regulatory fees collected by FCC, Kennard said. He also continued his campaign to procure \$5.8 million in excess regulatory fees collected in FY 2000 for Commission's information technology needs.

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In series of 4 deals, Rogers Communications and Shaw Communications announced major swap of cable assets and formation of 2 Internet joint ventures. Canada's 2 biggest MSOs agreed to trade Rogers's cable operations in Vancouver and rest of British Columbia, encompassing 623,000 subscribers, for Shaw's systems in southern Ontario and New Brunswick with 600,000 subscribers. Shaw will pay Rogers \$75.9 million — \$3,300 per subscriber — for net gain of 23,000 customers. In 2nd deal, Shaw will sell its respective 9.1% and 9.6% stakes in Cogeco Cable and Cogeco Inc. (4.5 million shares) in 3rd MSO, to Rogers for \$44 per share. In exchange, Rogers will sell its 4 million shares in Canadian Satellite Communications to Shaw for \$23.50 per share. Shaw and Rogers also agreed to merge operations of @Home Canada and Excite Canada into single broadband and narrowband Internet portal venture owned 51% by Rogers, 22.5% by Shaw, 22.5% by Excite@Home. New joint venture, Excite@Canada, will start with funding of \$50 million and will be available to more than 500,000 high-speed data customers. Finally, Rogers will invest \$125 million in new Internet backbone company formed earlier last week by Shaw in return for 49% interest in new venture. Shaw and Rogers will commit all of their Internet backbone traffic to new company.

At least 256 stations have joined datacasting cooperative, Bcstrs.' Digital Cooperative (BDC), led by Granite Bcstg., new group said. Among dozen group owners are Paxson and Benedek Bcstg., they said, and Co-op at start will reach more than 130 markets. BDC joins crowded field that includes Geocast, iBlast, newly formed TV Data Partners. Richard Benedek, chmn. of cooperative member Benedek Bcstg., said group will be open to any stations that aren't affiliated with competing services announced by Geocast and iBlast. Major broadcast networks still don't have DTV spectrum plans for affiliates, Benedek said, and "the train is going to pull away and they won't be there." He said DTV capacity will be attractive for many telecom users, particularly "for the guy who wants to put his footprint across the United States." He said he expects one of biggest uses of digital spectrum to be for datacasting. Cooperative will seek bids in next couple of weeks on proposals for company to run cooperative, Benedek said: "We as broadcasters don't want to run it."

U.S. Appeals Court, Chicago, denied petitions for rehearing and en banc rehearing filed by City of E. Lansing and others of court ruling on SMATV operator Entertainment Connection Inc. (ECI). Last Dec., court upheld FCC decision permitting ECI to operate without local cable franchise.

MERGERS SEEN NOT ALARMING: Top antitrust officials rejected dire assessments of consolidation in media and telecom industries March 22 before Senate Antitrust Subcommittee. Although neither would speak specifically about megamergers being reviewed by their agencies such as AOL-Time Warner, comments by Asst. Attorney Gen.-Antitrust Joel Klein and FTC Chmn. Robert Pitofsky suggested they don't agree with proponents of toughest remedies or of rejections.

Telecom industry is "if anything, more competitive" than before merger wave began, Klein said. Asked whether he saw threat of broadband monopoly, he said companies are "very early in the process of broadband rollout." Klein said regulatory "model I've always cared for [is], let's get lots of means of access to the home" rather than compelling access to existing ones. Pitofsky said that although there are "major mergers going on" that reduce media voices, there's "also innovation" on Internet and extended cable platforms: "Whether there's more concern or less [than in earlier years], I'm not sure."

Chmn. DeWine (R-O.) said lessening competition in "marketplace of ideas" might not fit traditional antitrust analysis, but it deserved serious scrutiny. He said that although he's not sold on idea yet, it's worth considering merger reviews that take into account "ripple effects," or subsequent mergers deal forces, as well as merger itself. Ranking Democrat Kohl (Wis.) said he and DeWine trust FTC and Justice Dept. on mergers, but "do not have as much confidence in the FCC's ability to get the job done." He said they "intend to quickly move" bill that would put time limits on FCC's merger reviews. Ranking Judiciary Committee Democrat Leahy (Vt.) said FTC should consider privacy and content consolidation in reviewing AOL-Time Warner.

Pitofsky and Klein both pushed for more funding to cover increasing portion of their agencies' work devoted to merger review. Administration has asked for funding increases for both, with FTC's to be covered by boost in merger fees paid by companies.

Meanwhile, taking another swipe at FCC for way it handles mergers, House Telecom Subcommittee Chmn. Tauzin (R-La.) said at USTA conference March 21 that his panel plans to mark up bill soon to rein in FCC's merger authority. Subcommittee staff said after conference that no date has been set for merger markup. Tauzin told local phone executives that merger bill would be "first installment of FCC reform" because it would stop agency from "holding [merger] applications hostage." He again blasted Commission for requiring companies to meet selective conditions, not applied to other companies, in order to win approval of their mergers. It's growing problem, with other agencies such as FTC, EPA and Justice Dept. imposing conditions as trade-offs for approving various applications, he said.

AT&T Broadband and Cable One, division of Washington Post Co., signed agreement in principle to trade cable systems in 4 western states. Deal calls for AT&T to swap 7 systems in Ia., Utah and Ore. with 149,000 subscribers in exchange for 2 Cable One systems in Cal. with total of 107,000 customers. Cable One also would pay AT&T undisclosed amount of cash. With agreement, AT&T would consolidate its cable cluster in northern Cal. while Cable One, now one of 10 biggest MSOs, would continue its aggressive growth. Separately, Cable One agreed to sell its 16,000-subscriber system in Greenwood, Ind., to Insight Communications.

DTV/CABLE DEAL MOVES: Cable and consumer electronics officials reached what they termed "a basic understanding on terminology describing digital sets." Terms of DTV-cable agreement weren't immediately available, but proposed agreement would resolve long-running dispute between 2 industries over proper labeling of new digital TV sets with and without 1394 "firewire" connectors favored by cable interests and opposed by some set manufacturers.

Tentative agreement covers only DTV sets, not DTV set-top boxes, source said. As result, industries continue to discuss separate labels for digital set-tops. So-called "gentleman's agreement" spells out names for new digital sets with and without 1394 "firewire" connectors. Both industries now are floating proposed DTV set names to members and conducting trademark and URL searches with hope of announcing firm deal late this week.

Deal came after conference call between negotiators March 21. Agreement comes as FCC, in new proposed rulemaking, seeks comments on DTV labeling issue by May 17. Still unresolved is separate dispute among movie studios, technology firms and set-makers over copy protection technology for DTV sets.

Cable interests want all "cable-ready" sets to incorporate 1394 "firewire" connectors while TV makers were seeking greater flexibility in labeling, particularly for smaller sets with lower profit margins. "It's all about language," one official said. "Certain terms mean certain things to either side." FCC Chmn. Kennard, who previously pushed industries to agree on technical standards for hooking up new DTV sets to digital cable systems, is threatening rulemaking on issue if they can't produce agreement soon but also hasn't set deadline.

FCC should eliminate requirement that broadcasters provide wide dissemination of information for every job vacancy, NAB said in petition for partial reconsideration of new EEO rules (MM 98-204). NAB said new rule is "substantially more burdensome" than old ones and unnecessary because broadcasters have done good job of recruiting minorities and women. If it doesn't eliminate dissemination rule, NAB said, it should end requirement for supplemental outreach. NAB also said: (1) FCC should reinstate former exemption for stations whose coverage area includes less than 5% minorities. (2) FCC "wrongly discarded" suggestion of using Internet as outreach tool. (3) Commission could reduce recordkeeping and reporting requirements. (4) FCC shouldn't require stations to place EEO reports on Web sites. Meanwhile, all 50 state broadcast associations joined in charging new FCC EEO rules are unconstitutional as they sought review by U.S. Appeals Court, D.C., which in April 1998 had declared agency's original EEO rules violated Constitution. New rules, which United Church of Christ already has asked 2nd U.S. Appeals Court, N.Y., to review — in effort to get court more friendly than D.C. Circuit — are scheduled to become effective April 17. In seeking review and stay of effective date, state associations said rules violate 5th Amendment: "These new regulations recast and essentially readopt the Commission's former unconstitutional EEO requirements... in the form of even more onerous and suspect race and gender... regulations in contravention" of court's ruling in Lutheran Church case throwing out earlier EEO requirements. Because of that earlier ruling, broadcasters asked D.C. Circuit to exert jurisdiction over new appeals.

TV WARNED ON CONVERGENCE: TV has "footprint that nobody else has" in preparing for convergence of TV, Internet and data communications, so broadcasters better be prepared, said Clint Chao of SkyStream Networks. Speaking at opening of NAB Futures Summit in Pebble Beach last week, he warned broadcasters to "be ready for any new proposition that comes your way" or opportunity will go elsewhere. Convergence of TV and Internet is inevitable, he said, and broadcasters can play major role in making that happen — sentiment echoed by Lawrence Roberts of Packetrom, who while working for Dept. of Defense was co-founder of what now is Internet.

Internet won't be dominated by single industry, Chao said, but it's seeking to become more "TV-like [and] don't think of the Internet as 'the other guy.'" He said TV content is becoming more "Internet-like," so TV's supplying content for Internet is inevitable and medium can play major role: "The possibilities are endless." Key words, he said, are "data enable" — making digital spectrum easy to add other service and content providers. Broadcasters will waste spectrum if they use digital space only for HDTV, Chao said. By transmitting data, "you can drive all the eyeballs to your site," he said.

Roberts said cost of Internet data transmissions to broadcasters will be "minuscule" — about \$50 per month per station. He predicted Internet technology for TV stations would be "tremendously important when you look into the future" and it would "take over all the communications of the world... If you stop for lunch, you will become lunch." But, he said, Internet in 10 years will split into 2 businesses — content and distribution — and when that happens broadcasters' spectrum will be worth nothing.

Tom Wolzien, senior media analyst at Sanford Bernstein and former broadcast news executive, said broadcasters have "a real reason to feel threatened" by new technology but TV's "world isn't ending... it's just changing." AOL takeover of Time Warner is "an acknowledgment by an online company that content really counts," he said. Jupiter Communications Pres. Gene DeRose said Internet isn't "cannibalizing the traditional media." Online convergence with over-air TV is moving slowly, he said, with 44% of U.S. homes now having access to Internet, with figure growing to 63% (157 million homes) by 2003. He predicted online ad revenue of \$4.7 billion this year, increasing to \$11.5 billion in 2003. Richard Fisher said Respond TV (formerly B3TV), of which he is pres., is focusing on providing broadcasters with interactivity through Internet and offering "broadcast-quality graphics."

What NAB Pres. Edward Fritts called "untapped potential" of TV industry was very much in evidence at Summit. But, said Russell Withers, owner of several small-market TV stations: "There was no money for me in anything" that was said. Key words throughout 3-day Summit were content and datacasting. "Content is the most important thing of all," said Michael Kertzman of Liberate Technologies, and TV industry has "a huge opportunity to provide interactive services."

Speaker after speaker urged broadcasters to make their datacasting plans early. Michael McKinnon, who owns independent station in San Diego and 2 ABC affiliates in Tex., wasn't taking that advice. "I'm going to be the No. 3 or No. 4 guy in digital," he said. "I want the other guys to get an arrow in the back." Patricia Smullin of Cal. Ore. Bcstg. said: "I still believe there's a future for small-market broadcasters... I think there's a niche [and] we have plans" to serve that niche. Harold Protter

of WB TV Network said: "This stuff is overwhelming... There's so many overlapping alternatives. No one person can adequately evaluate all of them."

David Moore, CEO of 24/7 Media, said 25% of U.S. homes will have broadband capability by 2006 and broadcasters must have appropriate plan for Internet participation or somebody else will take their position. Already, he said, ads are being sold on mobile phones in Europe and TV stations will be able to charge more for Internet ads because they will reach more intelligent consumers than regular TV. Roger Keating, pres. of Zatso (formerly ReacTV), which customizes stations' news for Internet, said 80% of viewers want more in-depth news than TV provides and 82% want to be able to skip stories. Zatso uses Web to deliver its station clients' newscasts in way customized by viewers.

Viacom is expected to take full ownership of UPN network "promptly," following decision by Chris-Craft subsidiary BHC Communications to sell its 50% of UPN to Viacom for \$5 million. Deal ends 5-year partnership of BHC and Viacom as well as litigation prompted by Viacom's \$5 million buy/sell offer and whether Viacom's \$36 billion acquisition of CBS violates partnership agreement. Under latest agreement, Chris-Craft's 8 UPN affiliates, including key stations in N.Y.C. and L.A., will remain UPN affiliates. Viacom Chmn. Sumner Redstone said sale means UPN "can continue to build on the tremendous momentum they have created," including 35% ratings increase this season, boosted by wrestling. BHC COO William Siegel said company agreed to sale because "our shareholders will now best be served by ending any further uncertainty," and said its stations would continue to be "anchor affiliate group" for UPN.

Despite reports BellSouth would start satellite TV service, company didn't announce plans to compete with DirecTV and EchoStar by leasing space on Loral medium-power (FSS) satellites, and spokesman said no announcement was imminent. He also disputed *Business Week* report that company intended to end Americast service, consortium that includes partners Disney, GTE, SBC. Spokesman said report that Americast had signed up just 350,000 subscribers was "totally incorrect." Loral had no comment. Merrill Lynch analyst William Pitkin told us BellSouth definitely was considering satellite TV service: "They [BellSouth] spoke to us about the concept about 6 months ago so they clearly are considering it. I understand they are planning to enter the market in 2000."

EchoStar faces \$11,000 fine recommended by FCC Enforcement Bureau for failure to reserve 4% of channel capacity for noncommercial programming by Dec. 15. Fine is first based on noncommercial programming requirements and is maximum allowed for one-day violation. By FCC calculations, EchoStar was required to make available 13 channels for noncommercial programming, but "they were only covering that programming on 4 channels," said John Schauble, special counsel with Investigations & Hearings Div. of Enforcement Bureau. EchoStar expressed "disappointment" at decision, saying it would have met requirement if FCC had approved extension as requested. EchoStar rival DirecTV met deadline.

U.S. Supreme Court Justice Antonin Scalia and all 5 FCC commissioners will be among speakers at inaugural Telecom Policy and Law Symposium April 18 sponsored by Quello Center of Mich. State U. Conference will be at Washington Hilton — 517-432-0923.

OPEN ACCESS EXPLORED: Despite years of protests that it's technically and economically unfeasible to offer multiple ISPs over broadband cable lines, system operators, equipment makers and software vendors are quietly investigating ways to bring about open access soon. With R&D pace picking up, some industry experts see at least 2 or 3 competing methods emerging by end of year. "They are going to make it happen," Broadband Intelligence Pres. Cynthia Brumfield said. "It's a no-brainer."

Flurry of engineering activity comes as AT&T and proposed AOL-Time Warner union pledge to open their lines to rival ISPs, putting competitive pressure on other MSOs to follow suit. It also comes as cable operators, under attack from telephone companies and community groups, see increasingly compelling public policy and financial reasons for offering unfettered high-speed online service. "I think other companies in our industry are... very interested in what AT&T and Time Warner are going to do," NCTA Pres. Robert Sachs said. "Our companies have very high incentive to get services to market as soon as practicable."

Indeed, shunning public spotlight, Comcast cautiously confirmed March 23 that it intends to open its broadband cable lines to competing ISPs in next 2 years, probably after its exclusive contracts with *Excite@Home* expire. Comcast, 3rd largest cable MSO with 6.2 million subscribers and 10 million homes passed, said it will join AT&T and proposed AOL-Time Warner union in offering access to multiple ISPs. "Assuming technological issues can be worked out, we expect to follow the lead of those 2 companies," said Joseph Waz, Comcast vp-external affairs. "Nobody has more incentives than AOL-Time Warner."

Comcast, which ended last year with 142,000 cable modem subscribers and now has estimated 190,000 high-speed online customers, said it's making policy shift in response to consumer demand and competition. Executives, who still are fighting local open-access requirements in Broward County, Fla., recently indicated shift in testimony before Montgomery County, Md., cable franchise officials and in visit to Harrisburg. "We've said: Let the marketplace work," Waz said. "If the marketplace wants multiple ISPs on the wire, then let the marketplace have it."

Unlike bigger MSOs, Comcast declined comment on whether it's talking with other ISPs about carriage agreements. Company, one of 3 original cable partners in *@Home* service, also declined to discuss its exploration of business and technology issues involving open access, referring us to *Excite@Home*, AT&T, AOL-Time Warner.

Move toward voluntary carriage of multiple ISPs also comes as states and localities show declining interest in requiring open access to cable lines, following surge early this year that triggered at least 17 bills in state legislatures. Momentum for legislative intervention is slowing as bills are being either shelved or stalled in various state legislatures. Sponsors of open access bills in at least 5 legislatures — including Del., Vt. and Kan. — indicated to us they were resigned to bills' dying in committees and 5 other legislatures — Ida., N.H., Pa., Utah and Va. — have virtually killed bills by holding them in committee. "The states that have considered it have all rejected it," said Sachs, who has spearheaded cable industry campaign against bills. "I think the issue is losing some steam."

Observers believe policy turnaround by such leading MSOs as AT&T, AOL-Time Warner and Comcast have taken wind out of regulatory sails. Advent of new breed of cable overbuilders embracing open access also has contributed to slackening legislative interest in issue, as has acceleration of DSL deployments by telephone companies and fierce cable lobbying drive.

Latest casualty of changed perceptions on issue was Md.'s open access bill, HB-571, which was rejected by House Commerce & Govt. Affairs Committee March 21 in favor of "significantly" amended bill, HB-986, that would set up task force to study issue. Also headed for imminent burial are open access bills in Del., Kan., Vt. Localities such as Gaithersburg, Md., Arlington, Va., and Washington, D.C., which have been toying with open access proposals, have not been able to make any headway either.

Asked if there was loss of momentum for open access at state level, Rich Bond, co-director of OpenNet Coalition, said he didn't see it that way: "We won overall. Open access is going to be a reality. We never cared if it is a government-mandated or market-driven policy." Saying that "we went from 2 bills in 1999 to 19 this year" he said coalition "overall managed to educate legislators in 19 separate states" as well as localities and groups such as National Assn. of Counties.

Business model for voluntary open access remains elusive, threatening to delay technical implementation. Some industry experts predict that lack of business model, confusion over best method and complexity and costs of carrying out technical changes may block implementation of open access for 12-18 months.

Nevertheless, leading cable online service *Excite@Home* Corp. is working on method to use "source-based routing" to send Internet Protocol (IP) data between each subscriber and selected ISP. Under that approach, router would look at source address of IP packet, rather than destination address, to decide where it should go. Each ISP then would be responsible for delivering data to its customers. "We are trying to figure out a way to solve this," said Jay Rolls, *Excite@Home* network engineering vp., who hopes to conduct trial later this year.

Other engineers like "tunneling" method heavily promoted by Hybrid Networks and GTE in continuing GTE technical trial involving 75 cable customers and 3 ISPs in Clearwater, Fla. That technique places IP packet addressed to subscriber inside packet addressed to that person's ISP. Each ISP receives its packets, removes every "outside envelope" and sends inside packet to customer. "We just substituted one box for the other," GTE Dir. Al Parisian said. "We didn't change anything on the cable system at all."

Industry vendor Crosskeys Systems is fine-tuning software that would permit cable operators, DSL providers and wireless systems to track and manage each subscriber's bandwidth use. With that bandwidth management software, company argues, broadband providers could offer choice of multiple ISPs no matter what technical method they picked. It cited 10,000-subscriber alternative cable system in downtown Philadelphia, Metro Cable Systems, that's using Crosskeys software to offer choice of 15 ISPs to customers.

Biggest unresolved technical question, experts said, is "scalability" of various proposed methods. While few engineers dispute idea that handful of ISPs can be offered to limited number of cable subscribers, skeptics still question whether scores of ISPs can be offered to tens of thousands or more customers, just as industry critics once doubted that cable modems could work on broad scale. "With the technology today, you can't do it with thousands of ISPs, just a few," said Jeffrey Kraus, pres. of Telecommunications & Technology Policy, consultant to cable and wireless operators. "You have to change the technology in one way or another."

BELO BACKS ELECTION COVERAGE: In bid for more stations to participate and for govt. to avoid regulation, A.H. Belo CEO Robert Decherd made rounds last week to announce expanded offering of free time to political candidates. He said it's "in the best interests of broadcasters if more broadcasters embrace" additional free time, and "if this helps get us away from the debate about government mandates, then that also is a very important outcome."

Belo, which began free time program in 1996, including getting FCC and Federal Election Commission approval, will offer expanded version on its 18 stations this year, Decherd said: (1) Every qualified federal and gubernatorial candidate (generally registering 10% in polls) will get 5 min. free time on local station adjacent to news shows. (2) Belo stations will air at least 3 issue- or candidate-centered stories per week in newscasts. (3) Stations will carry Presidential debates. (4) Belo cable networks and Web sites will carry expanded election coverage.

Decherd said he believes stations reaching at least 40% of U.S. households will adopt similar programs this year, with number gradually growing. He predicted big station groups would be first, followed by smaller groups and independents: "The cumulative weight of this begins to be significant." He acknowledged that it was unlikely that all stations, or possibly even majority of them, would carry free political programming, but said enough eventually would to make such programming available to most voters. Forcing programming onto all stations wouldn't force viewers to watch it, Decherd said, and airing public interest programming on general interest channels is more valuable than purely public interest channels.

Decherd, who was member of Gore Commission on DTV Public Interest Obligations, remains optimistic that free time won't be mandated. He said broadcasters and govt. should "agree that this is important, and that we are making significant progress." Govt. should realize, however, that "world is far more complicated" than even Gore Commission realized because of proliferation of media, cable networks and Internet, so broadcasters are "destined to be deregulated in a way the Gore Commission never envisioned."



Several senators have written FCC in recent weeks urging quick action on AT&T-MediaOne merger. Sen. Breaux (D-La.) wrote Chmn. Kennard and other commissioners March 6 that "I believe there is a significant consumer benefit in combining AT&T's brand with MediaOne's cable facilities in order to offer telephony." Merged company would be "best hope in the foreseeable future for meaningful facilities-based residential competition," and any "unnecessary delay in consideration of the merger will only harm millions of American consumers." Sens. Brownback (R-Kan.) and Frist (R-Tenn.) took issue in letter March 8 with Kennard statement that Commission would complete review at end of June. They noted parties had filed with FCC on July 6 and said merger "should not continue to linger at the Commission for an extended period of time." Sen. Nickles (R-Okla.), in March 8 letter, said he hopes FCC "will act expeditiously and without new or onerous conditions."

FTC won lawsuit for \$11.8 million in consumer redress from Automated Systems & Concepts International and its pres., John Munoz. FTC charged Munoz and his company "engaged in deceptive practices to induce investments in 3 partnerships formed to produce TV infomercials to market various products."

Basic cable networks continue to score viewership gains midway through current TV season, Cable Ad Bureau said. CAB said its latest analysis of Nielsen Media Research data showed that ad-supported cable's average prime-time delivery had risen nearly 1.6 million homes through first 26 weeks of season, reaching total of 24.4 million. CAB said basic cable's average prime-time rating climbed 1.3 points to 24.2 as household share increased 2.3 points to 40.6%. In contrast, group said, 7 major broadcast networks have seen their collective prime-time delivery fall 2.4 million homes to 32.3 million households, average rating slip 2.8 points to 32.0 and average share decline 4.6 points to 54.0%.

Joint venture of mPhase Technologies and AlphaStar will introduce global broadband TV distribution network through mPhase TV, they said. Network is to provide telcos worldwide with interactive TV and video content via hybrid model of satellites and standard copper telephone wire. It's designed to allow phone companies to compete with cable. Hart Telephone is first client.

Internet Initiative Japan will link 5 Japanese cable operators to distribute computer games, music, movies and other content to 3 million broadband cable households, starting in summer. Participating cable operators are CTY Co., Himawari Network, Kintetsu Cable Network, LCV Co., Tokyo Cable TV.

In latest step in continuing fight, Emmis Communications said it filed counterclaim against Sinclair Bcst. involving St. Louis broadcast properties. Dispute in Baltimore County (Md.) Circuit Court involves whether former Sinclair executive Barry Baker had right to acquire stations and sell them to Emmis. Latest filing asks court to compel Sinclair to sell stations to Emmis and award it compensatory and punitive damages.

Fresh Baked Studios developed satellite Internet Bcstg. Vehicle (IBV) to deliver live broadcasting of streaming video in Real, Windows Media Player and Quicktime Formats directly to Internet from remote locations anywhere. IBV uses 1.2 m Ku-band digital satellite dish and uplink equipment. Encoded stream includes up to 1 Mbp of data, which can be increased on demand. IBV will display at NAB in Las Vegas April 10-13.

FCC Enforcement Bureau said it plans to fine WRHC(AM) Coral Gables \$22,500 for operating without getting Commission approval. Bureau also said station continues to operate without approval for directional antenna, and may face further fines if it doesn't stop within 30 days.

Investors filed class action suit against Cumulus Media in U.S. Dist. Court, Philadelphia, claiming firm had overstated revenue and earnings. Suit followed Cumulus announcement March 16 that it was restating its earnings for first 3 quarters of 1999, causing stock price to plunge 30%. Suit was filed by Bernstein Liebhard & Lifshitz.

ASCAP and AudioSoft announced partnership on system for reporting music usage on Internet, guaranteeing compensation for copyright holders. They said system will be tested with limited Webcasters in April, with plans for worldwide deployment in 2nd quarter. AudioSoft said software will lower costs for Webcasters as well as ensuring payment for artists.

NBC Interactive (NBCi) will provide content to Prodigy subscribers under new agreement. Deal gives Prodigy customers access to NBCi's Snap Internet Service. Terms weren't disclosed.

Personals

Mike Shipley advanced to news dir., KSDK-TV, St. Louis... Bruce Cowie, Baton Bctg., elected pres., N. American Bctrs. Assn... Cisneros TV Group's Ad Lab promotions: John Mafoutsis to vp-ad sales, Maria Perlmuter to assoc. dir.-Southern Cone, Guido Caroni to assoc. dir.-multimedia sales... Frank Gardner advanced to senior vp-interactive media, E.W. Scripps... Don Ohlmeier, media and entertainment veteran, elected to board, Wink Communications... Arthur Harris promoted to vp-broadcast operations, CBS Sports... RespondTV changes: Richard Fisher promoted to pres., Mannan Latif named CFO & senior vp, Dawn Judd, ex-McCutchen, Doyle, Emerson & Brown, appointed senior vp & gen. chief counsel, Ian Jefferson, ex-Imedia, named vp-distribution alliances, Margaret Buckley, ex-ZDTV, vp-program alliances, Matthew Cullen, ex-Excite@Home, dir.-business development, Susan Blum, ex-A&E TV Networks, dir.-business development, Kasey Zacher, ex-Excite@Home, dir.-mktg... Jonathan Leess promoted to senior vp & gen. mgr.-enhanced TV, Go.com.

Louise Sams advanced to senior vp & gen. counsel, Turner Bctg. System... Melinda McLaughlin, ex-Jordan McGrath Case & Partners, named vp-research, A&E TV Networks... Cablevision Systems promotions: Rick Belden to area dir.-N.J. region, Howard Witt to area dir.-Conn. & N.Y. regions... Martin Taschdjian, ex-MediaOne International, appointed a dir., Bob Magness Institute, and holder of Leo Hindery Chair for Broadband Telecoms, National Cable TV Center & Museum.

Greg Ainsworth promoted to group leader-N.Y. Investment Banking Group, Daniels & Assoc... Christopher Coles, ex-AT&T, named senior vp-business development and gen. mgr., Business-to-Business Div., High Speed Access... Jacqui Vines advanced to vp-gen. mgr., Cox Communications Baton Rouge... CableLabs promotions: Donald Dulchinos to vp-advanced platforms & services, Diane McGinty to vp-information technologies... Nina Henderson advanced to interim COO, BET Pictures II, BET Holdings II.

House Commerce Committee Chmn. Bliley (R-Va.) and Rep. Davis (R-Va.) took unusual step of writing independent Financial Accounting Standards Board (FASB) asking it to delay changes in how merger assets are calculated. March 15 letter addressed FASB's controversial proposal to change standard to purchase accounting, with one party acquirer and one acquiree, from pooling method, where balance sheets are combined. Bliley and Davis wrote FASB Chmn. Edmund Jenkins that purchase accounting method could harm technology companies in that acquiring company would be forced to write off acquired firm's value against reported income. Bliley and Davis also wrote to SEC Chmn. Arthur Levitt asking that SEC's chief economist undertake study of (1) benefits of mergers to U.S. economy and (2) effects of different accounting treatments on mergers.

In 2nd public dissent last week, FCC Comr. Tristani said Commission was "stretching" ownership limits by expanding definition of radio market "beyond any realistic meaning." Latest dissent was to FCC decision to allow Journal Bct. to own 6 radio stations in Wichita, acquiring KOEZ(FM) from Kansas Radio Assets. Transaction was allowed only because FCC defined Wichita as having 52 stations, she said, rather than 24 that "real world" believes are in market. Her previous dissent involved markets in Ohio and La.



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FCC divided states into 5 groups in first step toward issuing LPFM licenses, it said March 17. Date of first of five 5-day filing windows will be announced at least 30 days before window opens, Commission said, with order of windows to be determined through random process today (March 27). Windows are expected to open at 3-month intervals, though that may change. Each group includes states from every part of country, is balanced by market size, and states are separated geographically to reduce chance of conflicting proposals across state lines (DA 00-621).

WRH

Consumer Electronics

A Section of *Television Digest with Consumer Electronics*

STATE OF THE INDUSTRY

Sales to dealers, from CEA, for week ending March 10 and year to date:

	MAR. 4- MAR. 10	1999 WEEK	% CHANGE	FEB. 26- MAR. 3	10 WEEKS 2000	10 WEEKS 1999	% CHANGE
TOTAL COLOR TV. (a)	463,729	332,364	+ 39.6	459,505	4,571,960*	4,089,515	+ 11.8
DIRECT-VIEW**	449,776	318,677	+ 41.1	436,982	4,338,551*	3,912,170	+ 10.9
TV ONLY#....	376,459	284,540	+ 32.3	356,132	3,672,519	3,363,435	+ 9.2
TV/VCR COMBO.	73,317*	34,137	+114.8	80,850*	666,032*	548,735	+ 21.4
PROJECTION...	13,953	13,473	+ 3.6	22,523*	233,409*	177,345	+ 31.6
TOTAL VCR**....	339,075	249,145	+ 36.1	426,788	3,792,386*	3,263,371	+ 16.2
HOME DECKS...	265,758	215,008	+ 23.6	345,938	3,126,354*	2,714,636	+ 15.2
CAMCORDERS (a)...	84,922*	49,991	+ 69.9	46,798	729,298*	586,589	+ 24.3
DVD PLAYERS....	56,592*	31,346	+ 80.5	61,248*	888,906*	285,524	+211.3

Direct-view TV 5-week moving average#: 2000-403,562; 1999-350,576 (up 15.1%).

Projection TV 5-week moving average: 2000-25,158*; 1999-19,467 (up 29.2%).

VCR deck 5-week moving average: 2000-353,790*; 1999-287,767 (up 22.9%).

TV/VCR 5-week moving average: 2000-83,359*; 1999-58,339 (up 42.9%).

Camcorder 5-week moving average: 2000-75,754*; 1999-67,572 (up 12.1%).

DVD player 5-week moving average: 2000-92,853*; 1999-29,048 (up 219.7%).

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

SEARS SUES DIRECTV SEEKING \$23 MILLION: Sears has filed breach-of-contract suit against DirecTV seeking \$23.2 million damages including breakup of retail agreement last year. DirecTV, meanwhile, filed counterclaim against EchoStar, accusing it of "wrongfully interfering" with programming agreement with Kelly Bsc. Systems and "misusing and infringing" on Primestar trademarks.

Sears suit, filed in Cal. Superior Court, L.A., details long-running battle between retailer and DirecTV that predates parting of companies last summer. Largest portion of damages — \$20 million — stems from what Sears alleged was DirecTV's failure to honor 1998 agreement under which latter was to pay \$2.7 million in past due commissions. Commissions were tied to 168,048 customers that purchased DirecTV service through Sears. Second portion of deal called for DirecTV to pay Sears \$90 for each new customer and 50¢ per month commission for 60 months.

Retailer charged that DirecTV "promised" in Jan. 1999 to keep Sears as authorized dealer despite its decision to carry rival EchoStar system. Three months later, however, DirecTV "exerted substantial pressure" on Sears to drop EchoStar and cut off service in Aug. after retailer refused to become exclusive dealer. EchoStar, in filing antitrust suit against DirecTV in Feb., alleged that DBS provider promised better terms and threatened cut-off of service to dealers that didn't sign exclusive agreements. Indeed, Ultimate Electronics dropped EchoStar in Jan., leaving satellite service with Target and Sears as its sole national retailers.

'Sears also is seeking \$1 million damages for what it alleges was DirecTV's pressure on personal video recorder (PVR) company TiVo to strip chain's logo from national ad campaign. DirecTV owns 11.2% of TiVo and plans to launch combo product in midyear as part of AOL TV service. Sears logo was to appear on TiVo infomercial on DirecTV channel. TiVo standalone boxes continue to be sold through Sears, and Programming & Network Relations Vp Stacey Jolna, while declining comment on suit, said company plans to distribute product to "all retailers." Sears also is asking for \$200,000 in damages for DirecTV's refusal to pay commissions for former U.S. Satellite Bscg. (USSB) customers that it acquired when it bought company last year.

In response to EchoStar suit, DirecTV denied that it "led or participated in a group boycott" of rival or that it "coerced" retailers into taking such action. DirecTV said EchoStar couldn't prove "valid cause of action" to support allegations of violations of state antitrust laws and "tortious interference with contractual relations." Instead, while EchoStar has argued that DirecTV employed anticompetitive tactics to dominate DBS business, it has conceded "real market" is multichannel video programming distribution that involves cable companies with 69 million customers, DirecTV said.

DirecTV contended that EchoStar, which began Digital Sky Highway service in 1996, has "drafted in the wake" of its "hard work and success" and capitalized on consumer awareness created by rival. EchoStar has chosen to market DISH service directly to consumers through thousands of local and regional dealers at very low prices, DirecTV said in conceding that strategy has been successful. EchoStar has added 3.4 million subscribers vs. 8.2 million for DirecTV.

DirecTV in series of allegations contended that EchoStar had "interfered" with rival's Oct. agreement to buy financial stake in Kelly. Latter, which had provided foreign language programming for DirecTV, agreed earlier this month to be acquired by EchoStar for \$3.5 million (TVD March 20 p15).

EchoStar mounted campaign 2 years ago that "falsely implied" that it could provide local programming via satellite at time when such service was illegal with retransmission agreement, DirecTV said. Congress passed law in Nov. allowing service. Ads accompanying debut of local programming in 13 markets "falsely implied" that EchoStar had "legal right" to transmit local signals to its customers, DirecTV said. While federal court ruled in 1998 that companies transmitting local programming via satellite determine that those receiving it were getting less than Grade B signal from off-air antenna, EchoStar "significantly overestimated" number of eligible subscribers, allowing it to sign up thousands that weren't qualified, DirecTV said.

DirecTV accused EchoStar of false and misleading ads and trademark infringement in its 1999 campaign that sought to convert former Primestar customers to DISH network. EchoStar started program for its dealers offering them \$250 for each Primestar customer that switched to DISH (TVD April 12 p13). Primestar had agreed in early 1999 to sell its assets, including 2.3 million subscribers, to DirecTV for \$1.82 billion (TVD Jan 25/99 p11). DirecTV charged that EchoStar's Primestar promotion created confusion among consumers as CEO Charles Ergen and James DeFranco urged dealers to visit Primestar subscribers claiming that they were there to upgrade system when they really were switching service to DISH. Dealers also were told to disassemble Primestar equipment in way that it would make it "virtually impossible" to reinstall system, DirecTV said.

Satellite service took aim at EchoStar's claims that up to 147 NFL games were available through DISH. Ads highlighting EchoStar's "Ticket to the NFL" package failed to note that only "a small portion" of current or potential subscribers could receive all games and that those that did paid for 2 distant network signals, DirecTV said. DirecTV, which has carried 200-game "NFL Sunday Ticket" package since 1994, contended that EchoStar sought to tie its service to trademark that has "gained widespread recognition and is well-known and famous." EchoStar's deceptive advertising on NFL programming has caused DirecTV to lose "subscribers, revenue and goodwill," DirecTV said. EchoStar and DirecTV spokesmen declined comment on counterclaim.

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Satellite Notes: BellSouth was continuing to deny at week's end that it planned to start own satellite service this year as offshoot of 4-year-old Americast video-on-demand system. *Business Week* earlier had reported that BellSouth would introduce service in severing ties to Americast. BellSouth was one of heaviest promoters of Americast, having installed MMDS-based service in Atlanta, New Orleans, Orlando. Under scenario, BellSouth would end its Americast service and lease transponder space on medium-power Loral satellites. Americast, with which Zenith's Network Systems Group had signed 5-year \$1 billion agreement to supply set-top boxes (TVD Aug 26/96 p5), has been rife with disagreements but had attracted 350,000 subscribers, *Business Week* said. BellSouth spokesman told our affiliated publication *Communications Daily* that subscriber figure wasn't accurate, but didn't rule out satellite service. Merrill Lynch analyst later said BellSouth had discussed such service with firm about 6 months ago. Other partners include GTE, SBC Communications, Walt Disney... EchoStar, moving to expand programming packages, is expected to begin new America's Top 150 on April 1 priced under \$40. Package will include 6 Encore and 2 Showtime channels, although most of premium services will be sold separately. Service will be beamed from satellites at 110° W and 119° W, requiring new dual-feed horn dish (\$100). EchoStar had planned 150-channel offering for last fall (TVD July 26 p12). EchoStar already markets AT-50 and AT-100 bundles... FCC last week fined EchoStar \$11,000 for missing Dec. 15 deadline for carrying noncommercial programs on at least 4% of its channels. EchoStar met quota day later.. AlphaStar, which went dark as satellite service 3 years ago (TVD Aug 11/97 p14), emerged again last week in broadband joint venture with mPhase TV. Company is targeting telcos with combination of interactive TV and video content delivered via combination of satellites and digital subscriber line (DSL). First service will be offered through local exchange carrier Hart Telephone in Hartwell, Ga., company said. Champion Holding purchased AlphaStar and Tee-Comm Distribution assets out of bankruptcy for \$72 million including uplink facility in Oxford, Conn., and had planned to resume service year ago (TVD Dec 22/97 p18).

CE MAKERS LOST MILLIONS IN NATO PROCUREMENT FRAUD: International scam sustained for 3 years by people claiming to represent North Atlantic Treaty Organization (NATO) has resulted in multimillion-dollar losses for Akai, Pioneer and Sony — and 2 lawsuits against Electronic Data Systems (EDS), computer services powerhouse that claimed to be primary contractor for “covert” NATO deal (TVD March 13 p19).

Fraud has been reported to authorities in U.S. and Europe by CE manufacturers, who as subcontractors were duped into supplying digital AV equipment and proprietary information on prospect of \$80-\$120 billion contract for voice security system purportedly to be funded with NATO “black hole money.” Lawsuits filed against EDS contend company misled CE makers and didn’t perform due-diligence to verify authenticity of procurement deal.

Private eyes for Sony Europe uncovered scheme after company lost \$960,000 in professional video equipment sent to phony NATO testing center in Belgium. Spokeswoman told us Sony Broadcast & Professional Co. began to smell rat after being strung along from April 1997-1999 by firm named En-Visage, which claimed to be NATO broker. Sony didn’t have deal with EDS, she said. But like other victims — U.S.-based Akai Musical Instrument Corp. and Pioneer New Media Technologies — Sony was handcuffed by nondisclosure agreements that prohibited subcontractors from communicating with NATO directly, and prevented them from learning identities of other potential subcontractors. Sony cut off shipments in Aug. and alerted Belgian law enforcement about hoax, spokeswoman said. U.K. authorities aren’t involved.

Akai and Pioneer were clandestinely tipped to scam in Dec. when Maxima, Sony’s London-based investigative firm, uncovered bigger picture, sources familiar with events told us. In court papers that read like plot of mystery novel — including liaison with apparently bogus U.S. Air Force colonel and written communiques purportedly from NATO — Pioneer said unsolicited and unaddressed letter arrived on secure fax line that only EDS and NATO were supposed to know about. Akai also received mystery fax.

Companies claim they were stonewalled after individually petitioning EDS to investigate hoax alleged in fax. Complaints filed March 6 in Texas County Court, Austin, allege that EDS gave assurance that NATO deal was authentic and likely to succeed soon. EDS reminded subcontractors of their NDAs and warned them not to approach authorities, plaintiffs alleged. Pioneer complaint said EDS suggested fax either was fraudulent by competing bidder to make Pioneer violate its NDA or “test” by NATO to determine subcontractor’s trustworthiness.

Despite repeated appeals for verification, EDS didn’t inform Akai and Pioneer that NATO deal was fraud until Jan. 10. Subcontractors charged that even then, EDS refused to disclose what actions it had taken or planned. First public recognition of scam by EDS came March 8 after Akai and Pioneer sued. EDS statement claimed that after “ongoing internal investigation” it reported its suspicions to U.S. FBI and other domestic and international authorities, but company wouldn’t comment further except to say it believes it has “good and meritorious defenses” to subcontractors’ claims. At our Fri. deadline, FBI would neither confirm nor deny it was investigating case.

Akai and Pioneer claim losses were compounded by their inability to contact authorities. Pioneer is seeking damages “in excess of several million dollars.” Amount includes \$1.5 million for automated CD recording equipment shipped to bogus “American Military Supply-Materials Testing Unit” in Rekem, Belgium. Pioneer said by time it discovered AMS was bogus private company, it and other firms that had received Pioneer equipment and services were in bankruptcy and products were to be sold off by trustee — but deadline to file claim in proceedings was Feb. 10. Pioneer said if recovered, value of equipment might not exceed cost of shipping it back to U.S.

Akai suit doesn’t specify damages sought, but said losses include “highly technical audio/video controller” that EDS demanded it supply on “expedited basis.” Akai was told to build machine in June 1999 for Aug. 31 deadline — and that it “would be the final product to cement the success of this proffer to NATO.” Irony of “final product” is that Sony by that deadline was wise to hoax and had halted shipments — and perpetrators of fraud probably saw scam was ending. Akai claims A/V controller was designed specifically for NATO project and had no commercial application.

Akai and Pioneer are seeking jury trial in Texas court. EDS has until March 31 to respond to complaints. Attorneys for plaintiffs told us if case isn’t settled out of court, trial isn’t likely until next year. Any criminal prosecutions would proceed separately — Sony spokesman in U.S. told us criminal charges are under consideration in Europe.

It’s possible that other civil suits may emerge, as Akai and Pioneer said they had obtained products and services from 3rd parties. Sources also said that other CE vendors were approached to be EDS subcontractors, and if so they might join

Akai-Pioneer suit. Besides threatening "severe and extreme personal and corporate" penalties for violating NDAs, sub-contractors said EDS explained long delays in procurement process were result of NATO military actions in Europe and Persian Gulf, and need for all 16 NATO members to sign off on deal. Akai Musical Instrument is former subsidiary of Akai Electric, which was acquired by Hong Kong-based Grande Group last year from Hong Kong's now-insolvent Semi-Tech. Ft. Worth-based Akai Musical Instrument split from parent earlier this year following management buyout led by longtime CEO-Pres. Tommy Moore.

GOOD GUYS RESTRUCTURES: Good Guys said it has shut down its personal electronics unit in shedding more than 300 jobs as part of strategy that moves it closer to specialty CE retail format and away from superstore concept.

As result of job cuts, GG will take unspecified charge against 2nd quarter earnings and expects to post loss. Morgan Keegan analyst David Childe increased projected 2nd-quarter loss to 17¢ from 10¢ as result of restructuring and said chain would post "modestly negative" same-store sales.

About 300 positions were eliminated in move that combined personal electronics — digital cameras, personal CD players, boom boxes, cellular phones and shelf systems — with other departments within store, CEO Ronald Unkefer said. For example, he said, shelf systems will move to home audio and cellular phones to car stereo. Another 15-20 positions were cut as Good Guys closed in-house ad dept. and contracted San Francisco-based Team Design to handle print business. Citron Haligman Bedecarre will remain responsible for TV ads. Personal electronics accounted for 10-15% of GG's annual revenue and store floor space, he said.

"Personal electronics are less important to our volume and the products that do sell lend themselves better to higher quality sales help," Unkefer said, with personal electronics dept. typically was staffed by entry-level personnel.

As part of new strategy, GG also has switched store managers from straight salary to one combined with commission, Unkefer said. Commission structure had been sticking point under former Pres.-CEO Robert Gunst, who resigned year ago (TVD April 19 p15). GG also has extended sales force work week to 44 hours from 40 and restructured staffing levels to more closely match customer traffic, he said. GG is returning cashier to sales floor, position that was eliminated in 1994 in streamlining that had sales force demonstrate products and retrieve them from stockroom (TVD Nov 14/94 p16). Some staff from personal electronics dept. have shifted to cashier, 3-4 of which will be employed at each store, Unkefer said.

"We're matching floor traffic with coverage a lot better and have gone to the longer work week for the sales staff to take better advantage of the more senior people," Unkefer said. "We've also shifted the emphasis of store manager to more direct floor time."

Job reductions are projected to yield \$9 million in cost reductions and allow GG to turn profit in fiscal 2001, even if sales are flat, Unkefer said. "I have not been pleased with our sales level, although our margins (29%) have continued to be strong," Unkefer said. "I think the last component we've got is to ratchet up sales and get in step with industry growth," he said in indicating that chain would start intensified sales push in April. Indeed, while GG same-store sales were "steadily built" through Dec. to "level approaching" high single digits, chain fell back 10% in Jan., same level as Oct., analyst Childe said.

"Results have since indeed showed some improvement, but not enough to salvage the quarter," he said.

GG postponed planned 2nd-quarter debut of online joint venture to midsummer, Unkefer said. "That's a little more conservative than we first thought, but it's taking a little longer to do everything," he said. Goodguys.com will be 49% owned by retailer, venture capital firms sharing rest (TVD Jan 10 p23).

GG is continuing to negotiate agreement to lease space within its stores to outside vendor to handle software departments, Unkefer said. Selection of vendor is "imminent," but he declined to disclose name. Tower Records would seem logical partner since it already jointly operates Wow stores with GG. "It will not require a physical remodeling of the stores, although floor plans will get adjusted," he said.

At our Fri. deadline, numerous questions remained unanswered on status of PlayStation2 (PS2) in Japan. Days after console launched in Japan March 4, Sony admitted it had failed to hit one million shipments because of 10-day lag in production for system's memory card. Manufacturer said it expected to reach million by March 15 and also said it was looking into complaints from many consumers about technical troubles with cards (TVD March 13 p11/18). Whether Sony corrected production lag and reached million was unclear Fri. It received another black eye when it was discovered that console contained glitch allowing consumers to change system's regional code setting, enabling consumers in Region 1 to watch Region 2 DVDs and reverse (TVD March 20 p10). Sony said it was modifying software utility program and would start shipping console with new software last week. It also didn't rule out possibility that PS2 would be recalled. Whether new utility program started shipping remained unclear Fri. Sony Computer Entertainment America spokeswoman didn't return calls for comment by our deadline. Sony did announce last week that it opened new \$654 million plant in Isahaya, Japan, to produce high-performance semiconductors for console. Plant will exclusively produce graphics synthesizers for PS2, AP reported, and spokeswoman said it will have shipped 1.4 million consoles by March 31. Meanwhile, PS2 console remained readily available in N. America last week online and at retail stores including multiple outlets in Manhattan.

Jan. factory audio shipments rose 4.9% to \$482.77 million, spurred largely by unusually robust 20.2% jump in separate components to \$116.97 million, CEA Market Research Dept. reported. CEA said components surge was fueled by strong activity in receivers and home speakers, which rose 44% and 25%, respectively, and accounted for more than 2/3 of total revenue in home separates. CEA said 48% increase in shipments of in-dash car CD players to \$61 million salvaged overall 5.8% gain in aftermarket autosound to \$137.66 million from \$130.11 million. However, portable audio and systems fared relatively poorly. Total shipments of portable audio equipment fell 3.5% to \$119 million despite 13% jump in headset CD players. Systems sales declined 0.2% to \$109.14 million.

SMARTDISK READIES MP3 CASSETTE ADAPTER:

SmartDisk is projecting 4th-quarter introduction of FlashTrax adapter that will enable MP3-compressed music downloaded from Internet to be played through existing cassette transport.

SmartDisk, based in Naples, Fla., said it recently demonstrated working prototype of FlashTrax adapter, which resembles audio cassette but accepts removable flash memory cards. First product is expected to be based on SanDisk MultiMedia Card. Also possible later are versions that would support Secure Digital (SD) Memory Card, which SanDisk co-invented with Matsushita and Toshiba. SmartDisk also touted close relationship with Sony, which among other manufacturers uses company's FlashPath floppy disc adapter for Mavica line of digital still cameras. Although FlashPath Memory Stick adapter is on sale for Mavica, SmartDisk said it couldn't speculate on possible FlashTrax Memory Stick adapter, although it said that in concept it could represent "an obvious next step" in FlashTrax development.

Douglas Kraul, SmartDisk vp-AV Products Div., said FlashTrax is based on 1989 patent (#6039260) listing Raymond Eisele as key inventor. Kraul said Eisele worked for SmartDiskette, German company that's SmartDisk predecessor. Kraul said plans are being studied to market FlashTrax as competitor to growing field of Internet-downloadable MP3 music portables. Such product would come packaged with removable memory card and "collateral material" such as software for PC, he said: "In that view of the product, it's got to be priced competitively with other MP3 players. In fact, I'll go further to say that we don't believe it should have a market premium — that this product should be on parity with those players." Other distribution "avenues" are being studied, Kraul said, and "which is the first depends on which one raises its hand first."

Kraul said MP3 decompression uses ICs built into FlashTrax adapter. He said adapter is powered by rechargeable nickel metal hydride battery. He said current "thrust" is to build first MP3-based FlashTrax product around SanDisk MultiMedia Memory Card. Kraul said: "That's not to say that if something came up in a few weeks where we needed to react and change because of a customer's requirements, we'd certainly consider that." He said current SmartDisk business plan would require purchase of separate FlashTrax adapter for each of several memory card formats. He said building future universality into FlashTrax would depend on physical characteristics of memory cards being considered and whether they can be accommodated in adapter that's size of cassette shell. Because MultiMedia Memory Card and SD Memory Card are "physically very similar," Kraul said, FlashTrax might be designed to accommodate both, "which is the direction we're headed in."

Responding to our question whether universal FlashTrax adapter can be designed to accept compression formats in addition to MP3, Kraul said "there's going to be a tower of babel into the next generation of [Internet music portable] players. How we address that problem is not an easy one to answer. On the one hand, you want to be as multilingual as you can. On the other hand, every format you put into one of these devices increases cost, complexity and power application. So you have to be careful not to make a 'works-for-everybody' product that nobody wants."

Crowded field of optical data storage platforms grew even more so with last week's announcement by Sharp and Sony that they jointly have developed small high-density magneto-optical (MO) disc format for miniaturized mobile devices such as PDAs, digital still cameras, camcorders, notebook PCs. Companies said as-yet-unnamed format has won support from Casio, Fujitsu, IBM Japan, Mitsubishi Chemical, Philips, Pioneer, TDK. "Superresolution" MO disc has ultrathin 0.02" substrate, is 2.03" in diameter and is housed permanently in rigid caddy measuring 2.32x2.16x0.16". Disc can accommodate 1 GB of data using 655 nm red laser with wavelength similar to that used to read prerecorded DVDs, which store 4.7 GB on discs 4.8" in diameter. Capacity can be doubled to 2 GB using 405 nm wavelength blue laser. Japanese news accounts quoted Sharp and Sony executives there as saying 1 GB disc can store 30 min. of footage shot by digital camcorder in normal mode. Sharp and Sony said they also will study development of 2.6" diameter MO disc — roughly equivalent to MO-based MiniDisc (MD) in size — that would be capable of holding 4 GB of data when burned with blue laser. New format, which complies with Universal Disc Format (UDF) standard, uses laser-pulsed magnetic field modulation recording method, land-and-groove tracking, Reed-Solomon error correction. Announcement was vague on when format might be commercialized, or implications for other formats such as MD and Memory Stick.

Matsushita appears to have postponed delivery of personal video recorder (PVR) for ReplayTV service again. It had been scheduled to ship Showstopper PVR last fall, but later delayed introduction to April. Andrew Nelkin, Panasonic gen. mgr., Consumer Video Div., wasn't available for comment. But ReplayTV said in news release outlining \$84.9 million raised in separate series of preferred stock that PVR "is expected in retail stores" by midyear... As TiVo's subscriber base approaches 30,000, PVR provider remains on target to start on-demand video service with Blockbuster by early 2001, Programming & Network Relations Vp Stacey Jolna said. While many of details on service, including pricing and number of films that will be available, haven't been set, Jolna said movies will be delivered via high-speed cable or satellite in early morning hours so that "it becomes prime time any time." Still unresolved is whether PVRs will be carried in Blockbuster stores, he said. "It will all be dependent on the acquisition of overnight broadband spectrum and Blockbuster movies can be turned into ones and zeros and burst or trickled even over [digital subscriber line] phone lines," he said. TiVo also will begin PVR with British Sky Bestg. in U.K. starting Oct. 1, although set-top box supplier hasn't been selected, Jolna said... **Wink Communications** has installed base of 400,000 units, 70% of which are used on monthly basis, Chmn. Maggie Wilderotter said. Another 25% are used minimum of 3 times per week, she said.

CEA's DT/ definitions committee is to meet this week in Chicago as Video Div. group continues effort to clarify requirements for HDTV display. Technical working group, which was appointed in Dec. (TVD Dec 27 p8) following controversial vote that excluded some 4:3 aspect ratio HD-ready sets from definition, is expected to present further recommendations, sources said. Working group first briefed committee on its findings in Feb. and, among other things, proposed setting minimum standard HDTV in terms of lines of resolution (TVD March 6 p16). Definitions committee meeting follows week in which cable and CE industries sought to finalize agreement that would resolve long-running dispute between 2 industries over proper labeling of digital TV sets with and without 1394 firewire connectors (see related story Bcst.-Cable section).

WARNER TRIMS DISTRIBUTION: Video distribution ranks, already reeling from loss of 2 wholesalers in last month, were sideswiped last week by letter from Warner Home Video (WHV) saying it was cutting them out of video rental distribution and going direct to retailers.

Move cuts distributors out of WHV's roughly 20% share of rental business. Only Ingram Entertainment will continue to get piece of studio's rental titles by handling pick, pack and ship functions for retailers not set up to handle them on their own. WHV issued statement confirming distribution cuts, but word of shakeout already had spread. Statement quoted WHV Pres. Warren Lieberfarb as saying that "innovative move will benefit retailers in many ways, enhancing their ability to face the challenges of today's marketplace." He said that as result, "retailers will have the ability to better serve their customers through direct access to WHV's copy-depth programs, consumer advertising and promotional initiatives." Exec. Vp-Gen. Mgr. Jim Cardwell said change "will provide more focus on WHV's titles as well as reduce costs of doing business."

Ingram Pres. David Ingram confirmed that company "has contracted to be the 3rd party service provider" for WHV VHS rental product. Larger chains such as Blockbuster and Hollywood Entertainment already have systems in place for direct fulfillment, but Ingram said his company will handle fulfillment for smaller accounts. WHV announcement and letter to distributors made no mention of Ingram by name, although distributors were informed privately of distributor's role.

Other wholesalers will be permitted to continue selling WHV sellthrough VHS and DVD titles. But some sources we polled said they believe additional changes are coming. For example, some said they expect WHV to start industrywide revenue-sharing program for DVD titles that essentially will put DVD in same category as VHS in direct distribution to video rental stores.

WHV letter gave Sept. 1 start date for direct distribution of VHS rental titles. At that time, "WHV will cease selling VHS rental product to wholesalers," it said. "As of this date, WHV will enter into direct selling, leasing and shipping relationships with retailers." Company said it was giving wholesalers 120-day notice "to make this transition as orderly as possible."

Letter said WHV policy shift would address "recent changes in the rental market." Company said it's "critical" to WHV growth that "we communicate our programs and titles directly to retailers while reducing costs." Senior WHV executives couldn't be reached for comment by our deadline, but it's presumed that changes to which letter referred include growing consolidation of video storefronts favoring larger chains.

Retailers will be required to have separate account for WHV, we're told. WHV rental titles will be provided through Ingram in separate shipment from other studios, with separate invoice. There will be separate sales force for WHV product, and Ingram's regular sales reps won't sell WHV rental titles. Returns will be separate from other studios. Ingram will handle credit and collections "in conjunction with Warner," WHV spokeswoman said. New Line and HBO Home Video product, both under WHV distribution arm, are part of deal.

"Obviously, we feel they're not making the right move, and we hope before Sept. that they'll change their mind, or if not, that they'll find once it starts that it wasn't the right thing to do," said

Steve Scavelli, pres. of Brooklyn-based Flash Distributors. Other distributors were reluctant to say even that on record, although they had plenty to say without their names being used.

Some distributors said they were either considering or definitely planning to tell their employees to "downsell" WHV sellthrough and DVD titles and "upsell" those of other studios — for example, telling retailers to buy more copies of hit title from another studio over hit WHV title. "It's hard to be a partner with someone who doesn't let you represent their entire line," one said. But other distributors said such strategy would only help Ingram take more business away from them. Some wondered whether loss of WHV rental product could result in their doom anyway, since retailers might desert distributors that don't carry what they need.

Several distributors reported support from other studios that said they had no intention of following WHV and instead hoped loss of WHV would allow distributors to give greater attention to other studios' titles. We couldn't find any other studios with plans to implement massive distribution changes yet. Some executives said move was reminiscent of Columbia TriStar's ill-fated attempt in mid-1980s to carve up country into exclusive territories for different distributors. Program failed quickly, and similar move hasn't been tried again. Others looked even farther into past by suggesting that WHV has been looking for ways to get control over video revenue streams since days when studios lost Betamax case that affirmed retailers' right to rent.

Retailers we polled had mixed reactions. Some took positive view by suggesting direct distribution might lead to greater fairness in pricing and elimination of some of complications that resulted when WHV led industry's introduction of copy-depth programs 2 years ago. However, others said move could be deeper nail in coffin for mom 'n' pops, who could have trouble establishing credit terms and find it difficult to deal with extra paperwork and other aspects of direct distribution.

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Ora Electronics officials weren't returning phone calls last week after missing deadline for executing long-term restructuring plan. Cellular phone accessories company said it hasn't received new credit facility and that without one cash "may not be sufficient to meet liquidity requirements" after March 15, Ora said in SEC filing. Ora had obtained \$1.2 million revolving credit facility from Celtic Capital year ago, but investment firm later withdrew it, citing "deterioration" of company's business. Loss in 3rd quarter ended Dec. 31 widened to \$3.1 million from \$283,663 as sales plunged to \$771,443 from \$3.1 million. Sales to Circuit City, which accounted for 61.3% of revenue in fiscal 3rd quarter 1999, plummeted to \$47,000 from \$1.9 million. Ora also was seeking to renegotiate final \$250,000 payment due Telular on Feb. 1 as part of \$1.6 million settlement of patent infringement suit (TVD Aug 31/98 p18). Telular had alleged that Ora's cellular data link that connected PC modem or fax machine to cellular phone infringed on its patents (TVD March 16/98 p18). Ora last week also filed with SEC to sell 2 million shares at \$3 maximum as part of amended 1996 stock option plan.

THIS WEEK'S YEN RATE

Yen values have been converted to dollars in this week's issue at ¥107 = \$1, except where noted.

OUTPOST EARNINGS RISE: Outpost.com, despite strong CE sales from joint venture with Tweeter, reported 4th-quarter loss grew to \$9.8 million from \$7.8 million year earlier despite more than doubling of sales to \$76.1 million.

Outpost, which formed venture with Tweeter last summer (TVD Aug 9 p15), had \$2.3 million in sales in quarter in turning \$400,000 profit, Pres.-CEO Robert Bowman said. Profit is split equally between companies. Outpost's overall average order was \$250 in quarter, although Tweeter@Outpost.com was about \$100 more. Overall gross margins increased to 11.9% from 11.8% in 3rd quarter and 3.2% year ago. In CE segment, gross margin was 25%, Bowman said.

Average acquisition costs declined in quarter to \$45 per customer from \$90 year ago and company is targeting \$30 by year-end, Bowman said. Roughly 70% of those buying products through Outpost.com are making 2nd purchase within 90 days against 12 months year ago, he said. Repeat customer revenue hit \$38.1 million in quarter, up from \$12.7 million year ago. Outpost added 163,000 customers to boost total to 627,000. Quarter included \$1 million in ad revenue, Bowman said.

Separately, Outpost signed agreement with 700-store Wolf Camera to form e-commerce site that will debut later this year. Outpost will develop, manage and maintain Web site and supplement existing inventory of digital cameras with products from Wolf. Outpost said it currently has 9 partners in its business-to-business operation, including Tweeter and Brookstone, and is targeting 20 by year-end.

Meanwhile, **Rex Stores** reported 4th-quarter income rose 23% on 8% gain in sales (see financial table) despite being what Chmn.-CEO Stuart Rose termed "blindsided" by Wal-Mart's \$99 holiday promotion for 19" TVs. Same-store sales rose 3%. Earnings also included \$1 million in income from investment in synthetic fuel provider Fla. State Power. Rex, which invested \$3 million in company in 1998, earns tax credits.

Impact of promotion by Wal-Mart, which competes with Rex in many smaller markets, has forced chain to shift some focus from low-end TVs to step-up high-definition (HD) and HD-ready sets, Rose told analysts in conference call. Wal-Mart push had "impact" on Rex's low-end business, he said, because \$99 price was below chain's cost.

"They [Wal-Mart] made us concentrate on the portion of the business that we do best," Rose said.

New strategy will have Rex adding HD and HD-ready sets to stores starting with Sony this month, followed by Panasonic (June-July) and Hitachi (Aug.-Sept.), Rose said. Panasonic will anchor low end of HD-ready mix at \$2,499, with Sony starting at \$2,999 and Hitachi in between, he said.

Rex also is readying rollout of e-commerce site within 60 days that will allow it to expand reach into larger markets without having to open stores, Rose said. "We look at this as a great opportunity to go after people in the big cities," he said. His 238-store chain typically targets markets with populations of 100,000 or less.

Chain plans to open 30-35 outlets in fiscal 2001, mostly in single-store regions, company said. It also is seeking to expand cellular phone business that's currently available through 30% of stores,

Rose said. BellSouth is main carrier, but Rex also is negotiating with Sprint, he said. "Our cellular business is not as great as we would like because we need a program that doesn't require contracts," he said. "Our customer seems to prefer no contract."

Toys 'R' Us, in move that will fund \$1 billion stock repurchase and remove debt from balance sheet, will float initial public offering (IPO) later this year for operation in Japan. Toys, which owns 80% of 93-store subsidiary there, is likely to reduce stake to 45%, raising as \$450 million in IPO, analysts said. McDonald's Japan owns other 20%. Toys, which had \$1.24 billion in long-term debt as of Oct. 30, also could lessen debt load. It said in annual report last year that 8-year-old Japan subsidiary had \$198 million in long-term debt, although analysts said figure could be much higher. Japan stores generate \$1.3 billion in annual sales, analysts said. "This will give the Japan business its own balance sheet and it should free up the borrowing capacity of the U.S. operations," one analyst said. Toys, which hinted at possible Japan IPO earlier this month, has struggled to regain footing in U.S., where it has unveiled new store format, undergone executive shakeup, trimmed inventories. New buyback follows one in 1998 when company had similar \$1 billion program under which it bought back more than 53 million shares. About \$6 million remains under 1998 program. Separately, Standard & Poor's lowered its ratings on Toys 'R' Us long-term corporate credit, senior unsecured debt, bank loan and preliminary unsecured shelf ratings to BBB+ from A- and removed those ratings from CreditWatch.

Toshiba said last week it will focus investment and attention on high-growth computer and communications businesses at expense of older categories such as home appliances. For 3 years ending March 31, 2003, Toshiba said, it will invest \$3.29 billion annually in capital equipment and target growth areas such as mobile communications, networking, semiconductors. Slower moving categories such as home appliances will be slimmed or spun out, company said. Goal of strategy is to return Toshiba to profitability in next fiscal year ending March 31, 2001, it said. By 2003, Toshiba is projecting group profit of ¥200 billion on revenue of ¥7.8 trillion. Toshiba is expecting to report ¥30 billion group loss for year ending March 31 on revenue of ¥5.7 trillion. Sales of consumer products, which account for 17.5% of overall revenues, are expected to be flat with year ago. Information and communication systems are expected to produce 37.8% of revenues with 3% gain.

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HASTINGS ENTERTAINMENT SUED: Hastings Entertainment (HE) is facing spate of class action lawsuits following disclosure that it would take noncash charge against 4th-quarter earnings.

Separate suits, filed in U.S. Dist. Court, Dallas, allege Hastings overstated earnings to drive up stock price and concealed "badly flagging growth" to prevent decline in price. HE Chmn.-CEO John Marmaduke dismissed suits as being "without merit" and said chain would "vigorously defend" itself.

Suit filed last week covering shareholders who purchased stock between June 12, 1998-March 7, 2000, alleged that HE concealed lagging growth in order to raise \$40 million through IPO, "reap" \$4.6 million in insider trading proceeds, expand working credit facility by \$30 million.

HE earlier this month said it would take noncash charge to restate earnings for first 3 quarters of fiscal 1999 and "probably for the prior 4 fiscal years." It said some merchandise receipts weren't entered properly in inventory control system, causing revenue costs to be understated. Marmaduke said accounting adjustment was noncash charge that doesn't affect current cash flow and company has made appropriate changes to make sure situation doesn't recur.

Video Update reported \$1.06 million 3rd-quarter profit, reversing \$2.12 million loss year earlier despite sharp drop in revenue to \$57.7 million from \$70.6 million. Downturn in revenue was largely result of closing of 70 stores, leases for 63 of which have been resolved, company said. Video Update spent \$440,000 in quarter on lease terminations and closing costs and had another \$4.1 million in reserve as of Jan. 31, it said in SEC filing. It took \$16.1 million charge year ago to cover closings, which has left chain with 598 outlets as of Jan. 31.

Rental revenues declined in quarter to \$50.2 million from \$60.1 million and product sales slipped to \$6.9 million from \$10.2 million. Same-store sales fell 15.6%.

Executives conceded in conference call with analysts that profit came in traditionally strong quarter and that chain had "lost a little bit of market share." CEO Daniel Potter said Video Update has revamped some revenue-sharing agreements to allow it to "pick and choose" titles. It also is testing revenue sharing on DVD with smaller studios, but that program won't expand unless rental pricing is established. DVD titles are sold through 60% of chain's stores, but represent less than 5% of video business, Potter said.

In other categories, Potter said Sega Dreamcast rentals have been "a little bit of a bust" but he believes Playstation2 and next-generation Nintendo will perform well. Video Update isn't in hurry to enter e-commerce business, Potter said, although it's talking with possible partners — "nobody is making money on the Internet in the video industry."

Video Update also settled suit by Allen Industries, which had sought \$3 million for unpaid invoices in conversion of Moovies stores. Under agreement, invoice amount was cut to \$1.3 million. Video Update purchased Moovies in \$65.1 million stock deal in 1997 (TVD July 21/97 p16).

Video City still hasn't announced definite plans for when it will complete merger with West Coast Entertainment, although Torrance, Cal.-based retailer announced March 10 it had "assumed operational control" of Langhorne, Pa.-based retailer.

West Coast's board and officers resigned, signing management agreement giving operational authority to Video City.

Video City said resignations mark "beginning" of its completion of merger. Chmn.-CEO Robert Lee said chain had begun move of its hq from Cal. to Philadelphia area, which will result in "significant reduction of operating expenses."

In addition to departure of West Coast Chmn. Ralph Standley, management change reportedly resulted in layoffs of 60 employees. Video City owns 76 stores, West Coast has 236 plus 90 franchised locations.

Interactive TV technology that would enable viewers to wirelessly record discount coupons directly from TV programs or home video is being developed by Sarnoff Corp. and VEIL Interactive Technologies. Partners said system also has 2-way applications to let viewers play real-time videogames or make other purchases instantaneously through PCs, cell phones, online personal portable devices. Technology developed by VEIL (Video Encoded Invisible Light uses low-cost detection device and inexpensive ValuCard to receive and record digital information transmitted with TV broadcast. Partners said that unlike systems that piggy-back signals on Vertical Blanking Interval (VBI), VEIL data can't be stripped from signal. They said VEIL data are inserted into video program and ride on active video signal. Consequently, data can be carried by broadcast, cable, satellite, Internet and even home videos on cassette or DVD. VEIL data also will carry through on home video recordings and survive digital compression, thereby ensuring availability through time-shift recordings and existing analog TVs and VCRs. Companies didn't divulge time frame for commercialization. St. Louis-based VEIL formerly was known as Koplar Interactive Systems International and remains affiliate of Koplar Communications International.

iBeam Bcstg. plans to sell 10 million shares for \$13-\$15 as part of IPO that's projected to raise \$128.5 million, it said in amended SEC filing. Internet broadcaster said money will be used for working capital, capital spending, which is projected at \$35 million for 2000, and to fund operating losses. There will be 104.3 million shares outstanding after offering, giving iBeam initial capitalization of \$1.46 billion based on \$14 per share. SEC filing confirmed investments in iBeam by AOL (500,726 shares of Series E preferred stock, \$5 million) and Pacific CenturyCyberworks (3 million shares, \$30 million) (TVD March 20 p16) and Disney (\$10 million of Series G preferred). iBeam also is being sued for breach of contract by Gerald Chew, who said he was founder and that company reneged on agreement to issue stock in exchange for his services. Suit, filed in Cal. Superior Court, Santa Clara, is seeking \$10 million in damages and court ruling that Chew is entitled to stock. iBeam dismissed suit as "without merit."... India's Zee Telefilms will seek to raise \$1.5 billion from American Depository Receipts (ADR) offering on either Nasdaq and N.Y. Stock Exchange. Zee recently began digital cable services through \$36 million deal with Canal Plus and broadband Internet access program targeting 4.5 million pay-TV subscribers.

National Record Mart said it has reached agreement to buy MP3Board in move that will give it access to Internet music business. MP3Board, which supplies MP3 music, ranked 2nd behind MP3.com, (4.1 million specific users or 6.1% of Jan.'s total Internet traffic), with 979,000 (1.5%), according to PC Data. While structure of acquisition hasn't been finalized, National is likely to spin off 25% of MP3Board, company said.

DAEWOO ELECTRONICS DEBT PLAN: Daewoo Electronics (DE) shareholders approved debt-for-equity swap with creditors last week despite opposition from minority investors.

Under plan, 84 million shares of common will be placed with creditor banks in exchange for lenders' canceling \$75.5 million in debt. Shares will be issued in May to 49 creditor institutions, which will gain 50% stake in DE. Investment is likely to increase in future as creditors plan to convert another \$1.3 billion of debt into equity either through additional share or convertible bonds issues, company said. DE is one of 12 companies that comprised Daewoo Group, whose creditors last Aug. moved to restructure \$74 billion in total debt.

Approval of restructuring plan was voted in meeting that lasted less than 10 min. DE CEO-Pres. Chang Ki-hyung said company had compiled shareholder approval via proxies, method that angered minority investors, many of whom packed balcony of meeting hall and vowed to file lawsuit seeking to cancel decision.

Minor shareholders charged that plan was drawn up by creditors to avoid shouldering share of losses. "We want them to share the loss as they did with foreign creditors," one shareholder told Reuters. Under agreement with DE parent Daewoo Group, foreign creditors, who were owed \$4.8 billion, will convert \$1.3 billion of debt into equity and convertible bonds (TVD March 20 p16).

Recovery ratio used for foreign creditors should be applied to DE's domestic debt rather than requiring that loans be recovered through debt-for-equity swaps, minority shareholders said.

DE spokesman denied company had done anything wrong, noting that proxies equivalent to 54 million shares were secured and that 63.7% of shareholders approved plan.

Creditor takeover of DE has been goal since last fall (TVD Nov 8 p15) when negotiations on \$3.2 billion sale to L.A. investment firm Walid Alomar & Assoc. collapsed. Alomar's proposal (TVD Aug 16 p19) itself replaced S. Korean govt.-brokered swap of Samsung's automotive business for DE (TVD Dec 21/98 p19).

Hitachi has increased size of Digital Light Processing (DLP)-based rear projection TV to 60-65W, but will keep price at \$9,999, TV Displays Product Mgr. Martin Weinstein said. Hitachi earlier had planned 53-55W (TVD Jan 10 p12), but expanded size to meet expected competition from Mitsubishi and to fill out Ultravision Digital line of high-definition (HD) and HD-ready sets in same size range. Mitsubishi is said to be readying 65W DLP-based set. Hitachi DLP set, expected to ship in Oct., will have 1,280x720p resolution with 700:1 contrast ratio and 400 lumens also serving as targets (TVD May 24 p11). Hitachi will introduce 37" plasma display for commercial applications at NAB convention in April. Display, which was manufactured under Hitachi's joint venture with Fujitsu, has 1,024x768-pixel resolution and is expected to be priced at more than \$10,000. Company has no plans to add 37" to consumer lineup this year, which already includes 42W model, but may consider it for 2001, Weinstein said. Fujitsu also won't market display, sticking with 42W for this year, 55W for future.

Customs has seized more than 3 million pirated audio and video recordings smuggled into China's southern Guangdong Province alone year-to-date, China News Service reported.

Yet another torpedo for DVD regional coding surfaced in Europe last week when online discounter Unbeatable.co.uk advertised availability of bargain-priced Chinese-made deck with multiregion DVD playback. Retailer said it made factory-direct deal for new Mico-brand DVD-A980 that sells for \$279 — about \$100 cheaper than comparably featured DVD players available in brick-and-mortar stores. Besides ability to play DVDs from any region by resetting codes through remote control, Mico deck provides NTSC or PAL video output and can play MP3-compressed music copied onto CD-R/W discs. Other premium features are built-in Dolby Digital decoder, DTS passthrough, component- and S-video output, microphone inputs for karaoke singalong. Internal components include DVS/Hitachi dual laser pickup, C-Cube Ziva 3.0 MPEG decoder. Retailer said Hong Kong-based Mico has 800 employees and plant in Donguang, China.

China admitted rampant piracy of AV software there is national scandal that govt. will address with massive crackdown by bolstered law enforcement program. Country hopes that vigorous show of copyright protection will enhance its status as international trading partner. Comments on piracy problem came in Parliament from Culture Minister Sun Jiasheng on eve of recent opening of National People's Congress. He said annual market for audio and video software is about \$2.4 billion — but only \$170 million is in legitimate goods. Besides clamping down on domestic piracy and smuggled counterfeits, govt. said it would work with content owners to boost availability of legitimate software in China. Separately, in specific campaign against DVD counterfeiting, Chinese govt. said Ministry of Public Security now will work directly with copyright and commercial administration departments to prosecute DVD pirates under nation's copyright laws. Scarcity and relatively high price (about \$6) of authentic DVD movies in China has fueled market for counterfeits selling for \$1.20-\$2.40.

Effort to close loopholes in U.K. antipiracy laws came closer to fruition with 2nd reading of revised Copyrights and Trademarks legislation in House of Commons. Bill now goes to committee for scrutiny before possible final 3rd reading. Backers in \$248 billion U.K. music, video and PC software industry claim counterfeiting costs nearly \$10 billion yearly. Proposed law would toughen civil and criminal penalties for piracy and impose liability on land owners and local authorities that knowingly permit sale of counterfeit goods.

eMachines, which championed sub-\$600 PCs year ago but has struggled to turn profit, debuted on Nasdaq Fri. and slid 2% to 8-13/16. It closed at 8-1/4. Company had priced 20-million-share offering at \$8-\$10. eMachines filed for IPO in Aug. and in Jan. acquired FreePC, which subsidized its PC price with Internet access and ads. eMachines has dropped FreePC model, but will use firm to get ads and direct marketing revenue. eMachines reported \$84.5 million loss in 1999 including FreePC on sales of \$815.5 million. Minus FreePC, eMachines loss was \$5.7 million, \$814.3 million in sales. While eMachines is projecting losses ahead, it did manage \$2.2 million profit in 4th quarter.

Latest e-tailers to receive Sony authorization to sell its CE products online are MediaPlay.com, OnCue.com, SamGoody.com, SunCoast.com, Vanns.com. Meanwhile, Egghead.com and Outpost.com signed agreements allowing them to carry Sony Vaio computers, they said. Egghead also announced it has expanded its Palm product line, while Outpost said it also received Sony authorization to sell FD Trinitron displays. Outpost's CE store, which is run by Tweeter, already received Sony authorization to sell CE products at site (TVD Nov 29 p8).

800.COM FILES IPO: In busy week for online CE retailers going public, 800.com last week filed IPO — 2 days after competitor Kozmo.com.

800.com didn't indicate what price per share would be. It said it would use net proceeds "for increased marketing and advertising expenses, working capital expenditures and other general corporate purposes."

In filing with SEC, 800.com revealed that it had \$13.5 million in sales for 3rd quarter ended Dec. 31 — up from \$1.2 million year earlier. But it said it lost \$22.3 million in same quarter after \$3.9 million loss year ago. For 9 months, 800.com recorded sales of \$23.7 million, up from \$1.3 million year ago. But loss widened to \$35.7 million from \$5 million.

Fiscal year for 800.com ends this week so company wasn't able to include its results for year. But e-tailer said in filing that it lost \$12 million last year and "had an accumulated deficit of \$47.8 million" since Dec. 31.

Company has been among most visible CE retail presences online since it opened Web site in April 1998. But it has paid heavy price to achieve that visibility. 800.com said its sales and marketing expenses alone increased to \$30.2 million for 9 months ended Dec. 31 from \$4 million year earlier. Expenses included major print and TV ad campaign in last holiday season.

800.com, in filing, admitted it has "a history of losses" and "we expect to continue to incur losses and we may not achieve or maintain profitability."

It made clear in filing that it intends to continue focusing on products it's authorized to sell by manufacturers.

After offering, company said its executives "will retain significant control" of 800.com. Largest investors have been Olympic Venture Partners and one of its general partners, Gerard Langeler, each owning 17.2% with 4.3 million shares. Other investors include CB (Berkman) Capital, which owns 12%, and Vulcan Ventures (co-founded by Microsoft co-founder Paul Allen), with 9.9%. 800.com Pres.-CEO Greg Drew owns 11.2% with 2.7 million shares.

Salaries listed in filing for some of top executives in 1999 included: \$112,500 for Drew; \$150,000 plus \$20,000 new hire bonus, cash incentives and option to buy 125,000 shares of 800.com common stock for Mdsig. Vp Frank Sadowski; \$175,000 plus \$30,000 new hire bonus and option to buy 235,000 shares of 800.com common for Mktg. Vp Tim Zuckert. 800.com said it will be listed on Nasdaq as EHDC.

Spokeswoman for 800.com competitor Hifi.com said she was unable to comment on rumor that her company is on verge of being spun off from its related Cambridge SoundWorks, and their parent, Creative Technology. Reuters earlier this month said Creative "could see at least 2 of its Internet startup investments — e-tailer Hifi.com and Digicom — listed in the U.S. soon."

At CES in Jan. (TVD Jan 10 p18), Hifi.com Operating Vp Roger Sullivan told us Creative intends "to take Hifi.com public at some point in the future," adding, "We are looking at that" and it may happen "sooner rather than later." Since starting HerHifi.com Web site targeting female online shoppers in mid-Feb. (TVD Feb 21 p16), Hifi.com has added DVDs to its

product mix. Throughout this month, it has been offering limited-time promotion in which 50 popular DVD titles are being sold at 50% off. Hifi.com said it plans to start selling additional movies at site, as well as music and other software.

IBM Microelectronics is readying 2 set-top box (STB) ICs that combine MPEG A/V decoding, memory subsystem and peripheral interfaces onto single chip that will begin volume production in July. Two ICs are based on PowerPC processor and will be available in 108 MHz and 162 MHz versions at prices expected to be "competitive with market" where similarly featured devices are in \$20-\$30 range, STB Products Mktg. Mgr. John Sixsmith said. Functions integrated by 3000 series ICs previously required 2-3 chips, he said. Chips don't include tuning or demodulator functions or add USB or IEEE-1394 interfaces in effort to keep price low, he said. IBM also will market 2000 series digital STB integrated controller as replacement for year-old 1000 model by adding IDE interface for hard drives and antiflicker filter, Sixsmith said. Controller has 54 MHz processor. All models have 16 Kb and 8 Kb instruction and data caches, respectively. IBM has delivered samples to Samsung and expects to ship "hundreds of thousands per customer" once agreements are finalized, Sixsmith said. Chips are likely to be produced at IBM plant in Burlington, Vt., using 0.25-micron process, company said. Dataquest has projected worldwide STB market at 28 million units this year, 50% of which will target satellite business, 30% for cable. Noting slow progress in N. America on Open Cable initiative and digital interface issues, Sixsmith said Europe is proving to be stronger market. IBM supplied 1000 series controllers for Sagem cable, satellite and terrestrial STBs in Europe last year. "North America is poised for growth, but it's much slower than we anticipated," Sixsmith said.

Sensory Science (SS) has opened online store to sell closeouts and factory refurbished products, but plans eventually to "get more involved in the closing of a deal through a retail dealer," Senior Sales & Mktg. Vp Ralph Palaia said. While he declined to disclose details, SS is "working on methods to help, inform, educate and even close the sales" on Internet. "We want to take it to the point where the customer says 'Okay, I want to buy' and we facilitate the closing of the sale at the retail store," Palaia said. "So this will be complementary and beneficial to our retail dealers." As currently structured, SS site will sell MP3 players and dual-deck VCRs as closeouts or refurbished goods at 20-25% discounts, he. Loewe digital TVs and Cal. Audio Labs products won't be sold through site, he said. "We are already at the point where we have tens of thousands of returns, which is not hard to figure out as a percentage of the units we're shipping nowadays," he said. "It would satisfy me if we could resell most of that product over the Internet."

Nam Tai Electronics said it has signed deal to supply Family Radio System products to Tandy's RadioShack (one million units) and Midland Consumer Products (600,000). Nam Tai will build 2-way radios in China and supply them to Headline Electronics, which will ship them to RadioShack and Midland in 2nd quarter, spokesman said. Nam Tai, which also is OEM supplier of 900 MHz phones and calculators, didn't disclose value of orders. FRS devices sell at \$49-\$100 at retail. Nam Tai also has developed 900 MHz phone for distributor Metro MGE Einkauf in Germany. Second order was received from Master SPA in Italy. Phone purchases will enable Nam Tai to wind down supply agreement with Daewoo Electronics where inventory is expected to be "shipped out" within 2 months, spokesman said. Nam Tai signed deal with Daewoo last July.

Demand for DVD players will reach 3 million in China this year, country's State Internal Trade Bureau forecast. Bureau said sales will be greatest among urban residents, while demand for lower priced MPEG-1 Video CD (VCD) and Super VCD players will remain strong in rural markets. Beijing govt. said rural markets will account for most of 4 million VCD players forecast and half of 6 million Super VCD decks. Demand for color TV is expected to reach 30 million sets in China this year, with rural areas representing first-buyer growth market while replacement or upgrade trend emerges in cities. State bureau said enhanced TV features will cause prices to level off in 2000, following pricing free-fall in recent years owing to over-production. Separately, Konka Group became China's leading producer of TVs last year, at 6.3 million sets — up 34% over 1998. Company began Konka-branded exports to U.S. last year and said it achieved 1% market share with 250,000 sets. Although it was first Chinese manufacturer to market DVD players in U.S., decks disappeared from market shortly after launch when it was discovered they lacked required Macrovision copy protection and some had inadequate electrical fusing. Konka said its worldwide sales reached \$1.56 billion last year, up 30% from 1998.

BestBuy.com will add electronics to its product mix by end of May, spokeswoman for retail chain told us. At CES news conference in Jan., Best Buy said consumers would have ability to buy CE products online at its e-commerce Web site starting in first quarter (TVD Jan 10 p14). Best Buy's first-quarter closes at end of May. Meanwhile, Sony spokesman told us last week his company still hadn't granted BestBuy.com authorization to sell its products online. Sony had been noticeably absent from list of 24 CE manufacturers BestBuy.com said it had "secured partnerships with" for Web sales that was announced by retailer at CES, but BestBuy.com Pres. John Walden told us then that he was "confident" company would receive authorization from remaining suppliers by time CE sales start at site. Best Buy recently added store locator to its Web site that uses "Business Finder" technology of Vicinity, based in Palo Alto.

CompUSA has scrapped short-lived cozone.com Internet business and relaunched it under own banner. Chain had been "re-evaluating" online strategy after disappointing holiday selling season (TVD Feb 21 p21). While online sales of \$7.5 million in 2nd fiscal quarter ended Dec. 25 were higher than \$6.2 million year earlier, they were "lower than expected," company said. Cozone had \$16.7 million operating loss vs. \$445,000 profit year earlier. CompUSA, which was acquired by Mexican retailer Grupo Sanborns earlier this year, is undergoing major revamping including retirement of CEO James Halpin last week.

Hybrid optical card shaped like credit card but playable in any CD-ROM drive will be developed jointly by JVC and Singapore-based Nexxt Media. JVC said it has established patents for Digidisc, which could be used for variety of secure e-commerce transactions and other encrypted applications. Apparently unique aspect of Digidisc is combination of CD-ROM and recordable CD section on single piece of software. That, and security features, appear to differentiate DigiCard from business-card-shaped CD-ROMs patented in 1997 (WO 99/765) by Swiss company Adivan and produced since early 1999 by licensees.

MP3.com is sponsoring MP3 Summit 2000 June 20-21 in San Diego. Company is offering free space at event's MSP Pavilion — www.mp3.com/summit/.

Corning's conventional video components business sales dropped 6% to \$355 million from \$380 million year earlier as group suffered from surplus supply of TV picture tube glass, company said in annual 10K. Oversupply, which forced shutdown of State College, Pa., TV glass plant last July, has since been reversed, with shortage expected this year. Earnings declined 5% as "volume and price declines more than offset" higher equity earnings, company said. Latter was related to "strong volume and stable pricing" at Samsung Corning joint venture in S. Korea that produces TV and PC monitor glass. In advanced display products, which includes LCD glass, sales increased 60% to \$190 million from \$120 million and group's earnings "increased substantially", although Corning didn't disclose figures. U.S. Precision Lens subsidiary reported earnings rose 25% on 8% gain in sales to \$155 million from \$145 million on "strong volume growth" in projection TV. Separately, Corning projected that first-quarter earnings would rise 50% to 53-55¢ from 36¢ year earlier, driven by strong demand for its Leaf optical fiber used in telecom applications. Corning said it expects to exceed analysts' full-year \$2.35 per share estimates by at least 10¢. Special charges related to Corning's acquisitions of Oak Industries and Photonics Technology are expected to reduce first-quarter results by \$70 million, company said. Corning reports first quarter results on April 24... Kimball International, which produces TV cabinets, said it won't meet analysts' estimates of 35-39¢-per-share earnings for 3rd fiscal quarter ending March 31. It said earnings would be flat to down 10% from 30¢ per share in 2nd quarter, or 27-30¢. Sales are expected to be flat at \$294.3 million in 2nd quarter, company said. Kimball blamed lower-than-expected sales of office furniture and higher promotional costs for earnings shortfall. It also said start-up costs of new production facilities in Laem Chebang, Thailand, and Jasper, Ind., will weigh on earnings. Kimball purchased wood plant at former Zenith complex in Juarez, Mexico, for \$23.7 million year ago (TVD March 15 p17) and suffered slow manufacturing start-up (TVD Oct 18 p19).

THQ unveiled its upcoming role-playing game *Summoner* for PlayStation2 (PS2) at demonstration in San Francisco last week. Earlier in week, company revealed it had taken minority investment in Japanese developer Yuke's. As part of deal, Yuke's will create wrestling games for PlayStation and PS2 in N. America and Europe for THQ. Yuke's is company that developed *Toukon Retsuden* series and *WWF Smackdown* for PS. THQ, in partnership with Jakks Pacific, has 10-year exclusive agreement with World Wrestling Federation Entertainment to publish WWF games for all platforms. THQ also announced agreement with Fox Interactive to co-publish titles for Nintendo's Game Boy Color. Deal gives it right to co-publish titles including *Aliens*, *Buffy the Vampire Slayer*, *Croc*, *Croc 2*, *The Simpsons*. THQ also recently expanded its international operations by opening office in Melbourne, Australia. Calabasas Hills, Cal.-based publisher said it will continue to ship product in Australia and New Zealand through its distributors until June 30.

Streaming video and audio over Internet now has printed program guide. Weekly *Channelseek Guide* provides broadband users with date and time listings for live and archived AV programs available on Internet. Free, ad-supported guide is supplemented by more comprehensive electronic listings on Web site (Channelseek.com). There, PC viewer can click on listing for link to desired program's site or schedule e-mail "reminders" on upcoming Webcasts. Channelseek said printed guide will have 100,000 circulation at start and rise to 2 million by year-end. It's being distributed through mail by broadband ISPs and through retail outlets such as Sprint PCS stores.

Consumer Electronics Personals

James Halpin to retire as CompUSA CEO, replaced by COO Harold Compton... Donald Ohlmeyer, ex-NBC, elected to Wink Communications board... Promoted at CEA: Jayne Dalton to dir.-CES operations, Lisa Fasold to dir.-communications, Tim Herbert to staff dir.-market research, Kelly Ricker to staff dir.-conferences... Jae Moon Hyun, ex-PriceWaterhouseCoopers, named Hyundai Electronic Industries chief financial and information officer... Tom Yerke, ex-Polaroid, and Ed Brown, ex-Recoton Home Audio, join Sonance as vp-sales, global market and dir. of business development, respectively... Jerry Kalov, ex-Cobra pres.-CEO, resigns from Cobra board, replaced by Ian Miller, Monsanto consultant... Carolyn Swearengin, ex-Harrods.com, named Sears senior vp for product development & worldwide sourcing... Changes at Image Entertainment: George Easton, ex-ThoughtFarm Soft Technologies, joins as dir. of distribution & fulfillment for Image's Las Vegas distribution facility; Garrett Lee promoted to vp-mktg.; Mary Schepis-Johnson advanced to vp-creative services; Sylvie Yang becomes vp-controller... Tom McPartland, ex-TCI Music CEO, joins Music.com board; Bob Buziak, ex-TriStar Music Group pres., joins board of advisers... Jeffrey Sherman, Bloomingdale's pres., appointed Federated Direct chmn.-CEO... Appointed at Palm Computing: Satjiv Chahil, ex-Sony & Apple, as chief mktg. officer; Douglas Solomon, ex-Apple & Interval Research, as chief strategy officer; Barry Cottle, ex-Disney, as COO-content & access; William Maggs, ex-Inktomi, as chief technology officer... Scott Hunter, ex-RockLove.com, and Todd Souvignier, ex-Arboretum, named Earjam business development and programming dirs., respectively... Fred MacKenzie, ex-Panasonic Factory Automation, joins DVD replicator Maxwell Productions as dir. of sales, N. American DVD services market... Alan Loft, ex-Audio Magazine, joins J.B. Stanton Communications as account exec.



I-O Display (IOD) Systems bought key assets of Santa Barbara-based 3D Video in move to increase role in stereoscopic 3D consumer products. IOD, based in Menlo Park, Cal., is best known for its head-mounted personal display devices including i-glasses Personal Display System that has been sold with Panasonic DVD-P10 portable DVD player as part of package called Televizer Portable DVD Theater (TVD April 19 p21). IOD said it will market 3D Video's Nu-View Stereoscopic 3D Camcorder Adapter, which it will manufacture at Menlo Park. 3D Video will also continue to market Nu-View and other IOD products to its existing customer base.

Roberds, operating under bankruptcy protection after closing 8 stores (TVD Jan 24 p16), has defaulted on lease payments for remaining outlets in first 3 months of year, company said in SEC filing. Dayton, O., chain said it hasn't decided which leases it will "affirm or reject" under bankruptcy law. Roberds said it expects to "cure" defaults later this year on leases for stores it will retain. It recently won final court approval of \$25 million debtor-in-possession financing. Separately, CEO Melvin Baskin received \$400,000 salary in fiscal 1999 and Pres. Robert Wilson \$270,000, according to proxy for May 1 annual meeting. Neither was given bonus, but Baskin received options for 50,000 shares of stock.

PlayStation software piracy in Australia has prompted crackdown there by Sony. Company has begun 48 civil cases against counterfeiters and 8 criminal investigations, and said it's seeking cooperation from Australian tax authorities as additional legal assault against pirated discs.

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
Corel 2000-qtr. to Feb. 29 1999-qtr. to Feb. 28	44,141,000 40,306,000	(12,401,000) (14,639,000)	.-- ^a .--
Cyberian Outpost 2000-year to Feb. 29 1999-year to Feb. 28 2000-qtr. to Feb. 29 1999-qtr. to Feb. 28	188,605,000 85,203,000 76,069,000 33,094,000	(35,616,000) (25,220,000) (9,825,000) (7,814,000)	.-- .-- .-- .--
800.com 1999-9 mo. to Dec. 31 1998-9 mo. to Dec. 31 1999-qtr. to Dec. 31 1998-qtr. to Dec. 31	23,698,000 1,336,000 13,468,000 1,188,000	(35,727,000) (4,965,000) (22,259,000) (3,921,000)	.-- .-- .-- .--
Interplay Entertainment 1999-year to Dec. 31 1998-year to Dec. 31 1999-qtr. to Dec. 31 1998-qtr. to Dec. 31	101,930,000 126,862,000 27,323,000 20,637,000	(39,959,000) (28,220,000) (7,836,000) (16,629,000)	.-- .-- .-- .--
J2 Communications 2000-6 mo. to Jan. 31 1999-6 mo. to Jan. 31 2000-qtr. to Jan. 31 1999-qtr. to Jan. 31	546,000 782,000 225,000 177,000	187,000 133,000 344,000 (61,000)	.14 .11 .25 .--
Liberate Technology 2000-9 mo. to Feb. 29 1999-9 mo. to Feb. 28 2000-qtr. to Feb. 29 1999-qtr. to Feb. 28	18,893,000 12,190,000 7,531,000 4,481,000	(43,767,000) (21,917,000) (18,737,000) (7,927,000)	.-- .-- .-- .--
Micron Technology 2000-26 wk. to March 2 1999-26 wk. to March 4 2000-13 wk. to March 2 1999-13 wk. to March 4	2,976,900,000 1,819,400,000 1,392,500,000 1,025,800,000	502,600,000 (23,700,000) 161,300,000 22,400,000	1.86 ^b .-- .60 ^c .08 ^c
Microvision 1999-year to Dec. 31 1998-year to Dec. 31 1999-qtr. to Dec. 31 1998-qtr. to Dec. 31	6,902,700 7,074,100 1,742,500 1,491,200	(14,718,000) (7,327,500) (4,274,300) (2,337,300)	.-- .-- .-- .--
Rex Stores 2000-year to Jan. 31 1999-year to Jan. 31 2000-qtr. to Jan. 31 1999-qtr. to Jan. 31	464,300,000 416,673,000 155,073,000 143,629,000	18,293,000 11,195,000 9,644,000 7,865,000	2.28 ^b 1.51 ^c 1.07 ^c 1.10 ^c
Spatializer Audio Laboratories 1999-year to Dec. 31 1998-year to Dec. 31 1999-qtr. to Dec. 31 1998-qtr. to Dec. 31	1,660,371 1,679,715 683,846 91,348	354,792 (5,792,061) 307,817 (2,655,236)	.01 .-- .01 .--
ValueVision International 2000-year to Jan. 31 1999-year to Jan. 31 2000-qtr. to Jan. 31 1999-qtr. to Jan. 31	274,927,000 203,728,000 87,335,000 65,943,000	29,330,000 4,639,000 4,679,000 422,000	.89 ^b .18 ^c .12 ^c .02 ^c

Notes: ^aAfter special charge. ^bIncludes special items. ^cIncludes special credit.

"DTV penetration will slow" without better programming support from affiliates," CEA Pres.-CEO Gary Shapiro said in reporting that Feb. DTV set shipments rose 578% from same month year earlier to 22,844. CEA said for year's first 2 months, shipments reached 43,852 sets, or 5,500 more than were shipped in first 8 months of 1999. It said shipments since Aug. 1998 introduction totaled 178,254. Shapiro said overall HDTV programming commitment by local broadcasters "has been lackluster at best." With more substantial programming, he said, it's possible to reach or exceed 50% household penetration by 2006.

Pokemon Stadium Battle Set for Nintendo 64 videogame console will retail in U.K. for about \$157 — about \$31 less than announced earlier, British press report said last week.